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READINGS IN MARKETING PRINCIPLES

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PREFACE

The object of this book is to provide for the student and teacher of marketing an organized presentation of the best materials available explaining and illustrating the fundamental principles of the economics of marketing and prices.

The aim in selecting the materials has been to choose the articles furnishing the most complete treatment of their subject and adapted to the use of students of the principles of marketing. This method presents different points of view but nevertheless avoids duplication and numerous short, choppy and incomplete articles.

The scope of the book has been planned to meet the needs of the usual college and university course.

We are indebted to the many writers who have so courteously permitted the use of their contributions. Acknowledgement is due Doctors C. S. Duncan and J. R. Hilgert for their valuable suggestions.

I. W.

Urbana, Ill.

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FOREWORD

The book of readings has come to occupy a real place in university teaching. Classes have grown beyond the capacity of libraries in many instances. Even with small classes, the volume of selected readings may be very useful, as the library may not have enough duplicate copies of the various reports, books, and magazines to which one desires to refer the students. Furthermore, finding scattered material, perhaps in different libraries, takes time. Again, the library may lack space, or many of the students may live at such distances that their time in the library is limited.

A single text is often inadequate for a course. A volume of readings is frequently desirable as a secondary or supplementary text, since it contains material from a variety of sources and generally presents many points of view. The evaluation of these points of view furnishes the student a basis for thought and analysis. In addition, such a volume increases the quantity of material available to the student and may be depended upon to give the student more descriptive material than is ordinarily contained in the orthodox type of textbook.

The value of a volume of readings to the instructor depends upon the selection and arrangement of material. The compiler of such a volume has a difficult task. It is no easy matter to make the proper selections from the material available, especially as the instructors who may utilize his book have different ideas as to the relative importance of various topics and the sequence in which they should be treated. Too many short selections confuse the students, while a few long readings fail to give the width of view desired. Following a happy mean is not always easy.

The authors of this volume have, in my opinion, shown good judgment in the selection and arrangement of material. Practically every subject ordinarily included in the general, or basic course in Marketing is covered. Readings from widely scattered sources are included. Many of these could only with difficulty be assigned to large groups of students unless made available in a volume of this nature. Different points of view are presented, but the authors have carefully limited the number of selections bearing on the various topics. The arrangement of material seems especially good. The groupings of the selections into chapters is excellent and the chapter arrangement is logical. I believe teachers of Marketing will experience little difficulty in making assignments from this volume to fit their courses, whether or not they follow the same sequence as used here.

PAUL D. CONVERSE.

University of Illinois.

READINGS IN MARKETING PRINCIPLES

CHAPTER I

THE NATURE AND SCOPE OF MARKETING PROBLEMS

The Nature of Marketing.[1]

Demand and supply.—The essence of marketing produce is the bringing together of demand and supply. More concretely, a market is a place in which buyers and sellers come into touch with each other. It is not, of course, implied that present or prospective owners of goods must personally appear in the market. Either or both may have a representative who is intrusted to do business for him. Even between such representatives there need be no personal meeting. Communication may be by letter, by telegraph, or by telephone. Ordinarily the men who do the work of marketing must give considerable attention to such matters as the transportation and care of the goods in which they deal; and no discussion of the subject would be complete which ignored the conditions under which the goods are actually handled. Primarily, however, marketing is a matter of purchase and sale.

The separation of marketing from the other phases of production is simply a case of the division of labor. The productive process, when fully developed, may be divided into four fairly distinct parts. These have to do with the creation of form, place, time, and possession utilities. The farmer, for example, directs the process by which the chemical constituents of soil and air assume the form of fruits or vegetables. The railroad carries them to a place where they are more needed than they are in the immediate vicinity of the farm. The storage company receives them at a time of relative plenty and delivers them at a time of relative scarcity. The market dealers put them into the possession of consumers, or, if the work of production has not been completed, into that of other producers.

Under very simple conditions no such division of labor is necessary. The farmer may grow potatoes, store them for a short time on the farm, carry them to market in his own wagon, and finally sell them to consumers. Under complex conditions, especially when the original producer and the market are far apart, when the work of marketing takes a great deal of time, or when the goods can best be sold only in con-

[1] Report of the Federal Trade Commission on the wholesale marketing of food, pp. 25-32.

nection with those furnished by other producers, a division of labor along those lines is necessary. Indeed, some parts of the productive process are, as a rule, elaborately subdivided.

It must not be supposed that the division of labor necessarily implies that the individuals, firms, or corporations engaged in different parts of the work are entirely independent of each other. Satisfactory mutual dealings naturally result in what is known as "good will" which, though intangible, is sometimes of considerable importance. Relations much more intimate than this are not infrequently maintained. In particular, the corporate form of organization furnishes a means by which those performing very different functions may be united.

As a matter of fact, a large part of the work of marketing farm produce is, in some cases, done by mutual coöperative associations of which the growers, directly or through subordinate coöperative associations, are members. In a number of other instances it is done by joint stock companies that are under the control of the growers and are very similar in many ways to the mutual associations. There are some cases in which men or corporations primarily interested in marketing have farms or orchards of their own, though so far as has been learned cases of this sort are unusual. Cold-storage plants are not infrequently owned, or controlled, by marketing or manufacturing companies. Some large manufacturing companies, such as canners and meat packers, have more or less elaborate selling organizations of their own. These rarely, if ever, reach the consumer, though direct dealings with retailers are not uncommon.

Marketing food as a separate branch of trade.—Within the field of marketing, even in the narrow sense of the term, the division of labor is, at least at first glance, bewildering in its complexity. There are a large number of kinds of middlemen, or dealers, differing from each other in the kinds of products they handle, in the stage of the marketing process to which their activities are confined, in the functions they perform, in the scale on which they conduct business, and in the way in which they are organized. Between the most usual types there is more or less overlapping, one dealer, for example, handling lines of goods that ordinarily are handled by different dealers, or conducting part of his business in one way and part in another. Notwithstanding this complexity, however, it is possible to make some distinctions on the basis of the way in which things are ordinarily done.

With some exceptions the wholesale marketing of food products is pretty clearly differentiated from that of other commodities. The most important exceptions fall into two main classes: Marketing houses controlled by manufacturers and wholesale grocery stores. The branch houses of the meat-packing companies, which are, perhaps, the most prominent examples of marketing houses controlled by manufacturers, handle a great variety of commodities, including in some cases nonfood

products, such as fertilizers, gut strings, sandpaper, soap, and wool. Some of these are clearly by-products of the packing-house industry. By far the greater part of the business of the branch houses, however, is in food products, including many with the preparation of which for the market the meat-packing houses have practically nothing to do. Upon the whole, there is no grave inaccuracy regarding the branch houses of the meat-packing companies as distinctly food-handling establishments.

The term "groceries" is commonly applied to some things that are not foodstuffs. Cigars and tobacco and certain kinds of woodenware, for example, may be regarded as among the regular grocery lines. In some cases "wholesale grocery" concerns handle goods quite foreign to the grocery business, such, for example, as notions and automobile accessories, which are wanted by the country stores and can readily be handled by salesmen of the wholesale houses. Cases of the sort, however, seem to be exceptional, and while it is probable that comparatively few wholesale grocers handle foodstuffs exclusively, there is little reason to doubt that in the great majority of cases they should be regarded as primarily food-distributing houses.

Not infrequently dealers in fresh farm products are found handling some things which, if not food, are in one way or another related to its production, such as hides, hay, fertilizers, or crates. Occasionally a concern will be found handling goods bearing no relation to its main line of business.

Doubtless there are a few cases in which food products are handled by concerns primarily interested in other things. Aside from mail-order houses, department stores, and the like, which purchase on a large scale but sell mainly at retail, concerns of this sort do not figure conspicuously in the wholesale markets.

Everything considered, the general statement that the marketing of food products, at least so far as wholesale dealings are concerned, is a distinct branch of trade, seems to be fully warranted. There are some exceptions but they are neither numerous nor of great importance. For most purposes they can safely be passed over.

Subdivisions in the food trade.—Within the field of the marketing of foodstuffs a number of subdivisions can be recognized, though the lines between them are not always clear. There is much overlapping, some concerns being interested in two or more of the subdivisions. Others are highly specialized, dealing in a very few specific products. The raw materials for certain manufactured goods commonly belong in one subdivision, and the finished products in another. While, however, the lines between the different subdivisions are not sharp, there are a considerable number of dealers who clearly belong in a particular group. Bearing in mind that no classification can be made which is not open to some objection, the most important subdivisions may be

said to be: Meat; fish and seafood generally; grain; groceries; fresh fruits and vegetables; butter, cheese, eggs, and poultry; and milk. In this report attention is devoted largely to groceries, fresh fruits and vegetables, and butter, cheese, eggs, and poultry, information on these various lines having been secured through hundreds of schedules and extensive field investigations.

The branch houses of the big meat-packing concerns sell many things that, so far as production is concerned, are not connected with the slaughtering and meat-packing industries. They have entered largely into the field of wholesale groceries, especially in canned and packaged goods, and many of the concerns usually classed as wholesale grocers fear that sooner or later the meat packers will acquire a substantial monopoly.[2] In the same way they have become a large factor in the butter, cheese, egg, and poultry business. Fresh fruit and vegetables are sold at some of the branch houses, but the extent to which this is done does not seem to be of great importance. The meat packers do, indeed, purchase considerable amounts of dried fruits, canned goods, and fruits and vegetables for canning. These, however, in the form in which they are sold by the packing companies may be regarded as groceries. At one time Armour & Co. owned the Earl Fruit Co., one of the most important shippers of California fruit, but in 1911 it sold its interests in this concern, and so far as is known is no longer an important factor in the fresh-fruit business.

The big meat-packing houses are not alone in dealing in more than one of the branches into which the food-marketing trade is divided. A few concerns in the wholesale centers who reported themselves as wholesale grocers, in returning schedules to the commission, stated that they were also commission houses. Only a little more than one-fifth of them, however, reported that they handled fruit or vegetables, not including under this head dried or canned goods, and in comparatively few cases did they carry a full line. Only about one in seven reported that they handled butter or eggs, and of these a considerable portion handled only one of the two products. The number carrying other kinds of foods was still smaller. Upon the whole, while the lines cannot be sharply drawn, the wholesale grocery business is a fairly distinct branch of the food trade.

Leaving out of account those who reported themselves as wholesale grocers, or who clearly belonged in that class, and confining attention to wholesale market cities as distinguished from shipping points, more than half of the wholesale dealers in fresh fruits and vegetables returning schedules reported themselves as handling these lines only. Less than a third of them handled butter, cheese, eggs, or poultry, but compara-

[2] See Parts II and IV, of the Report of the Federal Trade Commission on the Meat-Packing Industry.

tively few handled all of these. Less than one-fourth handled eggs, and the proportion carrying any other kind of food product was still smaller.

After what has been said in regard to the sale of butter, cheese, eggs, and poultry by the branch houses of the big meat-packing companies and by the dealers in fresh fruits and vegetables, it might be supposed that the former products were rarely handled alone. Of the wholesale dealers in wholesale markets who handle them, however, more than a third of those returning schedules reported that they carried nothing else except, in a few cases, cream, ice cream, milk, and sugar of milk. If in this class be included those who handle, in addition, such related products as oleo and lard, and a smaller number who handled peanut butter, cottonseed oil, honey, game, including rabbits, the proportion becomes nearly one-half. A little more than a third handled fresh fruits and vegetables, and this includes those to whom reference was made in that connection. Upon the whole, it would seem that notwithstanding the fact that the field of dairy and poultry products has been invaded by a number of dealers in other lines, especially by the branch houses of the big meat-packing companies, it is nevertheless, fairly distinct.

As might be expected, the returns from dealers at shipping points show a lower degree of specialization, with regard to the subdivisions of the food trade, than do those from dealers in the larger wholesale market centers. In some cases, however, especially in highly specialized growing sections, there are large organizations that are interested in the marketing of a narrow line of products, such, for example, as fruit, or even a single kind of fruit. These often handle, in addition, various sorts of supplies needed by the growers of the products in which they deal.

Of those reporting themselves as handling fresh fruits or vegetables, or both, about two-fifths handle these lines only. Dried fruits and vegetables and nuts should, perhaps, be put in the same class, since the drying naturally takes place before shipment, and nuts are so similar to fruits that they may likewise be included. If this is done, the proportion in this class who confined themselves to it becomes about one-half. Most of the rest handled some kind of dairy and poultry products, especially eggs and butter. A few handled agricultural products or other kinds and a surprisingly large number carried fish or oysters.

Less than one-fourth of those handling butter, cheese, eggs, or poultry confined themselves to this class of products. The proportion, however, is appreciably increased if dealers handling certain related products and a very few other things are included. In view of the fact that butter, cheese, poultry, or eggs are handled by any dealers in fruits and vegetables, and that all of them are handled by the great meat-packing companies, it is hardly surprising that dealers in these products are not more sharply differentiated from those in other branches of the trade.

The wholesale and the retail trade.— In discussing the various subdivisions of the food trade, attention was confined to the wholesale dealers, it being assumed that there is a fairly clear distinction between wholesalers and retailers. It is true that there are some dealers who systematically do business on both bases, and others who, though primarily wholesalers or retailers, do not confine themselves strictly to either branch. That there is a distinction between the two, however, is a matter of general knowledge, though there is no complete agreement as to the precise grounds on which the distinction rests.

In the popular mind the difference is commonly thought of as depending on the quantity of goods handled in a single transaction, large dealings being regarded as wholesale and small dealings as retail trade. Of much more importance in the minds of many business men is the character of the customers. So regarded, the wholesale trade is primarily concerned with the transfer of goods to other market dealers, and, in some cases, to certain other types of producers, such as packers or canners, while the retail trade is concerned with sales to consumers. This view is not universally held by business men, certain large dealers who sell to consumers, especially chain-store organizations and mail-order houses, feeling that it is legitimate for them to buy as wholesalers, and some wholesale dealers being willing to sell to anyone in quantities not less than one package, such as a box, a basket, or the like. For some purposes it does not make much difference which point of view is adopted, for purchases by dealers are generally large as compared with purchases by consumers. In other cases, especially when the reduction in the number of middlemen is under consideration, the matter is of some importance.

Among the wholesalers themselves there is, of course, some division of labor; and in many cases it is impossible to make statements that have universal validity in regard to them. As a general proposition, however, it may be said that the wholesalers are concerned with the assembling of the products of different growers or manufacturers, while the retailers are concerned with the distribution of products, chiefly, at least, to consumers. From one point of view the difference is largely a matter of emphasis, for, strictly speaking, the wholesalers distribute to the retailers and the retailers assemble the goods furnished by a number of wholesalers. Moreover, there are some wholesalers or jobbers who secure most, if not all, of their supplies from the larger wholesalers and sell to the retailers. Notwithstanding some qualifications of this sort, however, the distinction is important. The problems involved in dealing with producers differ considerably from those involved in dealing with consumers, especially when, as is commonly the case, many of the former are scattered over a wide area.

Except when their buying and selling are both local in character the wholesalers are able to maintain a steadier supply, as regards both

quantity and quality, than would otherwise be possible, since a surplus at one point may make up for a shortage at another. One of the chief functions of the wholesaler is therefore to know the markets; those in which goods can best be obtained if he be located at a consuming point; those in which they can best be disposed of if he be located at a shipping point. There are some important marketing organizations, such as the Northwestern Fruit Exchange and the California Fruit Distributors, that particularly emphasize this service. As regards certain highly perishable commodities, such as strawberries, the wholesalers dealing with widely scattered growers, or growers' associations, can keep a supply on hand for a much longer season than would be possible if they were dependent on one locality.

The needs of the farmers very commonly give rise to financial problems with which comparatively few of the retailers are in a position to deal. The wholesaler of produce usually buys on a cash or very short-time basis, and even when the goods are received to be sold on commission, remittance is usually made very soon after the sale. In some cases he actually advances money to the farmer, and a similar service is performed for some of the canneries by brokers. Sales to the retailers, however, are commonly made on credit.

It should also be noticed that, except in cases in which buyers and sellers are located near to one another, a considerable amount of time must necessarily intervene between shipment and delivery. This is of considerable importance in the case of goods that may deteriorate in transit, and the difficulties presented are in many cases intensified by the lack of definite rules for standardization and grading. Where the wholesaler pays for the goods before he sees them, as is frequently the case, and where the shipper waits for his payment till after the goods have been inspected on arrival at their destination, questions sometimes arise as to the quality of the goods, and consequently as to their value. Inspection by the Bureau of Markets, Department of Agriculture, has done much to relieve difficulties of this sort, but it is obvious that less work is involved when the inspectors can confine their attention to a relatively small number of large shipments instead of giving it to many small ones.

This suggests another point. The wholesaler who deals in carload lots makes possible considerable savings in the cost of transportation. This savings, it should be noticed, is not merely a matter of freight charges. The justification for the lower rate on carload shipments lies in the fact that less work and less equipment are needed than in the case of smaller shipments, because of the fuller loading of cars, less frequent stops, fewer delays, etc. Among the extra costs of handling small shipments must, of course, be included those that fall upon shippers and receivers, as well as those that fall on the transportation companies. In some important markets, for example, cartage is involved

in the case of less than carload lots, whereas a car, the entire contents of which are intended for one receiver, is switched to the door of his place of business. Even when this is not the case, the problem of cartage is simpler, and the cost, therefore, less, when the quantities handled are large than when they are small.

It must not be inferred, of course, that an elaborate system of marketing is in all cases necessary or desirable. The operations involved in placing the products of the little truck gardener in the hands of near-by consumers are simple, and in some cases the gardener finds it profitable to attend to the matter himself. In most cases, however, the situation is much more complex, and an elaborate marketing organization in which there are many different types of dealers is fully justified by the work to be done.

While specialized dealers are needed, they are not necessarily independent workers. As has already been pointed out, growers sometimes control the marketing organizations that handle their products. In a somewhat similar manner retail dealers sometimes control buying organizations which perform some, at least, of the functions of the wholesalers. A large corporation, organized into departments, can, of course, perform all or a part of the work of wholesaling and of retailing.

MARKETING PROBLEMS

Agricultural Products.[3]

Problems of distribution—The economic distribution of the absolute essentials—food, clothing, shelter, and fuels—is a fundamental problem which concerns every man, woman, and child in the United States. In earlier times there was no problem of distribution, because people lived simply and produced their own foodstuffs and clothing materials, and found fuel and materials from which to create shelter close at hand. They enjoyed such comfort and convenience as they could provide for themselves and service was a matter of neighborly exchange.

Pioneers traveled into new country and established communities and developed resources. Railroads were developed, goods were transported, and time and distance became factors in the relations and transactions of men. Fertile soil yielded crops beyond the requirements of the tiller of the soil. Forests were converted into building materials for the erection of better homes and into furniture to fill the new homes. Mines were developed and their mineral products converted into machinery to relieve human labor. Farmers exchanged their surplus crops for lumber to build barns and homes and for implements to cultivate the soil and harvest the crops. Traders and merchants facilitated the

[3] "Marketing and Distribution," Report of the Joint Commission of Agricultural Inquiry, 67th Cong., 1st Sess., Report No. 408, pp.3-12, 116-118, 213-216.

exchange of commodity for commodity and surplus for comfort. Travel became a matter of comparative ease and men traveled far to display merchandise while the resources of a continent were converted into new wealth with which to purchase greater comfort, convenience, and opportunity. The standard of living constantly advanced and an ever-increasing proportion of the population entered the fields of industry, commerce, and finance. Cities grew and became the market places for agriculture. Inventive genius perfected machines to relieve more and more hand labor and to produce goods in greater volume. Working days became shorter and time and opportunity for recreation became greater. Education and travel created a desire for comfort, convenience, and refinements not dreamed of in earlier generations. Invention after invention revolutionized habits and customs. Electricity added to the length of the day by lighting cities and providing means of rapid, comfortable locomotion. Telephone and telegraph extended communication and nationalized industry, commerce, and finance.

Refrigeration revolutionized the transportation and storage of food products and changed the living habits of the nation. Fruits, vegetables, and fresh meats were transported to distant markets, the production of the whole country was made available to the large consuming centers, and crops of seasonal production were offered to consumers throughout the greater portion of the year. The consumer came to accept unusual service and convenience as a matter of course and finally to demand more. Each new service and convenience drew additional people into the activities of distribution. Time-saving, convenience, comfort, and satisfaction became the determining factors in the excellence of service. More and more facilities were created, more and more people were engaged, with a constant upbuilding of expense, until we have now reached a point where it costs more to distribute and serve than it costs to produce. Commodity values are lost in a maze of service costs, and the time has come for a consideration of the fundamental problem of the economic distribution of the absolute essentials.

Distribution of products.—The commission is convinced that the problem of distribution is one of the most important economic problems before the American people, and that only through its solution can there be an equitable adjustment among agriculture, industry, transportation, labor, finance, and commerce. The public is so accustomed to the conveniences of modern service that it seldom, if ever, recognizes the fact that the most simple purchase contains the romance of industry, commerce, and human progress. Nor is the public prepared to realize that not only must the producer receive proper compensation for the raw materials but that out of the charge for service along the way the men who operate railroad trains, drive trucks, operate machines, nail

boxes, wrap packages, and the men who make deliveries must be enabled to purchase the finished commodity for their families.

Therefore, the solution of the problem of distribution must be secured through a betterment of methods and an elimination of wastes and uneconomic practices. A better system of distribution can only be hoped for through a more intelligent study of methods, facilities, and purposes.

It is the responsibility of the entire people to make such adjustment of custom and habit as will permit the development and establishment of a system of economic distribution which will result in a more equitable relationship between what the producer receives and what the consumer pays.

Local markets.—The products of agriculture usually come into the local market in relatively small lots of ungraded, unstandardized raw material for which the producer assumes no responsibility. The American farmer has been chiefly occupied with the problems of production, involving all the uncontrollable forces of nature and the combating of crop diseases and insect pests. He is concerned with individual production rather than with service, marketing, and distribution. Until such time as the agricultural producer considers production in its relation to consumer demand and satisfaction, he is unlikely materially to improve his condition. At present for the most part the agricultural producers leave to others the selection, grading, standardizing, and assembling of products as well as the risks involved in marketing. The vast bulk of agricultural products is transported to large centers for assembling, grading, converting, and distributing. In practically all local markets in which agricultural products are offered beyond the immediate community needs, a variety of agencies exist for the purchase, preparation for market, and handling. The agencies within the local market either immediately or at some later date ship the products to a primary market, i. e., the point of concentration, or to a terminal market, where they are disposed of to converters or standardizers to be prepared for the consuming market.

The first function performed by agencies within the local market is the assembling of numerous small lots of products which have to be graded as to quality, variety, degree of ripeness, and fitness for market. The great bulk of farm products is harvested and marketed during a small portion of the year, whereas consumers' demand spreads over as large a portion of the year as possible. Consumers buy frequently and in exceedingly small quantities, and demand that commodities be conveniently available at a moment's notice. Many of these commodities are highly perishable and must be handled with great rapidity and by means of special and expensive facilities for refrigeration and storage. Consumers in different localities have marked preferences as to grade, appearance, flavor, etc. Satisfaction of consumer preferences begins with the agencies in a local market. This leads to specialization of

dealers who handle single commodities or groups of commodities, and leads to further specialization by function, creating a series of successive steps in the movement of commodities toward the consuming market.

The agencies within the local market buy with the consideration of the risks and services involved in assembling, selecting, grading, standardizing, transporting, and marketing products. They established their margins so far as comparative buying and competitive selling will permit, to protect themselves against the various risks and secure a profit on their transactions.

In communities where production is reasonably uniform and standardized, the agencies within the local market usually pay better prices in the proportion in which their risks are reduced and the degree to which the producer assumes responsibility for the character of his product.

Primary or terminal markets.—Producers do not always sell their products in local markets, but offer them for sale to buyers or through commission men in primary or terminal markets. In this case they assume the risk of transit and losses and wastes of improper packing, insufficient selection, and grading. When such shipments reach market, the commodities are graded and any portion that is not sufficiently mature, or is blemished or overripe or otherwise unfit for market, is disposed of at the cost of the producer. In such instances the producer not only loses the commodity, but pays the transportation cost of products which should not have been shipped. These occurrences are of sufficient frequency to deserve a most careful study by the producer, of markets and marketing processes.

Other methods of distribution.—It is frequently suggested that agricultural products be sold by sample or grade description from markets established close to the centers of production, and that in such markets there be established adequate and efficient warehouses, cold-storage plants, and other facilities for the protection and preservation of raw commodities. In theory at least this suggestion has attractive possibilities, in that it would save unnecessary waste and much handling and rehandling and avoid "back-tracking" products from large markets in the redistribution of commodities to smaller communities. This suggestion, however, is predicated upon the theory that standard grades and descriptions can be universally established, and that consumers and dealers would willingly anticipate their requirements sufficiently to provide for a steady flow of products from point of production to place of consumption. It further assumes an intensive distribution within the radius of territory that could absorb the quantities of agricultural products produced within any given center. Under existing conditions consumers find it more convenient to leave the responsibilities of selection and service to the established distributors. There has been a definite effort on the part of the Post Office Department to attract public attention to the opportunities offered by the Parcel Post System for direct trading

between producers and consumers. Apparently the consumer has been unwilling to anticipate requirements sufficiently in advance to assure the producer a continuous market, nor has the producer shown sufficient willingness to assume the responsibilities for quality of product and assurance of service to command the consumer's confidence.

With the better organization and standardization of farm production, the organization of farmers' coöperative associations, the evolution of grades more accurately reflecting the qualities of farm products in relation to use, the establishment of concentration warehouses at points within the areas of production issuing receipts or certificates which clearly indicate such grades and guarantee the physical protection and quality of product, it should be possible to develop a system of commodity exchanges through which these commodities may be sold and under which such products will move directly from areas of production to points of use under prior sale without the necessity of previous inspection and with the assurance of delivery of a product by grade conforming to the users' or consumers' requirements.

Risks, assumption of.—There are certain risks which neither the producer nor the consumer is willing to accept, which are now assumed by wholesalers, jobbers, and retailers, and which are reflected in the price received by the producer and the price paid by the consumer. The proposition of distribution involves two factors: the movement of commodities from place of production to point of convenience for consumption, and the handling from the time of production to a convenient time for consumption.

In the primary and terminal markets, commission men, wholesalers, and buyers maintain warehouses, refrigeration, and facilities for the protection and conservation of commodities. The transportation agencies are required to provide facilities for protection of commodities in transit. All of these activities involve investment and operating expense and require the employment of men and equipment.

Practically all facilities in local, primary, and terminal markets are the result of individual initiative or the enterprise of a comparatively small group. This results in a lack of coördination of facilities, utilities, and operations. In the larger centers railroad terminals are scattered to such an extent as to make it necessary for shippers and receivers to transport perishable commodities through the city streets with much congestion, delay, and expense, causing an actual deterioration of perishable products and numerous duplications of handling. All of these things add materially to costs without adding either value or service to the commodity.

Markets for perishables are usually congested, and poorly situated with reference to convenience and economy. It is the belief of the commission that the lack of properly established joint terminal markets is responsible for many of the extravagant costs in the distribution of

agricultural products and that steps should be taken by municipalities, transportation companies, and marketing agencies to create facilities for efficient handling and conservation of foodstuffs.

Conversion of products.—While most of the agricultural commodities coming into terminal markets represent the finished products of agricultural producers, they are raw materials to be converted into articles of food, clothing, materials, and finished products of great variety to satisfy the complex demands of modern society. Only a comparatively small portion of the agricultural products would be required to satisfy consumers' requirements for food in its raw state. The consumers are interested only in wheat as the material from which flour and cereals are made, and much of the production of fruit and vegetables comes to the consumers in tin cans and glass bottles. Live stock is of interest to the consumers only as the material from which selected cuts of meat are secured and as the source from which clothing materials, shoes, fabrics, and numerous articles of utility and convenience are derived.

Industries generally have been developed from small institutions conceived by an individual or a few men to meet a comparatively local requirement. Energy, enterprise, and ambition have developed small, local business institutions into vast organizations producing commodities in great volume and distributing them into every section of the country. These concerns reflect the policies, purposes, and ideals of the men who manage them, and are operated with little consideration of any general scheme of economic distribution. Each concern seeks market according to its own theories in competition with all other institutions making similar effort. The primary purpose of manufacture is to operate plants and make commodities. Selling and delivering is a necessary adjunct, considered chiefly as a means to a continuation of manufacture. The processes of manufacture are tangible and lend themselves readily to engineering skill. Therefore manufacturers have reduced production to an almost exact science and in time of competitive need have devised more economical processes of manufacture. This, however, has not been the case in their dealing with the problems of distribution. In the face of competition the tendency has been to exert greater effort to force goods out through the channels of distribution, making greater expenditures, and devising new methods to compel the distribution of their merchandise in competition with similar effort on the part of other manfacturers.

With a view to maintaining a great volume of production, manufacturers have urged wholesalers and retailers to buy in the largest quantities with little regard for the consuming capacity of the communities served by the distributors handling their goods. Each manufacturer has endeavored to command the outlets of distribution by selling in such quantities as would compel the distributor to exert every effort to dispose of the commodities to recover his investment with such profit

as he might secure after paying the operating expenses of his business. New agencies, new methods, and new expenditures have been added by individual manufacturers from time to time to maintain a continuous flow of goods through the channels of distribution, and their efforts have been duplicated by the manufacturers of competing goods. These competitive practices of distribution have created a burden from which manufacturers would be glad to be relieved. It is the belief of the commission that manufacturers and other distributive agencies must find relief by securing better knowledge of the consuming capacity of markets and adapting their distributive policies more definitely to the needs of the consumer.

Surplus stocks, disposal of.—In many lines of manufacture the facilities of production exceed the current capacity of markets, and efforts to produce large volume lead to the production of surplus stocks which can only gradually filter through to the consumer as he is able to use and replace. When this situation develops, plants close down, employees are discharged, and the consuming markets diminish, with the result that the recovery and return to industrial activity is a much slower process than that of producing a surplus of commodities. The function of wholesaling originally was that of creating a market for manufacturers and disposing of merchandise within an easily served radius. The wholesaler carried a reserve stock to supply retailers and was looked upon by the manufacturer as the market outlet for his products. However, with the development of strenuous competition, the manufacturers developed special sales organizations to call upon retail dealers and interest them in new products or to urge them to buy in larger volume products that they were then handling. Under these conditions the wholesaler ceased to be a market creator and relied upon manufacturers to create demand and secure orders which they would fill and distribute. Advertising was looked upon by the manufacturers as a compelling force which would send consumers into retail stores to demand brands or varieties exploited by the manufacturers. Added to this, manufacturers put in the field sample distributors, demonstrators, and canvassers to compel retailers to distribute the commodities thus introduced, with the result that the retailers ceased actively to create markets for new products. Manufacturer after manufacturer repeated the process until the public and the distributor were confronted by a confusing urge to buy more products in constantly increasing variety.

Buying habits were upset and consumers ceased to give their patronage to individual merchants and scattered their buying not only within the community in which they lived but made purchases abroad, either by mail or in person. To overcome this tendency and to attract additional trade, retailers devised new services, greater conveniences, and adopted new selling methods. All of these activities tended to create

a greater volume of business and established new merchandising standards, but they also added new expenses to the operation of business. By creating greater volume of business, profits per dollar of sales were reduced; but the tendency has been toward a constantly increasing cost of distribution, until the public now pays more for package, convenience, and service than it pays for the commodity contained in the package.

During the period of development of new commodities and new services, the American standard of living rose to a higher plane than that of any nation on earth, and the cost of living advanced in proportion to the public demands for, or acceptance of, comfort, convenience, and superlative service. More and more people entered the fields of industry and distribution, and competition became increasingly severe. A constantly increasing proportion of the population found employment in the activities of handling, transporting, storing, converting, and distributing commodities and meeting new demands for supplemental services. Out of the spread between the producer and the consumer, compensation for all of these people must be found, and this brings the American public face to face with the problem of devising a less expensive and more efficient system of distributing the absolute essentials—food, clothing, shelter, and fuel.

Cost of distribution.—The cost of distribution is made up of an infinite number and variety of costs of material and services, each of which influences the others and all of which combine to make the price which the final consumer pays. These factors vary in influence upon one another and upon the final price from year to year, from month to month, and even from day to day. They are each a part of a complex and flexible price structure which is extremely sensitive to governmental, economic, and psychological forces, such as taxes, interest rates, freight rates, custom, habit, usage, and practices of producers, consumers, manufacturers, and distributive agencies.

There is no single factor in this complex price structure which can be said to be primarily or even principally responsible for the spread between producers' and consumers' prices. The elements which compose this spread must be attacked at every point in the chain of producing, manufacturing, and distributing processes. Legislative panaceas cannot be effective in improving a situation brought about by the interplay of so many varied and complex factors. The cost of distribution can be reduced by a better understanding of the elements which compose it, the relationship of the agencies through which commodities are distributed, and a concerted and conscious effort on the part of producing, manufacturing, and distributing agencies to eliminate unnecessary and wasteful practices and processes, to adopt more efficient methods, and more definitely to relate these processes to one another, so that there can be a continuous flow of commodities from producer to consumer in response to known demands. In this effort the under-

standing and coöperation of the producer and consumer is also an absolute essential.

While the commission is unable to point out a remedy, legislative or economic, which of itself will reduce the spread between producers' and consumers' prices, the commission is able to make certain suggestions based upon the facts developed by its investigation, which it believes will point the direction in which, and indicate the method by which, improvements and economies in distributive processes can be made.

Conclusions.

The commission believes that the situation of the agricultural producer can be materially improved by a standardization of production of crops in producing centers so as to permit more economic selection, grading, and preparation of commodities in the producer's local markets and recommends that the agricultural producers of the United States be encouraged to develop coöperative associations to hasten the standardization of agricultural production, improve the distributive processes, and reduce their costs.

With the development of coöperative marketing organizations, production becomes more uniform and better standardized with benefit to the producers, distributors, and consumers. The Federal Government has recognized the economic value of agricultural producers' organization for the purpose of coöperatively producing, preparing, and marketing products by removing the limitations which have previously retarded the full development of such organizations. The State and Federal Governments should affirmatively promote and encourage coöperative enterprise. Both State and Federal Governments should enact the necessary legislation to assure coöperative associations against unfair discriminations and to insure such associations against unfair practices.

Through such coöperative organizations groups of producers can assume responsibility for the kind, character, and grade of commodity offered for sale. Where this is done agricultural producers will participate to a greater degree in the price paid by the ultimate consumer, while the distributive agencies assume less risk, expense, and responsibility and, in consequence, distribute more economically.

Agricultural producers can greatly improve their situation by developing better knowledge of the marketing and distributive processes through which their products reach the ultimate consumer and, on the basis of such knowledge, adapt their production, products, preparation, and selection to the satisfaction of consumer requirements. This tends to the establishment of more permanent market relations, less speculative handling, and a steadier flow of commodity from producer to consumer.

New economies can be brought about through the development of

greater uniformity of products, grades, standards, and containers, together with an improvement in methods of handling of agencies in local, primary, and terminal markets which will tend to create greater certainty on the part of the receiver and the part of the producer as to the salability of products. With such improvement the many disagreements can be eliminated which develop between producers, shippers, and receivers and which are now the cause of a lack of mutual confidence, with the consequent development of more efficient and economic marketing and distribution.

The standardization of products and containers makes possible a wider distribution of commodities and so tends to extend the market for them.

Economies can be effected and wastes can be eliminated through the establishment of qualified and authorized agencies to arbitrate disagreements between shippers and receivers as to value, condition, kind, grade, and quantity of commodities. Such agencies may be established either through agreement between shippers and receivers to set up disinterested boards of arbitration whose findings can be accepted as final, or through the establishment of State or Federal agencies of arbitration authorized by legislation.

Much unnecessary waste and expense in distribution can be eliminated through the development of adequate, organized, and correlated terminal markets. By minimizing movement of commodities from terminal to terminal or from terminal to central market, the expense involved in the employment of an unnecessarily large number of men and much unnecessary equipment would be eliminated.

The commission believes that the Congress should speedily reënact legislation looking to the regulation of future trading in grain in accordance with sound constitutional conceptions.

Much can be accomplished in the direction of economic distribution by a more systematic utilization of warehouses to absorb temporary surplus and distribute more evenly in response to consuming demand. There is a tendency toward better distribution as warehouses come to function as reservoirs to facilitate economic distribution and adopt methods which diminish opportunity for speculation in stored commodities.

There can be great improvement in the distribution of perishable products through the establishment of more adequate central wholesale markets and a more uniform flow of perishable products from producers to consumers with less waste and expense.

Converters of agricultural products can materially reduce the cost of distribution of trade-marked commodities by adjusting production more definitely to the current consuming requirements of the public. The effort to move a large volume in advance of current requirements creates an unnecessarily expensive distribution of trade-marked commodities. In

the effort to reduce the cost of production by creating great volume of manufacture, converters have developed a policy of forced distribution, resulting in the accumulation of large stocks of idle merchandise in the hands of wholesalers, retailers, and other distributors. These stocks of idle merchandise carry a constantly accumulating burden of invested capital, credit, interest, insurance, rent, and depreciation which becomes a part of the cost of distribution. The competition between manufacturers of parallel lines for limited market is carried to the point of extravagant expenditure with a consequent increased burden of cost to the consumer.

There can be developed an economic distribution of essential commodities when the industrial production of the country is based upon a better knowledge of the requirements of consumer and a recognition of the fact that distributive agents cannot function economically except as they maintain an even, continuous flow of merchandise through the channels of distribution. It is the function of wholesale and retail distributive agencies to make available to the consumer all of the essential commodities on an equal basis. Any effort on the part of individual manufacturers to dominate the outlets of distribution to the disadvantage of other manufacturers develops an uneconomic burden of expense to the consumer and leads to an interruption of the operation of distribution.

Wholesalers can reduce the burden of overhead costs by purchasing stocks which can be turned with economic frequency. There is a growing tendency on the part of wholesalers to enter products under their own labels into competition with the goods of the manufacturers they serve. This in a measure destroys the confidence of the manufacturer and leads to retaliatory expenditure, which becomes a part of the cost of distribution.

There is a tendency on the part of the manufacturer and wholesaler to undertake distribution over larger territories that can be intensively and economically served. Where too extensive distribution has developed, accounts become scattered, selling costs, advertising, and transportation become extravagant and wasteful. When manufacturers and wholesalers go beyond a radius of economical distribution, they come into competition with an increasingly large number of other manufacturers and wholesalers making similar effort to dominate market, thereby creating a duplication of wasteful expense that attaches to the cost of distribution.

Retailers can materially improve their situation and reduce the cost of distribution through the development of more complete knowledge of the requirements of the consumers whom they serve. It is the function of the retailer to serve as a purchasing agent for the consumers within the community in which he is located, and to perform this service properly it is necessary for him to know the kind and amount of commodities required. Failure to maintain a balance between purchase of merchandise and the ability of the community to consume creates a larger burden of operating costs than economic distribution will justify.

An ideal distribution of essential commodities would require a continuous flow of raw materials into the processes of manufacture and an equally steady flow of finished products through the channels of distribution, to be consumed and replaced as rapidly as they are produced. This would avoid overproduction with consequent periods of unemployment and restricted purchasing power on the part of industrial consumers. A steady, even flow of products from producer to consumer would result in a frequency of stock turns on the part of the wholesaler and retailer which would place against the unit of commodity the smallest possible burden of cost. Economic distribution of essential commodities cannot be secured on any other basis than that of continuous production in response to continuous demand and a constant movement of products toward the consumer, with a minimum of handling costs between the producer and consumer.

Permanent solutions of the problems of distribution must come as a result of a higher standard of knowledge and ability on the part of producers, manufacturers, transporters, storers, and distributors, and a more enlightened recognition of their obligation to the public. Trade associations, soundly conceived and organized, can be made useful instruments for research, with a view to developing more efficient methods of manufacture and distribution and for introduction among their members of improved methods and practices as well as for creating more definite relationship between the various agencies engaged in production, manufacture, and distribution.

Governmental agencies should coöperate with producers, trade and labor organizations, and with each other to secure more accurate and current statistical data of production, prices, movement and consumption of commodities, and to promote standardization of product and service as well as the knowledge of improved method and practice and more effective relationship between the various agencies engaged in production, manufacture, and distribution.

Consumers can coöperate to reduce the cost of distribution by assuming a greater responsibility in securing the commodities they require, instead of depending upon retailers to display a great variety of goods with superlative convenience, and spacious display rooms with extravagant furnishings, fixtures, and facilities. Such environment is created in response to consumer demands and must be paid for out of the purchase price of the merchandise the consumers buy.

Manufactured Products.

It is quite generally known that it costs more to sell and deliver the marketable products into which agricultural commodities are converted than to produce and manufacture them. However, it cannot be generally realized, or greater efforts would be made to reduce the cost of

marketing and distribution. On the basis of the vast operation of agriculture and business, a very slight improvement in methods might readily effect a saving of billions of dollars annually.

Distributing methods, growth of.—The existing system of distribution of manufactured goods is the result of a gradual adaptation of earlier methods, when needs were comparatively few and simple, when production, manufacture, and market were localized, and when each community was comparatively self-sustaining. In those days the farmer took his wheat to the mill and had it ground and took away flour and bran. As a matter of fact, practically all goods were custom made. The consumers could tell the manufacturer what they required and the manufacturer could convey to the producer information as to his needs of raw materials.

The methods were rather crude, in contrast with the highly specialized practices of the present time, but there was little misdirection of energy in the matter of distribution. There was, of course, considerable time consumed in bargaining, and manufacturing costs were higher because of lack of machinery and labor-saving devices, but the costs of distribution were low in comparison with the costs of manufacture.

There was little or no overproduction, and manufactured commodities were handled and delivered in bulk, and much of the manufacture was carried on in the home.

With this condition as a starting point, we have to take into consideration the rapid development of our country, the extension of transportation systems, and the industrial activities growing out of the development of our mineral and forest products. People engaged in these activities had to be fed, clothed, and sheltered. Every section of the continent came into development, and goods had to be transported long distances. Through immigration our population increased more rapidly than the manufacturer's ability to supply it without an improvement in manufacturing methods.

In response to this requirement, machinery was invented and labor-saving methods devised. The manufacturer had but two problems—to make and deliver. He turned over delivery to manufacturers' agents, wholesalers, jobbers, and other agencies that came into being in response to an indicated need of distributive service. For a considerable time the demand exceeded the capacity of manufacturers, and the entire effort was to devise improved methods of mechanical production.

Improved methods of manufacture through the replacement of hand labor with machinery increased the volume of production rapidly and at the same time decreased manufacturing costs. With increased production demand was more easily satisfied, with the result that the volume of production at times exceeded the normal requirement, and manufacturers found it necessary to create new demand; selling costs were then

materially increased and greater effort was made to force goods through the channels of distribution.

By turning the problems of distribution over to other agencies the manufacturer lost his intimate touch with consumer needs and depended upon the wholesaler and the other agencies to reflect the probable consumer requirements. Under liberal governmental postal laws, fostering educational opportunity, monthly and weekly magazines and papers of wide circulation came into existence about 1880 and increased rapidly in number until about 1910. These magazines offered an opportunity for wide exploitation of manufactured goods. However, to realize a profitable return on advertising, it was necessary for the makers of goods to identify their products and guarantee satisfaction.

This led to increased branding and trade-marking of goods and packaging of foodstuffs. With the opportunity offered through widespread circulation of advertising mediums, there developed broadcast distribution of goods and a competition between manufacturers of parallel articles for national markets. This competition reflected itself in a further effort on the part of manufacturers to improve methods of manufacture and secure economies of large volume production. Competition was not confined, however, to production, but extended to the purchase of more advertising space in a larger number of publications and an increased selling effort of most intensive character.

In addition to the usual selling organizations calling upon the wholesalers, manufacturers organized specialty selling, in which they employed men to call upon retailers, distribute samples, and utilize such devices as would tend to compel retailers to purchase goods through the wholesaler. Each new selling device was adopted by competitive manufacturers, with the result that the distribution of manufactured goods became a competition of spending, until it developed a burden of distributive costs in excess of the value of the commodities distributed. However, consideration should be given to the fact that in the competition of identified goods there has developed a greater excellence, uniformity, convenience, hygienic protection of foodstuffs and a radical change in the living habits of the American people. It is apparent, however, that these advantages do not sufficiently compensate for the disproportionate cost of the distribution of necessities.

Distribution, cost of.—Figure 1 shows the distribution of the dollar received by the manufacturer from the wholesaler into cost of materials, cost of manufacture, operating expenses, and profit for eight groups of trade-marked food commodities.[4]

Because trade-marked goods have to a degree an established value in the mind of the public, it is the tendency of the manufacturer to absorb

[4] The products used were: rolled oats, corn flakes, canned milk, bread, peanut butter, macaroni, salt (granulated), laundry soap, and soap powder.

out of profits increases in costs of material, operation, and distribution when such advances appear to be of temporary character; and there is a like tendency to absorb in profit such advantages as may be derived from reductions in cost of material, manufacture, and operation.

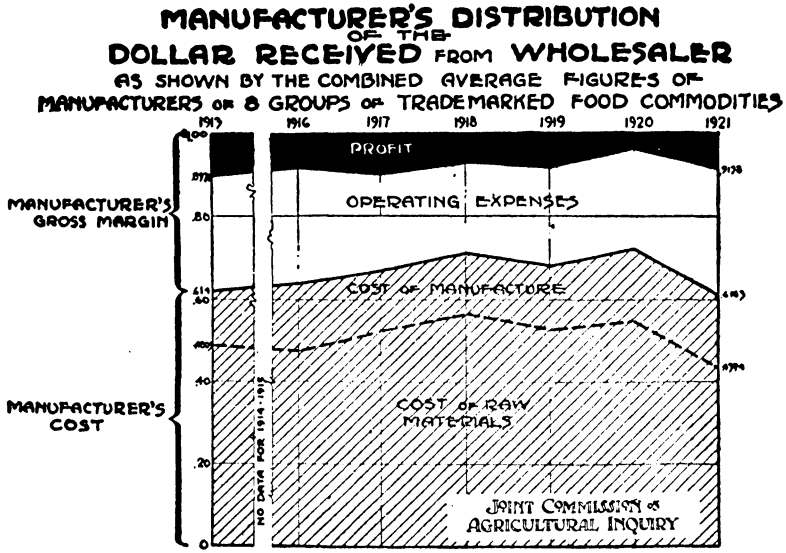


Fig. 1.—Eight Groups of Trade-marked Food Commodities.

A study of Figure 2 on page 23 indicates that for the period surveyed by the commission it cost 66.16 cents to distribute rolled oats costing 33.84 cents to produce.

This disproportionate distribution of the consumer's dollar reflects the importance of giving consideration to more economic and scientific distribution of the essential commodities. It is impossible in this report to trace the course of any considerable number of manufactured food products through all the processes of production and distribution. However, the processes of manufacture have become economical and efficient, while distribution has become expensive and inefficient. One of the outstanding factors in the whole proposition of distribution is that the per capita consuming capacity is limited to requirements, while the combined producing capacity of food manufacturers is in excess of consumer requirements. Therefore the public not only supports the cost of competition among identical articles produced by different manufacturers but is also supporting the cost of competition among various manufactured food commodities. This competition is further complicated by the fact that manufacturers are constantly striving for national markets and make

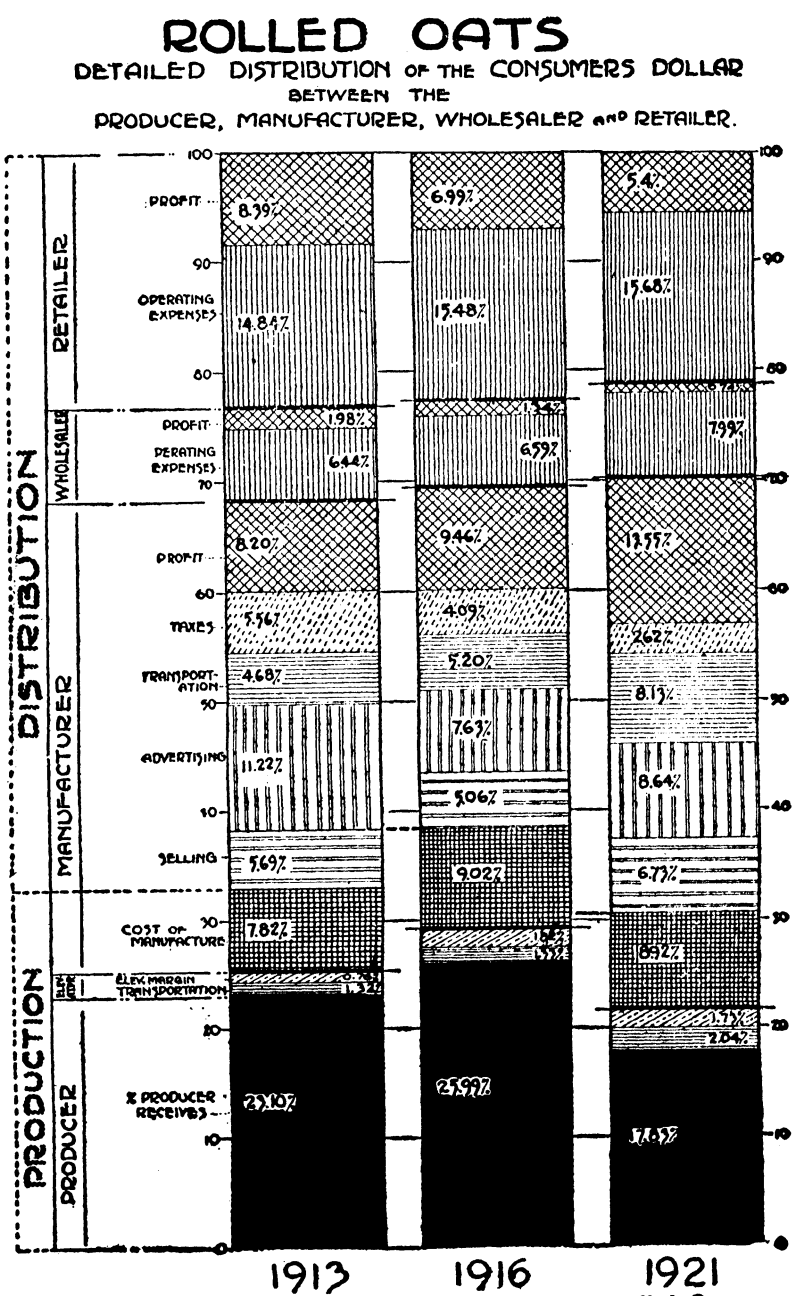


Fig. 2.—Distribution of Dollar Consumer Pays for Rolled Oats.

vast expenditures to enter communities already sufficiently supplied by manufacturers of similar products. In this effort large advertising appropriations are made for the purpose of influencing the public to demand certain brands, while specialty salesmen are employed to urge retailers to stock extensively in anticipation of the demand that advertising will presumably create. The orders received from retailers become the compelling argument to force wholesalers to purchase in sufficient quantity to fill the retailer's orders and afford this reserve stock.

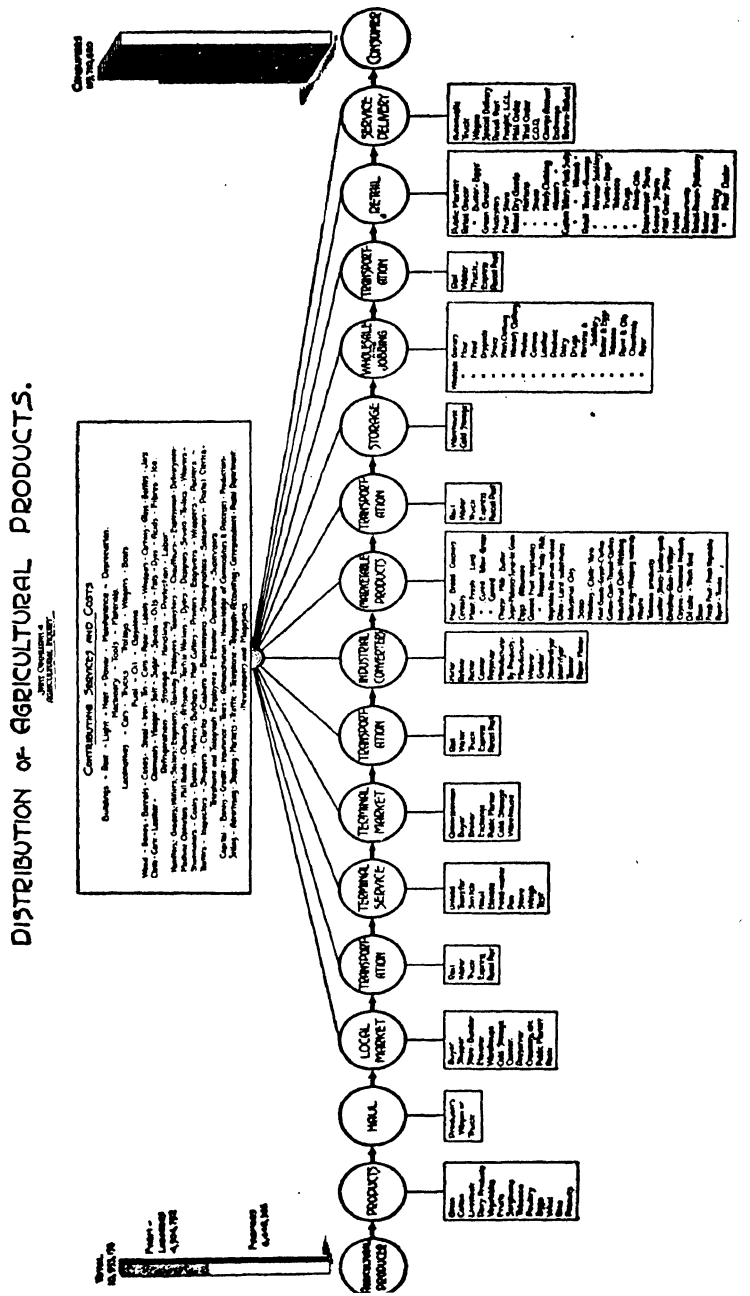
This process, however, is not uniformly successful because retailers frequently cancel orders placed with specialty salesmen or complain that the order was not actually given. Overstocked retailers and wholesalers are disposed to discourage the introduction of additional merchandise in competition with unsold goods already on their shelves or in their warehouses. This entire situation tends to increase the total cost of selling and distribution.

Another important factor in the cost of distribution is the manufacturer's desire to secure a large volume of production and dispose of it in maximum quantities. This tends to overload wholesalers and retailers, retarding their stock turn, and consequently increasing operating cost.

Distribution, methods of.—When the wholesalers and retailers become overstocked with any manufacturer's product it creates a dam across the channel of distribution for that particular manufacturer and he can have no outlet until the public has bought and consumed the surplus stock. When the activities of a number of manufacturers duplicate each other to produce this effect they exhaust the capital and credit resources of the wholesalers and retailers, with the result that stock must be turned into money at a sacrifice, while the manufacturers are compelled for an interval to discontinue operation. This results in the discharge of help, and creates a situation of unemployment that is reflected in the consuming market in diminished purchasing power, tending further to delay the reduction of surplus stock. Any improvement in the existing situation must necessarily come as a result of a better adjustment between manufacturing output and the public's capacity to consume and repurchase.

Economical distribution can be secured only when there is a steady, orderly flow of products through the channels of distribution in response to consumer demand. An effort to force goods through the channels of distribution invariably leads to congestion, and intermittent periods of production and idleness, which are reflected in cycles of prosperity and depression.

The existing methods of distribution cannot be materially influenced by any individual firm or corporation acting alone, nor can any individual firm or corporation be specifically arraigned for conforming to prevailing methods in the face of severe competition. However, individual concerns


DISTRIBUTION OF AGRICULTURAL PRODUCTS.
CONSUMING SERVICES AND COSTS
PRODUCTS
HAUL
LOCAL MARKET
TRANSPORTATION
TERMINAL SERVICE
TERMINAL MARKET
TRANSPORTATION
INDUSTRIAL CONVERTER
PERISHABLE PRODUCTS
TRANSPORTATION
STORAGE
WHOLESALE JOBBING
TRANSPORTATION
RETAIL
SERVICE DELIVERY
CONSUMERS

can in reasonable measure modify cost to the ultimate consumer by adopting such policies in production and distribution as will permit and encourage a steady, orderly flow of their merchandise through the stores of the wholesaler and the retailer in such quantities as will afford opportunity for frequency of stock turn and a consequently reduced burden of operating overhead cost against the unit of merchandise.

Wholesale grocers are not invariably efficient and can do much to modify the cost of operation by creating a greater efficiency of stock turn. In some instances, the wholesaler operates on a speculative basis and purchases in large quantities in anticipation of future demand at increased prices. While the majority of wholesale grocers serve retailers within a radius of 75 miles, there are a number who extend their activities over considerable distances, with an additional cost of selling and operation. Some wholesale grocers, in addition to distributing the products of manufacturers, enter into competition with manufacturer's goods by putting out private brands under their own label. It is difficult for a wholesaler fairly to represent a manufacturer whose products are in competiton with similar goods under the wholesaler's private label. In any case, it leaves room for suspicion on the part of the manufacturer that his goods are not being fairly represented by the wholesaler.

The average retail grocer too frequently permits himself to overbuy, with the result that he fails to secure the frequency of stock turn that would place the smallest possible percentage of operating expense against the individual item of merchandise which he carries in stock.

When the retail grocer buys beyond the requirements of his customers in anticipation of advancing prices, he becomes a speculator, and assumes all of the risks that attach to rising and falling prices. It is seldom that a retail grocer has sufficient knowledge of supply and demand intelligently to determine price tendencies. He is influenced almost entirely by salesmen representing manufacturers and wholesalers who offer inducements of probable price increases or special discounts or probable increased demand to result from advertising campaigns, etc.

Consumers seldom buy groceries less frequently than 52 times a year and in large centers they buy as often as 300 times per year. Under modern living conditions facilities do not exist in the average home for the care and conservation of considerable quantities of groceries. In the populous sections of the country it is seldom that a retail grocer is located at a greater distance than 50 miles from the warehouses of the wholesaler, while the majority of grocers are located within 25 miles of the reserve stocks carried in wholesale warehouses. The commission's survey shows that the average grocer turns his stock 8 times in 12 months. This indicates that he carries six and one-half weeks' supply when ordinarily a two weeks' supply would afford ample local reserve. This cannot be applied to all merchandise alike, but under average conditions

the retail grocer with a reasonable knowledge of the requirements of his community can double his present frequency of turnover and very materially modify his operating expense. The average grocer operates with comparatively small capital which quickly becomes absorbed in surplus merchandise.

This frequently places him under credit obligation to a wholesaler and restrains him from buying to the greatest advantage. When the retail grocer permits his capital to become entirely absorbed, either in surplus stock or in an overextension of credit, he loses the benefit of cash discounts and other advantages that tend toward economical merchandising.

CHAPTER II

NATURE AND CLASSIFICATION OF MARKETS

Markets and Market Prices.[1]

Law of supply and demand.— It is to the discredit of the user of the term when he carelessly uses it. None of the American authors within the past twenty years uses the expression, "the law of supply and demand." They use the terms, "equation of demand and supply," or the "forces of demand and supply," or the "operation of demand and supply." About thirty years ago the economists discussed it in terms of "marginality" or the "marginal principle."

The law of supply and demand is a reasoned explanation of the processes by which, under full competitive conditions, a market price is arrived at. These processes by which this market price is arrived at assume the existence of competition, a body of buyers and a body of sellers coming together, each wishing to buy or to sell on the best terms he can, independent of consolidation or collusion with others. In this market there must be a meeting of minds. An attempt is made to find out what the general situation is, and then the purchase takes place.

"Market" and "market price" defined.—Each market has its own district from which its freight rates slope upward and outward. A market is a definite place where the traders come together.

A market is a limited place. In the case of merchandise, the market is the place to which the merchandise has been brought and has been offered for sale. In the case of manufacturing, it is the place where the thing has been produced and has been offered for sale. It is a true market when full competition prevails. The old town market was a place in the public square in the town; but a side street around the corner from it was not the market. The whole town and country around it for miles, however, were part of the territorial district of that market. So that there is, first, the market, where the goods are brought and offered for sale; and second, the district tributary to that market which is dependent upon the market. A market, therefore, has a certain district tributary to it, and the width of that district is governed by the prices prevailing in that market. A certain district is definitely related to a certain market, when given a certain market price and certain freight rates. No matter how small a market is as compared with other

[1] Excerpted from the testimony of Dr. Frank A. Fetter in the Pittsburgh Plus Case, Federal Trade Commission, Document No. 760.

markets, that small market has its district that is logically related to it, and from which its freight rates slope upward and outward just as in the case of the larger markets. The smaller market will not control as wide a territory. The larger market may move toward the smaller market by hundreds of miles, while the smaller market may move towards the larger market by only a few miles, by reason of the fact that the market or base price at the smaller market is higher than at the larger market. The smaller market in such case can actually control the territory in a direction opposite from that of the big market only. If this smaller market has an excess above the amount which will fill this territory in the direction opposite from the larger market, then the uniform market price would be forced down by the competition of the producers in that area. This lowering of price would enable the smaller market to sell a little further in the direction of its competitor in the larger market, and the dividing line between the smaller and the larger market would move back towards the larger center.

Supply and demand.— If, however, competition is not operating at this smaller market, you might not find this uniform market price forced down to a general lower level, but you might find, instead, that the smaller market is widening its territory by discriminatory methods which would result in terracing its prices rather than lowering the general level. These terraced prices, or different discriminatory prices, are not market prices. If they are made by a plan of uniting freights with base prices they do not represent the market price. They represent a combination of two prices. The true, competitive market price of a commodity would be uniform to all buyers at the point of sale, but if you have a system of terraced prices, you have a price maintained over one area and a system of decreasing prices in the other areas. That would always be the sign to any student of economics that the law of supply and demand was not operating fully or freely.

If the seller sells to different purchasers at different prices, which net the seller different prices, then there is discrimination; it is not a true market. There could not be a true market if the net prices varied regularly.

A good description of a market was given by reference to the tin market in London. Here the traders are the best informed men in the trade. They know of all shipments being made, and have telegraphic dispatches indicating probable conditions of demand from all over the world. They cannot trade until a certain time, which is a fine quality for a market, because they have to stop and wait a while until there is a chance for interchanging information, and then there comes as nearly as possible a meeting of minds. You have there, a meeting place of the buyers and sellers of the world. There results,

then, a market price which is uniform to all those who buy or sell at the moment. That price is never absolutely uniform within a few minutes, but it is a constant trying out by both buyers and sellers until an equilibrium is reached, which is the market price. It may fluctuate within a few minutes by small fractions, but within very narrow range. The market price thus made is at any given time a uniform price to all buyers and sellers, which is a most important result. It is the most important characteristic of the truly competitive market. This price is said to equilibrate demand and supply. It draws a line between the buyers that are willing and those that are not willing to buy at the price; it also draws a line between the sellers that are willing and those that are not willing to sell at the price. Of course the amount bought and the amount sold must, axiomatically, be equal.

This uniform price, in a perfect market in the case of a manufactured article, is reached where the buyers and sellers meet and where the goods are sold and delivered. This does not mean that if there are several different markets, the prices in different markets are necessarily uniform with each other or identical at all.

The problem of the relation of markets to each other is capable of very exact solution if one thinks it out in connection with the uniform market price within each market and an existing schedule of freight rates connecting those markets; and while that is a theoretical solution of the problem, it gives clear thought instead of the very vague thought which most people have on that subject.

The wheat market.— This market, sometimes considered analogous to the Pittsburgh Plus System, is shown to be quite the contrary.

The market, in the case of wheat, is at Chicago, even though the producers are located outside, because it is a buying market. The market, in the case of steel, is at Chicago, even though the consumers are located outside, because it is in that case a selling market.

While the most perfect working of a market is where the sellers and the buyers all meet in a market, yet that condition can be approximated where a body of buyers are constantly going from one place to another and the manufacturers are constantly advertising their products. In many kinds of merchandising and manufacturing, where there is not perfect competition, nevertheless there is something very nearly approximating the general market price.

No market is indicated where, as in this case, there is a system of delivered prices based on Pittsburgh. This Pittsburgh Plus System is an artificial plan by which the growth of markets is prevented everywhere except in Pittsburgh. There is no selling place except Pittsburgh. Pittsburgh is artificially made a center for the sale of products. It is artificially made to act or to behave as if all the goods

manufactured were first transported to Pittsburgh and first sold from there. Under this system, there is only one market for the whole country, and that is not a market in the economic sense; it is an artificially made market.

"Marginal principle" and "principle of indifference" defined.—As applied to demand and supply, the marginal principle and the principle of indifference are two expressions that are closely related. The principle of indifference is this: If you have several commodities of exactly the same physical character and quality, it makes no difference to you which one of them you use for any particular purpose. In other words, you are indifferent which one of those you take, provided you have them all before you.

The marginal principle.—The marginal principle is really the same thing looked at from the side of the desire for the different uses. You may have several different desires and you can use these goods for these different desires. These desires may vary greatly in importance in order of time. If you were starving and had only a bushel of wheat, that would mean life to you. If you had a second bushel of wheat you might keep that as seed for next year. If you had a third bushel you might feed it to a parrot so that you could have a bird for company; that would be a purely superfluous desire. So that the marginal principle is this: The importance which you attach to that unit to be used for the least urgent need will limit the importance that you will attach to the other units which you have at the same time.

The principle of indifference.—The principle of indifference gives to all buyers an equality of treatment.

As applied to demand and supply, both the principle of indifference and the marginal principle influence the actions of buyers and sellers.

The principle of indifference operates in this way: Each buyer in the market says: "I do not care which of these units I buy because they are all alike; neither do I care from what seller I buy them for they are all alike." And each seller in the market, says: "I do not care which of these buyers' money I take, for it is all alike; neither do I care to what buyer I sell, for they are all alike; I shall not, therefore, treat them differently." The principle of indifference thus applied means that all the traders on each side are willing to trade with any one of the others on the other side. That is equality of treatment. The result is a uniform market price.

If the marginal principle really works out to a uniform price, it means that competition is at work.

No free competition with uniform discriminatory prices.—In a competitive market of demand and supply, the sales made at any given time would be at uniform prices. Take the marginal principle as

applied to all buyers buying in a true market, for instance—they would be buying at uniform prices, and all sellers would be receiving uniform prices—that is, the same net amount for their sales. Now, if you change your point of view in the use of any word, you may completely change the word. Under the Pittsburgh Plus System, you take your isolated buyer out in Podunk, for instance, where there is no market; he turns to possible sources of supply and finds that the prices quoted to him are uniform. But that is not a market price at all, because he there alone does not constitute the market. And when all the sellers that he buys from are quoting him the same price, he has not a uniform price in the sense above referred to, namely, the same price to all buyers in a market.

If men are receiving substantially different prices for the goods they are selling, there is not full and free competition.

Interferences.—Combination interferes with free operation. If any one of the buyers is in a special condition of need, it might be possible for the sellers to get him off by himself and force him to pay more, and thus break up the market into sections. And, if one of the sellers needed very much to sell, it might be possible for the buyers to get him off by himself where he could not reach the market, and force him to sell at a much lower price. The whole history of markets is full of illustrations of the particular way in which the attempt is made to avoid this operation of the marginal principle.

Anything that interferes with competition may result in breaking up the market. The chief interferences with competition are: (1) custom; (2) combination; (3) sympathy; (4) fear; (5) ignorance of conditions; and (6) governmental action or interference, such as bounties, subsidies, tariffs, and many other things.

Dr. Fetter testified that an interference with competition resulted when, as the testimony showed, the steel producers combined to fix prices years ago with the Pittsburgh base as the basis for the fixed prices. This kind of interference would be an understanding and would come under the second head mentioned above, namely, combination. The term "combination" is used in the wide sense as including any degree of agreement of minds on the part of any group of traders that would lead them to adhere to prices rather than to compete with each other. Every business custom can be traced back, if the facts can be found, to some act of persons who brought it about first and then it is adhered to afterward. There were many medieval trade customs, the origin of which is forgotten, and to-day we speak of trade customs quite within the memory of man that originated with some definite act. Whatever degree of uniformity of action continued as the result of custom—which undoubtedly does work upon the minds of men in all their acts of life—is an interference with competition

which keeps a market price from being a true demand and supply price. Some trade practices restrict and some do not restrict competition.

Trade practices.—Some trade practices make better markets and tend to assist the free operation of supply and demand.

The trade practice of buying and selling stocks and bonds only upon a stock exchange makes a much more definite market and a clearer case of demand and supply; likewise the trade practice of handling grain upon a regular produce market. But a system or trade practice of price making which bases prices upon another market destroys the existence or creation of a market at other places, and, therefore, is an interference with competition at those places.

Price competition, failure of.—With a failure of price competition, Pittsburgh plus prices result.—If, for any reason, either the buyers or the sellers fail to compete actively, there may result inequalities in prices; what was a general plane of prices breaks up into a set of price terraces, some higher and some lower. This could not continue if there had been full competition, for the full competition of the buyers or sellers would be able to defeat such price terraces. The moment any buyer was ready to pay more than the rest of them were paying, the sellers would swarm over to him to sell him and bid against each other for the higher price. And *vice versa* on the other side. But if they fail to compete in this way, the resulting discrimination means that the buyers are being differently treated by the sellers or the sellers are being differently treated by the buyers, and competition is thwarted.

For instance, if the sellers, instead of following the principle of indifference in selling to any person in the market who is willing to buy, first demand to know to what point the shipment is to be made, that would be an interference with free competition. If the sellers made a distinction between the buyers because of the location of the place to which they intended to transport the goods, that would be an interference with free competition. That would cause a series of discriminatory prices. Or if the sellers insisted on saying, "We will not sell you these goods unless you buy freight from us," though they are not themselves producers of freight, the freight being furnished by the railroad companies, that would be a discrimination, and the prices resulting from that practice would not be a price, but a number of discriminatory prices. There would not be a market, but there would be a number of artificially produced markets created by refusing to act on the principle of indifference or the marginal principle.

Non-competitive prices.—Uniform non-competitive prices are generally discriminatory prices. Uniform price at a moment is the necessary evidence of a perfectly full operation of supply and demand;

but on the other hand there is, of course, such a thing as a uniform monopoly price, that is, noncompetitive prices may in some cases be uniform prices, as we may have a uniform price which results from a restraint of trade. Or this restraint may produce discriminatory prices. Ordinarily, an interference with competition brings about discriminatory, rather than uniform, noncompetitive prices.

It is well nigh impossible to find, in the economic meaning, an absolute monopoly in the sense that there is an absolute control over prices. But there may enter monopolistic features into an industry or market where in large part, ordinarily, competition prevails. When an economist speaks of a market as exhibiting monopolistic features, he is not asserting that a monopoly has control in the old economic sense of something with complete control. The economist attaches the idea of a monopolistic power usually to a limitation of competition. There may be a limitation of competition in many ways. Instead of using the word "monopoly" it would be better to speak of lack of complete competition. All discriminatory prices involve this monopolistic element.

"Sagebrush markets."—The free operation of supply and demand is thwarted by the sagebrush market. The economic law of supply and demand always assumes a body of traders come together where the marginal principle can operate. In the case of the delivered price, this does not occur, and therefore it does not conform to the economic law of supply and demand. If the sellers, because of a trade custom or understanding or what not, refuse to act on the principle of indifference in their treatment, but require a buyer to name the point to which the goods are to be shipped, then they isolate that individual buyer; they take him off behind the bush and create a sagebrush market, so to speak.

In early medieval economic history, for instance, they had what were called the "laws of forestalling," which were passed to prevent some shrewd buyers or sellers from dealing with others outside the market, because with the sparse population and the sparse business of that time, there were few meeting places, and it was desired to bring all the buyers and sellers together and require that they should meet first before they contracted; that met the idea of a market.

Now if the sellers can pick off individual members of the buyers, or *vice versa,* they are destroying the very conception of a market. There is no meeting of minds; there is no operation of the principle of indifference as regards the sellers; and there is no effective two-sided competition that will fix the market price.

Competition through increase of markets.—A country of any size consists usually of a number of markets. There could be but one market in the country only if all the goods of a certain kind were first transported to that market and then sold from the market and trans-

ported to destination. If, however, the goods are produced at different points, by competing firms, and there is really any competition, there would grow up a number of markets, each one having a tributary district. Take Chicago as a buying market for the wheat of western farms—all of the farm area that produces wheat for that market is tributary to it. In the case of a selling market, for manufactured goods, for instance, all the area to which goods are transported is tributary to it as a buying territory.

Competition defined.—Competition is the free and unimpeded effort of each trader in the market to trade wherever the transaction would be to his advantage, unimpeded by any of the interferences such as: (1) custom; (2) combination; (3) sympathy; (4) fear; (5) ignorance of condition; and (6) governmental action.

Pittsburgh Plus and competition.—Dr. Fetter testified that competition could not coexist with a series of discriminatory prices such as are produced under the Pittsburgh Plus System. The discriminatory price is the inevitable mark of failure of competition at some point. The Pittsburgh Plus prices are not prices made to meet competition, as they are not one uniform price but a series of discriminatory prices. The product dumped eastward toward Pittsburgh by the Chicago mills is being constantly sold at a definitely understood ratio within Pittsburgh territory; the prices do not have the quality of adaptation to conditions of supply and demand; the prices are fixed and crystallized and in operation for a considerable time. They do not have at all the characteristics of a wheat market or of a tin market. The prices are clearly not prices made to meet competition, because they are the highest that the traffic will bear. If there were competition within the Chicago district, those higher prices, in that rich, fat territory, under the marginal principle and the principle of indifference, would be hammered down by the competition of these sellers.

Types of Markets.[2]

Primary markets.—Primary markets are points of assembly or concentration of shipments from numerous local markets to be transported to terminal markets. No definite distinction can be made between primary and terminal markets, because in some instances shipments are made for sale at the first point of concentration, while similar shipments are merely consolidated and forwarded to larger or other markets. For instance, Minneapolis is both a primary and a terminal market for grain—a primary market when grain is to be forwarded

[2] "Marketing and Distribution," Report of the Joint Commission of Agricultural Inquiry, 67th Cong. 1st Sess., Report No. 408, pp. 104-106.

to Chicago or seaboard and a terminal market when grain is to be converted into flour in Minneapolis mills.

Terminal markets.—The various grains move in carload lots or ship cargoes to terminal elevators for storage, or to mill elevators for conversion into food products, and are probably more efficiently handled than other agricultural products, with the possible exception of live stock.

Live stock generally enters terminal markets either in carloads of cattle, sheep, or hogs, or in combination carload shipments, moving directly to union stockyards accessible to the various packing plants.

Cotton generally enters the terminal market in carload lots or in considerable shipments by water, and is unloaded on wharves or into warehouses publicly operated or under the supervision of an exchange.

Terminal market facilities, generally speaking, have not kept pace either with increased production or improved transportation. In an earlier chapter, attention has been called to the fact that the movement of fruits and vegetables has increased about fourfold in the last 20 years. Most markets have outgrown the present facilities, and the problem of securing improved terminal markets is one of most urgent importance. The wholesale fruit and vegetable market in each city is usually situated in a fairly compact district; in the smaller markets the wholesaler is frequently located adjacent to the tracks of the railroad serving that market. This arrangement makes for economical handling. In most of the older cities, however, the wholesale market was established years ago, before rail movements had assumed such important proportions, and when the principal source of supply was the immediate surrounding countryside. Such of these older cities as enjoyed water transportation generally located the market place for perishable products at the waterside. As a result of these early influences, it is not infrequently the case that wholesale markets are situated at a considerable distance from rail terminals.

As cities have grown, increasing land and rental values and the inertia of custom and tradition have prevented relocation or the improvement and extension of wholesale markets in accordance with needs. Changes can now be made only through the coöperation of municipalities, carriers, and wholesalers.

Production has not been confined to territory contiguous to any particular railroads, but has naturally developed wherever land was most suitable and railroad service was available. The result has been that practically every railroad entering any given market contributes to the supply of perishables. The difficulties attending the sale and distribution of these products increase with the number of carriers serving the particular market.

Chicago wholesale market.—Chicago, which is served by some 27 trunk-line railroads and several boat lines, furnishes an extreme example. The wholesale market extends over a section of some five or six city blocks along South Water Street, a narrow thoroughfare at the north end of what is known as the "loop"—one of the most congested business districts in the world. The rail and water terminals are situated at distances varying from four blocks to two miles from the South Water Street market. While some commodities, notably potatoes and watermelons, are sold at railroad terminals, most of the fruits and vegetables must be hauled by wagon or motor truck over rough streets, across and through the most congested portion of the city. This carting or rehandling does not add in any way to the value of the product, but it does add materially to the cost of distribution.

Arriving at the South Water Street market, fruits and vegetables must, in a large measure at least, be unloaded, and, when sold, loaded, and again transported over the same routes, no inconsiderable portion being carted back to the railroad yard or depot from which they started on their city journey. Conditions have become so serious that the city of Chicago is eliminating the established market by destroying South Water Street in its present form. No provisions have been made for a new wholesale market. A mere relocation of the wholesale district cannot materially improve the present uneconomic methods of handling. A wholesale railroad terminal to which all carriers would have access and about which the wholesale district could be established is the pressing need.

New York City wholesale market.—Few railroads have rail terminal facilities in New York City. Practically all perishables, whether arriving by rail or boat, are delivered on to docks controlled by the different carriers. Wholesale markets have been established on many of these docks, so that a considerable portion of the unloads are immediately sold right at the terminals. Wholesale stores are located along a series of streets close by, to which a certain portion of the receipts is carted for disposition at wholesale.

There is no joining of carriers in the common use of docks. For example, barreled apples, to meet favorable sale, must have New York Central delivery; boxed apples, on the contrary, must have Erie delivery. The result is that the buyer desiring to purchase apples packed in the two types of packages secures his supplies at two different docks some distance apart. If the same buyer desires certain other fruits or vegetables he must go to still other docks. New York needs a unification of docks. While no one dock could be developed sufficiently large to handle all of the various lines of perishables, docks might be set aside for the handling of given commodities, such, for example, as an apple dock, a potato, cabbage, and onion dock, a general fresh vegetable

dock, etc., and then, regardless of which particular railroad enjoyed the haul, the delivery of the commodity should be at the particular dock for that particular commodity. Such docks should be as closely contiguous as possible, so that the wholesale district might be more centralized and unified.

Classification of wholesale markets.[3]— Wholesale market centers may conveniently be divided into two main classes—shipping markets and receiving markets. The first of these are specially organized for collecting food products from the growers and sending them, in some cases after manufacture, to distant points. The second are organized for receiving large quantities of these goods from a number of shipping points and distributing them to near-by consumers or to dealers in other places. There are probably few, if any, important markets that are concerned exclusively with either of these types of dealing. Shippers are necessarily consumers and not all of the things needed can be produced locally. Most of the large receiving markets secure some portion of their supplies from the growers at near-by points. A city like Los Angeles may be an important shipping market for some things and at the same time a large receiving market for many kinds of products. Notwithstanding some difficulties of this sort the two types of markets are, in practice, sufficiently distinct to bring into a clear light the problems that must be considered in connection with each of them when any constructive regulation of the markets is contemplated.

Besides the shipping and receiving markets there are two subordinate types that are of sufficient importance to warrant special consideration in this connection. These are the auctions and what are sometimes called farmers' markets. The first of these are found in a moderate number of the receiving markets only, but in some of these they handle great quantities of produce. "Farmers' markets" are found in a very large number of places; and in many cities a strong effort is made to encourage their development.

Shipping markets.—Those doing business in the shipping markets are of four main classes—independent local shippers, representatives of dealers in the receiving markets, growers' associations, and branches of large corporations. Many of them are not merely dealers in the narrow sense of the term. The "packers" who prepare fresh farm products for shipment may, perhaps, be so regarded; but at many of the shipping points there are creameries, canneries, or other manufacturing concerns. These, however, do an important part of the work of marketing, and for present purposes may be treated simply as dealers.

One of the chief problems connected with shipping markets has to do with the quality and condition of the goods. In the past disagree-

[3] Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 51-59.

ments on these points between shippers and receivers have often been a serious evil. This is true, to some extent, of commission dealings, but has been much more conspicuous in the case of goods sent to a distant market under an agreement for their purchase by a merchant. During the last year or two the evil of rejected shipments has been greatly reduced by Federal inspection at the receiving points. There are some dealers, however, who insist that there should be inspection at the shipping points as well. Where the purchaser can inspect the goods before shipment no market problem of the sort arises; but, generally speaking, only large dealers can do business in this way. In all cases in which the purchase is made f. o. b. shipping point the buyer must assume the risk of deterioration in transit. If the goods arrive in bad condition, however, the question may arise as to whether the loss occurred in transit or whether the goods at the time of shipment were as represented. The resulting misunderstandings are not only injurious to shippers and receivers, but the danger that they may occur constitutes one of the costs of doing business.

In some important shipping markets most of the business is done by a few large distributors. This is strikingly the case in the cantaloupe trade of California, Nevada, and Colorado. In the western cantaloupe markets the distributors make contracts in advance of the season with the growers, by which the latter appoint them exclusive agents, and agree to pay a commission which commonly amounts to 15 per cent. The contracts differ somewhat in different places, but in general they are much more than mere agreements in regard to marketing. The grower commonly agrees to plant a certain number of acres with seeds selected by the distributor, to purchase the seeds and certain other supplies from him, and in certain respects to conduct his business as the distributor may direct. The latter does practically all the work of marketing, the goods of different growers commonly being pooled for the purpose, and in some cases advances money to the grower. It must not be supposed that relatively small buyers are entirely absent from these markets, but they seem to be a distinctly minor factor. Sometimes cantaloupes are consigned directly by growers or growers' associations, but cantaloupes are highly perishable, and the western growing districts are far from the large markets. Distribution must be quick and wide. Under the circumstances it is hardly surprising that the great distributors have a material advantage in the shipping markets.

While the problems presented in the marketing of cantaloupes are in some respects peculiar, conditions in many of the specialized growing districts of the South and West are decidely favorable to large marketing organizations of one sort or another. Great quantities of products are there to be handled and must be sent to many distant markets. Under such circumstances a large concern that is constantly in touch

with the different markets and has arrangements for selling in them is in a position to render services that, to many of the growers, are of real importance.

At some shipping points marketing organizations of the growers themselves occupy an important position. These are found in nearly all parts of the country, but they are especially prominent in the state of California, which, through legislative and executive action, has done much to encourage them. Generally speaking, each of these organizations confines its attention to one or two specified products, or even to that part of a product which is intended for a special purpose, such as canning. In some cases the activity of an association is, in practice, more narrowly restricted than its name or formal agreements would imply.

Whether organized on a joint-stock or a nonprofit basis, these associations commonly make contracts, in some cases running for three or even for five years with the growers. Partly as a result of these contracts certain associations have secured control of a very large proportion of the output. The California Associated Raisin Co., for example, in 1918, controlled about 88 per cent of the crop. The California Fruit Growers' Exchange, during the crop year of 1917-1918, handled 76 per cent of the shipments of oranges, lemons, and grapefruit from the state, the percentage being somewhat larger that year than usual. For the same reason the California Peach Growers, Inc., according to the state market director of California, sold 32,000 tons out of the 40,000 tons of dried peaches produced in the state. This is 80 per cent. When contracts were first made with growers, it was provided, among other things, that they were not to go into effect until contracts had been secured covering 75 per cent of total acreage in the state of freestone orchards four years old and over. There are a number of other associations that control a similarly large percentage of the products in which they are specially interested.

Whether or not the coöperated societies have attempted to restrict production or to exercise any monopolistic influence on prices, control of the marketing of such a large percentage of the output naturally limits rather narrowly the opportunities for other dealers. Competition between the associations and the independents for the securing of products is frequently keen. It takes the form, on the one hand, of attempts to induce all growers to become members of the associations, and, on the other, to induce them to stay outside or to break their contracts.

Receiving markets.—Receiving markets might be divided into two subclasses—those that are almost exclusively consuming centers and those that, in addition, serve in a substantial way as points of distribution to other places. In some branches of the food trade the distinction is of importance. In those here under consideration, however, most

of the important consuming markets are to some extent distributing markets as well, and, as is true in other branches of the food trade, practically every important distributing market is also a large center of consumption. Consideration of distributing markets, therefore, practically implies consideration of central consuming markets.

A receiving market must be organized for handling products of practically all kinds, whereas a shipping market is ordinarily prepared to handle on a large scale only those that are produced locally in commercial quantities; and these, in some cases, are very few. The wholesale dealer in a receiving market, however, generally confines his activity to one or two lines of similar commodities, such as fresh fruit and vegetables, dairy and poultry products, or groceries, though there are fairly numerous exceptions. Generally speaking, he is more specialized in this sense than is the typical dealer in a shipping market, though greater specialization than appears in the case of some of the great shipping organizations would be practically impossible.

Nearly all types of dealers are found in a large receiving market. Some shipping organizations and food-products manufacturers maintain offices or salaried representatives in certain large cities. In some lines, especially in the wholesale grocery trade, traveling salesmen are employed. Large shipments are often handled by brokers, and in many cases relations between shippers and receivers are sufficiently close to permit direct dealings, based on mail or telegraph orders. Small shipments are sometimes sent to commission men and sometimes to merchants. Near-by growers sometimes bring their products to the city and sell them to wholesalers, to retailers, or even to consumers. On the other hand, certain city dealers send representatives to the country, often to distant points, to solicit shipments or even to make purchases. Some dealers sell to those in other markets, large or small. Others do a business that is mainly local, as to both buying and selling. In fact, nearly all forms of dealing that are legitimate, and occasionally some that are not, are to be found in the receiving markets.

There are some food products the marketing of which is comparatively simple. This is true, generally speaking, of those that have passed through some process of manufacture, canned fruits and vegetables being a good example. Commodities of this sort are usually sold by the manufacturer, either directly or through a broker. Normally they go next to the retail grocer and then to the consumer. Goods of this sort are handled to a considerable extent by the branch houses of the big meat-packing companies, but from this point of view the branch houses are simply doing, among other things, a wholesale grocery business.

The marketing system is much more complex in the case of most of the highly perishable goods. This is strikingly true of those that reach the consumer in substantially the form in which they leave the

farm. If, indeed, a particular shipment be followed through the receiving market the process may not seem to be very complex, though in many cases the number of steps will be greater than it is in the case of groceries. The complexity lies in the fact that there are many ways in which products may be handled and one shipment is dealt with in one way and one in another. The result is that it is practically impossible to describe any way in which goods are normally handled.

The complexity of the marketing system, however, is far from being an irrational thing that could easily be simplified. In a large measure it is due to the great variety of the conditions of original production. If all farm products consumed at a given place were grown by small near-by farmers, the marketing system would probably be fairly simple, but the needs of consumers would not be well served. If the farmers were all specialized producers, far from the markets, and organized, as are many of those in the far West, into great coöperative associations, the marketing system would be somewhat more complex but still easily understood. In fact, however, these are but two extreme types. Farming is a very great industry, but it is one in which production is generally on a small scale. Farmers are numerous and differ greatly in location with reference to the markets and in degree of specialization. The industry is a seasonal one, and a given market must secure most of its supplies now from one place and now from another, a circumstance which is not very favorable to the establishment of permanent business relations.

The size of a receiving market as a consuming center and the extent to which it is used as a distributing point naturally have much to do with the character of its organization. In a city like Chicago the car-lot business, both into the city and out of it, is so large that some dealers may devote themselves entirely to it. This would hardly be true of a smaller city, where the car-lot business is relatively small and brokers sometimes arrange for "pool cars," the contents of which are divided among several wholesale dealers, there being few who have sufficient business to warrant their taking an entire carload. In the same way the size of the market may justify the existence of the large wholesaler as distinguished from the jobber, especially if there are within its field as a distributing point a number of cities large enough to warrant some wholesale business, but not large enough to justify the establishment of a big concern with far-reaching connections and a heavy investment of capital.

Simplicity of marketing organization, advantageous as it is in many ways, is one of the conditions favorable to the concentration of the business into comparatively few hands. Where there are many different types of dealers and many methods of handling goods, it is much more difficult to secure control of the marketing machinery, and though it

is possible, so far as any particular method is concerned, the power of a combination in any one of them is decidedly limited.

Complexity of marketing organization, however, while not specially favorable to combination, tends to make dishonest dealings hard to detect and sometimes hard to define. Illegitimate practices are ordinarily injurious to the persons with whom business is done, and at the same time are unfair trade practices. Where business has been done with merchants, the problem of rejected shipments has been a serious one, and the great majority of the dealers who expressed any opinion to the Federal Trade Commission or its agents are in favor of a system of national inspection. Mere inspection of products, however, is not sufficient to protect the dealer from various forms of unfair dealings. It would hardly protect the shipper, for example, from false returns or inaccurate reports of marketing conditions.

Auction markets.—In more than a dozen of the receiving markets of the country there are auction companies through which large quantities of fresh fruit and, to a relatively unimportant extent, other kinds of produce, are sold. In most of these cities there is only one such company. In New York there are three, but these are united by a contract fixing commissions and providing for the pooling of profits. Most of the fruit thus handled is received in carload lots from distant shippers, though the latter are in some cases large organizations handling the fruit of a considerable number of different growers. The services of the auction companies are therefore available to many small farmers as well as to large ones. Ordinarily the fruit is not consigned directly to the auction companies, but is sent to brokers, to salaried representatives of the shippers, or to dealers of some other sort. One reason for this seems to be that the auction companies prefer to have someone on the ground with whom any disagreements can be considered.

The auction rooms and warehouses are commonly located on railroad property, and the goods are unloaded directly at a point where they can readily be inspected by possible buyers. The goods are divided into lots or "lines," catalogued, and sold by the auctioneer to the highest bidder. In general, the buyers include both large and small dealers as well as representatives of the restaurants, though the relative importance of these differs in different places. Ordinarily purchases may be made on credit, but the auction company pays the seller within 24 hours, advancing the money and assuming the responsibility for its collection. For its services the auction company charges the seller a commission which is usually 2 per cent, though in one or two cities it is as low as 1½ per cent, and in a few cases it gets as high as 5 per cent. In some markets there is also collected from the buyer a "terminal charge," which is usually a flat rate of 5 cents or less per package. In one or two places there is nothing called a terminal charge, but a

"delivery charge" which is reduced, but not eliminated, if the buyer carts away the goods himself. In at least one case there is a delivery charge with no chance for the buyer to escape, even in part, by doing his own carting. This is not necessarily an unreasonable requirement, since under certain circumstances serious congestion can be avoided only by an organized system of deliveries.

Quotations, based on auction prices, are used to a certain extent as an indication of market conditions. The sales are public, a record is easily obtained, and, at least in some of the auction markets, a catalogue showing the prices received for each lot of goods, is printed by the auction company for the benefit of the sellers. In some cities these quotations are not without their influence on the prices paid at private sale. The New York Fruit Exchange, which is not itself an auction company, has a committee which makes up an official auction report, which is supposed to be used as basis for quoting New York prices to distant customers. In so far as auction prices are the result of open competitive bidding and the volume of sales is large, the quotations probably indicate fairly well the conditions prevailing in the market. Manipulation for the purpose of affecting the quotations is not impossible and is said to have been practiced in some instances. Cases of the sort, however, are probably exceptional.

One of the chief advantages claimed for the auction method is the free play of demand and supply that public sale makes possible. As a result, the shipper is assured of as high a price as the conditions warrant. Advocates of the auction method claim that the thing that counts is the quality of the goods rather than the quantity offered for sale or the ability of the dealer. All grades can, therefore, be sold for full value. If there is a glut in the market, peddlers and pushcart men buy heavily in order to take advantage of the low price, and by pushing the sales prevent the price from falling as low as would otherwise be the case. The auction market, moreover, is a quick one. After the sale opens there is no long wait for buyers to appear. This is of special importance in the case of highly perishable goods. It is further contended that the cost of selling at auction is low, and it is pointed out that one auctioneer can do the work of many private salesmen. Finally, the publicity that attends auction sales furnishes some assurance of fair dealing.

The advantages of the auctions, however, must not be exaggerated. Under proper conditions demand and supply may work smoothly at private sale. At the auction they represent conditions at a particular moment of time. Neither party can "shop around." The would-be buyer must purchase the goods when they are offered or not at all; and the seller must accept the best price then tendered, subject, in some cases, to his right to withdraw the goods from sale. To permit a seller to bid on his own goods in case he is not satisfied with the prices

offered by others, as is sometimes done, is to open the door to a rather bad form of price manipulation. Again, it is sometimes said that those whose goods are sold first in the auction have an advantage over those whose goods are sold later, since the buyers, after securing enough to satisfy their needs, leave the market, and the subsequent buying competition is reduced. In the case of small shipments the economy of the auction is at least highly doubtful, since the goods cannot be directly consigned to it, and they might be sent to a commission man or to a merchant of the type that would otherwise buy them at public sale. While it is claimed that agricultural products of practically all sorts can be sold at auction, there is no doubt that it is a material advantage to have the goods come in carload lots properly packed in standardized packages. As a matter of fact, it is chiefly fruits so shipped and so packed that are handled at public sale.

Farmers' markets.—A "farmers' market" is a place primarily devoted to the sale of farm products by the growers. As the term is often used, it is limited to those in which sales are made chiefly, if not exclusively, to consumers. Such usage, however, is hardly justified. There are some farmers' markets that are almost entirely devoted to the wholesale trade; and in many of the others a considerable amount of wholesale business is done. Markets in which a large number of sellers who are not farmers are present are not strictly farmers' markets, but they constitute such a large proportion of those in which the farmers do business that they may well be considered in this connection.

Retailing by the farmer implies, so far as it goes, the elimination of the middleman and of the wholesale trade. While, however, there are successful farmers' retail markets in a number of places, and while they have a real field of usefulness, it is evident that this field is limited. Enough has already been said to show that even when a city is located near a producing section a considerable part of its supplies must be brought from a distance. What is of more significance is the fact that even when such markets are available near-by farmers frequently sell to retailers or even to wholesalers, sometimes through the farmers' markets; and in a few cases markets of this sort are known as wholesale markets.

It is commonly assumed that the chief obstacle in the way of a greater development of farmers' retail markets is the unwillingness of the consumers to patronize them. This may be one of the obstacles, but it is probably no more serious than is the unwillingness of the grower himself to make use of them. The latter has his farm to care for, and unless it be a very small one it is likely to require a great deal of his time and attention, especially as the marketing season necessarily coincides with the harvesting season. The spread between the price that the farmer can get from the middleman and the price that

the consumer must pay may look very attractive, but to get it the farmer must do most of the work of the middleman. Some farmers, especially the smaller ones, are in a position where they can well spare the time, and the establishment of a farmers' market may be of advantage to them and to the consumers. Upon the whole, however, it is not surprising to find that many farmers prefer to sell to the middleman and that in many of the markets products are sold by others than the growers.

Farmers' wholesale markets may be divided into two classes—those in which products are disposed of to middlemen for local consumption and those in which they are turned over to shippers. In neither case is it necessarily implied that the farmer is doing any part of the work of the middleman, since the dealers may be practically of the same sort as would handle his goods in any event. The functions of such a market are often little more than to bring together in one place a number of farmers and middlemen, thus making it somewhat easier for them to deal personally with each other and giving freer play to competition than it would otherwise have. This is particularly likely to be the case in the shipping markets where a large part of the supplies are obtained from near-by farmers. Where, as happens in some of the consuming markets, the farmer deals with the retailer, the number of middlemen is reduced. This may result in a real saving and not in a mere transfer of the work of the wholesaler to the farmer or the retailer. The quantities in which the farmer wishes to sell and those in which the retailer can conveniently buy may be so nearly the same that the most important function of the wholesaler would be merely to establish the connection between the two. This function, existence of the market may render unnecessary.

While the farmers' wholesale market, in some cases, serves a very useful purpose, its field, like that of the farmers' retail market, is limited. One can successfully be maintained only in or very near to a producing district. In practically all of the important consuming centers, even when they satisfy this requirement, a large part of the supplies must be brought from a distance. In the producing sections, many of the farmers have more or less permanent connections with local dealers, or with those in the receiving markets. In a large number of cases, particularly in the specialized producing districts, a farmer will enter into a contract with a coöperative or independent organization for the marketing of his entire crop. Even if the contract has a clause excepting local sales from its provisions, the farmer may not take advantage of the fact, unless the incentive is strong. The case would be somewhat different if he had to make arrangements from time to time for the disposal of his goods.

Car-lot markets and how they are supplied.[4]—Raw materials for use in manufacturing naturally tend to move to market in car-lots. Wheat and cotton regularly go to the mills and live stock to the packing houses in wholesale quantities; for the miller, the spinner, and the packer are essentially car-lot buyers. So, for other raw materials, the usual unit of shipment has long been the carload. In regard to another class, of commodities; those ready for immediate household consumption—the carload has been, to some extent, adapted to market conditions. A product that can be kept for a few weeks, at least, awaiting consumption, may be received one or more carloads at a time and stored until absorbed by the retail trade. This is true of such articles as potatoes, cranberries, apples, eggs, butter, and fresh meats.

Consumption zones.—The market capable of disposing of a carload of such produce is called in this article a "car-lot market." The consumption at such a place includes the retail trade within wagon haul of the wholesale produce warerooms and also outlying towns and cities to which small shipments may be made profitably. The radius of such a zone of consumption for a given article depends partly upon its relative value compared with the less-than-carload freight charge, partly upon the character of the transportation service, and partly upon the encroachment of the consumption zones of other car-lot markets. Local refrigerator-car services are maintained between some large cities and points in the surrounding country for the purpose of distributing and collecting small consignments of perishable articles.

For many car-lot markets, ordinary local freight service moves the parcels out to neighboring towns, especially to those within a day's haul.

Supplementing the steam roads in distributing this produce from car-lot markets are boat lines and interurban electric roads. Cincinnati is an example of a car-lot market well served in this trade by all three kinds of transportation—steam railroads, boats and trolley lines.

Market Functions.[5]

Price-making.—The great function of the market as a price-making facility gives the New York market a significance even out of proportion to the volume of business directly transacted there. The strategies of the business in marketing well-known brands of perishables available to several different markets where the custom of the trade has made the New York price the reference price center here in this New York market. These traders may collectively make the price by an exchange sale test, to which they later refer all their transactions, or by direct

[4] Andrews, F., "Annals of the American Academy," 1913 Vol. 50, pp. 1 and 2.

[5] The New York Produce Market is a good illustration (see Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 226-228.

negotiations. But a very large part of the strategy lies in creating the conditions which other traders by intuition come to follow, which are reflected in a published price or the price of the leading trader.

Stability and range.—The bane of the produce market is the extreme instability of prices. Picking at random one of the price-current sheets of Urner-Barry and making an arithmetical average of the ninety-odd quotations of vegetables without any effort to weigh them individually according to their significance, there is a range roughly amounting to 70 per cent between the high and the low in one day. These figures, we must remember, have already been corrected for very wide extremes by the expert judgment of the price reporter; it is evident how great this instability is. No other market in the city of New York could endure such a range. A 4 to 5 per cent change in the wheat market in a day is considered most extraordinary, and when it occurs it brings disaster to many, yet the perishable-produce market survives with an average daily range of from eight to ten times as much.

The factors in these violent price changes are many of them accidental and in themselves trivial. Larger concert of action in dispatching and routing to market and in steadying the flow to market, and larger facilities for stimulating or discouraging the demand of the consumer to adjust this demand to the shifting volume of the producer's output, could go a long way to stabilize these differences:

Factors in price making.—The factors contributing to make the price are:

1. Habitual price.
2. Price of previous day.
3. Goods arrived in their relation to usual supply and consumption.
4. Amount of goods "rolling" to the city within striking distance of the market.

Price for the day: collective judgment.—Since the price situation rests upon the daily arrivals at market, which may vary greatly, there is a general tendency toward a price for the day, based upon the daily situation, which is restated each day when the price is likewise revised. This is in line of a tendency to stabilize prices and eliminate accidental influence of trivial conditions during the day. The various devices of prices based upon public exchange quotations or Urner-Barry reports or prices negotiated by a committee, which may be said to be collective bargains, are natural methods of simplifying and making certain the market process. Like any collective bargain involving the intervention of agents acting for the vast body of principals on either side, there must be honest men to administer the trust that must be reposed in somebody. But the exercise of a collective judgment in this way is in itself feasible.

Consumers' remoteness from the price-making market.—The great body of producers and consumers is only very indirectly present through representation by the commission men and dealers. While the producer gets the direct advantage of such price as may be made, the New York consumer is removed two or three ranges back from the primary market; of the sharp price changes in his favor he gets almost no advantage, as they are very largely absorbed by the intervening dealers. This is explained by the fact that the day-to-day market information of arrival and "rolling," which is reflected in the price among the dealers, does not get back to the New York consumer. Even if this market information did regularly get back to the ultimate consumer, he has not the habit of adjusting his daily food program to these shifting conditions. This was indicated by lack of public response to the published prices circulated by the Food Administration during the War.

Publicity—reporting.—The market is the great concourse of supply and demand where all the factors affecting the trade are matters of current information to all. It offers the basis of publicity of price and the publicity of general facts bearing on the market situation, such as actual supply in the market, supply coming to market, the general condition of the supply, and temper of the consumer; but none of these accessory functions are performed by the market itself in an organized way. Either the private agency on the one hand, or the National Government on the other, takes care of the form and compilation of the publication of market information. There is an exception in the case of the live-poultry market, where now each dealer chalks up daily on a bulletin board his own arrivals and consignments known to be "rolling" to market.

Private agencies.—The market is served by two public price reporters, namely, the Urner-Barry, an old established agency that is the principal reliance of the trade, and a later and a more restricted service. The Urner-Barry Company covers the market by three members of the firm, assigned, respectively, to the poultry; the butter, eggs, and cheese; and the fruit and vegetable trade. These gentlemen have all been in the business of gathering prices for many years and have a familiar knowledge and personal acquaintance in the trade that gives them rare facility. For they must know not only where to find the trading, but also how properly to weigh all the factors in bids, offers, and partly consummated trades, properly to accredit information given them, and to weigh with due significance the different actual prices by different firms and price ranges by the same firm in one day. There is such change and variety of price that accurate inclusion of every actual price not only would be impossible but would confuse. They, therefore, are forced to exercise for some of the commodities considerable judgment in naming a price range that is fairly representative for each

commodity. These daily quotations cover some 100 commodities and grades.

With the prices they publish daily information of visible supply, and all current local conditions which tend to determine prices.

The *Urner-Barry Price Reporter* commands the full confidence of the trade. It has become so far the reliance of the dealers, as has been seen, that a very considerable volume of the whole trade in butter and eggs and some perishables is made without specifically naming the price at the hour the trade is made, but subject to Urner-Barry prices of the day.

The information on which the Urner-Barry prices are made is gathered in the forenoon. The figures issue from the press by 1:30, and by 4 in the afternoon all the price sheets have reached the subscriber.

Government bulletins.—Within the past three years the United States Bureau of Markets has inaugurated a government daily perishable food survey and price current of the principal markets. By a system of leased wires they very generally cover the country. Their function is to furnish the information that directs the interstate movement from producing districts to markets, while the private agency of Urner-Barry serves the immediate local requirements.

Grading and sampling: by the trade, by official agency.—The New York produce trade has evolved its own unformulated standards and grades of the commodities to promote facility in trading. It has a considerable body of trade names and grades which are the basis of price quotations, such as "Sunkist oranges," etc. Some of these are local to New York, but most of them originate with the producer, and are generally standard at several other markets. The trade has evolved its own unwritten ethics of fair and unfair trade practices. These definitions tend to become more certain and precise. In default of a regular trade machinery to formulate and enforce them, their interpretation and enforcement come to be based on individual reputation for reliability and fair dealing.

The only fully standardized perishable that reaches the New York market is milk. The established grades of milk are exactly defined in terms of minimum of butter fat and maximum of bacterial count. And, incidentally, in connection with milk it is interesting to note that the delivery to the individual consumer is standardized both as to time and quantity; that is, it is upon a schedule that is made monthly and can be anticipated and provided for by the producer. The glaring defect in milk deliveries is the overlapping of milk routes.

In the butter and egg trade, which is better organized than the fruit and vegetable trade because the commodity can be kept and can be more easily standardized, there is a very definite use of grades and official samples, which greatly facilitate the trading process. There

are four grades of eggs, and five grades of butter registered on a scale of points called the official score. The exchange has its official graders and inspectors. In Irish potatoes the grades of the Bureau of Markets have been pretty generally used.

Western fruits are sold by brand and sample, as also southern truck from Florida, Louisiana, and Texas, in localities which have established a reputation, and the fruits of Georgia and Alabama; but of official sampling and grading there is none outside of the butter and egg exchanges. There is no recognized private agency for this work comparable to the grain samplers in the West. Inevitably in practice the great body of transactions is by sample, but the sample is made by the buyer or the buyer's direct agent.

The grading of perishables encounters difficulties, but unquestionably much can be done in this direction which would simplify and standardize the terms of the trade. In respect to sampling, there are no practical restrictions such as are found in grading only. All that is needed is the establishment of a comprehensive plan honestly administered.

CHAPTER III

MARKETING FUNCTIONS[1]

Standardizing.

Standardizing, as a marketing function, is the conforming to a standard, test, or rule for obtaining uniformity in quantity, quality, and arrangement of products. The standard, test, or rule for measuring, grading, or packing may be established by an individual or group of individuals. It may become established by custom or general consent, or it may be the result of direct or indirect legislation. Regardless of the manner in which the standardizing of farm products is effected, the primary economic purpose in its development is not only to avoid the payment of transportation and other marketing costs on products that may be relatively unsuitable for consumption but also to facilitate marketing by eliminating the necessity for inspection prior to exchange or purchase.

Methods of sale.— Products or commodities are ordinarily sold in one of three ways: (1) on inspection, (2) by sample, or (3) on description.

Inspection.—Commodities sold on inspection are examined by the prospective purchaser who determines by one or more of the five senses the values to him of the particular articles offered for sale. A sale is consummated only after examination of the commodities and agreement as to their exchange or market value.

Sample.—The waste of energy in inspecting large quantities of fairly uniform commodities suggested the plan of selling by sample. This method, to be successful, necessitates a certain degree of intelligence, integrity, and confidence on the part of the participants. When a sample is displayed, inspected, and a purchase made, it is on the assumption that it fairly represents the lot of goods under consideration. Certain manufactured articles, such as clothing, shoes, and wall paper, are often bought by retail merchants on the samples displayed by traveling salesmen. Among farm products it is significant that boxed apples from the Northwest are readily sold by sample on auction markets,

[1] An analysis proposed and prepared by R. H. Elsworth and G. O. Gatlin, as a working hypothesis for the study of marketing farm products. Published September, 1919. First revision, December, 1920, second revision, November, 1921.—United States Department of Agriculture, Bureau of Markets and Crop Estimates, Division of Coöperative Relations.

while less uniform eastern barreled apples are sold by this method with difficulty.

Description.—Where it is possible to standardize commodities so that they are uniform as to attributes, it is possible to trade without inspection of either entire lot or sample, but by noting the certificates or statements which purport to describe them. This method of sale by description eliminates the necessity of bringing into close physical relation the seller, the buyer, and the commodity. It makes unnecessary the expense and loss of time involved in obtaining and forwarding samples from point to point. If the goods under consideration have been sorted according to an accepted standard, it is necessary only for the prospective seller to furnish the possible buyer with a statement indicating in terms which have a common meaning a grade which definitely describes to the buyer the character and quality of the goods.

Many products and commodities have been so standardized that they are now sold very largely by description. Among manufactured goods might be mentioned nails, wire, thread, paper, and sugar. Since the words "tenpenny nails" mean the same to a buyer in El Paso and a manufacturer in Pittsburgh, car-lots may be bought and sold without inspecting even a sample, and with satisfaction assured, so far as quality is concerned. Cotton, wool, wheat, shelled corn, California oranges, and northwestern apples are examples among agricultural products. Cotton, wheat, and shelled corn represent products for which standards have been established and are enforced by Federal legislation, while California oranges and northwestern apples have become standardized by the consent and collective action of the producers. California oranges, for instance, often pass from producer to car-lot receiver, to jobber, to retailer, and even to consumer, with only the initial inspection at the packing house.

Grading.—Although grading is the most important phase of standardizing, the function includes all activities incident to offering products for sale in uniform units. It includes grading for size and quality of products, arrangement of products in packages, and the use of packages of uniform shape and capacity. A six-basket carrier is in general use as a container for shipping Georgia peaches, and methods of packing such as the two-one and two-two packs are commonly employed. Cantaloupes are marketed in special crates, the dimensions of which are fixed to contain a certain numerical count. The northwestern apple box and the Texas folding onion crate have become standardized through long usage. The Federal standard-barrel law regulates the sizes of barrels used for fruits and vegetables and for cranberries. Federal standards are also fixed for grape baskets, berry boxes, and small till baskets.

In the marketing of farm products the function of standardizing is

being performed more and more at the place of production or at the near-by shipping point. It is not uncommon, however, for ungraded, improperly packed products to be shipped to central markets. If these shipments pass through the regular channels of trade they are almost certain to be standardized somewhere along the way. The car-lot shipper, the car-lot receiver, the jobber, or the retailer will endeavor to sort them according to size, appearance, and quality. They may be even repacked in legally or otherwise standardized containers. Freight, storage, and other marketing costs are paid in low-grade products that are sorted out on the central markets and discarded as unsalable. Eggs are ordinarily handled by some agency between the producer and the consumer, and field run potatoes are sorted and finally offered to the ultimate user in different lots at different prices.

Few farm products reach the consumer without having been graded. With a demand on the part of the consumer for products uniform in size and quality, the producer who fails to grade in conformity to the standard in demand usually sells at a price which is low enough to give the buyer a sufficient margin to cover the cost of subsequent grading. Standardizing, efficiently performed, in or near the producing section, and developed to the extent that products may be sold and bought on a statement of grade, is an important factor in reducing the cost of marketing.

Assembling.

Practically all farm products are assembled in market units before being transferred from producer to consumer. Often the units sold by individual producers are brought together in new and larger units. The individual producer sells eggs by the dozen; the country buyer packs them into thirty-dozen cases; and the car-lot shipper assembles the cases into carloads. Assembling may occur several times in the marketing process, since it is in operation whenever products are being brought together in larger and larger quantities.

The term "market unit" designates the quantity and form of a product which is generally recognized as a basis for trading. The assembling of eggs into dozens and cases indicates that there are sometimes more than one market unit for the same product. Indeed, this fact is true for most products. Milk is handled as quarts, gallons, and as fractions or multiples of 100 pounds; potatoes are sold by the bushel, sack, barrel, or hundred-weight; and the usual units for the sale of apples are the bushel, box, and barrel. In the case of cotton, the bale is the usual market unit.

While the term "assembling" covers all phases of the function of bringing together products in one place or body, its economic value is possibly most apparent in the concentration of products in carloads

for shipment to the large central markets. Failure to assemble in large units farm products which are destined for distant markets would cause a great economic waste through the increased cost of transportation.

The efficient handling and moving of agricultural products requires assembling early in the marketing process. This may be done at the farm, at the local market, or at the shipping point. It may be begun at the farm and completed at the central market. The farmer who gathers eggs into dozens to sell to the country storekeeper is assembling a product. The country storekeeper, or egg-circle manager, who packs thirty dozen in a case, is also performing the function of assembling, and the car-lot shipper, who purchases enough cases to load a car, is carrying the performance of this function possibly to completion. Wheat, oats, corn, beans, and other products are brought together at the grain elevators and forwarded to consuming centers in carload and trainload lots. The manager of a coöperative shipping association assembles the products of the members into the units which can be most economically sold and transferred.

The itinerant wool buyer who drives from farm to farm collecting fleeces is assisting in assembling wool. The driver who goes from farm to farm buying a sufficient number of cattle, hogs, or sheep for a carload shipment is an assembler. The farmer who loads a wagon with fruit and vegetables which he proposes to sell on the streets or at the public market of a near-by city, furnishes an example of assembling in its simplest form. When hundreds of farmers with loaded wagons appear at the same time at a public market, assembling is taking place on a larger scale.

Process of marketing, movements in.—There are two distinct movements in the process of marketing, one of which is the bringing together of products in units and increased numbers of units for the purpose of obtaining the economic advantages of large-scale operations; the other is the reducing of the number of units or the breaking up of the large units into smaller ones for the purpose of facilitating trade with the ultimate user. The first movement, designated as assembling, may be effected by the producer, by his agent, or by a professional trader. It may be begun by the producer and carried further by each successive agency until the increasing volume or quantity reaches the peak and the decreasing or breaking-up movement begins.

Selling.

Selling is the marketing function which embraces the activities involved in transferring to another the ownership of products in return for other products or commodities, or their equivalent in money. It may occur only once or it may occur many times in the marketing of any particular lot of products. The producer who takes upon his arm a

basket of eggs, radishes, or cucumbers and peddles them at the doors of the ultimate consumers performs this function in its entirety. There are other instances in which products pass from agency to agency and involve this function in each transaction. The producer may sell to the car-lot shipper, the car-lot shipper to the car-lot wholesaler, the car-lot wholesaler to the jobber, the jobber to the retailer, and the retailer to the consumer. Additional sales may result from speculative operations in the channels of trade, such as sales and resales among dealers of the same class for the purpose of making profits for themselves through speculative trading rather than through rendering assistance in the marketing process.

Selling may be comparatively simple and inexpensive, as in the case of the producer who peddles his products to the consumers in his immediate locality, or it may be exceedingly complicated and require the expenditure of large sums of money to obtain information and expert assistance. There are, for instance, associations of fruit growers which spend thousands of dollars yearly to obtain market information, or market news, the acquisition and use of which is essential to the advantageous sale of their products.

Factors in, variation of.—The factors considered in selling, including cost and effectiveness, vary in practically every transaction. One producer may sell his products at such prices and on such terms as the buyer may suggest, regardless of their actual market value. Another producer may use to advantage a thorough knowledge of the facts concerning the available supply, current demand, movement to the various markets, prevailing prices in the different markets, competitive conditions, market preferences, limitations, and possibilities. The use of market information to facilitate trading and movement, as well as to furnish a basis of judgment as to price, varies from the case of the producer who sells at any price the buyer offers, to the producer or group of producers who endeavor not only to control the physical distribution of their products but also to fix the prices at which they are sold.

The first sale of agricultural products may be made at the farm, local market, shipping point, in transit, or at destination. The producer may sell direct to the consumer, country merchant, country buyer, traveling buyer, wholesale operator, jobber, or retailer; or he may sell through a sales organization, broker, auction company, or commission merchant. The terms of sale are usually cash at the farm, local market, and shipping point; f.o.b. shipping point, delivered, and to arrive at destination. Sales are also made on track at both shipping point and destination, and in some instances they are effected on joint account and out of storage. The methods and terms of sale are largely determined by the quantity, quality, and perishability of the products;

proximity to market; and prevailing conditions as regards supply and demand.

The market.—The market for farm products, in the broad sense, is the region in which sales may be made, or the geographical or economic extent of the commercial demand for the products. Advantageous selling and success in developing the market depends largely on the ability of the seller. The performance of the selling function may extend no further than the act of transferring ownership, or it may include a wide field of service, such as conducting advertising campaigns, teaching retailers effective methods of selling, etc. The California fruit growers employ salesmen who definitely plan to increase sales by creating a demand among consumers for the oranges, lemons, peaches, raisins, and prunes which they produce. Similar methods are used by growers in the northwestern states to increase the sales of boxed apples. The returns to the producers in each of the cases mentioned testify not only to the skill of the salesmen but also to the value of salesmanship in marketing agricultural products.

Advertising.—Of the various methods and practices which enter into the selling function, advertising is one of the most effective and most generally used. The form which advertising takes may be space in newspapers and periodicals, billboards, electric signs, showcards, handbills, window displays, fair exhibits, demonstrations, sample distribution, etc. It may be local and inexpensive or it may be a nation-wide campaign involving a tremendous expenditure. Regardless of its form, the medium used, or the size of the expenditure, advertising is never a marketing function in itself, but only a factor in selling.

There are two general types of advertising used in the marketing of agricultural products: (1) brand advertising, and (2) commodity advertising. Advertising designed to create or develop a demand for a particular brand, such as "Sunkist" oranges, "Skookum" apples, or "Eatmore" cranberries, is of the first kind; whereas that designed to stimulate the consumption of a product without an effort to direct the benefits to any certain group of producers or any particular sales organization is of the second type. Examples of this second type may be found in the numerous campaigns of recent years to increase the consumption of milk.

Expense of.—Selling is an essential function of marketing, whether it is in connection with transferring ownership in a dozen eggs, a load of hay, or a fifty-million-dollar orange crop. The amount of knowledge, skill, and time required in selling determines the cost of performing the function. This cost, in many instances, is accountable for a substantial part of the spread between producer and consumer.

Transporting.

Transporting is the physical moving of products. It may occur many times between producer and consumer, and it may involve the use of various kinds of power and equipment. Products are moved from the field to the farm or packing shed, from the farm to the shipping point or local market, and from the shipping point to the central market. At the central market they are moved from the wholesale distributors to jobbers, from jobbers to retailers, and from retailers to consumers.

This function may be entirely performed by a private carrier or by both private and public carriers. The bulk of the farm products produced on a commercial scale is first transported to the shipping point by private carriers, moved to the central markets by public carriers, and there distributed to consumers by private carriers.

Private carriers.—Private carriers are divided into three general types or classes according to their use of man power, animal power, or mechanical power.

Man power.—The first of these, man-power transportation, is an almost negligible factor when considering the marketing of the total farm products of the United States: Eggs, butter, small fruits, and garden vegetables are sometimes taken from the place of production in a market basket or sack and carried into the home of the ultimate user. Carts and wheelbarrows may, on public markets in cities, be substituted for baskets and sacks.

Animal power.—Transportation by animal power is a factor of considerable consequence in any consideration of the entire marketing problem. At different stages in civilization and in different countries the dog, ox, camel, elephant, reindeer, burro, mule, and horse have aided in moving farm products. In the United States, the mule and horse are factors in moving products from the farm to the shipping point. Grain, cotton, tobacco, wool, fruits, vegetables, hogs, sheep, and poultry are often transported by horse and mule power. These animals are also used to some extent in transferring products from wholesale dealer to retailer and ultimate consumer.

Mechanical power.—Internal combustion engines are fast replacing animals as a source of power for transportation. Many farmers and gardeners now use automobile trucks to haul their products to shipping point and local market, while in the industrial centers the development of this form of transportation has been even more rapid. In certain sections of the country, tractors are used to haul to market trains of wagons loaded with an agricultural product. In large cities the horse has almost ceased to be a factor in retail delivery service.

Public carriers.—Public carriers are the most important factors, considered on the ton-mile basis, in transportation. Mechanical power has come into such general use that forms of animal-power transportation

by public carriers occur only in few instances and on a small scale. Public carriers using mechanical power are divided into three types, namely, electric lines, railways, and water lines. Of these three, railways are the most important in connection with marketing. The electric lines serve as feeders to the railways, or steam roads, and move limited amounts of products over short distances. Canal boats, river boats, and vessels engaged in coastwide trade supplement the railways and to a limited degree compete with them for traffic. Ocean-going vessels are essential to transportation when products are sent across seas in foreign trade.

Utility, place, and time.— As a result of the performance of the transporting function, products acquire place utility, and it becomes possible for them to be given time utility. The performing of this function requires labor and capital, the cost of which must be paid. The farmer who loads his wagon with garden vegetables and sells them at the consumer's door is performing the entire transporting function and presumably receives a price which allows compensation for his service as a transporter. The consumer who buys potatoes at the car door and takes them home in a wheelbarrow is functioning as a carrier, and, therefore, buys at a price which allows compensation for his efforts. If the producer and the consumer leave to middlemen agencies the function of transporting their products then they must sell and buy at prices which permit the carriers to obtain compensation for the service rendered.

Storing.

Primitive man suffered greatly through the lack of facilities for carrying over food supplies from times of plenty to times of scarcity. When seasons were favorable and returns from the chase were bountiful, he feasted, but when unfavorable conditions caused a scarcity of food, he fasted. The history of primitive races is a history of feasts and famines.

Storage, definition of.—Storing, as a marketing function, is the depositing and holding of products in some place at which they may be obtained at a future time. Through its operation products acquire time utility. Safety is the first requisite of successful storage. To determine whether a place is safe the factors considered are protection from wind, water, cold, heat, fire, vermin, animals, and theft. The particular kind of protection needed varies for different regions and different products. Such products as wheat, wool, and cotton need protection mainly from fire, water, and thieves, while most fruits and vegetables require protection against freezing. The conservation of eggs, milk, butter, and meats also depends on protection against heat.

Certain products need conditioning in addition to protection. Economies are often effected by harvesting a green crop and permitting it to ripen in storage. The value of some other agricultural products is increased through an aging process. Sweet potatoes afford an example

of a product which needs conditioning. Probably one-half of the sweet potatoes stored in banks and pits decay, while the loss from decay in storage houses which permit curing in a warm, dry, rapidly changing atmosphere is estimated to be less than five per cent. By storing for the purpose of curing as well as protecting, the crop may be conserved for a longer period of time and its value greatly enhanced.

Storage, types of.—The two well-recognized types of storage are "common storage" and "cold storage." The first provides protection against water, fire, thieves, and, in the case of fruits and vegetables in the northern part of the United States, cold. The second type furnishes protection against heat also. The function of common storage is well recognized. Before the days of the Pharaohs it was customary to store goods during periods of plenty against possible lean years. Cold storage is a more recent development. It did not come into general use until about 1890.

Marketing period, extension of.—Because of the cold storage warehouse the marketing period for highly perishable products is often extended over a much longer period than is required for harvesting. Eggs are most plentiful in April, May, and June, and butter is produced in the greatest quantities during June, July, and August. These products go into storage in these months of plenty and are removed as they are later required for consumption. Milk is even stored in the spring by being frozen into blocks that it may be available in the late summer. The marketing of any particular lot of fruits or vegetables can be delayed until conditions, viewed from the standpoint of demand, are favorable.

Points of storage.—Storage occurs at many points in the transfer of goods from producer to consumer. There is storage at the farm, at shipping point, in transit, at central market, at export point, at the manufacturing plant, and at the consumer's home. On the farm the corn crib, granary, hay barn, tobacco barn, root cellar, potato pit, and apple warehouse provide storage places. At the shipping point are the grain elevator, the potato warehouse, and the storage house of the cooperative fruit shipping association. A box car or the hold of a boat provides storage facilities in transit. Cold storage is furnished in transit when refrigerator cars are used. At the central market and export point are giant warehouses and cold storage plants, and the large terminal elevators holding millions of bushels of grain. At the manufacturing plant there may be stored a supply of raw material sufficient to assure the operation of the plant for several years. At the homes of consumers are basements, cellars, attics, and kitchen refrigerators, which often serve to complete the storage function which began on the farm.

Expense of storage.—Storing entails expense, regardless of the points at which it occurs or by whom the function is performed. If

the farmer furnishes storage on the farm for his sweet potatoes from October until April, he expects that the price received in April will be at least the October market price plus the cost of seven months' storage. If the storage is furnished by a wholesaler or retailer he expects to sell at a sufficiently increased price to allow compensation for rendering the service. The consumer who buys and stores products during the fall harvest for use in the spring reasonably expects that the difference between the price at which he bought and the price at which he would have to buy in the spring will allow a margin sufficient to cover the cost of storing and carrying.

While the harvesting of a food crop is necessarily limited to a short period of time, the amount of food required for human consumption continues fairly uniform from month to month. With such farm storage facilities as now exist, the average amount of all farm products marketed by producers in the United States varies from about 18 per cent in November to 3 per cent in June. In order that there may be a uniform supply throughout the year to meet the consumption demands storing is essential. Since it is essential, the cost of performing the function is an item which must be accounted for. Whenever the producer or consumer performs the function the cost does not appear in the spread between the two, but in as much as it is incurred by the one who does the storing, it is ordinarily included in the price at which the product is sold or bought.

Financing and Risking.

Financing and risking, as marketing functions, are the activities concerned with investment and risk. In marketing transactions, the use of capital, or financing (in its popular rather than economic sense), and the assumption of risks ordinarily presuppose each other. In this analysis they are considered as the separate phases of a broad, general function in as much as they are not only interrelated and intimately associated with ownership and its resulting losses and gains, but also because they are coexistent and ever present throughout the ramifications of marketing and the existence of the products.

Financing.—Valuable products are always owned. There may be many changes in ownership between the producer and the consumer, but always someone holds title to them, has an investment in them, and whoever foregoes the use of the amount of money represented by the products is assisting in the performance of the investment phase of the financing and risking function. It is often possible to shift a part of the investment burden by borrowing from a bank or other financial institution on warehouse receipts or bills of lading, in which instance the interest rate indicates a method of determining the cost of rendering the service.

Risking.—The risk involved in marketing is of four types which may be designated as: (1) possible damage; (2) loss or deterioration; (3) price changes; (4) inefficient management. The first type is the responsibility which goes with ownership and possession, because of the injury or damage that may be done by the products owned, such as an injury caused by vicious or diseased live stock. The second, is the risk of physical deterioration, destruction of the products, or loss from theft. The third, is the possibility of financial loss caused by a disappearing market or declining prices. The fourth, includes such business losses as accounts which cannot be collected.

Functions of financing and risking.—In studying the function of financing and risking, the marketing process may be divided into three periods: (1) the period prior to the products entering the regular channels of trade; (2) the period during which the products are in the hands of professional tradesmen; and (3) the period after the products emerge from trade channels. During the time that the producer is preparing his products for market, he usually furnishes the labor and funds for the necessary investment and carries the attendant risk. However, he may, by borrowing a part of the funds, shift a part of the investment to others. The country merchant, the local dealer, or the banker who supplies funds on a lien basis, as is the practice in some sections of the United States, assists for a consideration, in performing the financing and risking function.

Occasionally the producer markets a crop before it is harvested, or he sells on terms by which the buyer assumes the greater part of the financing and risking. Crops are sometimes sold in the field before maturity. Apples may be sold on the trees for a lump sum, or they may be delivered at the packing shed at a specified time. In the first instance, the buyer assumes a greater risk than in the second case. Risk is an important item in determining the difference in price between products sold on the track at the shipping point and products delivered at the central market.

During the period in which agricultural products are in the regular channels of trade, the function of financing and risking is largely performed by special agencies. The investment can be covered by loans made on bills of lading and warehouse receipts; and the possible loss by deterioration, theft, and destruction can be minimized by insurance. The risk of loss because of disappearing markets or declining prices is ordinarily carried by successive owners between the time of production and the time of consumption.

In the case of certain staple products the risk is shifted by means of hedging in the future market. Through the purchase and sale of futures, the losses and gains resulting from trading in the spot, or actual commodity market, may be offset. As an illustration, an elevator buys

actual wheat in October and immediately sells an equal amount on the board of trade for December delivery at a price which assures the October price, plus handlings and carrying charges. By hedging the October purchase, the elevator shifts the risk of price decline. The speculative loss or gain on the real wheat is offset by the gain or loss involved in the future transaction. Hedging prevents speculative loss and foregoes speculative profit.

After products pass from the hands of the trade to the hands of the consumer, this function continues until the goods are actually consumed. If the consumer fills his basement or storeroom with products which he will not consume until a future time, he has made an investment and assumes a risk. He performs the financing and risking function in this particular marketing transaction, or, considering the fact that this function exists throughout the entire marketing process, he may be viewed as completing its performance.

In instances of financing and risking, in which the funds invested in products are obtained from banks, the interest collected on the loan indicates, from the viewpoint of the seller and the buyer, the cost of performing the investment phase of the function. In the same manner the premium paid to an insurance company represents the cost of carrying the risk of loss or destruction. These portions of the investment and risk which are not, or cannot, be transferred have a cost which can be measured as truly as that which can be shifted to the special agencies and professional risk-takers. Compensation is due all persons who furnish capital and carry risks. These persons may be the producers, the middlemen, or the consumers. The compensation received or expected may be the actual cost to the persons rendering the service, or it may be based on the cost which would ordinarily be involved.

In actual marketing transactions, the financing and risking function is so interwoven with other functions and is so easily passed from one agency to another, that both the function and the cost of performing it are frequently overlooked. This cost, however, may account for a substantial part of the price spread.

Dispersing.[2]

In the process of marketing farm products two distinct movements occur: (1) The bringing together of products in larger and larger units and in increasing numbers of units. This movement has been called "assembling." (2) Reducing the units or breaking them up into smaller and smaller units. This reverse movement is, in this analysis, designated as "dispersing." Assembling involves an increasing quantity; dispersing relates to decreasing quantity.

[2] This is called dividing by some authorities. [Editor's note.]

Most farm products which pass through regular trade channels arrive at the central markets in shiploads, trainloads, and carloads. They are receipted for by the importer or car-lot receiver who begins the dispersing process which is continued by other agencies until the products are eventually distributed among hundreds or thousands of ultimate users. The agencies most active in performing the dispersing function are the wholesaler, the jobber, and the retailer. Wholesalers include importers and car-lot receivers; retailers include storekeepers, stall men, hucksters, pushcart vendors, and peddlers.

The wholesaler.—Wholesalers receive products in the large market units or quantities which are brought together to obtain the economic benefits of large-scale operations, particularly in transportation. They function as assemblers in bringing quantities of products together; and in breaking up these quantities through sales and transfers to numbers of smaller traders and dealers, they function as dispersers. In addition to assembling and dispersing, wholesalers are often important agencies in performing other functions, especially financing, risking, and storing. They often have large sums invested in products and, in many cases, furnish credit to jobbers and retailers.

The jobber.—The jobber is usually a dealer in less than car-lot quantities who is wedged between the wholesaler and the retailer. He buys in larger units than the retailer finds convenient to handle and he sells in smaller units than the wholesaler desires to sell. From the retailer's viewpoint he is an assembler; from that of the wholesaler he is a disperser. His economic function is almost entirely that of supplying quantity and place utility.

The retailer.—Among retailers, the storekeeper occupies the most important position so far as volume of business is concerned. The corner grocery is a part of every village and city. There are said to be some 300,000 of these retail distributing agencies in the United States. From a fixed place they supply the wants of the consumer of fruits, vegetables, and canned and manufactured goods, at the time and in the quantity desired. While they may incidentally assist in performing almost all of the marketing functions, they are primarily concerned in distributing products, which is the dispersing function. The stall man, huckster, pushcart vendor, and peddler perform the same phase of this function, differing mainly in methods, place, and volume of business.

Conclusion

Because of the development of dispersing agencies and their efficient performance of the function, it is possible for the consumer to purchase a single orange, apple, chicken, or carton of butter at the place and time desired, although it may have been forwarded from the place of production weeks or months before as a part of a shipload or carload

lot. The potatoes which a producer sends to market in car-lots may be purchased by the ultimate user by the quarter peck. He may obtain butter by the quarter pound, eggs by the half dozen, and beef by the pound. The development of numerous agencies for conducting retail distribution has resulted largely from the demands of consumers for this service.

In many instances, especially when groups of producers and consumers act collectively, dispersing is effected without the aid of middlemen agencies. This direct marketing does not, as a rule, eliminate the dispersing function, but necessitates its performance by the producer or the consumer, or by both the producer and the consumer.

The cost of performing the dispersing function, particularly in its final form—retailing—often involves an expense which is by far the largest item in the price spread between producer and consumer. The amount of this item is often in proportion to the consumer's demand for service. However, the more economically the function can be performed and still meet the requirements of the consumer, the less will be the cost of marketing, other things being equal, and the smaller the total spread.

Analysis of Marketing Functions.[3]

The purpose of this paper is to discuss the functional approach rather than the relative merits of the different methods of approach (present texts generally use a combination of methods). Considerable use has been made of the functional approach in the study of marketing,[4] even by authors who depend primarily upon one of the other methods for the development of their subjects.

Definition.—A function is a service, an act, or an operation performed in the production or marketing of goods. The functional approach to the study of marketing calls attention to the fact that functions must be performed, that different middlemen may perform the same function, that the elimination of a middleman may not eliminate his functions but merely transfer them to others, and that a function may be performed once or many times in the marketing process. It involves a consideration of who can perform each function to the best advantage.

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[3] Paul D. Converse, *Journal of Political Economy*, June, 1926.

[4] The teachers of production have made less use of the functional approach n their subjects than have the teachers of marketing. The following functions are suggested as a basis of criticism rather than as either a correct or a complete list: financing, risking, packaging (placing in cartons rather than packing for delivery), and processing. Processing is, of course, the principal function, and may be divided into several subfunctions. The following subdivisions for a manufacturing industry are suggested by A. Hamilton Church in "The Science and Practice of Management," Ch. III: design, equipment, control, comparison, and operation.

It is valuable in a critical analysis of the present marketing system and in making suggestions for improvements.

Direct selling.—Direct selling by the manufacturer to the retailer does not eliminate the storage, financing, and dividing function formerly performed by the wholesalers, but merely transfers them either to the manufacturer or the retailer. This direct selling, does, however, eliminate one set of salesmen, as the manufacturer sells to the retailers, while, under the former system, the manufacturer sold to the wholesalers and the wholesalers sold to the retailers. This is perhaps more clearly visible in the case of the chain store which operates its own wholesale warehouses. Here the functions of demand creation and transfer of title are entirely eliminated on the part of the wholesaler, as the wholesale warehouses merely fill the requisitions of the retail stores. The length of the storage period may be shortened and the amount of dividing may be lessened by the chain organization (less breaking of packages, for example). Competition with chain stores has given rise to a type of wholesalers in the grocery trade that does not employ traveling salesmen, but depends largely upon prices to secure business. Such stores handle principally staples or branded merchandise. Some wholesalers have gone even further and eliminated the delivery and credit services, the retailers calling for the merchandise and paying cash. The transporting and financing functions are not eliminated by such a practice, but are transferred to the retailer. Whether this reduces marketing costs depends upon whether the retailer can perform these services cheaper for himself than the wholesaler can perform them for him (for example, using his delivery equipment for hauling merchandise when otherwise it would be idle).

It cannot be assumed that the elimination of the successive performance of the same function always decreases marketing costs. It would seem to make for economy to have goods graded once near the point of production rather than several times by commission men, wholesalers, jobbers, and retailers as they pass through the marketing process. On the other hand, a manufacturer may actually increase his selling cost by selling direct to the retailers. True, he eliminates one set of salesmen, but the number of hours expended by the salesmen may be greater than the number expended by the wholesaler's salesmen on his particular product or products.

Teaching marketing.—Marketing functions have a place in the teaching of marketing. The teachers of marketing do not, however, seem to be in agreement as to what services or operations should be listed as functions. Weld, Cherington, Ivey, and Clark[5] each list the

[5] Weld, L. D. H., "Marketing Functions and Mercantile Organizations," *American Economic Review*, Vol. 7, pp. 308-318 (June, 1917); Cherington, Paul, "The Elements of Marketing," 1920; Ivey, Paul Wesley, "Principles of Marketing," 1921; Clark, Fred E., "Principles of Marketing," 1922.

following seven functions: assembling, storing, assumption of risk, financing, rearrangement (standardizing and grading), selling, and transportation. There is a slight difference in nomenclature. What Weld calls rearrangement, Cherington and Ivey call grading, and Clark, standardization. Weld and Clark include under rearrangement (standardization) what later was listed by other writers as three separate functions—grading, packing, and dividing.

Vanderblue,[6] after reviewing the development of the functional approach to the study of marketing up to 1921, listed ten functions, including, in addition to the seven listed above, buying, dispersing, and assorting. Macklin,[7] writing in the same year, listed eight functions: assembling, grading, packaging, processing, transporting, storing, financing, and distribution. He, however, divided distribution into two parts—selling and dividing—so that he really included nine functions. The writer[8] in 1924 listed nine functions: selling, assembling, dividing, standardizing and grading, packing, transporting, storing, financing, and risk-taking.

All of these writers include assembling, storing, financing, grading, selling, and transporting. All except Macklin include risk-bearing. There is less agreement as to the other functions. Macklin alone lists processing. Vanderblue lists buying, dispersing, and assorting. Macklin and the writer are alone in listing dividing as a separate function. Macklin lists packaging as a function, while the writer lists packing. More thought should apparently be devoted to the analysis and classification of these functions, as there is so much difference of opinion on the subject among teachers of marketing. A part of this difference is due to a difference in the concept of the functions performed in the marketing process, and a part, to a difference in the definitions of terms used.

Assembling.— Assembling was defined by Weld as "the seeking out of sources," the making of business connections whereby commodities may be bought, and the study of marketing conditions so that they may be bought at the lowest price possible. . . . It involves all services connected with buying.[9] This definition apparently has been accepted by most of the later writers. Assembling does not include transportation, storing, financing, risk-bearing, or grading. These are listed as separate functions. Should buying, then, be listed as a separate function? The question here arises: Is there buying that is not assembling? Is buying a broader term? A purchase at retail is not ordinarily thought of as assembling, but the object of the consumer is to assemble a variety

[6] Vanderblue, Homer B., "Functional Approach to Study of Marketing," *Jour. of Polit. Econ.*, Vol. 29, pp. 676-683 (October, 1921).

[7] Macklin, Theodore, "Efficient Marketing for Agriculture," 1921.

[8] Converse, Paul D., "Marketing Methods and Policies," 1924.

[9] Weld, L. D. H., "Marketing Functions and Mercantile Organization," *Amer. Econ. Rev.*, Vol. 29.

of products for consumption. A factory buys a machine, perhaps one machine; but the factory is assembling equipment for the operation of the plant. The wholesaler and the retailer are assembling goods for resale. But how about a speculative purchase—one speculator buying from another? Or a peddler buying all his goods from one jobber? Can he be said to be performing the assembling function? Is buying in these two instances synonymous with assembling? Apparently not. All assembling is buying, but all buying is not assembling. Should buying, then, be substituted for assembling, on the ground that it is a broader term? The objection to this is that the word "buying" does not suggest to the average person all that is suggested by the word "assembling." To say that the jobber performs a buying function does not seem to convey the same meaning as to say that he performs an assembling function. In spite of this, buying should be substituted for assembling, if it is a more accurate term. Buying involves the determination by the buyer of his needs, the findings of sources of supply, the negotiation of contracts, and the transfer of title (except where goods are leased, not sold; and in such case a contract for the lease must be made). Buying is thus the converse of selling.

"Standardization" and "grading."—These terms have been used to denote the same function. Perhaps it is more accurate to say that they refer to two aspects of the same function. Standardization refers to the drawing up of rules as to quality, size, etc., while grading refers to the actual work of sorting in accordance with these rules.

Selling.—Selling is one of the most important and expensive of the marketing functions under the present economic system. There seems, however, to be some difference of opinion as to just what is included in the selling function. Weld[10] said: "Selling involves both creating a demand for the goods and getting the goods into the hands of the purchasers." Getting the goods into the hands of the purchasers would seem to be a transportation function, unless reference is made to getting them legally into the hands of the buyer—the transfer of title. Clark[11] seems to consider selling purely a matter of demand creation, "the purpose of selling is to find a market." Horner[12] gives the following analysis of a sale: (1) advice to buyer as to kind and quality of goods, and place where they can be bought; (2) creation of effective desire; (3) determination of price; and (4) determination of the terms on which the sale is to be made.

Selling involves demand creation by personal salesmanship, advertising, or display of goods; the negotiation of the sale—helping the buyer select the specific goods; and the transfer of title or the legal

[10] Ibid.

[11] Clark, Fred. E., "Principles of Marketing," 1922.

[12] Horner, John Thurman, "Agricultural Marketing," 1925.

side of selling. It should be noted that a large part of the time of many salesmen is taken up with non-selling duties. This is especially true of retail salespeople who devote a large part of their time to dividing and packing (wrapping) goods, and filling out sales slips (recording). Credit and delivery services are given with the idea of increasing sales. They undoubtedly do increase the sales of individual sellers but delivery is transportation while credit belongs in part to financing and in part to risk-taking. Under the present marketing system, selling is the most emphasized function, but there appears to be a tendency for successive sales of the same article to be lessened by vertically integrated business units.

Dispersing.—This does not seem to the writer to be a separate function unless it means dividing. If the term is used to denote the getting of goods from the central markets into the hands of the ultimate consumers, it would seem to be a process made up of several functions —dividing, transporting, storing, selling, financing, and risk-taking. If dispersing be used in this sense, it is a process, not a function. The marketing of many products is made up of two processes—concentration and dispersing, each of which involves several functions. Concentration means the bringing of goods together in central markets, and involves transportation, buying (assembly), financing, risking, and, oftentimes, grading and storing. Dispersion means getting goods from the central markets into the hands of the ultimate consumers, and, as just stated, involves dividing, transportation, selling, storing, financing, and risking. A part of our marketing machinery is engaged in concentration; a part, in dispersing, and a part (the country merchant for example), in both concentration and dispersing.

Assorting is defined by Vanderblue[13] as "the preparation of a variety of goods." It is difficult to see how this can be considered as a marketing function. If he refers to the production of goods, then it is not a part of marketing. If he refers to the purchase of a variety of goods by a middleman, this would seem to be buying (assembling).

Processing is apparently a production, not a marketing, function. It effects a change in form and hence creates form utility. Marketing deals with the creation of place and time utilities, and, hence, does not include processing. The miller who makes wheat into flour, and the packer who turns steers into beef, both have important marketing functions to perform; but as processors they are manufacturers, not marketers.

Packaging.—Is packaging a marketing or a production function? Many goods must be packed in order to be marketed. They must be put into boxes, sacks, bales, bolts, barrels, baskets, bottles, etc., in order

[13] Vanderblue, Homer B., "Functional Approach to Study of Marketing," *Journal of Political Economy*, Vol. 29.

to be handled in the marketing process. Other goods have their value increased by placing them in cartons. In many cities, for example, butter will sell for more in pasteboard cartons than in tubs. Coffee may bring more in tin cans than in bulk, and so on. But may not the placing of such products in the cartons be properly classed as a part of production? Goods are produced for the market. The kind, style, size, and color of products that will sell to best advantage are produced. The producer may conduct a market analysis to ascertain what to produce, but this does not mean that the actual production is a marketing function. Is it not just as much a part of production to place the goods in the proper containers as it is to produce the proper kind of goods? The public may prefer goods of a certain color, style, or flavor. Such goods are produced. The public may prefer goods in certain sized or shaped packages, or goods with brightly colored, lithographed labels on the containers. The goods are so packed. Should not this packing be considered as a production rather than a marketing function?

A distinction may, however, be made between the placing of goods in such containers and the wrapping or crating necessary to effect delivery. The retailer must wrap many of his wares after dividing and weighing them. The manufacturer must often crate his goods in order that they may be transported. Dividing and transporting are both considered as marketing functions. It would then seem to be logical to consider packing as a marketing function. This would lead us to draw a distinction between packaging—placing goods in containers in which they are to be sold to the ultimate consumers—and packing—the wrapping and crating necessary for delivery. The first would be considered as a part of production, and the latter, as a part of marketing. This is based on the assumption that goods are packaged to facilitate their sale and packed to enable them to be transported. Thus carton goods must be crated for shipment, but the individual cartons are commonly wrapped by retailers just as are bulk goods.[14]

Some may object to this on the ground that it is drawing too fine a distinction, and that packaging and packing should be considered together and as one function. Others may argue that packing should be considered as a part of the transportation function, since goods are packed only to facilitate their transportation. In spite of these objec-

[14] In some instances packaging does limit the amount of packing necessary further along in the marketing process, as, for example, the consumer accepting packaged goods from the retailer without further wrapping. In such instances it could be argued that packaging by the manufacturer serves the same purpose and takes the place of packaging by the retailer. In most cases, however, it appears that goods are packaged by the manufacturer to increase their salability and not to lessen packing further along the line.

tions, the distinctions made above seem to be logical, and, if logical, should be accepted.

Dividing.—Apparently this is properly listed as a separate function. Dividing, it is true, is often involved in grading, but there is much dividing that is not grading. Many wholesale and retail dealers divide goods and resell in smaller quantities without performing a grading function. This is one of the important functions which they perform for their customers and occupies a large part of the time of many shipping clerks and retail salespeople.

To sum up, marketing functions are: buying (including assembling), storing, risking, financing, standardizing and grading, selling, transporting, packing (as distinguished from packaging), and dividing.

Chapter IV

SIMPLIFICATION AND STANDARDIZATION

What Simplified Practice Means to Business.[1]

Productivity, how to increase.—"The high standards of living enjoyed by the American people," said Secretary Hoover in his annual report, "are the result of steadily mounting per capita productivity. There is only one way further to advance these standards, and that is by improved methods and processes, by the elimination of waste in materials and motion in our production and distribution system. Just as twenty years ago we undertook nation-wide conservation of our natural resources, so we must to-day even more vigorously sustain this campaign of better nation-wide utilization of our industrial resources and effort. More especially is this the case in view of the many complex forces which have arisen from the War, and particularly the difficulty of maintaining our situation as against the competition of a world of lower standards overseas."

Waste, sources of.—Wastes in commerce and industry fall into a number of classes. While they are of immediate interest to the manufacturing and business community, the general public has an interest greater than either.

Manufacturers and business men, forced to look into their businesses more intensively than ever before for opportunities to cut down costs and thus maintain for themselves a fair profit, are finding that a prolific source of waste is too much variety. A surprising proportion of this variety is made up of slight dimensional differences, of models and types which are not markedly dissimilar, but which were originated in an effort to be "just a little different." Variety may be the spice of life, but the effort to maintain variety has placed a burden on manufacturer and distributor. The result has been that many of these "different" articles are so slow-moving, or of such meaningless differences that they soon become "frozen investment," which funds do not serve a useful purpose, and for whose idleness someone has to pay.

To the manufacturer the added expense has come through big stocks of raw materials or finished products, seasonal operation with its drawbacks of limited output and high labor turnover, handicapped service to the consumer, and costs which he knew were excessive. Introduction of new models by rival manufacturers and efforts to provide novelties,

[1] Priest, E. L., The Corn Exchange, V. 11, published by Corn Exchange National Bank, Philadelphia, February, 1926.

together with present evils from inherited variety, have made the vicious circle an ever-widening one.

To the distributor this burden has come through needlessly large stocks in an effort to carry "full lines," tying up capital and big storage spaces and creating expenses which have often lowered the profits to the disappearing point.

All of these costs have been passed on to the consumer because, for every loss taken on these slow-moving items, the expense has been spread over the cost of the more active ones.

Waste, remedy for.—One of the remedies for this condition is being found in simplified practice, the reduction by group action of excess variety, the cutting loose of "dead wood," which has grown up in an industry through custom or tradition. While simplification of variety may be undertaken by the individual manufacturer, group action of manufacturers, distributors, and consumers makes a much broader attack on excess variety possible, and makes for more effective adherence to the program.

Although not called by that name, simplified practice as a policy was brought into use by the War Industries Board, Conservation Division, to save materials, man power, and money. This was done by regulatory power. The advantages were so great that many companies and individuals did not revert to their former variety. Others allowed old practices to creep back in.

Variety, limitation of.—Approaching the elimination of wastes arising from excess variety through an avenue of coöperation rather than regulation, Secretary Hoover, soon after taking charge of the Department of Commerce, set up a Division of Simplified Practice. This division was charged with helping any industry to make a careful analysis of facts as to production and variety, and with bringing together the manufacturing, distributing, and consuming groups of an industry. Such a procedure is adhered to to-day, and the groups themselves take such action as they themselves deem to be of mutual benefit. No police powers or inquisitorial authority was given to this division. It has had first to carry on an educational work to show the different industries the advantage of concerted action. It has then coöperated with these groups in bringing forth a program in which all interests would be protected.

Safeguards were also set up to permit of the fullest development of individual initiative and invention as well as the changing trends of business by providing that simplifications adopted with the coöperation of the division should be in force for a definite period; and that at the end of such period there should be a revision program, developed by a standing committee representative of all factors in the industry, or

through another general conference of producers, distributors, and users.

To have such a program promulgated as a part of the elimination of waste program of the Department of Commerce it was necessary for 80 per cent by volume of makers, distributors, and users formally to accept the recommendations, and to use their best efforts to have the recommendations adhered to. This does not necessarily mean a refusal to make an item which may not be on the "recognized list." But it does give the manufacturer and distributor the opportunity of placing such a specialty in its own class as to expense.

Savings through simplified practice.—The percentages of reduction of variety have been startling. Witness the application of simplified practice in the building and construction field. With the coöperation of the division, common and face brick were reduced from 44 sizes to 1 and from 75 sizes to 2, respectively; builders' hardware was reduced 71 per cent in finishes and 26 per cent in the thousands of catalogued items; metal lath from 125 varieties to 24; slate, concrete building units, sand, lime, brick, eaves trough and conductor pipe, sheet steel and terne plate for roofing, range boilers and hot-water storage tanks, and an array of other items of material. The soft wood lumber industry, after spending years in trying to work out its own problem, was able, through the coöperation of the division, to adopt a program eliminating 60 per cent of the number of yard lumber items. Group action in the steel reinforcing bar industry led to reduction from 44 sizes (cross section areas) to 11. This action alone is estimated to have released $4,500,000 formerly tied up in the stock piles of mills and distributors of steel-reinforcing bars.

Eight groups have estimated that their annual savings due to simplified practice amount to $293,000,000; and not a single group of the fifty or more who have adopted simplified practice programs have failed to report savings of one sort or another—material, stability of operation, decreased inventory, greater productivity with fewer men, lower operation costs, better stock control, or other economies. One manufacturer reported that simplified practice had saved his firm from having to build and equip an additional mill.

In spite of all this progress the American Engineering Council, the American Society of Mechanical Engineers, the National Association of Purchasing Agents, the National Supply and Machinery Dealers' Association, and other organizations have indicated to the division that there are similar opportunities to reduce excess variety in several thousand other commodities.

Great impetus is being given to the movement through the formation of representative committees in each state which will coöperate in surveys and induce more industrial groups and commercial bodies to take

this step. California, Maryland, and Massachusetts associations of manufacturers have named committees for this coöperative promotional work. The National Association of Manufacturers is laying the subject before other state manufacturers' associations and the early selection of other state committees is indicated.

One great collateral benefit from the simplified practice movement is that trade practices are improved, because their full effect is presented in its proper perspective as the result of surveys and conferences. And the respective trade groups have been placed on a higher level in the esteem of the buying public.

Summary of Examples in the Application of Simplified Practice.[2]

Since the development of interchangeable parts a century ago, no movement in industry has held greater possibilities than the present tendency toward simplification, because of both its practicability and the share manufacturers themselves had in the initial testing of it during the War.

This movement has continued in peace time to demonstrate its effectiveness, until now it has gained such momentum that it challenges the attention of every manufacturer who desires to keep abreast of all basic developments in better management. There has been a real innovation which the simplification philosophy has effected; that is, the creation of a division in a great Federal department whose sole function lies in assisting and coöperating with American industries in the application of this principle.

It may be of interest to the reader to cite some concrete cases where simplication has been applied by individual concerns without government coöperation, others by trade groups, and still others by the government itself.

Lamp bases.—One of the most conclusive of the simplifications accomplished by industry is that of lamp bases. Not many years ago 179 varieties of lamp bases were in process of manufacture, which necessitated the memorizing of a lengthy specification before procuring a lamp which would fit the special socket installed in the home. To-day the 70 manufacturers are producing only six standard bases. In the same industry as late as 1918 there were 37 different known varieties of attachment plugs in use, each one good in itself, but no one interchangeable with any other. In the interest of public convenience and to the development of the use of electrical appliances, the adoption of the standard plug with parallel blades resulted. The advantages of this simplification are so apparent and appealing that to-day this plug is furnished with hundreds of thousands of appliances made by 200 manufacturers.

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[2] "Simplified Practice—What It Is and What It Offers." Bulletin of U. S. Bureau of Standards, pp. 7-18.

Food products.—A large food products manufacturer has long been a champion of simplification. He not only preaches it, but he practices it. Through a decrease in the varieties of products of 89 per cent, with a corresponding reduction in the cost of sales force, of 73 per cent, of advertising 78 per cent, and of overhead 80 per cent, his sales volume was increased approximately 600 per cent. Efficient manufacturing methods, based largely on simplification and the wide market created by the policy of consumer appeal, enabled him to offer to the public an article of broad usefulness, approved quality, and attractive price.

Simplification, whose problem.—The statement that simplification is exclusively a manufacturers' problem cannot be supported. The distributors and users are equally concerned. Simplification from the angle of a consumer is best expressed by the president of a large New York hotel: "In simplification, remember you are both buyer and seller. If you cannot apply it in the things you sell, apply it in the things you buy. Do not buy 15 varieties of bolts if you can, by study, make one kind of bolt satisfy the 15 uses." Applying this philosophy to the purchases for his chain of hotels, 200 items have been simplified, $350,000 has been released from inventory, and a 20 per cent reduction in cost of this simplified line has resulted in an annual saving of $100,000.

Felt hats.—Commodities which are affected by style, art, design, or true expression of individuality are not generally susceptible to simplification. Nevertheless, a manufacturer of men's felt hats analyzed his sales and found that 90 per cent of the business on the 3,684 styles and colors he was then making was done in 7 styles and 10 colors. The only solution of the problem was a simplified line, and he now not only advocates its application but has been convinced that it really pays.

Shoes.—Again, the question of style was not a deterrent to a large producer of shoes, who at one time manufactured 3 grades and 2,500 styles of each. He simplified his line to 1 grade and 100 styles. This 99 per cent elimination of variety reduced production cost 31 per cent, overhead 28 per cent, inventories 26 per cent, and cost to consumer 27 per cent. Correspondingly, his turnover was increased 50 per cent, sales of women's shoes 22 per cent, and of men's shoes 80 per cent.

Garage company, equipment of.—A very striking example of elimination of waste in industry through simplification from the angle of a consumer is reported by a large garage company which simplified its equipment to one make of motor trucks and one make of passenger cars. This policy resulted in reducing spare part stock from 20,000 to 5,000 items, with a consequent reduction in varieties of tires, oils, greases, etc. The decreased stockroom space, personnel, and investment, together with a reduced purchase price obtainable on the one type of trucks and cars, enable this concern to cut operation costs of 2 cents per mile in 1922 over 1921 and 5 cents per mile in 1922 over 1920.

Stationery novelties.—Those who misunderstand the movement for simplification as a tendency to drab uniformity will do well to consider the methods of a manufacturer of stationery novelties, a business in which many lines depend very largely upon originality and variety. In spite of the ever-increasing line, this firm has, by standardizing the various component parts so that they are interchangeable and permit more combinations, reduced the total number of its items from 10,000 in 1918, to 8,000 in 1922, thereby increasing their output by longer runs, reducing cost by eliminating set-ups, and making possible more prompt deliveries by manufacturing parts for stock.

Store fixtures.—Another graphic illustration of simplification tells its own story. From 1904 to 1914 one store-fixture manufacturer was faced with an up-and-down trend in business. In 1914 he discarded freak varieties and adopted a simplified line. A transition period of practically a year showed a decided decrease in the sales. The value of the movement, however, was soon evidenced and in 1921 he finds the annual sales still increasing.

Sundries.—In the line of sundries, a chain of retail drug stores decided to reduce its stock to the items in most common demand. The average number of items now carried is 10,000 instead of 22,000. This concentration of selling effort increased turnover 70 per cent, volume of business 40 per cent, wage rates 100 per cent, decreased investment 14 per cent, and inventory 56 per cent.

Business failures, causes of.—In the year 1922 there were nearly 19,000 business failures in the United States, with total liability of $540,000,000. Relatively few of these failures occurred among manufacturers; the majority were among wholesalers and retailers. The chief causes were excessive inventory, slow turnover, and too many varieties. These failures can be reduced to a minimum in succeeding years through the application of simplified practice.

Coöperation in simplification, necessity of— Simplification, however, is as much a trade as a plant problem. The individual manufacturer who starts to develop simplification in his plant is likely soon to feel the need of coöperation from other elements of his trade. Trade associations can supply this.

The National Fertilizer Association has instituted a campaign among the manufacturers for a reduction of formulas, and through the efforts of the soil improvement committee of the association has endeavored to educate the consumer to purchase upon an analysis basis rather than a brand name. As an example of the excessive varieties, it is reported that one manufacturer actually registered in a certain state, as required by law, over 1,000 brands of mixed fertilizers and more than 70 brands of one formula. As an indication of improvement resulting from the

activities of the association they report that one member has reduced its formulas from 100 in 1915 to 17 in 1922, an 83 per cent reduction.

Paint thinners, flash point of.—In 1913 there were many kinds of apparatus in use for determining the flash point of volatile, inflammable liquids, when the American Society for Testing Materials appointed a committee to formulate a standard method to determine the flash point of paint thinners, other than turpentine. As a result of their experiments, in collaboration with the United States Bureau of Mines, United States Bureau of Standards, National Fire Protection Association, and the National Paint, Oil, and Varnish Association, a single instrument was developed for determining the flash point, not only of all paint thinners, including turpentine, but all other volatile inflammable liquids, which, in 1921, was adopted by the American Society for Testing Materials and has been approved by the United States government.

Designs, standardization of.—In one particular instance the activity of a trade association has become international in scope. The movement started by the Chemical Equipment Manufacturers Association for the standardization of designs has its counterpart in England, where a joint research committee of the Association of British Chemical Manufacturers and the British Chemical Plant Manufacturers Association has offered a plan for standardizing filter press plates and frames. A questionnaire sent to 200 users resulted in the adoption of four sizes, which will take the place of the great variety of sizes now in use. The British success demonstrates the value of close coöperation between makers and users of equipment, which is sure to result in ultimate benefit to the industry.

With the development of the American grain industry in the middle of the nineteenth century and the creation of a large marketable surplus of grain, the need for a more efficient method of trade than sale by sample or by the presentation of the grain became imperative. The construction of storage capacity to be used by different owners of grain, the purchase and sale of large volumes of grain where the personal relations of buyer and seller were lost, and the fulfillment of contracts that extend over a period of time called for a new trade language that might serve as a common basis for comparing values and for providing a more satisfactory method of establishing market price.

Grain Standardization.[3]

Inspection, control of.—It is reasonable to suppose that the control of inspection has been more impartial when administered by the middleman organization, where the competing interests of buyers and

[3] H. B. Price, Paper read at the Thirty-third Annual Meeting of the American Economic Association, held in Atlantic City, December 29, 1920.

sellers meet, than if the control had been exercised by a producers' or a consumers' organization. On the other hand, exchange inspection has not been entirely free from trade influence. The occasional change of, or attempt to change, the standards during a period of market manipulation, and the occasional lowering of the standards to suit the convenience of the selling interests when the quality of the crop is poor, have, nevertheless, exerted an influence out of proportion to their frequency to destroy the confidence of interested dealers in the reliability of the means by which they estimate quality and hence determine the price to be paid. A market risk is thereby created that must be compensated for in a wider spread in the price between the producer of grain and the consumer. The distrust of exchange inspection, moreover, that is engendered among producers by these methods and the omission of producer representation in the exchange control is largely responsible for the movement for political inspection in the principal grain-producing sections and for the adoption of state inspection and Federal control.

The broadening of the control of inspection, however, sacrifices the advantages of the non-political character of exchange inspection. The personnel of the grain committees that control exchange inspection changes slowly and the inspector who is capable and efficient may therefore expect a long tenure of office. This attracts capable men to a profession that demands the skill which comes from long experience and it breeds an efficiency that cannot be so readily obtained if an inspector's term of office depends upon the fortunes of political parties. On the other hand, the exchange inspection departments have not met the usual test of greater initiative and progress that is usually ascribed to private endeavor, due to the security from political favoritism. The state inspection departments and Federal supervision have rather been the leaders in adopting new methods and equipment for grading while the exchanges have generally adhered to the older types.

Grading, uniform standard of.—The principle of uniform standards of grading is also important to an efficient inspection system. Three types of problems are involved here: (1) uniform inspection of the grain arriving at and leaving a market; (2) uniform grading between different markets; and (3) uniform grading over a period of time; but in as much as the absence or presence of uniformity affects the market price in much the same way under all circumstances, the different aspects of uniformity involve similar problems of price economics. By creating confusion rather than clarity in the meaning of grade terminology, the stabilization of the means through which supply and demand are expressed is lost, fluctuations in the market price are encouraged, and the attendant risks increase the cost of marketing. In a dynamic industry absolute rigidity of standards is impracticable, since new types of

grain and new market conditions may make it desirable to change grade requirements from time to time; but such changes, whether effected by changes in grade descriptions or in method of application, should be preceded by sufficient notice to obviate any disturbance to the contractual relations of which the standards form the basis. Due to a difference in classification and in interpretation, the American decentralized inspection system that existed prior to the adoption of Federal supervision and Federal standards offers a good illustration of the effects of variations in the grades between the different markets. The chairman of the legislative grain committee of the National Grain Dealers' Association testifying before a congressional committee in 1914[1] estimated that in American grain markets there were about two hundred grades or variations in grading oats, sixty grades or variations in grading corn, and thirty grades or variations in grading rye. An improper understanding of the function of grades also too often caused the standards to fluctuate between competing markets. Large quantities of spring wheat of the 1915 crop, for example, that would normally have been marketed at Minneapolis were shipped to Chicago where, due to the unusual demand for spring wheat to be mixed with the winter wheat of poor quality, shippers secured better grades and better prices. Competition between the two principal wheat markets was therefore reduced to a basis of both grades and prices which tended to lower the standards, to add confusion to the trade, and to pervert the purpose of standardization. To avert the inconveniences and losses attending similar situations, the National Grain Dealers' Association adopted uniform grades for the principal grains in 1909, but six years' experience demonstrated the futility of its efforts in the absence of a central official organization with authority to compel the general adoption and uniform application of the standards.

Grading, misuse of.—Another type of confusion may come from the misuse of the grades by individual dealers. The practice of mixing a cheaper with a dearer grain, adding weed seeds to light barley, barley or even water to oats, or rye to wheat, to the detriment of the value of the grain for which the mixture is sold, is encouraged when the grades are not clearly defined, and the per cent of foreign material permitted in the different grades is not specifically stated. The evolution of standards to provide more definite, even mathematical, grade requirements, discourages this practice by giving to the grain that carries an excess of harmful or valueless material a lower grade. This tendency to more technical grades may be criticized as increasing the difficulty of grading and sometimes delaying the movement of grain

[1] "Hearings before the Committee on Agriculture, House of Representatives," Sixty-third Cong., on H. R. 14,493, a Bill Providing for the Uniform Grading of Grain and for Other Purposes (1914), p. 60.

through the controversies that develop as a result of the technical points of grading. Yet, the prevention of adulteration through the inspection system is preferable to the regulation under the Pure Food and Drugs Act which creates many uncertainties in the shipping of mixed grains. Moreover, to contend that competition will eliminate the misuse of the mixing privilege when the basis of competition is violated is fallacious reasoning.

Inspection, criticism of.— Of the exaggerated criticisms of grain inspection, two are offered for consideration. The first concerns the prevalent belief that the standard of grading the receipts and the shipments at the important markets varies to the advantage of the predominant grain interests. The tendency among inspectors to give to the grain the benefit of any doubt regarding the grade does create the possibility of more liberal inspection of shipments than of receipts at the primary markets, since much of the grain leaving the market has passed through the terminal elevators where it is mixed to meet the minimum requirements of the desired grade, whereas the grain arriving has not been so scientifically mixed at the country markets and thus represents a greater range of quality within a given grade. Careful analysis of the reinspections and appeals at a market whose inspection has been subjected to much criticism, however, reveals no conscious variation in the standards by the inspection department. Moreover, since this criticism of the "in" and "out" inspection at any given market invariably comes from producers and dealers who are located outside of the market and not from the dealers within the market, its origin doubtless lies in the suspicions that are aroused by the possibilities of manipulation of the standards, rather than in actual manipulations.

Foreign materials in.—Another popular misconception is the belief that the price of grain bears no relation to the value of the dockage or foreign materials that it contains. Studies conducted at Minneapolis in 1916 by C. H. Bailey and the writer show that the foreign materials that are difficult to clean from wheat and which injure the baking quality of the flour depress the price of the grain in proportion as the foreign material is detrimental to the flour. Where the foreign material has a commercial value and can be readily separated from the grain, a small amount of dockage that does not pay for the cost of cleaning also depresses the price of the grain, but the grain that contains a large amount of the valuable separable foreign materials commands a premium which increases with an increase in the quantity and value of the dockage. The data obtained in this study further show that a loss is sometimes incurred on the grain with light dockage while a good profit is realized on the wheat containing heavy foreign material. Taking into consideration, however, the cost of cleaning the grain, the loss of grain during the cleaning process, and the loss due to an occasional

erroneous determination of the dockage by the inspection department, it is not probable that the grain dealers have realized the large profits that are so often ascribed to the foreign material.

Profits Made by Regrading Mixed Lots of Tobacco.[5]

The experiences of speculators in buying at a low figure poorly assorted leaf and obtaining an excellent profit by rehandling and regrading is another significant bit of evidence to the fact that good grading means money in the pocket of the grower. We quote a few of the many instances that have been reported to us. One man purchased a large basket of tobacco at 6 cents per pound. This he rehandled, regraded, and redistributed among four baskets. These brought respectively 6c, 12c, 18c, and 26c. Another party purchased one lot of tobacco at 6 cents, regraded and sold at a price which netted him 4 cents per pound after paying all charges for rehandling. A third party purchased a lot of 600 pounds at 11 cents. This was rehandled at an expense of $5 and a scrap loss of 15 pounds. The tobacco was resold in three baskets, the lowest fetching 7½ cents, the second 19 cents, and the third 22 cents. In order further to demonstrate this point we purchased through an agent one lot of poorly graded tobacco at 6 cents per pound; rehandled and graded it and sold it at an average price of 10.3 cents per pound or $10.32 per hundred pounds. The following table gives the exact results:

Tobacco as purchased:

1 basket, 110 lbs. @ 6c ..... $ 6.60

Tobacco as sold after regrading:

No.	*Lbs.*	*Price.*	*Gross Amt.*
530	10	15.2	1.55
2304	25	11.1	2.81
1314	20	10.2	2.10
479	10	7.3	.77
2748	10	5.10	.51
	75		7.74

Average price $10.32

Tobacco lost in rehandling ..... 35 lbs., due mainly to mud.

It will be noted that this one small basket of 110 pounds contained tobacco ranging in value, as determined by sale over the loose-leaf floor under actual market conditions, from 5.10 cents to 15.2 cents per pound. Several parties to whom the tobacco was shown expressed opinions to

[5] Bohannan, C. D., and Campbell, D. P., "A Preliminary Study of the Marketing of Burley Tobacco in Central Kentucky." Bulletin No. 202, Kentucky Agricultural Experiment Station, pp. 233-238.

the effect that the better grades would have brought from 3 to 5 cents more, except for the fact that the sale was made very near the close of the season. The table also indicates a loss in rehandling of 35 pounds. This large loss was due to the presence of a considerable amount of mud on the leaf and the consequent scrap loss in removing the mud. Soon after purchasing this basket we exhibited it to two different buyers on two different occasions, and they both agreed that, had the grower merely shaken the mud off before the sale, this basket would have brought from 3 to 4 cents more per pound.

Proper grading.—Would proper grading pay the growers? That instances of poor grading similar to these here presented are by no means rare can be readily demonstrated by visiting the warehouse during the sales. From what has already been said it is evident that proper grading would make the average crop worth at least from 35 to 60 cents more per cwt. to the manufacturer.

Excessive moisture.—In addition to this there is in many crops a decided loss to the manufacturer due to excessive moisture content. Damp tobacco is well known to be a treacherous proposition to handle, because of the liability of the lowering of the grade as it passes through the redryer, and some manufacturers' agents assure us that they refuse to bid on it.

One manufacturer states that in the tobacco which they do buy there is an average loss of 10 per cent from excessive moisture. This means a loss of 10 pounds to the hundred weight and on a basis of 10c a pound which is close to the average paid on the market it means in dollars and cents a loss of $1.00 per cwt. At the same time tobacco could not be handled on a loose-leaf market if absolutely dry and hence a certain per cent of the moisture loss is unavoidable. Unfortunately we have no figures as to the proportion of the tobacco sold annually which contains moisture in excess of the absolute marketing requirement, nor as to what per cent of the total weight that excess moisture is. We do know that many crops in passing through the redryer lose far in excess of the 10 per cent which has been given as the average shrinkage, some losing as much as 50 per cent and still others losing fully 100 per cent. One of the local managers for a large tobacco company states that in order to supply their needs they are forced to purchase many crops which lose 15 per cent, or 5 per cent above the average loss as given by the same company.

Value, increase of.—By careful attention both to the matter of proper grading and to that of moisture content there is no doubt that at least 60 per cent of the tobacco annually marketed on the Lexington floors could be increased in value by not less than 2 cents per pound. That this is a conservative estimate is borne out by the experience of

manufacturers' agents, warehousemen, brokers, speculators, and growers, and by the information furnished us by members of each of these groups. During the 1915-1916 season 35,000,000 pounds of tobacco were sold in Lexington, 60 per cent of which is 21,000,000 pounds and a 2 cent increase on this amount would have added $420,000 to its market value.

Figuring on the basis of the $2 increase per hundred weight for a five-acre crop yielding 1,000 pounds to the acre and selling at 10 cents per pound, or $500 for the entire crop, we find that the gross increase due to better handling methods would amount to $100 or 20 per cent. In some cases this stricter grading would require additional expense in the form of wages for strippers. The average man can strip out 100 pounds of leaf per day and receives from $1 to $1.25 for a day's work. Allowing a difference of 25 pounds in his daily stripping capacity due to the time required to do it accurately we get a stripping cost of $83.34 as against a cost of $62.50 by the ordinary method, or an increase in the cost of $20.84. Deducting this amount from the gross increase in the value of the tobacco, $100, we have left a net increased value of $79.16, that is, a further investment of $22.88 would return a net profit of $77.12 or a return at the rate of 380 per cent on the investment. These figures would apply to the crop of a man raising tobacco on his own land. For the shareman raising the crop on halves and paying the entire cost of stripping but receiving only one-half the increased value of $100 or $50 the net profits would be but $29.17, yet even that represents a 140 per cent increase on the investment in extra stripping cost. We do not mean to state that this increase would apply to every patch of tobacco raised in Central Kentucky, but it would undoubtedly apply to a considerable number of them, or, as one warehouseman puts the matter, a great many farmers could by better grading save all of their stripping costs. In his statement he referred to share-growers, since to the owner operating his own land the saving would be practically twice his total stripping costs. That the manufacturers would be willing to pay this additional price is indicated by their letters to us. The above figures, taken together with the experience of those growers who do insist on accurate grading and of speculators who reap profits of 2 cents to 8 cents per pound by rehandling tobacco, certainly demonstrate beyond the shadow of a doubt that careful handling of the tobacco produced pays the farmer a higher percentage of return dollar for dollar than practically any other farm operation. Nor do we need to be surprised at these figures when we consider the tremendous profits made by producers of other farm crops through establishing standard grades and packs and a reputation for intelligence and honesty in grading and packing.

Standardization and Inspection by the United States Department of Agriculture.[6]

Very briefly, I want to summarize what has been accomplished in standardization work. For forty years, in cotton, the trade was attempting to standardize cotton, and I guess I am safe in saying at the end of that forty years the question of standardization of cotton was in a worse condition than in the beginning. It was complicated particularly by the fact that Liverpool, which was a cotton center, came in and established grades different from American grades, and they not only attempted to standardize the American cotton as such, but they had three standards for American cotton. They had what they called American cotton, and they had Gulf standards and Texas standards or grades.

So at the time of the passage of the Cotton Futures Act, which was in 1914, just twelve years ago, the situation was deplorable except for the fact that a great deal of research work had been done by the Department of Agriculture on cotton standards, and we were ready at that time to promulgate standards which, while they were immediately for use in future trading and for the settling of contracts for future delivery, nevertheless, because of the fact that the Department came out with those standards, in spite of the fact that at that time the Cotton Standards Act failed for spot trading in cotton, we found that during the eight years of 1914 to 1922 or 1923 these standards for American cotton practically came into general use for all trading in America.

With the passage of the Cotton Standards Act in 1923, these standards were made compulsory for trading when any standards were used, including the export business of cotton, and now no other industry in the world—and I believe I am safe in saying in either manufacturing or agriculture—has any better standards than our American cotton.

For all practical purposes our plans have been adopted by all foreign exchanges and are the only basis of trading at the present time anywhere in the world. We call them now, for our foreign work, universal cotton standards, but they are identical with our standards and we have simply changed the name for our export work from the American standards to the universal standards.

During the last year we have continued our work on standards governing cottonseed and cotton linters, and I think in the course of another year those standards will be out.

With regard to grain, the situation was almost as deplorable and

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[6] Statement of L. S. Tenny on Agricultural Relief Before the House Committee on Agriculture, 68th Cong. 2nd Sess., pp. 528-531.

perhaps more so than with regard to cotton, at the time of the passage of the Grain Standards Act in 1916. I am going to go over the eight and one-half years under which we have operated the grain standards and read into the record a very short paragraph taken from a brief presented to the President's agricultural commission by the Grain Dealers' National Association January 22, 1925, in which they say:

"Federal grades: The United States Grain Standards Act was passed August 11, 1916. Uniform, standard grades for grain entering interstate and foreign commerce have been promulgated thereunder and put into operation. Type samples are carefully made up in the central laboratory at Chicago, and furnished to institutions which need this service. Also there is taken from each cargo of export wheat a sample for the central laboratory for comparison and study purposes. United States grades are now as standard and uniform as any grain grades in the world."

I would like to read a statement that is in a memorandum prepared by one of our men that is simply a look into the future with regard to grain standards.

"It is generally conceded that the grain crops of the country cannot be successfully marketed without some sort of an inspection service. Canada, our keenest competitor, markets its crops under Dominion Government inspection. It is well recognized that official Government certificates covering grain or any other commodity carry a much higher guaranty in the minds of foreign purchasers than any other kind. A system similar to that in vogue in Canada was under consideration by the Congress at the time the Grain Standards Act was passed, but in view of the radical departure from conditions then existing which would have been involved, it was decided to adopt the present system as a step by the Government in the direction of Federal aid in marketing crops. The wisdom of effecting the transition gradually has been demonstrated by the experience of eight years of administration of the law.

"There is little doubt, however, but that now with official standards in effect and with confidence in these standards, not only in this country but also abroad, an inspection service federally maintained would to a much greater extent meet the needs and desires of the trade than the present system affords. It is believed that such a system would be self-sustaining—that is, without cost to the Government—and that the setting up of such a service through proper legislation would materially benefit the grain industry as a whole."

In explanation of that I might say that we do not as a Federal agency inspect the grain. We have a compulsory inspection that is made by private agencies, which private agencies or private people working are licensed by us, but the licensing system gets us far away from the original inspection work and we are finding more and more that

the handlers of grain want a Federal inspection which they cannot get without an appeal.

Now, I have already stated that the great progress made on standardization is undoubtedly due to our inspection work. In 1916 Congress gave us authority to inspect in terminal markets. At that time we felt that the only way we could inspect these products was when they came into the terminal markets, where our men could reach them, and that inspection service ran along and did a very considerable amount of good but did not reach the farmer except in a rather indirect way. Then, about two years ago, perhaps two years ago last July—I am speaking of fruits and vegetables—Congress amended the inspection act to make it possible for us to inspect at point of shipment, and I want to say that we were rather hesitating to undertake that kind of work. The problem looked big to us. The products were scattered so much, but through wonderful and splendid coöperation on the part of state agencies we put that proposition over to a point where we are now inspecting approximately 150,000 cars of fruits and vegetables alone, at point of origin. That means that the farmer, as he brings his apples or his peaches or his cantaloupes or his tomatoes up to the packing house or to the car, meets our inspector, who is jointly employed, in almost all cases, with the state involved.

You understand that this is permissive, therefore, we do it where we can do it, and with fruits and vegetables, that have become a concentrated industry all over the country, we have no difficulty at all in establishing inspection points where the men are kept busy. Sometimes a man is able to handle, with an automobile, two or three shipping points along a railroad, but we are doing 150,000 carloads of that kind of inspection work, which is directly educational because the farmer there, if he finds his apples thrown out of an "A" grade, takes them back home and the lesson is a direct one. He has gotten it and he knows that the next time he cannot bring those same apples in and have them passed as of this high grade, and that gets back to all production—better spraying methods, better cultural methods, and with many commodities better seed, so that we count that we are doing more to make progress in America through the shipping point in inspection work than almost any one thing.

In passing I should like to call your attention to the fact that this service practically costs the government nothing. We have a service charge on it, are allowed to charge a fee, and it is practically self-sustaining.

[Ed. Note.—A nation-wide, centrally controlled system of inspecting agricultural products at marketing points should do much to protect the consumer against being compelled, practically, to buy many inferior products. It would also encourage the use of more careful practices on the part of the farmer; and save money for all concerned.]

Selling Costs Reduced by Standardization.[7]

Wagon standardization.—Particularly significant is the move in the direction of wagon standardization which has been made by the National Implement and Vehicle Association of the United States. Here is a line where the need of greater uniformity in manufacturing policy has been manifest and where the move in behalf of standardization is proportionately welcome.

"This effort toward standardization," explains E. W. McCullough, secretary of the Implement and Vehicle Association, "deals very strongly with the elimination of the tremendous variety of farm wagons now made to suit the notions rather than the needs of the farmer, and if all that is unnecessary can be eliminated a great forward step will have been taken. . . ."

Standardization must start with the retail distributor and the ultimate consumer—this is the most interesting of the conclusions reached by Secretary McCullough, after grappling for a year with the problems of a "get-together" movement. Says he: "The progress of this undertaking is likely to be more or less slow and must begin with the farmer and the dealer. Also, one step at a time must be taken, instead of attempting to introduce something radically different from what is being used at the present time. . . ."

To permit the dealer, the jobber, and the manufacturer to *serve the user quicker and better*—this, in a nutshell, is the object of the wagon-standardization scheme. Heretofore, with wagon models almost without number cluttering the market, it has worked out that no dealer with ordinary showroom and warehouse space could plan to carry in stock more than one wagon of each principal pattern. Inevitably, then, if having sold a given wagon he quickly had a second call for the same type of wagon, there was nothing for it but to tell the customer that he would order from the factory or distributing agency, but that he must put up with a little delay because the goods could not be supplied out of stock.

"Every dealer, jobber, and manufacturer knows," says the National Association in announcing its new policy, "that large and unnecessary variety in any line not only reduces, but in many instances kills, profits." Especially is this true in a line such as vehicles, where the individual article is large, necessitating a considerable aggregate floor space for display and storage, and where one cost per unit is such that the retail merchant finds that in order to carry anything like a complete stock a relatively heavy investment is necessary. Then, too, it must be borne in mind that, in the case of farm wagons, as with automobiles, etc.,

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[7] "Selling Costs Reduced by Standardization," *Printers' Ink*, Vol. 92, July 29, 1915, pp. 70-73.

the repair proposition is one that must ever be figured in, and standardization would be well worth while if it did no more than allow the average dealer to have a smaller inventory of spare parts. . . .

"Competition has forced catering to the buyer's whims rather than to his needs, until almost every line of business is realizing that the increase in expense is due largely, if not altogether, to the extra cost of handling and manufacturing too many variations of sizes, kinds, and descriptions of product. The reaction has set in and all classes, including the consumer, are recognizing the fact that properly adopted standards in styles and construction mean not only economy in cost of handling and construction but the maximum of value and utility to the consumer."

Wherever the immediate purpose of the effort for the standardization and simplification of wagons is to produce an interchangeable line of wagon parts, it is hoped that ultimately standard tires also may be adopted. "If standard tires can be adopted," said Secretary McCullough recently, "and these widths embodied in all state laws, and with the government at Washington back of them, a tremendous economy to farmer, dealer, and manufacturer will have been accomplished. . . ."

Chapter V

TRANSPORTATION AND COMMUNICATION

Improvements in Transportation.[1]

No other single feature of the progress of the work during the nineteenth century was more significant than the improvement and development of "the inventions which abridge distance," and no country reaped greater benefits from the changes in the means of transportation than did the United States. To the continuous improvement of the methods of carrying goods from place to place, more than to any other single cause, was due the rapid progress of domestic trade. Space and time and the difficulties imposed by the physical features of the surface of the earth and the wide variety of climatic conditions were all overcome, and the operations of trade largely relieved of the burdens formerly imposed by elements of risk and chance.

Advantages of.—An important advantage coming with the improved system of transportation was the possibility of securing through freight service over long distances, regardless of the number of carriers employed in the movement. In the first part of the century, few common carriers offered regular transportation service over long inland routes, and there were few instances where through routes and through rates were given by connecting carriers. A shipper sending a consignment of goods which had to be conveyed by several different carriers in turn was compelled either to accompany his shipment, or to employ an agent at the terminal of each route to take charge of his property and forward it to the next point of reshipment, until it reached its final destination. It was impossible to calculate in advance the cost of transporting freight for long distances, and the expense and delay occasioned by the necessity of providing for the special oversight of through traffic was a great burden to internal trade. Sellers of goods often provided their own means of transportation to distant markets and accompanied their shipments, and merchants at inland points usually made periodical trips to large cities, where they would lay in a large stock of goods sufficient to supply the needs of their trade for a considerable length of time.

The development of the railway freight service put an end to these difficulties of long-distance transportation. Before 1860 the elimina-

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[1] Johnson, E. R., "History of Domestic and Foreign Commerce in the United States," Vol. I, pp. 296-300.

tion of the forwarding agencies was begun through the formation of the fast freight lines—companies organized especially for the purpose of caring for traffic passing over the lines of more than one railroad company. These freight lines provided their own cars and made arrangements with different railroads for hauling them, thus obtaining continuous service between distant points. Because of several abuses springing up in connection with the operations of these freight lines they were soon superseded, to a large extent, by coöperative lines, which were merely joint arrangements entered into by two or more connecting railroads, each supplying a definite share of the equipment for the through service. The final step in the direction of securing freedom of movement was the agreement of practically all the railroads of the country to permit the interchange of their freight-car equipment. The adoption of the system of car interchange marked the discontinuance of the organization of fast-freight lines, and even those which still existed at the close of the century had lost their former status, practically all of them having become company lines or freight bureaus of large railway systems which had been formed by the consolidation of the lines that had previously entered the joint traffic arrangement.

Thus at the close of the century it was possible for a shipper in any part of the United States to bill goods, either in carload or less than carload lots, to a consignee in any other part of the country, receive a through rate on the shipment, and be relieved of all care of his property while it was in transit, regardless of the number of times it was transferred from the lines of one carrier to those of another. These benefits were at first given voluntarily by transportation agencies for the purpose either of attracting business or of meeting competition, and the public had become so accustomed to them that they were no longer regarded as favors growing out of considerations of a business nature, but as rights to be maintained and protected by legislative enactments.

Beneficial effects of.—It is impossible to estimate the beneficial effects on trade of the improvement in the system of caring for traffic. The speed and safety with which goods could be transported from one section of the country to another eliminated practically all the necessity of making allowance for an element of chance in trade calculations. Buyers of goods found it unnecessary to tie up a considerable portion of their business capital for the sake of keeping in possession a large stock of commodities, there being always a reasonable certainty that they could replenish a diminished supply within a short period of time. Furthermore, large amounts of capital were no longer locked up because of the excessive delay of goods in transit, and all business transactions could be carried on with more regularity and economy. Shippers found it possible to negotiate the bills of lading representing

the property intrusted to carriers, and their operations were not hampered by the need of waiting for final settlement with consignees. A greater stability was given to prices, both because commodities could be moved freely and quickly, and because it was possible to calculate exactly the cost of transportation for any distance.

Improvements in Communication.

Of almost equal importance with the betterment of the transportation service given to the country was the improvement in the facilities for communication. The progress made in trade would have been impossible without the means for securing a more rapid dissemination of information; and the development of the steam railway itself to its high degree of efficiency could not have been accomplished had it not been for the invention of its great accessory, the electric telegraph.

Electric telegraph.—The services which the electric telegraph performed in the operations of commerce are incalculable: producer, consumer, and merchant were brought into immediate and constant touch with one another, regardless of the distance by which they were separated; the conditions of demand and supply could be made known at all markets; price quotations could be carried broadcast to all parts of the country at the same time; and information concerning the industrial and business situation in any locality could be communicated instantly to any point. Business men could direct their enterprises from a distance, and merchants in widely separated localities could transact their affairs with one another with as much expedition and certainty as if they were together. Commerce was enabled to rid itself of many costly practices that encumbered its processes under previous conditions. A large number of middlemen were dispensed with, and the costs of their commissions taken off the price of commodities, the amount of stock in trade necessary for a merchant to keep in store was greatly reduced, and the greater certainty with which conditions of the future could be calculated decreased the margin necessary to allow for safety in commercial transactions.

The Effect of Freight Rates on Agricultural Geography.[2]

Does the farmer pay the freight?— In nearly all popular discussions of freight rates and the farmers it is assumed that the farmer pays the freight both ways. It is manifest that he actually does pay it in the case of goods shipped to him as a consumer, and likewise that he suffers a loss corresponding to the freight charge in the case of farm products shipped by him to distant buyers. If the assumption that the

[2] B. H. Hibbard (University of Wisconsin), *Journal of Farm Economics*, Vol. 4, pp. 129-136.

farmer pays the freight both ways be true, then, indeed, no one but the farmer is vitally concerned in the haulage charge from country to city and back. Explicitly it is claimed that the price of wheat is the central market price minus the cost of getting it from farm to central market, and likewise the farm price of such things as machinery is popularly computed as the wholesale figure plus subsequent additions of which freight is an item. In part these views are correct, but in part only. They are correct in so far as they apply to individual, isolated cases, and to all cases in which adjustments consequent upon the new rates have not yet been made. For instance, a given farmer, or a small group of farmers, living beyond the main settlements, may very properly figure their receipts for grain produced in terms of central market prices minus the cost of getting it delivered to such market. Should it at one time cost them fifty cents a bushel for transportation, and later through better means cost but a quarter, the farmers will be benefited to the full extent of the quarter dollar. On the other hand, should the transportation charge increase by 25 cents, the farmers will have exactly 25 cents less for each bushel.

Likewise, should it cost $40 in freight charges to carry a self-binder to this outlying district in place of $20 to points nearer the manufacturing center, the pioneer farmers are poorer because of this additional charge. Whether they have offsetting advantages in other ways does not enter into the question. It is made to appear that the farmer pays the freight both to, and from, the farm. The case is as presented on the assumption that the isolated farmers are so few as to exert no appreciable effect on the market in the way of goods demanded and supplied. They take the same price which would prevail were they to cease production, and they pay the same price which would prevail were they to cease buying.

The above point of view is held perhaps unconsciously by the farmers in general as applying to the present high freight situation. Ultimately the view must be wrong. Immediately it may be mainly true. For example, suppose there is an ample supply of wheat in sight, as was the case in 1920, and the next crop virtually assured, since habit is strong, and no conspicuous advantage offered in changing to other lines. Thus the succeeding wheat supply is bound to be overabundant. With a surplus to be sold in Europe the first question to be asked is what can be obtained for the amount put on sale in that market. Undoubtedly this price is pivoted in the determination of prices in this country. Thus for the present, and by the present we may understand a period of time a few years in length, it is not incorrect to say that the farmer pays the freight on the produce he raises. The supply is determined in advance, for the time being, and freight costs do not enter as a supply determinant any more than the high wages paid in

1920, when the assumption that prices would remain high availed in keeping them high. That the farmer thinks he pays the freight on goods both going and coming cannot be doubted. Under certain circumstances he does, but the circumstances bringing this to pass are not normal. As an illustration an actual occurrence may be cited. A South Dakota farmer sold some alfalfa hay to a Wisconsin dairyman. The price in South Dakota was $8 a ton, which left the farmer but $4 a ton for the hay as it stood in the stack. The railroad charge was $13 a ton, thus making $21 at the point of delivery. The Dakota farmer thinks of the $21 and feels that he gets just as much less as the amount of the charge made for hauling from his station to the Wisconsin station. The buyer looks at the $8 price f. o. b. shipping station and feels that he is obliged to pay the difference. How both can be right requires explanation. Each is taking it for granted that the two prices are respectively fixed independently of the transportation facilities and the charge for the service. Nothing could be farther from the truth. Were there no facilities for making the shipment, hay might be worth $10 more per ton than it is in Wisconsin, and might be worth nothing in South Dakota. Indeed, it might not be grown at all in the latter state, or at least not for shipment to distant points. In this case the Wisconsin dairyman would look for his hay nearer home and would buy it or not, according to the chances it afforded of yielding him a profit. But whatever the price paid it is clear that from his standpoint he must pay for getting it from the point of origin to his premises.

Taking a long-time point of view, it is demonstrable that the buyer rather than the seller pays the freight, even though Jones may advertise to do so. The generally accepted principle that the benefits of improvements tend to diffuse themselves is nowhere better illustrated than in the historical instance of the development of the American railway. In 1870 the western farmer was ready to mortgage his farm in order to subscribe bonuses for the railroad. Lower freight rates, he believed, stood between him and prosperity. He got the lower rates, but so also did his neighbors, and by producing more than was wanted at the former prices sales were made at such low levels as to leave but a meager margin for the living of the farmer and his family. The advantage was diffused and society got cheap food, while the producer was left with a meager reward.

Should freight rates continue high the resultant decrease in the supplies of goods due to the discontinuance of operations on the part of those least favorably situated would result in a decreased supply. By this means a higher price would of necessity obtain. Thus in the higher price the consumer would pay the freight, while the producer would immediately be, after the readjustment, about as well off as before. Actually he would be worse off because of the necessity of living a

more restricted life. Goods would cost him more, and while he would seem relatively to be prosperous, it would not be on the same level as though transportation had remained cheap.

High rates disorganize economic system.— Imagine that we should wake up some morning to find that the earth had expanded in circumference to twice her former size, with no greater ability to support life. San Francisco would be over 6,000 miles from New York. Omaha a thousand miles from Chicago. The eastern dairyman twice as far from his feed supplies, and, *pari passu,* the grower of feed double the distance from his market. At once there would begin a readjustment of life on the planet. Those who in a business way had been neighbors would become strangers, and those who had depended on the bewildering variety of the market for suggestions with respect to viands and apparel would begin to cultivate their own gardens. and consult their local craftsmen. With distances doubled it is not to be doubted that local producers would have the advantage, so far as goods wanted near home are concerned, over producers far away. Likewise the inducement to produce for a distant market would be lessened. In other words, the situation would favor producing for the home market, which is to say, each community would be impelled to the extent of the added cost of getting goods from one section to another to live apart from and independent of others. Such traffic as would persist would be of necessity in goods high in value per pound. For instance, there is butter shipped out of the Dakotas. This would probably increase, since the cost of shipping butter is relatively small per dollar of value. Similarly the cost of shipping live stock is less in proportion to value than is the case of wheat. Indeed, it has already been announced by the governor of one of the northwestern states that in his opinion the farmers of his section, on account of the increased freight rates, will be obliged to produce goods of a more concentrated nature than wheat and flax.

The farmers near to the centers of population will be affected much less than those at a distance so far as selling is concerned. This is true because on account of nearness to market the freight charge represents a smaller item in the whole expense of getting goods to market than is the case with those farther out. Hence it is safe to predict that, should the present rates continue, the Pennsylvania and New York farmers will have an added advantage over the western farmers in the matter of marketing such produce as they grow on their own farms. As buyers of feed to be turned into dairy products and meat they will be less advantageously situated than formerly. Hence it may be expected that there will be a strong tendency to produce more roughage east of the Alleghanies, and at the same time a probability of bringing in liquid milk from farther to the west. The advantage of territorial division of labor is likely to suffer a distinct set-back. Ultimately the

railroads will have less to haul, and the people will have less advantage growing out of the hauling. If a larger share must go to the railroad work, then again must the time of greatest economy in production be postponed.

The Farmer and the Railways.[3]

Certainly no industry is more vitally concerned with transportation efficiently performed at reasonable rates than farming. A considerable proportion of the farm products of the country as a whole are perishable and require for transportation special equipment, expedited services, and privileges of diversion. Another very large proportion of farm products are semiperishable and also require a very high-grade equipment, equipment which must be in first-class order, and certain special privileges and services. Besides this, agricultural products are sold very largely upon exchanges in fluctuating markets, and the lack of facilities, services, or congestion which delays service frequently involves a considerable loss to the farmer. In addition, much of the farm products move by water. Farm products are produced in surplus quantities and sold abroad in all the seven seas.

A farmer is not only interested in a reasonable rate, but he is interested also in a reasonable relationship between the rates upon different commodities. He can better afford, for example, to pay a high rate upon shoes than he can upon oats, upon clothes than upon wheat, or upon farm implements than upon live stock. The freight rate upon consumer's goods is paid but once, while the freight rate upon basic commodities, in which class agricultural products clearly fall, is frequently multiplied in the course of the manufacture and distribution of the product. As an example of what I mean, for instance, common lumber which costs $12 per thousand at the mill in Oregon will take a freight rate into the consuming sections of the United States of approximately $24 a car per thousand, so that if the retailer takes a margin or mark-up of 30 per cent it would represent a mark-up of $3.60 on the lumber and $7.20 on the freight.

Differential rates.[4]—A good illustration of differential rates is found in the railway rates on bituminous and anthracite coal. The small geographical area of the anthracite has contributed much to the growth of the anthracite combination and the tie-in of the coal with the railroads, while the bituminous industry, in contrast, is so far-reaching into distinct and separate territories and touches so many different railroads that it is difficult to imagine the construction of a monopoly control such as exists in anthracite.

A study of the rate structure, therefore, must reflect at all times a

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[3] Hon. Sidney Anderson, *Journal of Farm Economics*, Vol. 4, pp. 137-139.

[4] Reitell, Chas, *Annals of the American Academy*, Vol. III, pp. 155-164.

consideration of the development of combination and monopoly control in the anthracite industry and the continuous continuance of competition in the bituminous fields.

Again, the wide separation of the producers of bituminous makes the problem of rate differentials of prime importance. A change in related freight rates in the bituminous industry can readily close mines in one district and open mines in other districts. . . . The anthracite industry being closely localized finds differentials to the producers of comparatively small consequence.

To state fully and chronologically the growth of the present bituminous rate structure would compel far more space than is permitted. In order to show the rate changes that have taken place during the last thirteen years, however, it is necessary to observe a typical rate, such as the rate from the middle district of Ohio to Lake Erie, for cargo shipments to the Northwest. This is a base rate and, like all such rates in the bituminous industry, forms the basis for the establishment of fixed and definite related rates for other fields. This middle Ohio rate and the related rates are the ones under which considerable tonnage is hauled.

There are three large markets for bituminous coal:

1. The Great Lakes leading to the Northwest.
2. The Atlantic tidewater.
3. The Pittsburgh valleys wherein are located the large steel industries.

As stated above, a constant differential is maintained for other districts shipping Lake cargo coal. For instance, the Pittsburgh rate is an 18-cent differential.

The rate from middle Ohio to Lake cargo docks represents a ton haul of 120 miles for $1.48, or a haul of 81 miles for a dollar. From the Kanawha district of southern West Virginia, the Lake cargo shipments show a haul of 369 miles for $1.91 or a haul of 189 miles for a dollar.

Obviously these rates, so far as the distance factor is considered, show a definite freight advantage to the outlying Kanawha district. And, as will be shown later, these long hauls are a cost factor to the transportation company much higher than the short hauls. Therefore, if traffic is highly localized and confined to short distances, the freight rates can more readily be reduced than when the transportation companies are compelled to go to far-out territories in gathering the commodity.

Rate structure, difficulties of.—Most of the difficulty arising from rate structures in bituminous fields is the question of what constitutes fair differentials.

Up to the present time differentials have favored the newer and outlying fields, namely, southern West Virginia, Kentucky, and Tennessee. These differentials were given in the early 1900's and are closely linked with that period in our history when "trust busting" and "back-to-competition" were popular slogans. And it is fairly certain that only by these differentials granted by the Interstate Commerce Commission could the outlying districts come into being as competitors with the older and nearer-to-market districts. The differentials granted to these newer districts were not unlike a tariff rate used to protect infant industries; in fact, they had exactly the same effect. They made possible competition with the older established districts.

But there is little doubt that these differentials have been a determining factor in spreading and overdeveloping the bituminous fields, and thus have ushered in more and more competition, which, in turn, has made for speculation and instability within the industry.

Economic factors of freight differentials.—The economic factors involved in this granting of differentials to outlying districts are of importance in seeing the relation that exists between the bituminous fields and the transportation facilities. Several of these factors will be taken up in turn.

1. *Overdevelopment.*—There are too many men, too many mines, and too much equipment in the bituminous fields. Overdevelopment is the great disease of the industry. The recent United States Coal Commission conservatively estimates an overdevelopment of 24 per cent, while one large producer claims at least a 50 per cent overdevelopment.

Differentials to outlying districts bring in more mines into competition with inlying districts and thus tend to burden the industry with excess mines, excess investments, and surplus labor. These mines all produce during a reign of car shortage, high prices, and post-strike periods; but many of them quickly lapse into costly idle capacity when the peak period is passed.

2. *Cross hauls and long hauls.*—The waste of transportation resulting from long hauls to markets which could be supplied by nearer fields, and the cross hauls which result from the movement of coal from one field to destinations within or beyond other fields, are outstanding factors that come with differential freight rates. It is a part of the unregulated, free-for-all competition of both the carriers and the producers of a bituminous coal.

3. *Car shortage.*—The opening up of far-distant mines calling for long hauls, ofttimes over single track lines, means a heavier demand placed upon cars. Unfortunately, car shortage acts as a stimulator to a greater shortage. A heavy demand—usually one following a strike—immediately congests transportation. Such congestion limits the supply and increases the price. Price increases bring into production the small

outlying marginal mines, the "snow-birds," which have small output, but which in contrast demand an unusual amount of costly shifting of freight by the transportation companies. In order to place "empties" and take out full cars.

Terminals: Transportation Problems.

Lack of interchangeability among terminals.—A terminal of several railroads is not alone an array of stub ends, but should also include a system of interchangeability among these stub ends. This is supplied by the device of the "belt line." At Chicago there is the "inner belt," the "outer belt," and finally, as an outmost partial belt, the I. I. & I. R. R., which cuts across the lines converging at Chicago over a wide sector, effecting the interchange among railroads many miles outside the gateway of Chicago itself. New York is singularly lacking in these facilities. Its Jersey railroads have only the belt at the water edge, the National Docks Railway, which goes part way; the local float and lighter system operating on the Hudson and East Rivers is supposed to serve as the inner belt, but as the railroads decline to float their cars interchangeably to their various piers, the float and lighterage service is only a belt for each road individually, belting together all its piers into a common access. For this reason the lighterage is not really an "inner belt," except among private piers and private terminal companies. Furthermore, the actual physical facilities for railroad interchange on the Jersey shore are used only in a most restricted way, because there is no interline switching. Competing roads force the interchange to include a considerable haul in order to realize extra revenue out of the interchange service when performed.

Free terminal interchange vital to the city.—This lack of belt service making it inconvenient and expensive to concentrate perishables from all the roads as they may come in to specific market localities is a large factor in the present confusion of perishable deliveries. In the competitive conditions under which the developments have been made the service was constructed about each road in turn as the principle of classification instead of about the city as a whole, to which each single road was a subordinate factor. The free terminal interchange would have permitted each road to push its individual development to the maximum clear up to the city gates, and at that point would have reorganized all the incoming business of each road to the requirements of the whole city. This would have permitted fullest individuality joined with fullest coöperation, and, therefore, fullest service with maximum of delivery and minimum of waste.

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[5] Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 64-75, 211.

Specialization of roads and commodities.—As a result of the present system, each road, while carrying many different perishables, tends to preëminence in one perishable or a class of perishables. Each road for its predominating commodity becomes the city's terminal market and the other commodities also carried by the road either have to be routed into the city over the last lap of the way by another road than the one on which the shipment originated, or after arrival in the city have to be assembled by truck to their proper market. Thus the Delaware, Lackawanna & Western Railroad has become the line for live poultry, the Erie for California citrus fruits and western boxed apples, the Pennsylvania for vegetables, berries, and peaches, the New York, New Haven & Hartford Railroad for cranberries and fish, and the New York Central Railroad for dairy products and New York state fruit. The Lehigh Valley has no distinctive delivery unless it be milk. The Central Railroad of New Jersey, which brings New Jersey fruits and vegetables, breaks bulk, as we have noted, on the Jersey side and the commission men haul from there to the West Side markets. In case of potatoes no single road has preëminence, and as a result potato deliveries are scattered all about the city, which, because of the irregularities, produces wide price ranges and large losses that are all at last paid by the ultimate consumer.

Union freight terminal.—There are few cities of even moderate size that have anything approaching in character a union freight terminal. Usually there are several railroads; and food products are unloaded from them at different points, which are, in many instances, at a considerable distance from each other. In a large number of cities goods are received by water as well as by rail, and in some of these there are many docks. Products brought in by truck or wagon are sometimes taken to a farmers' wholesale market, which practically constitutes another terminal, and from this point they are carted to the main produce district.

The situation in Chicago is particularly bad. There are approximately twenty-five railroad freight terminals in the city. A considerable number of these are grouped together a mile or so from the produce district. The terminals, however, are distinct from each other, and a dealer receiving shipments over a number of different railroads must send for them to as many different terminals. For about five months in the year fruits and vegetables are received by water from Michigan and Wisconsin and must be hauled by teams from the docks to the markets. For about eight months in the year farmers and truck gardeners within a radius of twenty-five miles bring their products to the city. Of these some are sold at the Randolph Street Market and are later carted to South Water Street.

In New York there are nine railroads and forty-five steamship lines

that are of special importance in connection with the delivery of food supplies. Of the railroads only one—the New York Central—reaches the Manhattan market district on its own tracks. The others have receiving piers to which they bring the loaded cars on floats. Each of the transportation companies tries to secure favorable terminal facilities for itself and to retain the exclusive use of them. The result is a large number of scattered terminals. To some extent these are specialized as regards the kinds of products handled. The space, however, is inadequate. There is much congestion, and considerable quantities of goods are spoiled because there are no satisfactory facilities for taking care of them. The amount of food products brought in by wagon, while large, is but a small part of the total.

While the cases of New York and Chicago are, perhaps, somewhat extreme, they are so largely because of the importance of these cities as market centers, and the number of transportation companies serving them. In a few places two or more railroads have united to form a joint terminal, but this rarely, if ever, includes all the railroads serving that city. In some cases the terminals are near together, but often they are widely scattered. Even in Atlanta, where three of the railroads have united to build a produce market and have a common freight yard adjoining it, there are six other railroads which between them have four terminals located from five to eight blocks from the produce district.

The lack of a union freight terminal does not necessarily mean that all the cars must be unloaded at the terminals belonging to the particular roads over which they arrive. Even if the market were located at the terminal of a particular railroad, substantial advantages could be secured, especially if arrangements were made by which cars reaching the city over other railroads could be unloaded there. This is the case as regards carload lots at Los Angeles. The market is located on the tracks of the Pacific Electric Railway Company, a subsidiary of the Southern Pacific Company, which covers an extensive territory in southern California. The different railways have access to this market, subject, in some cases, to the payment of a switching charge. No arrangements have, as yet, been made for handling less-than-carload lots, and these must be carted from the various terminals.

Location on tracks.—Location on the tracks gives some advantages, even where there is no terminal market of the sort that has just been considered, especially if the railroad in question is an independent belt line having good connections with all the other roads. The advantages are somewhat less when the tracks belong to a particular railroad company; but the cars coming over its lines can be placed at the store, and those coming over the lines of other companies are often accorded the same privilege on payment of a switching charge. The connections,

however, are not as likely to be good as in the case of a belt line organized for the purpose of aiding each railroad to reach all parts of the city. The advantage of location on the tracks, however, while ordinarily substantial, are not always as great as might be supposed. Switching charges are sometimes high and there is often serious delay in the placing of the cars. Largely as a result of such difficulties, goods are sometimes taken from the terminals by wagons, even when the cars might be switched directly to the stores. Less-than-carload lots must usually be carted, sometimes for considerable distances.

Makeshift terminals.— As has already been pointed out, food products are sometimes sold at the terminals instead of in the produce district. While this is true in a number of cities, it is especially conspicuous in Pittsburgh, where there are many dealers who have no stores of their own, but make all deliveries direct from the car. A commission appointed by Mayor Gaynor to investigate marketing conditions in New York City reported in 1913 that, where possible, marketing was conducted at the piers and terminals, though facilities were by no means adequate for the purpose.

In a sense terminals used in this way are terminal markets; but the facilities available are so few and so crude that the New York commission was amply justified in referring to markets of the sort as "makeshifts." The congestion in New York makes conditions particularly bad, but in other respects the facilities do not seem to be inferior to those found elsewhere. There can be no doubt, however, that some of the chief advantages derived are among those that would be gained in well-developed terminal markets.

Not only are the terminals in nearly all cases unsuited for the transaction of mercantile business, but are often inadequate for the loading and unloading of perishable goods and for caring for them during the time they must remain in the care of the transportation companies. The congestion of trucks and wagons seeking to receive or deliver goods in a number of important cities is a serious cause of delay. In a few cases the terminals are not large enough to handle properly all the cars that arrive. In the absence of these difficulties, goods received in carload lots can ordinarily be transferred directly from the cars to wagons or trucks and taken to the store of a dealer or to the warehouse, though in very cold or warm weather measures should be taken for the protection of the goods, and this is not always done. Less-than-carload lots must ordinarily remain at the terminal for some time after the car has been opened, and there is often no place in which they can receive adequate protection.

The question of satisfactory terminals is, in a large measure, bound up with that of other market facilities. Adequate arrangements for the loading and unloading of cars might seem, at first glance, to be a purely

terminal question, yet the extent to which the use of the cars is permitted for storage and for places of business is an important factor in determining how large a place is needed.

Cartage.—From what has already been said in regard to the multiplicity of terminals and the location of dealers' places of business and of cold-storage facilities, it is evident that under present conditions a large amount of cartage is necessary. In some cases the dealers are equipped to do the work themselves, but very commonly it is done by a separate set of teamsters and cartage companies. There are, of course, dealers who have trucks or wagons of their own, but who are not prepared to do all of their own cartage, particularly at times when the volume of business is larger than usual. In most cities, therefore, at least a part of the business of cartage is organized separately from that of the dealers.

This fact is in some respects unfavorable to the development of the most economical arrangements for marketing. To most of the dealers a reduction in the amount of cartage necessary, and in its attendant expense, would be welcome, whether they did the work themselves or paid some one else to do it for them. A dealer might, of course, oppose a change that would mean the loss of a competitive advantage to him, even though it were otherwise desirable; but there do not seem to be many important advantages of this sort in connection with cartage, at least so far as the dealers in fresh farm products are concerned. The motive for improvement, however, is not so strong as it would be if some of the dealers could thereby gain a competitive advantage.

On the other hand, for teamsters and cartage companies, a closer connection between the railroads, the market place, and the cold-storage warehouses would mean a loss of business without any important compensating advantage. The loss to them is one of the costs of improvement, and would not justify, from a social point of view, the continued investment of capital and the employment of labor for an unnecessary purpose. It is only natural, however, that they should oppose any change that would deprive them of business; and in one or two cases their opposition is said to have been an important factor in preventing contemplated improvements. Obviously it can have this effect wherever the change involves the bringing of a spur track to the produce district, the closing of streets for the building of a terminal market, or anything for which municipal consent is required.

In a number of places the cartage business is well organized, and agreements are made fixing the rates to be charged. In some instances a schedule showing the rates for different commodities is printed and distributed among the dealers. While there is plenty of evidence that cartage is expensive, there is very little complaint that the charges are unduly high under the circumstances. In some cases, it is said, the

dealers themselves are consulted in determining what the rates shall be, and in one instance it is reported that the published rates are merely advisory and are sometimes cut. In this case representatives of the cartage interests say that rate fixing by the national government is desired. There can be no doubt, of course, that agreements on rates are intended to have some influence and that their natural effect is to lessen the severity of competition, at least so far as prices are concerned. On the other hand, a published rate that is the same to all dealers is not without its advantages. In New York it is claimed that one of the objects of the price agreements is the elimination of rebates. It does not appear that the cartage agreements in the various cities where they exist have resulted in any substantial degree of monopoly. The business is one that is easily entered, and, so far as has been learned, no effort has been made to exclude men from it.

While the cost of cartage to the dealers' stores could be greatly reduced by the establishment of union terminal markets, no equivalent saving could ordinarily be expected to result as regards the transfer of goods from the wholesale to the retail dealers. For the wholesalers one market district, or, perhaps in some cases, a main and small number of subordinate districts, is desirable. The retailers, however, except in the smallest cities, should be scattered, many of them being in the residence districts. A change in the location of the wholesale market might make the average haul a little longer or a little shorter, but it would not ordinarily change the amount of goods to be carried or the amount of loading and unloading that would have to be done.

It does not follow, however, that no improvement in the present arrangements is possible. Sometimes the work is now done by wagons belonging to the wholesaler, sometimes by those belonging to the retailer, and sometimes by those belonging to independent truckmen. Whatever the method the amount of goods involved in a single shipment is usually much smaller and the number of shipments much larger than when the goods are brought from the terminals or the warehouses to the stores of the wholesale dealers. Frequently the goods sent from a given wholesaler to a given retailer are less than a wagonload. Besides the problem of transfer there is, to a much greater extent than in the case of receipts by the wholesalers, the problem of collection from a number of different points, of delivering to a number of different points which may be widely scattered, of wagons loaded to less than their capacity, of wagons too small to render the most efficient service, or more than one of these.

[Ed. Note.] This is another case in which there is a loss of efficiency in our system of distributing products, because of a poor organization of the means for doing the work. A more efficient way, in time, may evolve out of the present one.

Transportation by Motor Truck.[6]

Important supplement to existing facilities.—The motor truck has nearly displaced the horse-drawn vehicle in many types of short-distance hauling. For longer distances it competes with the railroads to some extent, but its greatest field of usefulness is as a supplement to them. Certain types of traffic can now be handled more satisfactorily by motor truck than in any other manner.

Factors which determine economy of.—Several factors determine which type of transportation will be most economical in a particular case. Among them are distance to be covered, speed of delivery, quality of service, including regularity and continuity, character of goods transported, condition of the roads, and the availability of railroad service. Where all three types of transportation are available, distance to be covered is perhaps the outstanding factor determining the relative cost of horse, motor, or rail transportation. Transportation by water is not taken into consideration here, because the conditions are limited under which water transportation and transportation by motor truck may compete.

The greater speed and endurance, and consequent greater radius of activity of the motor truck, have superseded the horse in all excepting some special forms of short-haul transportation. The horse population of the large cities in the United States declined more than 60 per cent during the ten years from 1910 to 1920. There is still a place for the horse in commercial activities, for there are conditions under which horse-drawn delivery wagons are more convenient and economical than motor vehicles, as, for instance, on milk and ice routes. Many horse-drawn vehicles are also used in city express service.

In rural hauling the greater speed and range of motor trucks have been of particular advantage. The Bureau of Crop Estimates of the Department of Agriculture from actual studies made in 1918 estimated that the cost of hauling in wagons from farms to shipping points averaged about 30 cents per ton mile for wheat, 33 cents for corn, and 48 cents for cotton; for hauling in motor trucks or by tractors, the averages were 15 cents for wheat and corn and 18 cents for cotton. Furthermore, motor trucks were able to make an average of 3.4 round trips per day over an average route from farm to railway shipping point of 11.3 miles while wagons made 1.2 round trips of 9 miles each. Motor trucks were able to move these commodities in little more than one-fourth the time required by horse and wagon.

This constituted approximately one-fourth of the total number registered. Many farmers living within a reasonable distance of large towns

[6] *Commerce Monthly*, National Bank of Commerce of New York City, Vol. 6, No. 7.

now transport their produce to town by motor truck and market it directly, thus getting a better price for themselves while reducing the cost to the consumer. Motor trucks also are being used to a very considerable extent in moving milk from the farm to the creamery or railroad station. The time saved by the use of the motor truck for this purpose is of great importance in the transportation of a highly perishable commodity. A farmer may carry milk for several of his neighbors and, beginning in this way, many farmers have developed rural trucking businesses on a large scale with regular routes and established schedules of rates.

For long-distance transportation the railroads are beyond doubt more economical and, excepting under unusual circumstances, motor trucks are not able to compete with them in the movement of carload lot long-haul traffic. After freight is once loaded and moved out of the terminal yard, within limits, the unit cost per ton mile declines steadily as the distance is increased. There is, however, a field of uncertain extent in which the motor truck may compete with the railroad. A study made by the United States Bureau of Public Roads in coöperation with the Connecticut State Highway Commission covering a period of three months in the autumn of 1922 indicates that 36.9 per cent of the total tonnage moved by motor truck was hauled less than 10 miles, 30.5 per cent more than 10 and less than 30 miles, 18.4 per cent more than 30 and less than 70 miles, and 14.2 per cent more than 70 miles. Tonnage moving less than 10 miles is a local distribution of goods which is noncompetitive. That moving from 10 to 30 miles is largely noncompetitive. It is only in traffic moving more than 30 miles that there is active competition between motor trucks and railroads. This study was made at a time when the railroads were severely crippled by the shopmen's strike and for that reason may show the proportion of tonnage moved more than 30 miles to be larger than is actually the case at present, but it does, nevertheless, give some indication of the extent to which motor trucks are competing with the railroads.

In a metropolitan center, with roads radiating in all directions, the bulk of the traffic normally is outward, and the difficulty of obtaining a return load is an important factor in determining costs. Tending to offset this is the possibility of drawing to the city traffic originating in the territory surrounding it, particularly of agricultural produce. Between cities reasonably near to each other, obtaining a return load will not be such a problem. Consequently, the distance over which the service may be profitable will be increased.

Motor trucks and railroads.—In the opinion of many of the best authorities, the ideal relation of the motor truck to the railway is that one should supplement the other. The motor truck may be applied to the solution of railroad problems in the following ways:

1. As a feeder, either on lines of light traffic, or in territories where the volume of traffic has not heretofore justified the construction of railway branch line feeders.

2. As a substitute for the railroad in short-haul or local service, which frequently is an unprofitable service rendered by the railroads and a drain on profits derived from other sources.

3. As a solution of terminal problems, reducing or doing away with the movement of freight by car between stations within the same terminal area, and costly switching operations.

4. The motor bus or the gasoline rail car, literally a modification of the motor bus, may be substituted for the railway passenger train on lines of light passenger traffic.

Motor trucks used in the establishment of feeder lines in territories formerly not adequately served, or not served at all, by the railroads are a distinct advantage not only to the residents of the districts in which the motor trucks operate but also to the railroads themselves, in that their traffic is increased by greater interchange of goods. The operation of existing feeder lines by railroads is in many cases unprofitable and with the present high cost of railway construction few roads care to build new feeder lines unless assured of traffic enough to make them at least self-supporting. The cost of the short haul and light traffic on many feeder lines and of rehandling and reclassifying freight when it comes on to the main line frequently is so great that it cuts into the profit on the long haul.

Here is where the motor truck functions. In the past the railroads built feeder lines where it was thought that traffic was great enough to justify them or showed reasonable promise of growing sufficiently to justify them. But the building of these lines required such a heavy outlay of capital for construction and the maintenance was so costly that necessarily many communities were never reached by rail. On the other hand, the motor truck with a minimum capital outlay can reach into any part of the country served by highways and connect it with the network of railroads already existing. In the future railway feeder lines will be built only where the traffic is so heavy or of such a character as to warrant them, and the abandonment of existing feeder lines which are a drain on the earnings of the railways from other sources is a possibility.

It has been estimated that the maximum distance a horse can cover daily is twenty miles under a heavy load and twenty-four miles in medium haulage, but the average is probably not more than half so great. Taking this average as the length of the round trip and the rail terminal as a center, the radius of the territory that can be covered daily by horse traffic is only five or six miles, while the radius of the territory which can be covered by motor truck is several times as large. The

area surrounding the rail terminal in which traffic can be moved conveniently and economically has been greatly expanded by the introduction of the motor truck.

Closely allied to the application of the motor truck to the solution of the feeder line problems of the railroads is its application to the solution of short-haul and local traffic problems. It has been said that there is usually no profit to a railroad in hauling freight for a distance under forty miles. Most railroads have lines on which local freight traffic is very light or on which the number of stations is large and the volume of traffic handled by each small. Several roads have tried substituting motor truck for package locals on lines of this character. The method adopted by one large road is substantially as follows: Instead of stopping at every station along the road, perhaps not more than a mile or two apart, the trains stop at only one in each half dozen and in some cases the stops are even farther apart. This station is designated as the central collection and distribution depot. The train discharges here not only the freight for this station but for several others adjoining it. The freight is then delivered to these stations by motor truck and outgoing freight is collected and brought back to the central depot where the train picks it up. By designating separate central depots for traffic moving in opposite directions considerable delay is avoided. Formerly, in many cases, freight had to be carried across several tracks because the freight house was on the other side of the line from that on which the package local or "peddler" train was running.

The number of stops which the train must make is only a fraction of the number formerly required and the running time of the train is reduced considerably, thus not only cutting down operating cost but helping to relieve congestion on the line. This plan does not include store-door delivery, but that is a logical completion of the transportation process which may follow in the course of time. Already it is the avowed ultimate aim of some roads.

It should be emphasized that as at present operated this method of traffic handling does not affect the relations of the shipper or consignee to the railway in any respect. He still delivers his goods at the station and calls for them there, as he has always done. The change is one affecting only the railroad's method of handling the goods. Roads which have so far adopted the use of motor trucks have found it more satisfactory to make arrangements with concerns already in the trucking business to care for the actual handling of the traffic than to operate trucking systems of their own.

A subject of active discussion at present in American transportation circles is the question of store-door delivery. As commonly understood in England and this country, this means delivery of goods by the railroad, usually under contract with trucking companies, directly to the

place of business of the consignee. It also includes pick-up service. The representative of the railroad calls for outgoing freight and carts it to the station where it is loaded into the car. The railroad accepts goods for transit at the shipping room of the seller and delivers them directly to the receiving room of the buyer.

Efficiency of English method.—In England this method of collection and delivery has grown up with the railroads. It has become so fixed in the merchandising system of the country as to make any change quite unthinkable. The English merchant is accustomed to depend on the railroads for prompt and reliable service. The bulk of miscellaneous goods (the English term for less than carload lot freight) on English railways is delivered to the consignees before 12 o'clock noon every day. It is common practice to have twenty-four hour service for this traffic to places 200 miles distant and often farther than that on certain classes of goods. Woolen goods may be picked up in Bradford before 5 P. M. on one day and delivered in the "Wood Street Zone" in London by 9:30 on the morning following. Goods ordered by the London merchant from Manchester 300 miles away he will expect to find at his door next morning.

The basis of this extremely efficient service is the freight station handling and cartage system. The store-door delivery policy of the railroads prevents holding up of goods either in cars or stations within terminals. English railroad men and traders are agreed that traffic could not be handled expeditiously if traders did their own cartage. Stations would have to be double their present size and even were that possible it is doubtful whether they would be able to handle the traffic going through them without severe congestion.

In regard to the efficiency of the English method of handling traffic the following statement was recently made at a transportation conference of the Chamber of Commerce of the United States: "They get an average load efficiency on their cartage vehicles of 60 per cent, including the movement of return empties, which is very heavy in England, as crates, containers, etc. These are very expensive and they do not throw them away as we do here. The average load efficiency of vehicles operating in the New York district is probably between 30 and 40 per cent. Taking out the returned empties, they get between 70 and 75 per cent efficiency on cartage vehicles in England. That means, practically, that they are handling the traffic on one vehicle that with us now requires two or three."

Naturally, as a result of the greater service rendered, the cost of railway freight service is greater in England than in the United States; but it is doubtful if the cost of the complete transportation process carried on entirely by the railroads in that country is greater than the cost of equivalent service rendered in this country by a combination of

the railroads and independent trucking concerns. The shorter average haul in England and the larger proportion of less than carload lot freight are factors which also help to account for the higher unit cost of British freight transportation. In this country store-door delivery was for many years operative in Washington and Baltimore, but finally had to be discontinued because of charges of unjust discrimination.

Problem of terminal congestion.—The terminal congestion problem is regarded by the railroads of the United States as one of the biggest problems with which they are faced. It has been shown that in the United States the average trip of a freight car occupies 14.9 days, and that of such time the car is actually moving or delayed on the road in line haul only 1.64 days, while during the remainder of the time the car is moving or standing within terminal areas. Actual figures of terminal expenses are difficult to obtain, but it is said that two-thirds of the railroad expenses are paid for terminal services, and there is little question that they are equal to the cost of hauling traffic many miles over the lines. The substitution of motor trucks for freight cars in movements of goods within terminal areas would release thousands of cars, besides other equipment, for more profitable service and congestion within the terminal area would be relieved. At the same time service would be speeded up.

The suggestion has been made that in place of the dozen or more freight terminals at present serving each of our large cities, usually in the heart of the city where real estate is most costly and traffic congestion greatest, one or more large terminals should be established on the outskirts of the city, at which incoming freight would be classified and delivered directly by motor truck instead of by switching partly loaded cars to the various freight stations around the city. Whether or not this plan would accomplish all that its protagonists claim, it seems to have possibilities in the way of speeding up the movement of traffic. The nature of the competition between roads in the United States and possibly, also, legislative and regulatory measures, tend to delay or prevent the trial of such methods. Meanwhile discussion is active regarding them.

Passenger facilities supplemented by.—Railroad passenger facilities also are being supplemented by the use of gasoline-driven vehicles. Figures recently compiled show that 157 railroads at the beginning of 1924 were using motor coaches in passenger service. These motor coaches are being used on lines of light local passenger traffic, and, while they are not, technically speaking, motor trucks, the gasoline cars have points of similarity to motor trucks in many essentials, particularly as to motor, fuel used, etc. The actual cost of this equipment is estimated to be from one-third to one-fourth of the cost of the alternative steam train equipment.

At present the electric and gasoline train cars are competing for popularity, each having certain advantages over the other. The past year has added considerably to a better understanding of the economic and transportation problems involved in the use of the self-propelled rail car and real progress has been made in the development of new and larger units. Nor is the interest in motor rail cars confined to the United States. Already American manufacturers are beginning to consider the possibility of an important export field. The Swedish State Railways, in order to compete with motor buses for local traffic, have placed motor trains in service on the Malmö-Lund section and the lower cost of operation has permitted a considerable reduction in fares.

Motor bus service and the use of private passenger cars have likewise competed with the electric street railways which, in their struggle for existence, are adopting the motor bus as a supplement to their facilities and as a weapon for their own preservation. They now operate nearly 2,000 motor buses, as compared with 800 a year ago. As in the case of motor truck competition with the railroads in handling freight, the solution seems to lie in the coördination of street railway and motor bus facilities, and the rendering by each of the service for which it is best fitted.

Responsibility of operators.—There is, however, an important point to be considered in relation to the advantages of motor truck or railroad transportation aside from the actual cost or convenience of the service rendered. This is the legal and financial responsibility of truck operators in case of loss or damage to goods in transit by theft, accident, or any other cause. Only a limited number of states as yet have laws specifically requiring concerns operating motor trucks as common carriers to take out indemnity bonds covering these contingencies, but in other states the public service regulatory body may make rules requiring them to do so. In states not requiring indemnity bonds for motor trucks as common carriers the only recourse of shippers is through civil action for damages in the courts.

The amount of capital required to embark in the motor transportation business is comparatively small, with the result that many persons or concerns engage in the business with inadequate financial backing. Their total capital may be invested in the purchase of trucks alone so that their responsibility for loss of goods due to accident, fire, pilferage, or other causes may be small. Though the law would hold them responsible for any loss, the lack of sufficient property might make it extremely difficult or even impossible to collect the damages awarded by the court. Many concerns have ample capital and are fully responsible financially.

A common form of protection to the shipper is provided by means

of insurance. Some of the largest trucking concerns take out blanket policies covering all their operations, while in other cases the shipper himself insures his goods. The latter is usually true in moving household furniture and personal effects by motor van; the owner takes out a policy covering loss or damage for the duration of the trip. Due to the enormous volume of business and the small degree of loss, the premium rate for insurance of this kind is very low in relation to the total value of goods insured.

The fly-by-night operator has little or no idea of the actual cost of the service he renders and, consequently, in setting his prices, is inclined to make inadequate provision for the various cost factors. He can underbid the concern whose charges are based on actual costs, but when his truck wears out he may have no reserve fund with which to replace it. Operators of this character have done much to disrupt the financial organization of the business by charging lower rates than the cost of the service demanded.

The light truck dominates the manufacturing field. In 1923, 89 per cent of all motor trucks manufactured had a capacity of a ton and a half or less, while 70 per cent were one-ton trucks and 11 per cent were three-fourths of a ton and less. Only 11 per cent had a capacity greater than a ton and a half.

The motor truck industry has grown up along with the automobile industry, although the widespread use of the motor truck is a somewhat later development, and some concerns manufacture both automobiles and motor trucks. The number of motor trucks produced is not more than one-tenth the number of automobiles, but the number of concerns manufacturing them is larger. Most of these are comparatively small companies, the bulk of the production being concentrated in the hands of a relatively small number of large concerns.

Diversity of laws.—Among the difficulties with which motor truck transportation must contend is the diversity of state and even local laws governing the operation of motor trucks. Most of these conflicting laws and regulations have to do with the use of the highways, with the size, weight, and speed of the vehicle and the number of trailers allowed. It is necessary for a concern operating motor trucks in more than one state, as many concerns do, to conform to a large number of restrictions and of course it must be governed by the minimum requirements.

Little uniformity is to be found likewise in the speed laws which are effective in various states.

There are reported to be twelve different methods in use at present in determining the amount of license fees that trucks pay. The most common method, which is in use in twenty-five states, is based on carrying capacity while the second most common method in use in ten

states is based on gross weight of vehicle and load. In practically no two states is the license fee the same.

Limitations of.—Large sums have been and are being spent on experiments to widen the range of the motor truck's activities by increasing speed and tractive power, to reduce consumption of fuel, decrease wear and tear on the truck itself, and minimize injury to the highways. One of the most successful improvements seems to have been the development of pneumatic tires suitable for truck use. The contention is that use of pneumatic tires on motor trucks will so reduce vibration that the truck itself may be built less heavily and consequently greater capacity allowed for loading; moreover, due to increased cushioning and traction, it is claimed that more speed, easier riding, and greater economy of operation can be secured, while at the same time the depreciation of the highways is not so great.

The lack of modern surfaced highways is at present by far the outstanding factor limiting the more general use of motor trucks. A loaded motor truck can make its way over almost any kind of road or lack of road, but it cannot do so economically. Poor roads cut down the speed at which the motor truck can travel and increase immensely the wear and tear on the truck.

There are nearly 3,000,000 miles of roads in the United States, of which only 430,000 miles are classed as surfaced, but this includes gravel surfaced roads, and it is doubtful if there are more than 100,000 miles of hard surfaced roads able to stand the traffic offered them at all seasons of the year.

A potential limiting factor in the future use of the motor truck may be the availability of adequate fuel supplies. From time to time in the past there have been petroleum scares and prophecies that supplies were sufficient for only a few years, but recently not so much has been heard along this line. The discovery of reserves in South America, western Asia, and possibly in Africa has tended to make the question one of political control rather than of danger of absolute shortage. It seems that there will be ample production to guarantee sufficient supplies for years to come. Prices may be higher, but this in itself will hardly prevent the use of the motor truck for purposes for which it is economically suited. Gasoline prices in England are materially higher than in this country, yet the use of the motor truck has made progress there.

CHAPTER VI

STORAGE AND WAREHOUSE FUNCTIONS AND SERVICES

Services and Abuses of Storages.[1]

Why storage is necessary.—Since the original production of most foodstuffs cannot take place at the times and in the quantities that would best suit the desires of consumers, facilities for storage under proper conditions are necessary if goods are to be received as they become ready for the market and held until the consumers most want them. For some things little more is needed than a clean, dry storeroom, with no other arrangements for artificial heating or cooling than are ordinarily found in a building in which business is done. This is true, generally speaking, of canned goods, cereals, and dried foods of various sorts. Most fresh farm products, however, can be kept for any considerable period of time only if the temperature and humidity are carefully regulated. The conditions needed for some commodities differ materially from those needed for others, and properly to care for all a number of different storerooms must be provided.

Apart from certain abuses, the use of storage is beneficial both to producers and consumers. The production of eggs, for example, is at a maximum during the spring and at a minimum during the winter; the difference between the two being very great. By the use of cold storage large supplies can be maintained during the winter at prices much lower than would otherwise be possible. Whether prices need be materially higher during the period of large production is at least doubtful. From the point of view of the poultry farmer the chief advantage of cold storage is the greater quantity of eggs that he can sell at moderately remunerative prices, rather than a large increase in the price at which he can sell a lesser quantity. In short, the possibility of storage stimulates production through its tendency toward a narrower price range and a steadier demand. What is true of eggs is true, in some degree, of most farm products, though there are many that cannot, at least without special preparation such as canning or drying, be stored for so long a period as intervenes between seasons of production.

While the advantage of storage in equalizing supplies and prices between different seasons may be admitted, it is sometimes questioned whether the same principles apply in the case of goods that are stored

[1] "Report of the Federal Trade Commission on the Wholesale Marketing of Food," pp. 67-73.

for only a few weeks in order to get the advantage of a higher price. The vital consideration in the former case, however, is not that goods are stored from season to season, but that they are stored from a time of relative plenty, and, therefore, of low prices, to a time of relative scarcity, and, therefore, of high prices. Even from day to day there may be considerable fluctuation in the conditions governing demand and supply. It is obviously disadvantageous to any producer to be forced to sell his goods in time of glut, and the advantage to consumers is very likely to be offset by the higher prices that will prevail later. The danger of having to sell on a glutted market must be reckoned among the costs of production. Anything that will reduce the danger may be expected to encourage production and, under free competition, to benefit consumers as well as farmers.

Since storage implies the making of provision for the unknown future, the use of storage is necessarily speculative. This does not, of course, condemn it. Other things being equal, prices are lower in the time of plenty than in the time of scarcity, and if storage is used legitimately ordinarily it can be profitable to the speculator only on condition that he render a real service.

In some cases the speculator can affect prices favorably to himself by advertising, by the spreading of false reports, or by other means that act on the desires or beliefs of those with whom he does business. Some of these are legitimate and some are not, but, generally speaking, they are available to dealers of many kinds, and the problem is not primarily one of the abuse of storage. Something would be gained by publicity in regard to the amount of goods in storage; but the chief remedy for illegitimate methods of this sort must be found in the regulation of business dealings rather than of storage as such.

Evils of storage.—One of the greatest evils connected with storage is the spoiling of goods. Few foodstuffs are improved by age, and most of them, even under favorable conditions, suffer some deterioration. Where, however, storage is intelligently used for the purpose of saving goods from a time of less to a time of greater need, there is generally a net advantage—often a very large one—in its favor. Excessive deterioration results from the putting in storage of goods that are not in a condition to stand it, from the failure to take proper care of the storeroom, or from leaving the goods there for too long a time.

Under such circumstances the loss may be great enough to more than offset any advantage that could be derived from storage, and, in some cases, the goods are completely ruined. The evil is due, not to the principle of storage, but, barring some cases of special misfortune, to its use for an improper purpose or to incompetence.

It is clear that under certain circumstances it may be more profitable to the dealer to allow some of the goods to spoil than to sell them.

If, for example, there are 5,000 boxes of fruit than can be sold at $1 a box, the total amount that can be secured from selling them all is $5,000. If, however, 4,500 boxes could be sold at $1.15 each, the total receipts would be $5,175. The amount received in the second case is $175 greater than the amount received in the first, notwithstanding the loss of fruit that might have been sold for $500. It will be noticed that it makes no difference what was paid for the fruit in the first place. The $175 is added to the profits that would otherwise be made, or is, perhaps, deducted from a loss.

It is only under certain conditions that there is an adequate motive for allowing a part of the goods available to spoil in order to raise the price of the remainder. Under conditions of competition a concern would get only a part of the benefit resulting from the spoiling of its own goods and rarely, if ever, would this be large enough to compensate for the loss. Even a monopoly could make a net gain only if the percentage by which the price was increased were greater than the percentage of goods spoiled. It must be greater because the increased profit is made on only a part of the goods, whereas the loss of the same per cent is on the total. The amount by which it must be greater increases rapidly as the percentage of goods spoiled is increased.

It may seem, at first glance, that an unscrupulous commission man could well afford to allow some of the goods consigned to him to spoil in order to increase the price of the remainder. As has just been pointed out, however, the price paid for the goods does not enter into the possibility of making a profit in this way. The loss of the commission man would, indeed, be less than the loss to a merchant, but so would the corresponding gain.

If, indeed, a dealer did business on a merchandise as well as on a commission basis he would gain the entire increase in profit on his own goods, but would lose only his commission on the consigned goods spoiled. Even so, however, under competitive conditions the influence that any one dealer could exert on the price in this way, save under very extraordinary circumstances, would be so small that his loss would exceed his gain. The larger the share of the business controlled by any one dealer—that is, the closer conditions of monopoly were approached—the sooner would the point be reached where such destruction would be profitable. He would have to take account, however, of the fact that dissatisfaction on the part of consignors might lead to the loss of monopoly power and of opportunities for legitimate as well as for illegimate business in the future.

The principles that have just been considered apply with equal force whether or not storage is involved. The use of storage, however, tends to render the facts less obvious. It might, therefore, be used to conceal willful destruction or the willful character of such destruction,

but it is probable that cases in which it is so used are exceptional. What is probably of much more importance is the fact that the spoiling of goods may take place when there is no deliberate attempt to secure a profit in this way. The dealer may put on his goods a price that he regards as reasonable, sell what he can at that price and store the rest. If the event proves that the goods thus stored can be sold at a higher price plus all the costs of storage, it generally means that he has saved goods from a time of less to a time of greater need and that the price originally set was warranted by the conditions. Under full, fair, and intelligent competition this is normally what will happen. Under conditions of unregulated monopoly, however, it may be profitable to set a high price in the first place, to draw out of storage from time to time such goods as can be sold at a high price, and finally to throw the rest away because they are spoiled. It should be remembered that competition is rarely perfect, that the temptation to store in the hope of a better market what cannot be sold at a satisfactory price is insidious, and that, as a result, perishable products may perhaps without deliberate intention be left in storage for too long a time. The unwarranted spoiling of goods may therefore take place even where no dealer has any great degree of monopoly power.

Competition.—Competition tends to eliminate incompetency, but the process may be slow and costly. This is especially likely to be the case when the business is easily entered by those who are not qualified to make a success of it or when the equipment needed requires the investment of a larger amount of capital and the number of competitors is small. The first of these conditions is satisfied in the case of dealers in perishable goods. One who is incompetent may be driven out of business fairly quickly, but he is soon replaced by another, and the consequence is that there are a number of incompetent men in the business all the time. The second condition is generally satisfied in the case of cold storage, though to a much less extent in that of other kinds. A properly equipped cold-storage plant requires a considerable investment. In many cities there are only one or two independent companies that are generally available to the dealers. If under such circumstances a warehouse is badly run, the losses to dealers and to the community generally, as well as to the owners, may be very great before a better management is secured. In either case unregulated competition is hardly a satisfactory remedy for incompetency.

Kinds of storage.—While ordinary dry storage is used to some extent, and while artificial heating is sometimes necessary, the chief storage problems of the dealers in fresh farm products have to do with cold storage. This is partly due to the fact that, except for the branch houses of the meat-packing companies, comparatively few of the dealers have the necessary facilities of their own. They are therefore depend-

ent upon the public cold-storage warehouses. Under this head should be included in some cases those belonging to the meat-packing companies or to other dealers. Even if the rates charged were reasonable, the ownership of a storage warehouse would seem to give a decided advantage, particularly at times when there were not sufficient facilities for all. This would be true even if the goods for which storage was sought were not competitive in character with those handled by the owner of the warehouse.

In so far as the use of cold storage is necessary for the successful conduct of business but the conditions are such that, even in the absence of combinations and conspiracies in restraint of trade, no substantial competition will obtain in providing it, there is much ground for regarding the public cold-storage warehouses as a public utility whose services must be available to all on equal terms. There are special reasons for so regarding it if it be desired to keep the business of dealing in perishable food products, especially in the case of butter and eggs, one in which there are a large number of competing dealers.

Location of storage facilities.—To render the best service, cold-storage facilities must not only be adequate in character and under good management, but they must be well located. As was pointed out in the discussion of terminals, many perishable goods should be unloaded directly into cold storage, especially when weather conditions are extreme. Unless they can be sold there, however, they must ordinarily be carted to the produce district. If they could be sold very soon after their arrival, the problem arising would be one of the location of the district rather than that of the warehouse. In some cases, however, goods cannot be sold promptly, and it is desirable to put them into cold storage. This means that they must be taken away from the place of sale and brought back later. It is, therefore, important that cold-storage facilities be convenient to the district as well as to the terminals.

In comparatively few cities is there much complaint regarding the location of cold-storage facilities with reference to the produce district. Naturally, those who establish a warehouse to take care of the business of the district will wish to be conveniently placed with reference to it. In a few cases, even when the facilities are good, they are so located that they can be used only at a considerable expense, and largely for that reason they are not so much used as they should be. The situation in Los Angeles and in Atlanta is particularly good.

One of the results of inadequate or badly located storage facilities is the use of refrigerator cars for storage purposes. This may involve the payment of demurrage, but, even so, it may be justified from the point of view of the dealer by the possibility of saving the goods. It must be remembered that while high prices tend to reduce consumption and so to lessen the amount of business than can be done, they do not

for that reason necessarily lower profits. A dealer has a strong motive for reducing expenses when he alone will benefit thereby, but a much weaker motive when the benefit must be shared with others. For this reason, while the absence of cold-storage facilities may mean a heavy loss for society at large, it does not necessarily mean a corresponding loss for the dealers. This applies with special force to the use of refrigerating cars for storage. Delay in unloading until demurrage begins to accrue costs the dealer nothing, but it falls heavily on the railroads, and, assuming a proper adjustment of rates, through them all, the users of railroads. The payment of demurrage places the individual dealer at no disadvantage if the others find it necessary to make similar payments; but from the point of view of society, the use of refrigerator cars as storage places is ordinarily costly.

Cold storage in primary and terminal markets.[2]—Cold storage has become a factor of vital importance to the producer and consumer alike in the conservation and distribution of perishable products.

In the primary markets cold storage and refrigeration have become economic necessities in pre-cooling or chilling products until sufficient volume has been accumulated for economical shipment. In the movement from primary market to terminal market, transportation and refrigeration are combined for the conservation of perishable commodities in transit, and refrigerator cars become temporary cold-storage plants when they enter oversupplied markets. The fact that perishable commodities are shipped under refrigeration makes it possible either to hold shipments on the tracks until surplus products are absorbed, or to reconsign to another market in need of such commodities. The meat-packing industry, as a result of its organized storage and refrigeration in transit facilities, can supply fresh meats practically to every consuming market. Without refrigeration, slaughter would of necessity be confined to local distribution in the immediate vicinity of production.

There is also another class of temporary cold storage which is an important factor in extending somewhat the comparatively short seasons during which highly perishable fruits and vegetables are available. This is the refrigeration supplied by commission merchants and wholesale receivers for the protection of products during their distribution.

The laws of practically all states recognize the desirability of temporary storage and exempt from marking requirements all stock held under refrigeration for thirty days or less.

There is a third class of cold storage that has most greatly affected the consuming habits of the American people—the cold storage which absorbs the surplus of the seasonal crop of semi-perishable commodities and makes them available through practically the entire year. The vast

[2] "Marketing and Distribution," Report of the Joint Commission of Agricultural Inquiry, 67th Cong. 1st Sess. Report No. 408, pp. 109-114.

metropolitan centers could not exist without refrigeration storage reservoirs of food stocks. In its economic function, cold storage tends to stabilize market prices to the producer by absorbing into reserve stocks the excess production of the peak producing period at higher prices than would prevail if it were necessary to dispose of the entire crop immediately to the consuming public. It also serves to provide the consumer with a normal supply of seasonally produced commodities during periods of deficient production at lower prices than would prevail if no reserve stock were available.

The abnormal conditions of the post-war years have tended to increase cold-storage facilities rapidly, and it now seems that the existing facilities are adequate in capacity and in general well located with reference to distribution. In fact, during the depression, there has been a surplus of possibly 50 per cent of total available cold-storage space. There are three general classes of cold-storage warehouses—public, private, and combined public and private. The greater percentage of cold-storage space is of the first class or public. Private cold storage is operated exclusively for the storage of products produced or dealt in by the owners. The combined public and private cold-storage warehouses make available to public use the surplus space not required by private owners.

The general services performed by the public cold-storage warehouses include the receiving, handling, and shipping of goods to and from the warehouse, maintaining proper temperatures for the various commodities in storage, inspecting, weighing, repacking, and other special services.

The operators of cold-storage warehouses are a considerable factor in financing perishable products in cold storage. This service they can well render, because of their intimate knowledge and their responsibility for the collateral. However, in many instances, competitive conditions have created a tendency to make excessive loans to secure business, and this has operated to develop speculation in perishable foods. These loans are based on negotiations of warehouse receipts issued under the so-called Warehouse Receipts Act, which has now become the law of practically all the states. These receipts may also be used as collateral security for loans by banking institutions to owners of the products in cold storage. Uniformly these laws provide that "a warehouse man shall be liable for any loss or injury to the goods caused by his failure to exercise such care in regard to them as a reasonably careful owner of similar goods would exercise; but he shall not be liable, in the absence of an agreement to the contrary, for any loss or injury to the goods which could not have been avoided by the exercise of such care."

The development of the cold-storage industry from a small beginning, with ice as a refrigerant, to its present importance with efficient methods of mechanical refrigeration, has been extremely rapid. While they are not general, certain abuses have developed within the cold-storage in-

dustry that have worked to the disadvantage of both the public and the industry itself.

Storage warehouses.—There is an almost entire lack of data relating to warehousing location or adequacy. However, it is known that there is insufficient warehouse space for a variety of agricultural crops in local market. For several years the Department of Agriculture, Bureau of Markets, has been engaged in making surveys of warehousing in its relation to the conservation of products and protection of crops as a safe basis for issuing collateral warehouse receipts.

The insufficiency of warehouses in producing centers of seasonal crop is largely due to the fact that they do not prove commercially profitable because of the idle investment between periods of crop movement. When the production of a commodity is seasonal, but is consumed throughout the year, the greater the extent to which it is stored in the areas of production and the more evenly it moves to market throughout the year to meet market demand the greater will be the economy of distribution.

Cold Storage and Prices.[3]

Given a means of preserving a product in sound and merchantable condition from one season of flush production to the next, it is evident that the normal price of that commodity is the price in relation to which the entire production will be consumed during that period. It has before been shown that, under free competition, this price must be high enough to afford a profit to producers commensurate with other avenues of production or occupation open to them, and low enough to insure the consumption of the greatest quantity of the commodity that can be so produced. As a general proposition it is manifestly unprofitable to carry a perishable product past the following season of flush production, because the cost of holding is more than any possible difference in the level of prices from year to year, and because in all cases goods a year old, even though they may be in sound condition, are worth less in the markets than fresh production of the same kind.

The normal price of the commodity, however, is not constant, it is not uniform, and it is not known. It is not uniform because of irregularity in quality of the goods offering at all times; it is not constant because it must gradually rise with the accumulating cost of carrying surplus and with variations in current fresh supply; and it is unknown because no one can accurately foretell either the year's supply or the extent of effectual demand at any given price. In the handling of any crop of perishable produce, subject to the practical preservation of a seasonable surplus there is, therefore, an inevitable element of uncer-

[3] Urner, F. G., In Bulletin 101, Bureau of Statistics, United States Department of Agriculture, p. 25.

tainty and speculation. During the flush season competitive operators watch closely the evidences of the scale of production and the volume of consumption; they compare with past experiences, calculate the effects of anticipated conditions of general trade, and form various opinions as to the normal value of the goods. Naturally, under a free competition, those who form the highest opinions of the normal value get the bulk of the surplus. As the season advances, disclosing more and more the real conditions of supply, demand, and extent of surplus, the judgment of the normal values is subject to change, and current prices fluctuate accordingly.

This process of gradual development of knowledge and corresponding change in the judgment of distributors as to the normal range of prices goes on throughout the season, accompanied by corresponding fluctuations of prices as influenced by the predominating opinions of individual and independent owners. But, underlying all these fluctuations, there always exists the real, though uncertain, fact of natural value; when the predominating opinion of value is above this fact and current prices are drawn above it, it is as certain as the law of gravity that they will later fall below it before the season's operations are concluded. For, if the normal curve of value throughout the season must be such as will develop just enough effectual demand to absorb the production, and if the actual result of the year's trading must accomplish the same result of exhaustion of supply of one year's crop before the recurrence of the next season of flush, the average of the values actually prevailing must be the same as the average of the normal values. Consequently if consumers at one season are obliged to pay a price above the normal value by reason of an error in judgment by the rank and file of buyers or owners of surplus, they are assured of a compensating advantage later in obtaining the consequent overabundant surplus at a price below the normal value for that period.

"As a matter of fact, the accumulation of surplus of a perishable food product in cold storage is accompanied by great risk, owing to the impossibility of accurately judging the normal value; in practice it is profitable in some seasons and unprofitable in others, and sometimes leads to serious losses."

The egg season as a typical example.—A concrete illustration of the matter, fairly representative of the conditions in all cases, may be given by a description of the egg situation during a complete season, since the egg industry affords a typical example of the use and effect of cold storage.

"There is a vast difference in the production of eggs from season to season. The poultry crop is in physical condition to produce the maximum number of eggs as soon as the spring and early summer pullets reach an egg-laying maturity, which, taking the country as a whole, is

during the month of December. But, the natural function of egg laying being reproduction, the yield is not at all free until weather conditions become favorable. This is assured in some sections of the country during February, but not certainly in any large territory until March. During March, April, and May, egg production reaches its maximum. As hot weather comes on, production decreases, and, as the moulting season extends (beginning in the South in July, and later at more northerly points), there is further marked decrease. Production reaches its natural minimum in this country during October and November, but during December and January it may be even less when wintry weather conditions are severe and widespread. The extreme variability of production in December, January, and even in February, due to differences in weather conditions, is the chief element of uncertainty in judging the normal value of spring and summer surplus.

"This brief résumé of a season's trade in eggs at New York should give a fair idea of the general utility and effect of public cold-storage facilities. The facilities are utilized by thousands of distributors—shippers from the West, local wholesalers and jobbers—all in free competition and with no attempt at agreement as to the prices to be paid or accepted for the goods. Under these conditions it is evident that the fluctuations in value arise from purely natural conditions of supply and demand as judged by the individual estimation, and it is shown that when any general error of judgment is made in buying for storage, losses must be endured, in spite of the facilities for holding, owing to the economic fact that a clearance of reserve must be effected before the new season of flush production.

Cotton Warehousing—Benefits of an Adequate System.[4]

"An efficient system of warehousing has for its purpose the lending of every possible facility to aid in the free distribution of merchandise and at the same time providing in the warehouse receipt a method of convenient and economic transfer of title to the stored goods; thus, the bulky goods are turned practically into a paper currency so that transfer of property may be made from one person to another without physical effort or motion and its consequent cost."

Functions of warehouse.—Its functions, in marketing the cotton crop, are: First, and perhaps the most important, is distribution of the marketing period over a greater length of time; second, protection of the product during the period of conservation; and, third, the financing of the holding movement by providing a negotiable warehouse receipt, which may be used as security to negotiate loans.

[4] By Roy L. Newton and James M. Workman, Yearbook of the United States Department of Agriculture, 1918, pp. 3-36.

Price fluctuations influenced by the supply.—For a number of years past the low tide of prices in the cotton market has occurred usually during the four months of the heavy marketing period.

During the four months when the farmer usually is disposing of his product, the mere fact that he is unloading the great bulk of it upon the market in such a limited period of time may alone be sufficient cause for the price decline. After the greater part of the crop is out of the hands of the producer, usually the price advances. The farmer is apt to believe that this is a result of manipulation and that he is being discriminated against, when, in reality, the higher price is not necessarily the result of manipulation but probably the logical result of more efficient marketing methods. The new owners, realizing the value of heeding the laws of supply and demand, distribute their sales over a period of time more commensurate with the needs of the manufacturer, and thus, in a large measure, control the price.

The warehouse helps finance the cotton grower.—It is very probable that the third function of the warehouse, that of providing a means for financing the period of conservation, is, in most cases, the principal reason for storing cotton; at least, it is reasonable to suppose that very little cotton would be stored and insured if it were not possible to negotiate loans by the use of the warehouse receipt as security.

Careful sampling, weighing, and grading essential.—Possibly the most important of the services rendered by the warehouseman, next to the actual care and protection given, are the weighing and classifying of the cotton. Accuracy in these details will insure the confidence of the persons coming into possession of the receipts, so that they may be transferred readily.

Insurance methods.—The relation of the cost of insurance to warehousing is very important. The location, surroundings, construction features, and equipment of the warehouse all have immediate bearing upon the insurance rate that applies on contents stored in the warehouse. Excessive cost of insurance is the rule rather than the exception among the warehouses now in operation, especially in those storing for the producer, and this fact is largely responsible for the laxity of the producer in taking advantage of available storage facilities.

The methods of insuring cotton in warehouses vary greatly. Usually the more satisfactory arrangement is for the warehouseman to carry the insurance for his patrons by means of "blanket" policies, paying the premiums on these policies and collecting from the patron by means of regular monthly charges. In this way the warehouseman assumes, in his contract with the depositor, full responsibility for protection of the depositor against loss or damage by fire while the cotton is in his possession, a clause to the effect that the cotton is covered by insurance being inserted in the receipt. The assumption of this responsibility,

however, is subject to the owner's preference in the matter, as buyers or dealers often desire to insure their cotton under their own policies. There are a great many advantages in the arrangement of having all insurance matters handled by the warehouseman for his patrons; not the least of these is economy to the depositor. He is relieved from the necessity of obtaining from the insurance company specific policies governing small lots as they are hauled to the warehouse. He is not obliged to name a specific period for which these policies are to run nor to attend to the cancellation or renewal of them as this period varies. In case of a fire loss the depositor is relieved from adjustments of claims, which may be more expeditiously handled by the warehouseman on the entire lot of cotton affected.

"Blanket" policies which cover cotton owned or held in trust by warehousemen in specified locations almost always contain what is known as a "coinsurance clause," the meaning of which it is very important that the warehouseman understand fully.

This means that the assured must maintain insurance on the cotton covered by the policy, in an amount equal to its cash value. Failing to do so he becomes the insurer to the extent of the deficit and must bear his proportion of any loss that may occur, the company being responsible only for such proportion of the loss as the amount of the policy bears to the actual cash value of the cotton at the time of the fire. In case the total insurance on the cotton exceeds the cash value the company will be responsible only for the amount of the loss. In other words, if a warehouseman is carrying but $50,000 worth of insurance on $100,000 worth of cotton stored in his warehouse and has a fire loss of $100, he can collect only one-half of the total loss, or $50, while if he carries $150,000 worth of insurance on $100,000 worth of cotton stored in his warehouse and has a loss of $100,000, he will be able to collect only the amount of his loss.

A practical manner for the warehouseman to arrange for insurance on stored cotton is to cover the value of the cotton by various policies ranging in amounts from one to ten thousand dollars, and having the periods of time during which they are effective range from 3 months to 1 year. As the stock increases in value, additional policies may be taken, or if it becomes necessary to reduce the insurance, the reduction may be made by canceling one or more of the small-denomination short-term policies and collecting the amount of unearned premium from the insurance company.

Warehouse receipt under United States Warehouse Act.—The thing above all others of vital interest to the warehouseman, as well as to the depositor of cotton in the warehouse, is the value of the receipt which is given in lieu of the stored goods. This receipt is the guaranty of the warehouseman that he holds in trust and will deliver

upon demand the goods represented by it, and it represents to the depositor the value of the stored product. Three important factors control the value of the warehouse receipt: (1) the known integrity and financial responsibility of the issuer; (2) the desirability and accuracy of its terms and the description of the stored goods contained in it; and (3) its uniformity.

Bankers regard cotton as a collateral of the highest order when it is properly warehoused, insured, and made liquid and easily handled through warehouse receipts showing accurate grade and weights. A form of security that has become standardized and uniform is the most desirable as a security, and transactions involving the use of a security of this nature always command the lowest rates of interest.

The outbreak of the European war emphasized the fact that the machinery for marketing cotton then in use was inefficient and unjust to the producer. There was no adequate method by which to finance conservation, and with the withdrawal of the market, prices collapsed, creating a near panic and causing great losses to the producer. The United States Warehouse Act was a recognition by the Government that the most serious weakness in the existing system of cotton marketing were: (1) lack of adequate storage facilities properly distributed; (2) lack of proper control and regulation of the existing facilities; (3) absence of uniformity in the methods of warehousing and in the form of receipts issued; (4) absence of the proper relationship between the producers and the extenders of credit.

The act is designed to create a system of licensed and bonded warehouses, issuing uniform receipts, and regulated by government supervision and inspection. It is expected that, in the receipts issued by these warehouses, a security of unquestionable value will be created, which will be of definite assistance in financing and which will flow at once into the general system of securities and become liquid at any time in the security markets.

By the terms of the United States Warehouse Act the Secretary of Agriculture is authorized (1) upon application to him to issue to any warehouseman a license for the conduct of a warehouse or warehouses for the storage of agricultural products in accordance with this act and the regulations thereunder, and the term "agricultural product" wherever used in the act is deemed to mean cotton, grains, flaxseed, tobacco, and wool, or any of them; (2) to inspect warehouses licensed or applying for license under the act; (3) to prescribe the duties of persons licensed under the act; (4) to make general warehousing investigations; (5) to license competent persons to weigh and classify agricultural products stored or to be stored in warehouses licensed under the Act; (6) to establish and promulgate standards by which agricultural products are to be classified, where such standards are not already

established under authority of Federal law; (7) under certain conditions, to cancel or revoke licenses issued under the act; and (8) to exercise general supervision over warehousemen and weighers and classifiers licensed under the act. In order to become licensed, the act provides that the warehouse must be found a suitable place for the proper storage of the product; that the warehouseman must agree to abide by the act and the rules and regulations promulgated thereunder; and that he must execute and file with the Secretary of Agriculture a good and sufficient bond other than personal security to guarantee the faithful performance of his obligations as a warehouseman under the laws of the state in which he is conducting such warehouse as well as under the terms of the act and the regulations thereunder, and such additional obligations as may be assumed under contracts with the depositor.

The most important benefits to be derived from the United States Warehouse Act are: (1) uniformity in the terms and conditions of the receipts will equalize their value in different localities; (2) Federal supervision will give the receipt a value that cannot be obtained through personal or even state operation; (3) the statement of class and weight on the receipt, when made by the persons licensed under the act, will furnish an accurate, substantial basis of valuation; (4) producers of farm products, holding receipts issued under the act, will be brought into intimate touch with those who have credit to extend; (5) with adequate credit available, and with a definite idea of the value of his product, the producer will be in a position to market his product more intelligently; (6) by becoming licensed the warehouseman will be able to secure lower insurance rates on the cotton stored in his warehouse.

Storing grain for farmers.[5]—Frequently the farmer does not market his surplus grain at the time of harvest. Sometimes he may hold it for a more favorable market, while at other times it may not be convenient to deliver it to the local elevator at harvest time, because of the rush of other important farm work.

After small grains have been harvested and after corn has been husked they may be stored on the farm or at the country elevator, or shipped to the central market and there stored in one of the public elevators. Many farms are not provided with suitable granaries, and unless the farmer desires to sell at harvest time he must store his grain either at the local elevator or at the terminal market. Very little grain is shipped from the farms to the central markets for storage.

Storage charges.—Many country elevators provide storage for a limited amount of grain, while other elevator managers do not enter into this phase of the business, preferring to purchase the grain outright

[5] Livingston, Geo., and Seeds, K. B., "Marketing Grain at Country Points," Bulletin No. 558, United States Department of Agriculture, pp. 25-28.

it the time of delivery. Many states have regulatory laws regarding he receiving, handling, and storage of grain. In almost all cases the aw fixes the maximum charges that may be exacted. Usually the sched- ile of storage is based on 15-day periods. The schedules of rates may ary from 1 to 2 cents for the first 15 days or parts thereof and from ne-quarter to one-half cent for each additional 15 days or part thereof. The variation in the rate prescribed by law in the various states is so great that no exact figures covering the grain-producing area can well be given. Sometimes a maximum charge is defined for continuous storage for a somewhat longer period of time. Thus, one state permits a maximum charge of 4 cents per bushel from the 15th day of November to the 15th day of the following May. Sometimes managers provide free storage for their patrons so long as storage room is available.

Hazards of elevator storage.—The matter of storing grain in country elevators for farmers is a subject that has received considerable attention from the grain trade, as well as from the farmers themselves. Several hazards are connected with the storing of grain at local elevators, both for the elevator manager and for the farmer, especially in the absence of laws regulating the business. From the standpoint of the elevator manager the principal objection to the practice is to be found in its interference with the daily buying and shipping business, since when the elevator is full of stored grain its use in receiving and loading out daily receipts is greatly impaired. Frequently managers with their houses filled with stored grain are forced to turn daily deliveries over to a competitor.

The practice of free storage usually has developed from severe competition between houses. One manager may attempt to extend his patronage by offering free storage. His competitor often is obliged to offer the same inducement to hold his trade.

The practice of free storage adds several items to the cost of operating the house. In the first place, the grain must be insured against loss by fire, which is an item of considerable expense. Also the manager of the house in almost all cases must bear the burden occasioned by shrinkage of the grain while in store. If a farmer delivers 1,000 bushels to the elevator for storage he expects to have 1,000 bushels returned to him, or to receive payment for that amount when sold.

The burden of insurance and the loss by shrinkage sometimes lead a manager to ship out the grain received for storage soon after delivery, selling it to the central market. In order to protect himself against price fluctuations he goes into the future market and purchases a hedge for a like amount. When the farmer informs him that he is ready to sell the grain, which the farmer supposes is in storage, the elevator manager closes out his hedge, pays the farmer the market price for the grain, and bears the cost of the hedging sale himself. By shipping out

the stored grain, however, the manager not only has relieved himself of the expense of insurance and the loss by shrinkage, but he has also been enabled to use or to loan the farmer's money, thus profiting by the interest earnings.

Shipping out the grain delivered for storage is practiced also when a storage charge is made. In this case the elevator derives a profit from the storage charge in addition to the interest on the money received from the grain.

The hazard of storing grain in the country elevator, from the standpoint of the farmer, depends upon the degree of integrity and the financial standing of the elevator manager. Occasionally the grain dealer announces a business failure with limited resources and the farmers whose grain is supposed to be in store are the chief creditors. While such cases are not general, they have sometimes been so frequent as to result in the enactment of a state law placing the storage business under state supervision and requiring the elevator owner to give bond for the protection of his patrons.

The United States Warehouse Act, recently enacted, authorizes the Secretary of Agriculture to license warehouses for the storage of grain, flaxseed, cotton, tobacco, and wool for interstate or foreign commerce. This act is permissive only and no warehouse is required to be licensed. The act also authorizes the secretary to inspect warehouses which are licensed under this law or which apply for license.

Farm storage.—From the standpoint of the producer the logical place to store grain is on the farm. Several facts, however, must be considered in determining whether such a procedure is profitable. In the first place, it is necessary to provide suitable granaries and cribs, which will require an original outlay of capital upon which interest and depreciation must be considered. It is necessary also to consider natural shrinkage. The amount of shrinkage that may be expected will depend of course upon the nature of the storage, the condition and maturity of the grain at the time of harvest, and also the length of time it is held in store. As a general rule, the small grains may be expected to shrink from 1 to 3 per cent in weight, while the shrinkage of corn will vary from 8 to 20 per cent, depending upon the moisture content at the time of harvest. With corn the greatest shrinkage occurs in the months of April and May. The loss by rodents and insects also must be considered, which, in some cases, particularly with corn, frequently is relatively high. While the fire hazard is not great in farm storage houses, it is advisable to protect stored grain by insurance, particularly if the storage bins are connected with, or adjacent to, other farm buildings. Other items that must be considered are convenience of marketing, condition of roads at time of delivery, cost of labor, interest on the money value of the grain held in storage, the price at harvest time,

and the probable price at some future date. It is necessary also to consider the loss that may be incurred by grain going out of condition while in store. Small grains when damp are likely to become musty or bin-burned. When small grains with high moisture content are put in store it is necessary to "handle" them—that is, the grain must be turned frequently to prevent heating and decomposition. In the elevators this is accomplished by transferring the grain from one bin to another or by drying. Corn, when immature and having a high moisture content, cannot be stored safely even in the ear, unless the crib is provided with ample ventilation, and even then the chances of loss may be great. Most terminal elevators and some country houses are equipped with driers, which reduce the moisture content to a point at which the grain may be stored safely.

Storage of coal.[6]—The United States Coal Commission reports as follows:

"Storage of coal by consumers is the all-important balance wheel between fluctuating consumption and variable production. It is the consumers' insurance against temporary failures of transportation. It is the only protection yet devised for the consumer against protracted general stoppage of coal mining or railroad deliveries."

If all the producing factors functioned perfectly, the uniformity of production desired for economy and stability in the mining industry might be attained; but consumption would still fluctuate with the warm and the cold seasons and with the activity and depression in our commercial life.

Somewhere along the line between producer and consumer there is needed a reservoir to receive an excess and to supply a deficiency. The place for this is stated to be "by the consumer." Careful consideration of possible storage at the mine, in cars in transit, dealers' stocks, community storage, or at the point of consumption, has led to the general conclusion that storage is most effective the nearer it is to the point of consumption. This immediately puts the question up to each of the multitude of small and large users of coal to determine what part he shall play in the matter of shortage. Self-interest will determine the answer; but it is desirable that, where a careful balancing of the factors leads to a neutral position, the decision be made in favor of, rather than against, storage, because of the general good resulting from such practice.

The storage of anthracite in the summer by the domestic consumer has become a habit. It is not so with bituminous coal. But the development of such a habit would be a help.

The general experience is that the differential between the low prices

[6] Hood, O. P., *Annals of the American Academy*, Vol. 111, pp. 165-166.

for bituminous coal in spring and the average prices in the fall is not enough to pay the charges involved in storage. Storage, therefore, is justified for other reasons which vary greatly. Our greatest storage pile, involving millions of tons, is at the head of the Lakes, and is made necessary by enforced cessation of navigation. In New England, relatively large stocks are carried by railroads, because of the hazards of winter transportation over roads not under their control. Public utilities carry larger stocks than the industries, because interruption would more seriously affect them. In many manufacturing industries coal is only about a 2 per cent item in costs, and freedom from anxiety as to adequate supply may be sufficient argument for storage. It is a careful consideration of the incidental advantages of storage in each individual case that is urged. The country has shown its ability, when duly agitated, to put into storage something over 60,000,000 tons of coal. The storage of this amount produces a very respectable load factor on coal production and distribution. As this is about 50 per cent more than normal storage, it now remains to fix as a national habit what already has been practiced under stress.

The Commission's report says:

"Regular systematic large scale storage of bituminous coal by consumers during the seasons of low consumption is the public's largest opportunity and responsibility in solving the coal problem."

The larger part of the losses of stored coal has come from violating well-known conditions that usually can be readily met. For the small domestic consumer of soft coal the question of spontaneous combustion need never be considered. For the larger user there need be no loss from spontaneous combustion, if the matter receives the careful consideration of management and operating force which the subject demands.

Chapter VII

ASSEMBLING COUNTRY PRODUCE FOR MARKET

The Purchase and Storage of Grain.[1]

Methods of sale by farmer.—In marketing his grain any one or more of at least four different methods are usually available. He may dispose of it: (1) by outright sale either to the country house or other local buyer; (2) by sale after storage in the local elevator or warehouse either to the house or others; (3) by sale on contract before actual delivery; or (4) by sale on his own account in the terminal market.

The relative importance of these methods varies as between different sections and different states. The first method, for example, is the most important in the Northwest and probably all grain-producing states in the Central West, and the second in the Pacific coast area.

An outright sale is, of course, the result of bargaining between the farmer and the local elevator or warehouse agent or other buyer, and the grade, dockage, and price are usually settled at the time of delivery. In many cases, however, the farmer does not desire to sell his grain immediately, either because he believes that the price will be higher at a later date or because of other reasons. Where this is the case the farmer may deliver the grain to the elevator to be stored until such time as he may decide to sell. Under these circumstances the grade, dockage, and storage charges on the grain are fixed at the time of delivery at the elevator. The matter of price is left open, of course, until such time as the farmer decides to sell, although he may seek to obtain the promise of a premium.

Contracts for the sale of grain in advance of delivery are likewise sometimes made by the farmer with the elevator or warehouse. Most often, perhaps, they are due to either one or the other of two conditions. Either the farmer finds himself in need of funds before he can make delivery of the grain or else he believes that prices are such as to warrant the sale, although he may be either unwilling, or, if in advance of the harvest, unable, to make delivery at the time. In other words, the farmer usually contracts with the idea of obtaining funds, as is probably most frequently the case in the Northwest, or else because he believes that prices will either be lower at the time of delivery or else

[1] Report of the Federal Trade Commission on the Grain Trade, Vol. 1, pp. 94-98.

will not have advanced. On the other hand, the elevator usually contracts with the idea of securing tonnage.

Grain contracts between the farmer and the elevator may or may not specify the price. If the price is stated, the matters of grade and dockage only are left to be determined upon the delivery of the grain at the elevator. Should the grain delivered, however, fail to meet the specifications of the grade contracted for, the matter of price is determined by the extent of the differential between the grades at the time of delivery, though some contracts specify the differentials to be employed.

In some cases the farmer may elect not to dispose of his grain locally, but instead to sell it in the terminal market. In such cases it is obvious that no local marketing transaction is involved. In consequence this method is discussed in the chapter dealing with loading and elevation by elevators, since, when the farmer himself sells in the terminal market he frequently, if not usually, employs the elevator for the purpose of loading.

Local Purchasing Factors Other Than Elevators and Warehouses.

General characteristics.— Besides the elevators and warehouses there are operating in the country, interior brokers, track buyers, scoop shovelers, solicitors for terminal dealers, feeders, retailers, country mills and other converters, or their agents. The number and importance of these buyers vary according to a variety of conditions. At various points and at different times one or more of these buyers may be found in more or less direct competition with the local elevators or warehouses in purchasing from the farmer. For this reason they must be considered in any discussion of the country marketing, even though their operations are in many sections either negligible or of minor importance as compared with those of elevators and warehouses. Sometimes these purchasers buy from the farmer and sometimes from the elevator. But since such buyers usually lack local warehouse facilities the grain which they purchase is most often bought outright, regardless of whether the seller is the producer or the local house, or whether the farmer is selling grain which he has just hauled in or grain which he has stored in the local house. In so far as these local purchasers buy from elevators or other buyers, these transactions are, of course, between middlemen.

Interior brokers.—Interior brokers operating in the country grain territory most often make their headquarters in one of the larger local towns affording transportation facilities in various directions. They purchase grain on a brokerage basis from practically all factors in the country market for anyone who may desire it, including terminal market dealers. The bulk of the purchases made by such brokers is from country houses in carload lots. Comparatively little grain is bought

by such dealers directly from farmers, and of the grain so purchased practically all is in carload quantities.

Track buyers.—Country track buyers are usually located at points in the country from which it is convenient to keep in touch with a considerable number of country stations. These buyers purchase grain in cars "on track" at the elevator and also buy in car lots from farmers, reselling to whatever purchaser offers the best price, a terminal market factor, miller, jobber, feeder, or converter, etc. In this type of transaction the seller guarantees that the weight and grade of the grain are in accordance with his agreement with the purchaser, but as it is often difficult for country track buyers to obtain official weights and inspection, disputes not infrequently occur. Track buyers, like interior brokers, are perhaps most often found at points so located as to afford transportation facilities in a number of directions, thus enabling shipment to numerous consumption points.

Scoop shovelers.—The "scoop shoveler," or "scooper," buys grain entirely from farmers and loads it directly into cars from the wagons. The usual method of loading is to shovel the grain into the cars by means of scoop shovels; hence the name of this class of grain buyers. At times the "scoopers" employ contrivances known as track loaders, or portable elevators. This equipment consists of a frame carrying a series of buckets on a belt which is often operated by a small gas engine. It is placed alongside the railroad track beside the car to be loaded, one end of the machine extending through the car door. The grain is fed into a hopper at the other end of the machine from the farmer's wagon, the buckets fill themselves, and are carried into the car and dumped as the belt turns.

Scoop shovelers are usually transient, although there are some men who engage in the business regularly at the same place. Whether transient or not, the scoop shoveler is not common in the northwestern grain states. No scoopers were reported at any of the stations in four northwestern grain states which were visited, although one elevator stated that it had experienced competition from such a buyer, though not since 1915. In the Southwest, particularly Texas and parts of Oklahoma,[2] such grain buyers apparently operate more frequently.

Occasionally unscrupulous men have been attracted to the business of buying grain in the manner followed by scoopers. The capital required is small. Many of these men have offered prices greatly in excess of the value of the grain, considering freight rates and prevailing terminal market prices. Attracted by these high prices, farmers have sometimes sold their grain to them and agreed to await payment until

[2] Cf. Livingston, Geo., and Seeds, K. B., "Marketing Grain at Country Points," Department of Agriculture Bulletin No. 558.

they had received their remittances from the terminal market. Such farmers have frequently found when attempting to collect their money that the scooper has disappeared.

Scoop shovelers are a thorn in the side of the regular grain dealers. Each load of grain bought by the scoopers is lost to the elevators. In addition, the scoopers often, if not generally, offer higher prices than the elevators[3] are paying, and to secure grain it is necessary to meet these prices.

At times an elevator company in a new territory before completing its elevator may engage in buying grain in the manner followed by scoop shovelers. Any type of company may follow this practice, but it is particularly prevalent with coöperatives, because the organizers of coöperatives are usually anxious to begin business at once.

Terminal dealers.—The purchase of grain from farmers by representatives of terminal market grain dealers is usually spasmodic. Frequently their purchases are made from farmers who, dissatisfied with the prices offered at the station, have loaded their grain with the intention of consigning it or selling it "on track." Purchases by this type of buyer are usually in carload lots, although at times grain has been bought from farmers in wagonload quantities. This last is particularly true of new territory where elevators have not been extensively established. At times portable elevators have also been used by these solicitors for loading grain directly from wagons into cars.

The bulk of the grain purchased by solicitors of terminal market concerns, however, is from elevators, warehouses, and scoopers rather than farmers.

As solicitors of terminal concerns are also frequently attempting to secure the consignment business of local elevators, purchases of grain from farmers are avoided at stations where a local elevator is a customer of the house by which the solicitor is employed. Were a solicitor to buy grain from a farmer under such circumstances, the elevator's volume of business would be decreased and its account almost certainly lost to the solicitor's house. For example, a farmer at Broadview, Mont., had loaded a car of flaxseed which a solicitor of a line elevator company attempted to persuade him to consign to his firm. The farmer wanted to sell outright, however, and the solicitor refused to make him a bid because the agent of another local elevator company objected.

Other factors.—Agents of the mills and other converters at times go from place to place, depending upon local prices and other conditions, purchase grain in carload or wagon lots from farmers, and then ship it to the miller or other consumer.

Feeders are stock raisers or liverymen, and the grains they purchase

[3] They can, of course, afford to do this, since they have no fixed operating expenses comparable with those of the elevator.

—usually corn and oats—are used for feeding their stock. They also buy grain from farmers in both wagonload and carload quantities, in the former event loading it from the wagon into cars for shipment.

The operation of the retailer is local in character. He buys grain from the farmer, usually in wagonload lots, and then sells it to his customers as feed. Very often the grain is paid for by merchandise.

Scope and extent of operations.— In spite of the considerable number of purchasers besides elevators and warehouses which are operating in the country market, the great bulk of the initial buying from farmers is done by the country houses. The operations of all other classes of purchasers discussed in the preceding paragraphs are more limited in character, and it is doubtful if their total amounts to more than a small fraction of the total sales made by the producer. In a rough fashion, the importance of all these other factors as purchasers of the farmers' grain is indicated by the replies to the commission's inquiry of elevators and warehouses as to the direct loading by other buyers in their respective localities. Since most of the buyers from farmers in the country other than elevators, warehouses, and retailers load directly into cars for shipment, the extent of direct loading is roughly indicative of the extent to which other purchasers compete with the elevators and warehouses for the farmers' grain.

The replies to the inquiry on direct loading by buyers were tabulated for reporting elevators in nine states selected at random, namely, Michigan, Montana, Missouri, Oklahoma, Illinois, Wisconsin, North Dakota, and South Dakota. From these states 3,553 elevators reported as to the existence or nonexistence of direct loading and 845 as to its extent. The replies were tabulated together for all types of elevators and without reference to the number of elevators reporting at a station. The table below presents the results of this inquiry.

NUMBER AND PERCENTAGE OF ELEVATORS IN SPECIFIED STATES REPORTING DIRECT LOADING BY BUYERS IN THEIR VICINITY AND EXTENT OF SUCH LOADING REPORTED

State	*Total Elevators Reporting*	*Direct Loading*		*No Direct Loading*	
		Number	*Per-Cent of Total*	*Number*	*Per Cent of Total*
Michigan	207	24	11.59	183	88.41
Wisconsin	188	26	13.83	162	86.17
Illinois	688	136	19.77	552	80.23
South Dakota	513	105	20.47	408	79.53
Minnesota	700	144	20.57	556	79.43
Montana	192	40	20.83	152	79.17
Oklahoma	135	46	34.07	89	65.93
North Dakota	766	318	41.51	448	58.49
Missouri	164	85	51.83	79	48.17
Total	3,553	924	26.01	2,629	73.99

State	Total Elevators Reporting	Occasional* Number	Occasional* Per Cent of Total	Considerable* Number	Considerable* Per Cent of Total
Michigan	18	9	50.00	9	50.00
Montana	35	19.	54.29	16	45.71
Missouri	66	39	59.09	27	40.91
Oklahoma	35	24	68.57	11	31.43
Illinois	122	93	76.23	29	23.77
Wisconsin	22	19	86.36	3	13.64
Minnesota	136	127	93.38	9	6.62
North Dakota	314	294	93.63	20	6.37
South Dakota	97	91	93.81	6	6.19
Total	845	715	84.62	130	15.38

*Where returned as a percentage, replies less than 5 per cent were classed as "occasional" and 5 per cent and over as "considerable." Expressions such as "once in a while," "seldom," "about one-fourth," "a great deal," "a large amount," etc., were, of course, classified readily under the one or the other head. A few schedules, where the replies were too vague to be thus definitely classified, were rejected and are not here included.

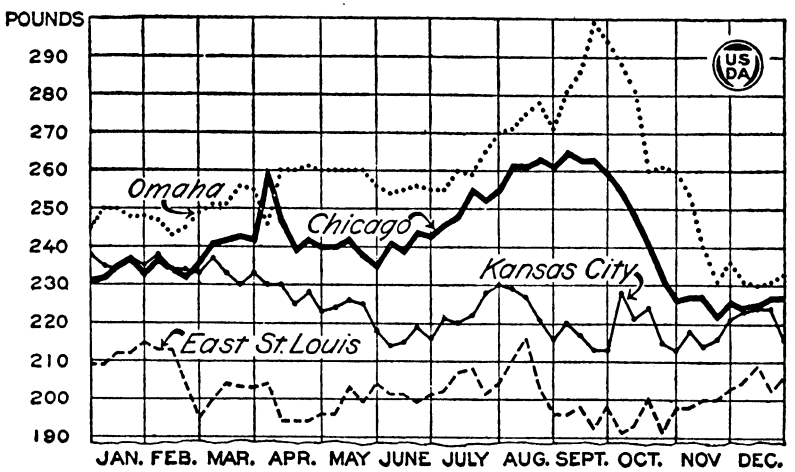
Of the 3,553 elevators replying to this inquiry only 924 houses, or slightly over one-fourth, reported direct loading by buyers in their locality. Even these figures, however, considered by themselves, give a misleading impression of the importance of this practice, for the reason that they give no indication of the extent of such direct loading in the vicinity of the houses reporting it. Of the 924 houses reporting affirmatively, 845 also reported, in one fashion or another, as to prevalence of the practice. The answers returned to this portion of the commission's schedule were in all kinds of phraseology and included a certain number of replies in percentages. All returns were carefully classified under the headings of "occasional" or "considerable," the most of the replies being so worded as to render such a classification reasonably accurate. Percentage returns above 5 per cent were classified under the heading "considerable," those less than 5 per cent under the heading "occasional." Of these 845 houses, 84.62 per cent report that direct loading in their vicinity is occasional and 15.38 per cent that it is considerable.

As measured by direct loading reports, therefore, a considerable proportion of elevators are in competition with the other types of buyers discussed in this section in purchasing the farmers' grain.

Methods of marketing hogs.[4]—Methods of marketing hogs vary from time to time and in different parts of the country, but for the country as a whole it is believed that at present approximately 85 per cent of the hogs packed pass through one or another of the public stockyards and that approximately 15 per cent reach the packing house via other routes. The more important present-day methods of marketing may be listed as follows:

[4] Yearbook of United States Department of Agriculture, 1922, pp. 233-238.

Producer shipments.—Some producers ship their own hogs in carload lots. Such shipments may go either to a central market or direct to a packing house. A survey made in 1914 and 1915 indicated that of the total hogs marketed the percentage shipped to central markets directly by producers ranged from none in most of the New England States to as high as 57 per cent in Wyoming. The New England States and Wyoming, however, are not important hog-producing states. In the corn belt, where most of the hogs are raised, the percentage shipped to market by the producer ranged generally from 15 to 24 per cent, with Nebraska reporting as high as 35 per cent so marketed.



Weekly Average Weight of Hogs Received at Four Leading Markets, 1921.

As a rule the average weight of hogs marketed at Omaha is higher than at any of the other three leading middle western markets Chicago is usually second in this respect, Kansas City, and East St. Louis fourth.

Most of the hogs sent by producers directly to market are consigned to the stockyards, but some producers and shippers ship direct to the packing house, thereby eliminating stockyard charges. This is not an important method of marketing, except in certain sections. In Kansas City one packing concern maintains a private stockyard simply for the purpose of receiving shipments that come to the concern direct from the country. Some days this private yard receives a larger number of hogs than the public stockyard in that city. Also in St. Louis there is a packing concern which often receives on a given day more hogs than the national stock yards, generally referred to as East St. Louis, across the river, despite the fact that the latter market is the second largest hog market in the country.

A third form of marketing involving direct shipment by the producer is one in which hogs are slaughtered and dressed on the farm and

shipped to some consuming center and sold. This method of marketing is relatively unimportant in the large hog-producing areas. In New England, the Cotton States, and the Pacific Northwest, however, it comprises a considerable proportion of the hogs marketed. For example, in the survey of 1914 and 1915 the per cent so marketed in the New England States ranged from 20 to 33, in the Cotton States from 5 to 27, and in the Pacific Northwest from 4 to 33. It is probable that with the increase in the number of packing establishments and improvement in central market facilities which have occurred during recent years, this practice of marketing farm-dressed hogs in the carcass is not so prevalent as it was eight years ago.

Local sales.—Considerably more than half the hogs marketed in the United States are sold by the producer in the country. These local sales may be either to *(a)* country buyer, *(b)* local butcher, or *(c)* the packer buyer. These three agencies are listed in the probable order of their importance based on the number of hogs handled.

Country buyer.—Probably more hogs still reach the market through the country buyer than by any other single agency. In the survey referred to above, the per cent of hogs marketed through the country drover ranged all the way from none to 69 per cent. In the Corn Belt States the percentage ran high, ranging from 45 per cent in Nebraska to 69 per cent in Missouri.

The strength of the local buyer as a marketing agency has always rested largely on the fact that he stands ready to buy anywhere from one head to several carloads of animals and thereby provides a ready market for the small-lot producer. As a rule he takes whatever the producer has to offer and pays cash in hand. He assumes all risk and pockets all profits of marketing.

During recent years, however, the country buyers' activities have been seriously curtailed by the coöperative shipping associations. This type of organization competes successfully with the country buyer for the reason that it provides for the small producer the same sort of service that the country drover does and, in some instances at least, provides this service at a lower cost.

Country butchers.—Although in the Corn Belt comparatively few hogs are sold direct to the country butcher, there are sections of the country, notably New England and the Cotton States, in which a very large percentage of the hogs are marketed right at home. The survey made, 1914-1915, indicated that in Connecticut nearly 62 per cent of the hogs went to local butchers and in Louisiana approximately 63 per cent were so marketed. Obviously this system of marketing is suited only to sections of small production. Any territory, such as the Corn Belt, where a large surplus of hogs is produced, must, of course, depend on other means for an outlet.

Packer buyer.—In certain sections of the country packer buyers or agents go to the farms and buy hogs direct from the producers. This policy is confined almost entirely to those sections of the Corn Belt where hog production is most highly developed. In this system of marketing the packer buyer supplants the country drover and is able to do so chiefly because he is relieved of stockyard charges which the country drover, as a rule, must pay.

Coöperative marketing.—Coöperative marketing of hogs is increasing steadily and rapidly; in certain parts of the country more than half of the hogs are now marketed in this way. Iowa, Minnesota, and Wisconsin have made rapid strides, and in other sections of the country the system seems firmly rooted. Coöperative marketing has appeared in various forms, but the most important are the coöperative shipping associations and the auction sale methods.

Shipping associations.—The most popular method of marketing live stock coöperatively is through coöperative shipping associations. In 1921 Iowa had more than 600 such associations, and it is estimated that at the present time there are, in the country as a whole between 5,000 and 6,000 organizations of this sort.

Probably between 75 and 80 per cent of the business of coöperative shipping associations consists in marketing hogs. This is true because hogs lend themselves more readily to coöperative shipping than any other class of meat animals. Despite its concentration in the Corn Belt, hog production is probably more widely dispersed than that of any other meat animal. Almost every farm produces at least one or two hogs annually. The assembling of these small lots of hogs and getting them to market provides an excellent opportunity for coöperative effort. A survey made in 1921, which covered 210 live-stock shipping associations and companies handling live stock, and a total of 1,133,000 heads of stock, showed that, on a head basis, hogs constituted more than 83 per cent of the business of the associations.

The advantages of coöperative shipping have been pointed out too often to require restatement here. One advantage, however, which has not received so much attention as it deserves is the fact that every successful shipping association depends largely for its success on a lively interest in the organization on the part of its membership.

This necessitates the individual members and producers gaining at least a working knowledge of the machinery involved in handling live stock between the farm and the consumer's table. More intimate knowledge concerning these various factors and instruments of marketing makes for more intelligent action on the part of the producer, both with respect to his production and also his marketing methods.

A rather interesting feature in this connection is found in the fact that the country buyer was in a sense an outgrowth of coöperative

marketing. In the early days producers in many instances pooled their stock and either took or sent it to a market. This soon developed the need for a manager or some one who would be responsible for the enterprise. Presently it was found simpler to sell the stock to the manager and allow him to assume all responsibility and all risk.

Tobacco Marketing.[5]

The marketing of tobacco varies considerably in different tobacco-producing sections of the country. In general there are three methods—the auction system, farm selling, and coöperative marketing.

The auction system is practiced principally in Maryland, Virginia, North Carolina, South Carolina, Georgia, Tennessee, Kentucky, West Virginia, southern Ohio, Indiana, and Missouri. Most tobacco produced in the cigar-leaf sections of Wisconsin, Ohio, Pennsylvania, Florida, Georgia, and the Connecticut valley is marketed on the farm. Coöperative marketing is practiced more or less in every tobacco-producing section of the country. There is only a small amount of tobacco that is not marketed by one of these methods.

Preparation of tobacco for sale under auction system.—In preparing tobacco to be sold at auction, as soon as the tobacco is cured it is brought into a soft, pliable condition and assorted according to quality, color, length, and other factors. Where the tobacco is cured on the stalk the leaves must first be stripped from the stalks for assorting. The number of lots made by each producer varies considerably, depending upon the accuracy with which the tobacco is assorted and also upon the size and character of the crop. From five to twelve lots are usually made from each curing or barn of tobacco. Except for a general knowledge of the qualities of tobacco farmers have no guide in this assorting process. In most cases they separate their tobacco into lots of similar character without knowing to what grades the tobacco belongs or for what use the tobacco is suited. This being true, the farmer is at a loss to know the market value of his tobacco even after carefully assorting it. The principal reason for this condition is due to the fact that there are no generally recognized standard grades for tobacco.

After the tobacco is assorted into various lots by the farmer it is tied into hands, or bundles, as they are sometimes called, each hand containing five to twenty-five leaves. The hands are then hung on laths or sticks so that they can be handled easily without breaking or tangling the tobacco. The tobacco is then conditioned for market. Tobacco is usually conditioned on the farm in one of three ways: (1) by hanging it loosely in an open shed during a warm moist day; (2) by hanging

[5] Yearbook of the United States Department of Agriculture, 1922, pp. 433-442.

it in a damp cellar or steam room; (3) by sprinkling it lightly with water and packing it into a bulk. In conditioning for market the general tendency is to put too much moisture in the tobacco, especially when it is sprinkled, and sometimes it is delivered wet and badly bruised. To be in the best marketable condition the tobacco should contain from 15 to 20 per cent of moisture.

The auction methods of selling.—Tobacco is sold at auction in three ways—by publicly selling loose or unpacked tobacco to the highest bidder, by publicly selling in packed form to the highest bidder, and by closed-bids auction of packed tobacco.

The loose-leaf auction system.—The first method, often referred to as the loose-leaf auction system, is the method by which the majority of tobacco produced in the United States in the past two decades has been sold. Practically all of the auction markets of the country operate on the loose-leaf auction plan, with the exception of Baltimore, Md., which is a packed-tobacco market operating under the closed-bid auction plan, and Louisville, Ky., which is a packed-tobacco market operating on the public-auction plan. The market at Cincinnati, Ohio, is operated principally on the loose-leaf auction plan, but it has also a public auction market for packed tobacco.

As a rule the tobacco is taken to the loose-leaf auction market on the laths, where each lot is stripped from the laths and placed in a large flat-bottomed basket. The baskets containing the tobacco are then weighed and arranged according to quality in rows on the floor of a loose-leaf auction sales warehouse. In some markets, instead of using baskets, the lots are merely weighed and placed in piles on the floor of the warehouse. On each basket or pile is placed a ticket showing the name of the farmer who owns the tobacco, the number of pounds contained in the lot, and the consecutive number given to the lot. The tobacco is then sold in piles or lots ranging from 10 to 1,500 pounds to the highest bidder at public auction. As the sale proceeds from basket to basket a clerk of the warehouse enters on each ticket the price per pound at which the tobacco is sold, the name of the buyer, and the grade assigned to the lot by the buyer. As a rule, the buyers for the large companies are governed in their bids entirely by their private grades, so it becomes largely a matter on the auction floors for the buyer first to determine to which of his grades, if any, a certain lot of tobacco belongs. Having determined the grade, he knows the limit that his company allows him to bid on the lot. Each buyer or manufacturer has for his own use a private system of grades. After the tobacco once leaves the farmer's hands it is handled almost entirely by grade.

In some of the larger markets the sales proceed very rapidly. In many markets the local board of trade requires the auctioneer to sell

as high as two hundred and forty lots of tobacco in an hour's time. After the sale is over the farmer has a right to refuse the price offered, in which case he can either have the tobacco put up at auction the second time or have it removed from the warehouse for sale elsewhere. If the price offered is accepted, the auction-sales warehouseman renders the farmer an account, showing the number of pounds and the price of each lot sold, and gives him a check for the total amount of the sale, less the warehouse charges, which usually include an auction fee, a weighing charge, and a commission for selling.

Each buyer removes the tobacco purchased by him from the auction-sales warehouse to a redrying plant or packing house, where the tobacco is placed in a safekeeping condition and packed into hogsheads, ready for storage or shipment. A large percentage of the tobacco is bought direct by the manufacturer, in which case the tobacco, after being conditioned and packed, is usually shipped to the private-storage warehouse of the manufacturer, where it remains in storage until it is ready to be manufactured. The large amount of tobacco bought for export trade is shipped abroad for storage. Most of the independent buyers have their tobacco stored in public storage warehouses, where the tobacco is held for resale. In such cases tobacco is usually resold on samples which are taken from the hogsheads of tobacco while in storage.

Selling in packed form at public auction.—Tobacco to be sold at public auction in packed form is prepared by the farmers in the same way as tobacco to be sold under the loose-leaf auction system, except that it is packed into hogsheads or tierces containing from 500 to 2,000 pounds and then shipped to sales warehouses. When tobacco is offered for selling, the packages are arranged in rows on the floor of the warehouse in very much the same manner that the baskets are arranged on the floor of a loose-leaf auction warehouse. The packages are then opened up in a manner that will not disturb the form of packing. The tobacco is then sold at public auction as the buyers pass from lot to lot examining and bidding on the tobacco. When the sale is over the lots are placed back into the same containers and returned to storage, where the tobacco is held for resale or manufacture by the new owner.

The closed-bid auction method.—Under the closed-bid auction plan the packages are prepared in the same form as when the tobacco is sold in packed form, but the containers are opened up and sampled when they are received at the warehouse. Samples are made up of from four to nine hands drawn from different parts of the package and are labeled to preserve the identity of the sample and sealed to prevent substitution. At some warehouses these samples are drawn and sealed by persons who are licensed under the United States Warehouse Act for the purpose. The samples are then displayed by the broker or

commission merchant to whom the tobacco was consigned for sale. Each buyer enters on a slip of paper, opposite the number of each sample, the price per pound which he is willing to give for the lot represented by the sample and drops it into a box. At the end of the day the box is opened and the tobacco is sold to the buyer who offers the highest price.

Farm selling of tobacco.—Possibly next to the auction-sales method of selling tobacco the most general practice is to sell the tobacco on the farm to buyers who visit producing districts. In most sections in which tobacco is thus sold the farmer makes little attempt to assort his tobacco with respect to quality. As soon as the tobacco is cured, the farmer watches an opportunity when he can find the tobacco in a natural condition, soft enough to be handled without breaking. He then takes the tobacco down from the barns or sheds, strips the leaves from the stalks, and ties them roughly into large hands, which are packed into bundles of approximately 100 pounds each. Usually before the tobacco is taken down from the barns or after it has been placed into bundles it is examined by country buyers and bought, but very often it is bought at a general average price without being examined. The tobacco is then delivered to a place designated by the buyer, where the bundles are opened up, the hands untied, and the tobacco assorted according to the buyer's grades. The tobacco is then retied into hands and conditioned for storage. After conditioning the tobacco is ordinarily packed into cases averaging about 300 pounds and placed in storage warehouses.

After the tobacco has passed through the spring sweat the cases are opened up and sampled, at which time it is offered for sale to the manufacturer. The tobacco is usually sold by the dealers according to the quality of each lot, whereas the farmer sells the tobacco unassorted for a general average price. In some instances the tobacco is bought by representatives of the manufacturer direct from the farmer, in which case the manufacturer has the tobacco assorted and packed for storage in the same manner as is ordinarily practiced by the independent country buyer. The contract method of buying is practiced to a large extent in many of the cigar-leaf producing sections. Very often the country buyers purchase a large percentage of the year's crop before it is harvested, the farmer agreeing to deliver the tobacco after it is produced, cured, and packed into bundles.

In all sections in which farm selling is practiced the farmers have practically no conception of tobacco grades, and very few realize the wide variation in the prices of tobacco of different qualities. Their main source of information as to the value of tobacco is the price received by neighbors, which is usually a flat price of so many cents per pound for all qualities of tobacco. The farmer who sells his tobacco at an average of 30 cents has very little idea what proportion of it has a

market value of from 3 to 5 cents per pound and what from 80 to 90 cents per pound. This is due to the fact that there are no standard grades by which the farmer can be governed. With tobacco varying in price from 1 cent to $2 per pound, it is not practical for a farmer to estimate with any degree of accuracy the market value of his tobacco without the use of some uniform system of grades. Neither is it possible for market quotations to be of very much value without standard grades.

Coöperative marketing.—Coöperative marketing has followed principally three general lines: Coöperative packing, coöperative sales agencies, and coöperative pooling.

Coöperative packing.—In many sections farmers have found that it was impracticable for them to pack their individual crops for storage, due to the fact that they were unable to employ expert assorters and also on account of the small size of the lots of tobacco of a particular quality that would be produced on a single farm. To own and operate coöperative packing houses where the tobacco could be assorted into lots of like qualities by trained men has proved of advantage. In this way the farmers were able to pack complete cases or hogsheads of tobacco of similar quality, whereas in individual packing it would be necessary in most instances to mix the different qualities in order to fill cases of commercial size. The packing houses as a rule have not been altogether successful, due, perhaps, to the fact that they were not able to operate continuously from year to year. In years in which there was little demand for tobacco the packing houses had more tobacco than they could conveniently care for, while in other years when the demand and prices were good the farmers would sell their tobacco direct to the dealers and manufacturers without packing, leaving the packing houses idle. Ordinarily no special provisions were made for the sale of the tobacco which was jointly packed in this manner. Each farmer or group of farmers interested in a particular packing was required to be his own sales agent.

Coöperative sales agencies.—In some sections farmers organize coöperative sales agencies in connection with their packing houses. These agencies sell the tobacco that is coöperatively packed by the farmers. In practically all cases the individual farmer reserves the right to accept or reject the price offered to these agencies, and in most cases the individual farmer is allowed to sell his packing independent of agencies. However, this is limited to some extent in some agencies by requiring the individual producer when selling his tobacco independent of the agency to pay a fee to the agency. In other sections the agencies were formed independent of the coöperative packing plants. In these sections the individual farmer usually does his own assorting and packing and ships his tobacco to a storage warehouse under consignment to the

coöperative selling agency. The coöperative agency in this particular instance performs the function of a commission merchant.

Coöperative pooling.—The most common form of coöperative marketing that is practiced is coöperative pooling. Pools have been formed in practically every section of the country in which tobacco is produced. Until recent years the pooling idea has been worked out on a small scale in most sections, but during the last two years several very large pools have been formed. These large coöperative pools have absorbed a number of the smaller pools, and one of the principles on which they are formed is to control a large percentage of the production in certain areas. In organizing a pool of this kind, from 50 to 75 per cent of the tobacco produced in a particular section is determined upon as a goal, and the organization is not put into operation until this percentage of the tobacco has been pledged to the pool by individual farmers who sign contracts. In these contracts the farmers agree to sell and deliver their entire crops of tobacco for a certain number of years to the pool, or coöperative association, which will sell the tobacco and make returns to the farmers after deducting all operating expenses. These coöperative associations are organized without capital stock.

To secure the necessary funds to pay for the operating expenses of the association and to make advances to its members the association borrows money on its notes, which are usually secured by warehouse receipts showing the type, form, grade, weight, and condition of the tobacco, and the obligations assumed by the warehouseman. The grade or other class of the tobacco shown on the warehouse receipts, if issued under the United States Warehouse Act, are usually taken from an official inspection, grade, and weight certificate issued at the conditioning plant. This is done in order to save opening up the tobacco after being received into storage, which is not only expensive but causes considerable damage to the tobacco.

The associations found that in many cases the number of public storage houses available was not sufficient to take care of their storage requirements, and it became necessary to organize subsidiary warehousing corporations to perform this function. These corporations are organized as a rule with sufficient capital stock to purchase, own, and operate storage warehouses. In some cases these subsidiary corporations own and operate redrying and conditioning plants in connection with the operation of storage warehouses, and in other cases they own and operate assorting and packing houses in which the tobacco is prepared for storage.

Under the pooling plan the tobacco is assorted and tied into hands by the individual farmer and delivered to the receiving warehouses of the association at such times and places as it directs. As the tobacco is received into the warehouses of the association it is weighed, placed into

baskets, and tagged in the same manner as in the case of the auction system, but instead of selling it at auction the baskets are graded by expert graders who are employed by the association. Each farmer is given a statement showing the grades of the tobacco delivered to the association with the weight of each grade. At the same time an advance payment is made on the tobacco delivered. The amount of this advance is governed by the association and proportioned according to the particular quantity of each grade delivered to the association.

The association has full jurisdiction over the tobacco after it has been received and may condition, warehouse, or sell it at will. A certain percentage of the tobacco as a rule is sold direct to dealers and manufacturers from the loose-leaf receiving floors of the association. The remainder of the tobacco is shipped by the association to conditioning plants, where it is conditioned and packed into hogsheads or cases for storage. As the tobacco is packed it is inspected, regraded, sampled and weighed by competent and reliable persons, many of whom are licensed for the purpose under the United States Warehouse Act. It is then delivered to public storage houses, many of which are also licensed under the same law.

Marketing Cotton.[6]

Local sales—the cotton bale.—Three general types of bales are used for packing cotton at the gin—the flat bale, the round bale, and the gin-compressed bale.

The flat bale is a loosely packed bale of about 33 by 48 by 54 inches in dimensions and weighs approximately 500 pounds, with an average density of about 11 pounds per cubic foot. Hardly any bale, however, will be found to be of exactly this weight. Some will run a little over and some a little under, and in certain parts of the belt bales customarily run considerably over this weight, while in other sections considerably less. It is bound with steel bands called cotton ties.

The round bale is a cylindrical bale approximately 35 inches long and from 20 to 22 inches in diameter. It has a density of from 32 to 37 pounds per cubic foot, weighs about 250 pounds, and is completely covered with close-mesh bagging. No bands are used on it.

The gin-compressed bale, which is sufficiently compact not to need further compression after leaving the gin, is about 20 by 25 by 52 inches in dimension and is compressed to a density of 30 pounds or over per cubic foot. It is bound in much the same way as the flat bale, but is more nearly covered with bagging. Neither the round bale nor the gin-compressed bale is in general use, the flat bale being the typical gin

[6] Report of the Federal Trade Commission on the Cotton Trade, pp. 24-30.

bale.[7] In the case of export cotton it is necessary, in order to save freight charges, to compress flat bales either to "standard" or to "high density." The standard bale is 27 by 27 by 54 inches in dimension. The dimension is prescribed by all steamship lines, and the bale is compressed to a density of 22 to 24 pounds per cubic foot. The high-density bale is about 20 by 20 by 58 inches in dimension and is compressed to a density of from 32 to 38 pounds, or in some cases even to 50 pounds, per cubic foot.

The local storekeeper.—Cotton farmers and planters may either dispose of their cotton locally or ship it to one of the larger spot markets for sale.

If the cotton is disposed of locally, it is usually sold outright to a local storekeeper, local interior buyer, or direct buyer[8] for one of the larger shippers; if shipped to the spot market before sale by the producer it is usually handled on a commission basis by a factor or commission house and sold either on a to-arrive or spot basis. The small planter or farmer is likely to sell either to the local storekeeper or interior buyer. The larger planters, on the other hand, seldom sell to either of these purchasers, but more usually dispose of their cotton to the direct buyers employed by the larger spot merchants or sell on a commission basis at the spot markets. A considerable proportion of the cotton crop, however, is bought by local storekeepers. This situation is in part the result of credit conditions which frequently render the small planter and tenant farmer more or less dependent upon local general merchants for financial assistance. A large proportion of the small planters and farmers of the South are unable to finance themselves through the growing season. They are compelled to borrow, and frequently this borrowing takes the form of an open or charge account with the local storekeeper, whereby the latter supplies the planter's wants during the growing season. Tenant farmers are frequently thus carried for long periods by the local store. As a means of liquidating these accounts and also in order to induce custom the local storekeeper enters the business of purchasing cotton, receiving it in liquidation of the account and crediting the debtor grower with the price paid. Thus the storekeeper becomes the first middleman for a considerable proportion of the cotton crop.

The local storekeeper may also buy cotton for cash, either from parties who owe him money or from others, as a possible source of profit. An

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[7] Much objection has been raised to the round bale, both by the carriers and the spinners. It is also claimed that the cost of installing and operating presses at cotton gins of sufficient power to compress cotton into either standard or high-density bales renders gin compression uneconomical for most ginners. Both contentions are emphatically denied by many.

[8] The term "local interior buyer" refers to local people buying cotton either on their own account or for others. The term "direct buyers" refers to the "road" or traveling buyers of the larger spot merchants.

investigation made by the Department of Agriculture in North Carolina some years ago indicated an apparent advantage of about 15 points, or 75 cents a bale, for sales credited to the owner's account by a merchant over sales for cash. The department reported that it was generally conceded that a merchant who did not depend upon the handling of cotton for a livelihood, but who employed it for the purpose of collecting accounts and inducing trade, would often handle cotton for the mere cost or even in some cases at a loss. However, the local prices paid indicated that the financial condition of the seller entered into sales on account, the highest prices being paid to those having no security except the cotton. Such parties frequently were charged a higher price for the supplies they bought, so that the higher prices paid for the cotton were largely offset by this fact.[9]

In a more recent study of cotton financing made by the Federal Reserve Board it is stated that "in general the supply store charges higher prices for supplies for which payment is not received until after the cotton is ginned and sold than they do for supplies for which cash is paid or for which payment is made within 30 days. While in nearly all cases the credit price is from 10 to 25 per cent higher than the cash price, the supply stores reporting from different sections show variations as to these differences." [10]

Interior cotton buyers.—The term "interior cotton buyer" has been used to designate local people who engage in purchasing cotton on their own account or for others in competition with other buyers. As a rule they operate on a small capital and undertake to make a profit by buying the farmer's crop in competition with other buyers and selling to larger dealers or through factors. In some cases these buyers are termed scalpers. In Texas they are known as f. o. b. buyers from the fact that they act as concentrating agents, buying at various local points in lots of from one to ten bales and selling f. o. b. compress points in lots of comparatively uniform quality.

The interior buyers keep close watch of the trade situation in cotton and the character and condition of the cotton as it is being picked. With this information as a basis they make their offering prices for the cotton as it runs. Often they buy directly from the gins and in some instances the ginners themselves are cotton buyers.

Neither the local storekeeper nor interior buyer purchases much cotton from the large planters. These producers, as a rule, obtain their funds from banks, factors, and, in some cases, perhaps, from cotton merchants. There is not, therefore, in their case the motive for selling to local store-

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[9] McConnell and Camp, U. S. Department of Agriculture, Bulletin No. 476, p. 9

[10] Carson, "Financing the Production and Distribution of Cotton," reprint from Federal Reserve Bulletin, p. 21.

keepers that frequently exists in the case of the small farmers or planters. So far as the local interior buyer is concerned, the larger planters often have cotton in such volume that this class of local purchaser is scarcely equipped to handle it, owing to his restricted capital or otherwise. Such purchases as are made by the local storekeepers and interior buyers, therefore, are chiefly from the smaller planters or farmers, the larger planters selling principally to the road buyers of the larger merchants and shippers in so far as they market their cotton locally, rather than at spot markets. Both local interior buyers and local storekeepers sell cotton to road buyers. Neither of the former, nor planters, nor farmers, sell or ship, as a rule, to mills, partly because they are not in touch with them, and partly because they do not have the cotton in even running bales suitable for the mill's requirements. An exception to this rule is local cotton in the immediate vicinity of the mill, several of the southern mills buying or offering to buy practically all the cotton hauled into the town where the mill is located.

Direct or road buyers.—Local sales are also made by producers to buying agents, or road buyers, who are employed by the large cotton merchants in buying cotton directly in the producing territory. These buyers work either on a salary or commission basis. They are constantly on the watch for anyone offering cotton for sale in the section where they are located and endeavor to trade to the best advantage for their principal.

They purchase largely, however, from sellers who own or have purchased a considerable quantity of cotton, so that the road buyer can take it up in lots of say 100 to 1,000 bales. Their purchases, therefore, are chiefly from the larger planters, or else from local stores or interior buyers, who may have accumulated 200 or 300 bales, or more, in local warehouses. In sundry cases, however, purchases are made in much smaller lots, even at times in single bales, if cotton is wanted. In fact there are considerable variations in practice both between sections and individual concerns in obtaining cotton, as appears from the following quotations from a study of cotton financing made by the Federal Reserve Board:

"Several methods of buying cotton are used by the merchants. Many of the large cotton-buying firms have had offices in one of the principal southern cities and a number of branch offices in other cities throughout the Cotton Belt. From the branch offices buyers are sent into the near-by local markets to buy cotton from growers and local dealers or supply merchants. The extent to which each of the sources is used to obtain cotton varies with the several cotton firms that are organized on an extensive basis. One large firm operating entirely in Tennessee, Arkansas, and Oklahoma says that 65 per cent of its cotton purchases are from local supply stores and 35 per cent are from the growers

directly. Another firm that maintains offices throughout the cotton areas in the larger cities estimates that 90 per cent of its purchases are from dealers in the local markets, from 3 to 5 per cent from growers, and the remainder from coöperative marketing associations. Another large organization estimates that approximately 50, 40, and 10 per cent of its purchases are from growers, dealers, and coöperative associations, respectively. Other merchants who operate one or more offices in several of the primary markets usually deal directly with the growers in these markets and resell to the firms organized in the manner described. An illustration of the method of buying is given by one of the larger firms in the following:

"We buy practically no cotton from growers, but buy nearly all from local dealers in the interior markets (principally at compress points); we estimate that about 90 per cent of our cotton is bought in this way, the balance is bought from dealers at ports such as Galveston, Houston, and New Orleans; we also occasionally buy from coöperative marketing associations." [11]

The road buyer usually offers what is called in certain sections a "hog round" price; that is, a flat price for the entire lot of cotton, even though it may be of the most widely varying grades and staples.

The road buyer goes through each lot of cotton and samples it. He may sample every bale of it and still not buy it, since he may offer a price which the merchant refuses. He also reports to his concern the quantity of the cotton purchased with his classification of it.

Road buyers are sent out through the cotton country by numerous concerns, and as a result the trade obtains a very good idea as to how much cotton there is available in the various districts. When a buyer for any prominent cotton merchant goes into a certain district, every merchant and scalper and large planter there will know it as soon as he arrives. He may offer a price that takes the cotton of that district, and if he does the news will go out that the organization employing him has bought up a certain quantity in that territory. By combining these reports and estimate, the large buyers obtain very close approximations of the quantities of cotton bought by various concerns.

Cotton bought at a "hog round" price, or taken up by the local agent working on commission, is shipped to a concentration point and is there classed out and shipped to points of destination.

The road buyer gives the cotton purchased what is called "a take up" class and it is the intention always to have him apply a "hard" basis of classification. Obviously, if the buyer undervalues the cotton, and yet secures it, this fact will enable the purchasing concern to sell the

[11] Carson, "Financing the Production and Distribution of Cotton," reprint from Federal Reserve Bulletin, p. 38.

cotton at a better profit by obtaining the market price for the actual grade delivered. The road buyers, it is said, are very anxious to buy, however, and, therefore, in spite of instructions to be "hard" in their classification, they are inclined to do their best to meet competition. In consequence, it is alleged that they often give too high a classification. Frequently they do not have the proper light and weather conditions for scientific classing.

The buyers for the large spot merchants are furnished by the head office with limits or a basis; that is, the number of points on or off which are to be applied to the futures price of the hedge month prevailing at the time the cotton is purchased. The limits are generally sent out once a day, but are changed whenever conditions warrant, which may be several times a day. Buyers are also furnished with a list of differences on and off middling to be added to or subtracted from the basis in buying cotton of grades other than middling. These differences in contrast to the limits or basis do not change very often.

To illustrate the foregoing, assume that the buyer's limit or basis is 100 points off the hedge month future and that the list of differences supplied him shows for strict low middling 50 points off middling. If the buyer offered to purchase cotton grading strict low middling his offer would be 150 points off the hedge month. Similarly, if his difference for good middling was, say, 100 on and his limits or basis 100 off, the buyer's offer for good middling would be even with the hedge month.

Some buyers are not supplied with limits, but are given merely a flat price for middling and a list of differences on and off this price for the grades above and below, and in practice there are frequently other variations.

It is the business of the buyer to get the cotton as cheap as he can. He may strike a weak spot in the market, and, in the absence of competition, find a farmer, a merchant, or a scalper, who would sell him cotton at less than he is allowed to pay. In such cases his firm makes the extra profit.

On the other hand, he may pay more than he is supposed to pay through a mistake of judgment. For example, if the buyer purchases middling and classes it as strict middling, he may allow 30½ cents for the cotton, though his instructions would allow only 30 cents for middling. In this case his concern must stand the difference. The success of a cotton concern, therefore, may well depend very largely upon the good judgment of its road buyers, especially as to their ability to determine the grades of cotton.

Concentration of cotton.—The cotton accumulated locally by interior buyers, local storekeepers, and also to a lesser extent, perhaps, by road buyers, may be of considerable variety, either in grade or staple, or both. In consequence, much of this cotton is concentrated at what are

known as concentration points. The concentration of cotton from an economic standpoint is principally in order to bring together lots of cotton of different grades and staples so that they can be classed out and divided into lots of even-running quality. The chief disadvantage of the concentration of cotton is the extra expenses entailed by warehouse and handling charges. If it is possible to class the cotton out at point of origin, and put it under a through bill of lading to point of destination, expenses are saved, because there are no terminal or other charges in making delivery to points of destination. As a result the tendency of the modern cotton business is in this direction.

At certain interior points where they have good warehouses, and particularly compressing facilities, it is sometimes advantageous to concentrate cotton from the smaller points where such warehouse and compressing facilities do not exist. Cotton at these points is put into even-running lots, and again, if possible, put under through bills of lading to point of destination.

Nearly all interior points have more or less satisfactory warehouse facilities, their chief disadvantage, as compared to the larger markets, being the higher cost of handling, particularly the higher insurance rates, and also higher rates of interest if the cotton is carried by the interior banks. Most large handlers find it advantageous, therefore, to get cotton away from the smaller interior points and concentrate it at the larger interior points, or, if possible, at ports where better and cheaper facilities are available, insurance rates are lower, and financing can be done more easily and at lower rates of interest.

The large New Orleans cotton handlers, for example, will concentrate at various important points in the interior, such as Shreveport, Monroe, Alexandria, or any location where the charges and freight rates make it favorable for them to do so.

MARKETING METHODS

Northwestern Boxed Apples.[12]

Growers in the Pacific Northwest market the fruit through various agencies, the most important being coöperative selling organizations, local dealers, traveling cash buyers, and commission merchants.

The coöperative method generally consists of collective selling by hired representatives of one or more groups of producers, and practically every type of coöperative organization has been in operation. Local associations are formed, consisting of a single group of growers, who employ a manager to transact their business and sell the output. Federations of local groups also are formed, the managers of the local units acting

[12] Kitchen, C. W., et al., Bulletin No. 935, United States Department of Agriculture.

merely as intermediaries between the central organization and the local unit. The central organizations practically control sales, collections, inspections, and advertising, thus facilitating standardization and specialization.

Local dealers purchase the fruit from growers, buying outright for cash or on contract. In some sections local merchants have developed a merchandising department and advance supplies and equipment to growers whose fruit they buy or handle on consignment.

A limited quantity of fruit is handled on a strictly consignment basis by resident dealers. Such dealers often operate packing houses where the fruit is graded, sized, and packed for a certain fixed charge per box, which includes box shook, materials, and labor. Cash sales to traveling or to resident buyers who represent firms in terminal markets are common. Some of these representatives also act as growers' agents and accept shipments on consignment.

Direct sales or sales through brokers to firms in consuming centers are usually made on an f. o. b. basis. Particularly was this true during the fall of 1919, when many of these firms contracted with northwestern shippers for future delivery. Various conditions make it necessary or desirable to roll a large number of loaded cars unsold. Usually these tramp cars are destined to territories that seem to promise the best returns and generally are sold when near to a market. Many of these sales are made through brokers.

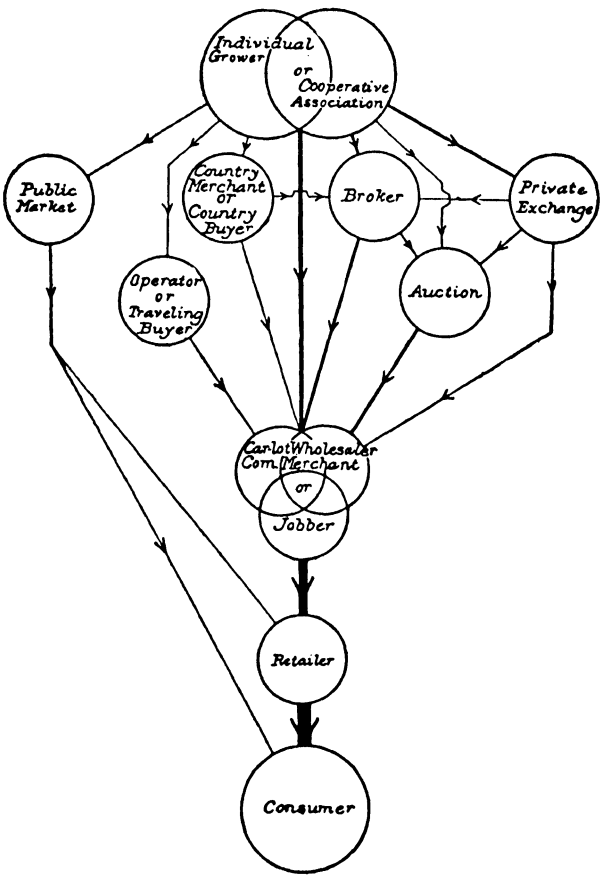
Railroad records show that in 1915 there were 461 consignors of apples from the Pacific Northwest. This number has materially increased with the development of the industry.

By-products plants are rapidly developing and are taking more and more of the inferior and cull fruit, thus making possible a higher standard of grades and larger net returns to the producers.

Increasing production and a constantly increasing number of shippers have resulted in active competition with resultant improvement in the marketing systems. As the volume increases and the marketing problems become more complex, the development of coöperation between growers' selling organizations and sales agents becomes almost imperative.

Distribution.—Apples shipped from the Pacific Northwest enjoy a wider distribution than any other commodity shipped from one section. Reports of destinations from carriers for the last five years show that 2,567 cities were used as primary destinations. No attempt has been made to show final destinations because a large percentage of shipments were diverted and, unfortunately, such diversion information is not available. It is believed, however, that a sufficiently large number of primary destinations for the last five years were final destinations to

1. Producer shipments:
   (a) To central markets.
   (b) Direct to packers.
   (c) Slaughter and sale of products by farmers.
2. Local sale:
   (a) To the country drover.
   (b) To the packer buyer.
   (c) To local butcher.
3. Coöperative marketing:
   (a) Through shipping associations.
   (b) Through auction sales.



Main Channels of Distribution for Fruits and Vegetables.[13]

[13] Collins, J. H., and Fisher, J. W., Jr., Bulletin No. 267, United States Department of Agriculture.

make it fair to use this information as a basis for the further development of car-lot markets.

Telegraphic reports of shipments from the railroads during the 1919-1920 season showed that about 1,400 cities received car-lot shipments of apples from the Pacific Northwest. It is safe to assume that complete diversion information would show a very much larger number of cities to which shipments were made.

New car-lot markets are being developed, particularly in the Central Plains, Middle Western, Southwestern, and Southeastern States. Not taking into account the shipments to the large markets and billings to Chicago and Minneapolis for consumption and diversion, small markets in these four sections of the country received about one-fourth of the 1919 northwestern crop. Diversions from Chicago and points west of Chicago would probably show that many more cars were finally received in the smaller markets, particularly in the Southwest and Southeast.

Export shipments.—Apples grown in the Pacific Northwest have been exported to practically all the continents on the globe, including Europe, Asia, Africa, Australasia, South America, and the Dominion of Canada and Cuba. The development of steamship refrigerating facilities will doubtless increase these exports.

F. o. b. prices.— In making price studies reports of sales from all classes of shippers were used. The price differentials between Extra Fancy, Fancy, and "C" grade are fairly uniform; therefore, only the Extra Fancy grade has been used and no sales of small sizes have been considered.

The price trend for the last four years for f. o. b. sales at shipping points in the Pacific Northwest shows a steady advance. In 1916-1917 there was a moderate range but a fairly uniform level to December. The 1917-1918 season shows a comparatively small range in price but a generally higher level than the preceding season closing in March at prices somewhat above the opening. Prices opened at a higher level in 1918-1919 than the closing of the previous season with gradual upward fluctuations from the first to the last of December, and then advanced rapidly to the close of the season in March to the highest prices ever realized in the Pacific Northwest.

The 1919-1920 season opened at a price level of about $1 above the previous year's opening. Doubtless this can be attributed to the high prices which prevailed in the spring of 1919 and the unusual export demand, causing very active competition among apple buyers, who paid unusually high prices to growers. The great variance in the condition of the fruit was reflected in the wide price range which prevailed practically throughout the season. The variance was brought about by more or less careless handling, due largely to the pressure of getting the enormous crop picked, packed, and shipped or stored, inadequate and

congested storage facilities which made much rehandling necessary, the October freeze, car shortages, and extremely cold weather in December. The top range of the price level continued fairly uniform until the latter part of February, when slow but steady advances finally closed in March at a little above the top opening prices. The extreme cold weather, a shortage of cars, and a very limited demand from the latter part of November until the first part of January greatly restricted sales. During this period a very large percentage of the shipments were rolled unsold and many cars that moved in this way were forced on the large markets and finally sold at auction and on private sale at heavy discounts. Practically all sales of rollers were made at a lower figure than f. o. b. sales and showed a wider range. Reports from the large terminal markets showed price ranges of as much as $3 on the Extra Fancy grade. Freezing damage in transit was largely the cause of the very wide range in auction sales.

Although prices paid for apples in the fall of 1919 were higher than markets afterward warranted and caused heavy losses to many operators, the average price at consuming centers was high for the season as a whole, considering the size of the crop.

As a brief summing up of the whole question of marketing northwestern boxed apples, it may be said that the present proportions of the industry have been made possible only by the progressive spirit by which it is characterized.

In the establishment of standards for color full advantage has been taken of the fact that a large percentage of well-colored specimens is usually produced in the Northwest. The market value of the fruit has been enhanced in this way. The state governments have been active in guarding against the shipment of inferior fruit and dishonest packs, so that the northwestern crop as a whole has been handled and marketed in general conformity to more uniform and rigid standards than have prevailed in other sections of equally heavy production. There is perhaps no more striking proof than is here afforded of the dominating importance of standardization as a factor in the successful large scale marketing of perishable farm products.

Methods of Handling Eggs from Farm to Consumer.[14]

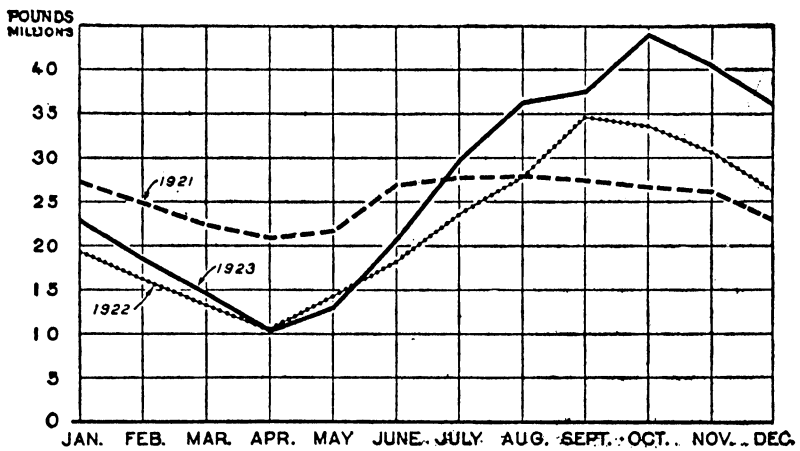
The channels of trade through which eggs reach the terminal markets are too numerous and too varied to attempt to describe them all in detail. In a broad way these channels may be divided into those in which the eggs are shipped by the producer direct to the terminal market and those in which the eggs pass through a concentration point

[14] Jull, M. A., et al., The Poultry Industry, Yearbook, United States Department of Agriculture, 1924, pp. 425-434.

after they leave the hands of the producer, there to be combined with other similar lots for shipment to the terminal market.

Among the channels followed by shipments made direct from producers to terminal markets may be mentioned producer to consumer, producer to retailer, restaurant, etc., and producer to city jobber or wholesale receiver.

Producer to consumer.—This channel is utilized principally by those producers who live in fairly close proximity to the terminal market or who are within easy shipping distance. The establishment of a city route by the producer which he serves regularly on certain days is one means of securing the necessary contact with the consumer. This form of producer-to-consumer selling is, of course, limited by the necessity of a suitable location but is one which is undergoing development in favorable localities at the present time. This method of marketing requires more time and effort but should result in better prices than can be secured through most other methods.



Cold Storage Holdings of Frozen Eggs, United States, 1901-1923.

The cold storage holdings of frozen eggs show a general tendency to increase after the flush egg-producing months of spring, reaching their highest point about September, after which there is a gradual decrease until the following spring. The quantity of frozen eggs in storage is much smaller and varies within narrower limits than the holdings of shell eggs. The movement of frozen eggs out of storage differs from that of shell eggs in not being reduced to the zero point and then built up again with entirely new supplies. Frozen eggs can be held over from one season to another, whereas it is not feasible to do so with shell eggs.

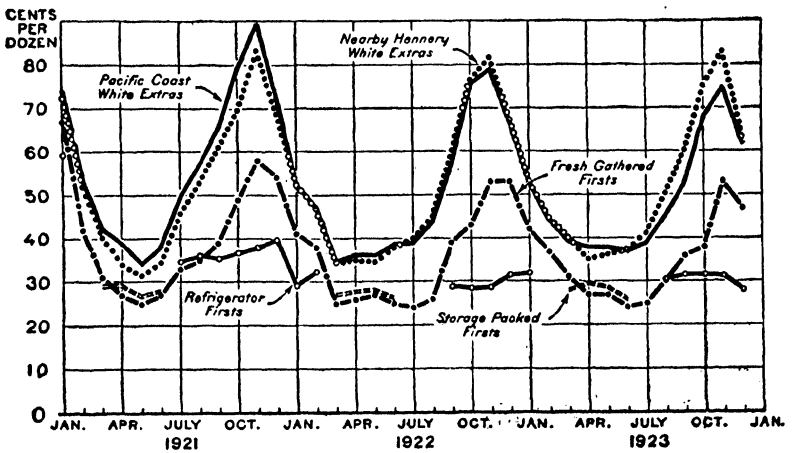
Another means of establishing direct trade between the producer and consumer is a modification of the above where the producer on certain days takes his eggs to the city and disposes of them at the public market.

In this manner it is possible to establish a regular clientele which seeks out the producer at the market instead of the producer going to the consumer's door.

Parcel post is another channel through which a direct trade between producer and consumer is carried on. Because the postal charges increase with distance, most parcel-post trading is limited between points within the second zone. Shipments are usually made at regular prearranged intervals and several dozen sent at a time to reduce the shipping cost per dozen.

Where producers live on well-traveled automobile roads, a considerable quantity of eggs is sold at the farmers' doors. Many city dwellers who own automobiles form the habit of motoring to the farm of some producer for their eggs either because they can secure a product of superior quality or because they can often purchase more cheaply there, quality considered, than they can in the city.

In any system of direct dealing in poultry products between the producer and the consumer it is essential that the quality of the product be given careful consideration. Consumers buy from producers partly because they expect to get a fresher, better product. If their trade is to be held, it is of the utmost importance that their confidence and expectations are not disappointed.



Wholesale Prices of Eggs at New York, 1921-1923.

The prices of Pacific Coast White Extras and nearby Hennery White Extras show a very close agreement because of their high quality and the demand which exists for the product of such quality. The slightly higher price of the Pacific coast eggs in 1921 was doubtless due to the closer grading and greater uniformity of the eggs and the better packing. Since a quotation has been established on the New York market for New Jersey eggs as packed by the Producers' Coöperative Association of that State, the price of this grade

has averaged higher than the Pacific coast eggs. Fresh Gathered Firsts, which are mainly eggs gathered from the Middle West, exhibit the same general price tendency but range considerably lower, the difference in price being greater during the summer and fall than during the spring. The greater price spread during the former season is due to the greater difference in quality during the heated season and also to the fact that the users of this grade turn to storage eggs to a considerable extent when prices become high, which lessens the demand and tends to hold the prices lower. Storage Packed Firsts run several cents higher than Fresh Gathered Firsts, owing to the more careful grading and better packing which are essential in eggs to be placed in storage. Refrigerator Firsts, which are the Storage Packed Firsts as they come out of storage, show a price level several cents higher than the latter, an increase which normally represents carrying charges and profit. The tendency is for the price of Refrigerator Firsts to rise during the fall and winter with that of Fresh Gathered Firsts, but not to the same extent.

Producer to retailer.—A fairly common outlet for eggs is the shipment by the producer to a retailer, hotel, restaurant, soda fountain, or hospital in the city. Often this furnishes a most advantageous market, the price frequently being agreed upon in advance either at a flat rate throughout the year or at a stated advance above the wholesale market price of eggs of a certain grade. One of the difficulties in the way of this system of marketing is that production must ordinarily be sufficient in amount to allow fairly frequent shipments in case lots and also that this class of trade frequently insists upon a specified quantity delivery each week throughout the year. To furnish this quantity at the season of low production requires a flock of such size that there will be a considerable surplus during the rest of the year which must be disposed of in some other way. In this outlet quality is again a question of paramount importance if the customers are to remain satisfied.

Producer to city jobber or wholesaler.—Undoubtedly most eggs shipped by producers to the terminal market are sent to jobbers or wholesale receivers. Eggs handled in this way are shipped largely by express from all sections within a reasonable distance of the market. It is this outlet which is used by producers who desire to make their own shipments to market, but who do not wish to give the time and necessary effort to take advantage of any of the other channels to terminal market outlets previously described. Among the agencies handling eggs which reach their market through a concentration point may be mentioned the country store, the huckster, the local buyer, the poultry and egg-packing house, the creamery, and the coöperative association.

The country store.— In general farming sections at a considerable distance from the large consuming markets it has long been the custom for country stores to handle the eggs of their farmer customers. This has been done largely as a convenience to the store's patrons and because it attracted trade, rather than through a desire on the part

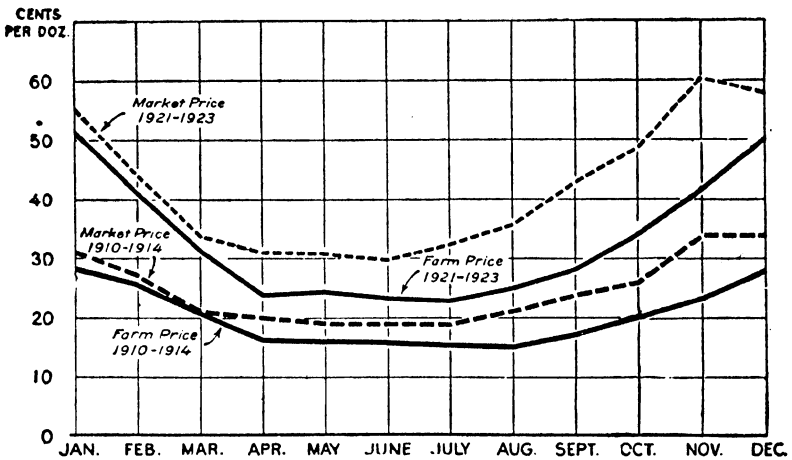
of the storekeeper to engage in the egg business. The eggs are taken in either for cash or in trade, usually the latter. They are commonly purchased on a case-count basis—that is, a flat price per dozen without regard to the quality of the eggs or even whether they are good or bad. Such a system means, of course, that an average price is paid for all qualities and that the price of good eggs is enough lower than it should be to cover the loss on the poor eggs. Under such a system, where quality receives no recognition, there is no incentive to produce a good article. The country store has undoubtedly been one of the greatest factors in encouraging careless and dilatory handling of eggs and is responsible for a great deal of the deterioration and loss which occurs. Because the store usually has no facilities for holding the eggs, further deterioration in their quality is likely to occur before they are shipped. When the storekeeper gets a sufficient number of eggs on hand to make it worth while, or when he finds it convenient to do so, he ships them to an egg packer or buyer.

The huckster.—The huckster makes a business of going through the country with a wagon or automobile truck buying eggs at the farms or from storekeepers. He may be working independently, or he may be an agent of the egg packer. In former years hucksters used wagons altogether and frequently made trips of several days or a week's duration. Under these conditions the eggs suffered severe deterioration in quality. At present most hucksters use automobile trucks and bring in each night the eggs which they have gathered during the day. With proper protection of the eggs from the sun and rain and from jolting or rough handling and with routes established which are covered regularly and frequently, eggs of very good quality are secured by this system.

The local buyer.—In many small towns egg buyers are located. These men may be in business for themselves or may be buying for an egg packer. Their egg business, unlike that of many country stores, is on a cash basis, and they are more likely to buy on a loss-off basis—that is, to throw out and refuse to buy any bad eggs or to offer the seller his choice of a case-count or loss-off basis with a higher price named if he agrees to the latter. In some localities or states these buyers operate on a quality basis—that is, they divide the marketable eggs into two or more grades and graduate the rate of payment according to the quality of the eggs. Too often these buyers are inadequately equipped with proper facilities for handling the eggs without deterioration, but since they follow this as a business they are more likely to ship promptly and therefore to avoid much of the loss and deterioration which the storekeeper incurs.

The poultry and egg packer.— The poultry and egg packer constitutes the principal concentrating agency of the great poultry and egg

producing section of the Middle West. Receiving shipments from producers, storekeepers, hucksters, and local buyers, the packer grades and combines these lots and ships them forward to the final market in large lots, usually straight car lots of eggs or dressed poultry or car lots of eggs and dressed poultry mixed. The up-to-date packer has an establishment equipped with chill rooms for holding eggs under proper temperature conditions, and appreciates the necessity for chilling and handling the eggs promptly. In consequence deterioration is largely checked or much slowed down after the eggs reach the packer's hands. Shipments of eggs by the packer generally go to the city wholesale dealer or to the cold-storage warehouse.



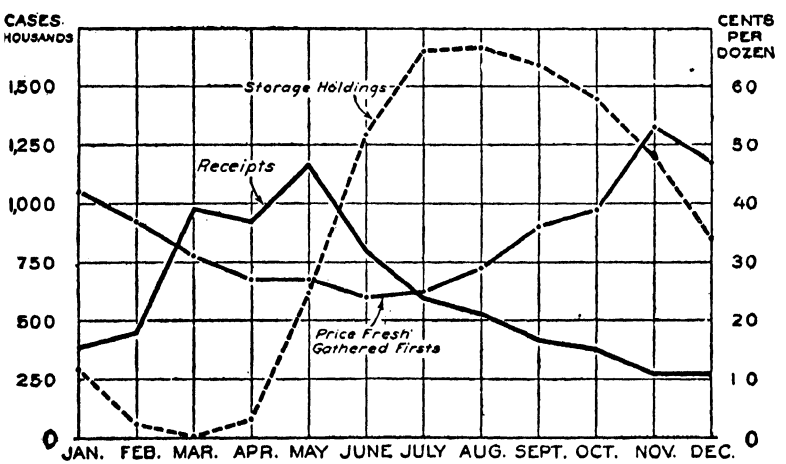
Seasonal Variation in Farm and Market Prices of Eggs, Five-Year Average, 1910-1914, Three-Year Average, 1921-1923.

The farm price of eggs shown is an average of the prices received by producers in the States of Ohio, Indiana, Michigan, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kansas, and Nebraska. The New York price is the wholesale price of Fresh Gathered Firsts, a large part of which comes from the States named. The farm and market prices are very close together during the late winter and early spring, and gradually separate during the summer and fall until November, when they are farthest apart. This increase spread is doubtless due to the greater deterioration which occurs during the heated portion of the year and to the tendency of producers to hold eggs in the fall on a rising market As a consequence, the quality of the farm eggs approximates less closely the quality purchased on the terminal market, so that the losses in candling and grading are greater and must be covered by the difference in the buying and wholesale prices

The creamery.—In some sections of the country creameries make a business of handling the eggs brought in by their patrons. This is more especially true of coöperative creameries. Because the creamery

often has chill-room facilities which it can utilize for the eggs, because the patrons are more likely to deliver their eggs frequently and therefore in a fresh condition, since they must deliver their milk or cream at regular and frequent intervals, and because the outlets for butter and eggs are generally closely related, the creamery is a logical agency for handling the eggs of a community. Shipments of the eggs received, like those of the butter made, usually go to a city wholesale receiver.

The coöperative association.—In some sections, particularly where egg farming is highly developed, egg producers have banded themselves together into coöperative associations which act as the marketing agencies for their members. In some cases these associations undertake only the concentration, grading, and shipping of the eggs, placing the terminal market distribution in the hands of private agencies already established; in other cases the distributing functions of the terminal market wholesale dealer and, to a less extent, those of the jobber are assumed by the association. Interest in the development of coöperative egg-marketing associations is widespread at the present time, and they are becoming an increasingly important factor in the marketing of eggs.



Receipts, Storage Holdings, and Wholesale Prices of Eggs, New York, 1923.

The excess of receipts during the season of flush production depresses prices until they reach a point where it pays to place eggs in cold storage and hold them for the period of scarcity, when prices are higher. Consequently storage holdings accumulate during the season of flush receipts and low prices and are drawn upon for use during the season of light receipts and higher prices. If production and receipts were uniform throughout the year, the price also would remain more nearly uniform and there would be little need to hold eggs in cold storage.

Methods of Handling Poultry from Farm to Consumer.

Live poultry.—A very large part of the poultry marketed leaves the hands of the producers alive, largely because producers have not the proper facilities for dressing and they are not skilled in the operation. It usually pays them best, therefore, to sell alive and to allow other agencies to dress such of the poultry as conditions require.

The producer usually ships live poultry to the city wholesale receiver or sells to a local buyer or to a poultry packer. His location with respect to market influences his choice of an outlet. If within easy shipping distance of a good market, he usually ships there. If more remote from market, he sells to the local buyer or ships to the poultry packer or car-lot shipper. The car-lot shipper of live poultry concentrates the small shipments from producers and local buyers and forwards them to market in car lots. The poultry packer also often ships car lots of live birds when market conditions are more suitable for shipment alive than dressed or when the volume of receipts is greater than he can fatten and dress out. The demand for live fowl at the time of the Jewish holidays of the spring and fall is an important factor in drawing heavy shipments at that time.

Shipments of small lots of live poultry are made either by express, freight, or automobile truck in coops covered with wooden slats, rods, or wire netting. Shipments in car lots by freight may be made in ordinary stock cars by piling the coops along each side of the car. Special cars for shipment of live poultry are in common use. These have 128 compartments, 64 on each side of the car, built in tiers extending from the floor to the roof. The outside of the car is covered with wire netting to provide good ventilation. A small space at the center of the car accommodates a supply of feed and the attendant who must accompany the shipment to feed and water the birds while en route. Such a car has a capacity of about 4,600 chickens, from 2,000 to 2,400 geese and from 1,200 to 1,500 turkeys.

Dressed poultry.—As previously stated, most poultry is marketed alive by the producers. Some are dressed and shipped to market when the distance is not too great, but there is always the risk of spoilage in addition to the added trouble of dressing. Certain specialized types of poultry farms, such as the duck farms of Long Island, make a practice of dressing most of their output and shipping it iced in barrels. But the greater part of the dressed poultry received at the large eastern markets comes from the Middle West and is dressed and shipped by the large number of poultry-packing establishments located there.

The poultry packing house's supply of live poultry reaches it by wagon or automobile truck, by express, or by freight either direct from the producer or from the local poultry buyer. Many of these establishments

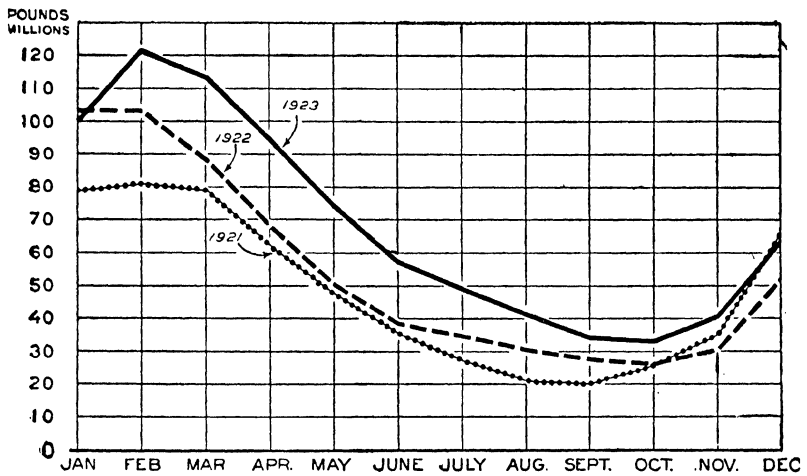
have a feeding station in connection with them where much of the young stock which is received in a rather thin condition is fattened for a period of from 10 days to two weeks and where many of the hens are also fed for a few days to improve their condition and color. Other establishments dress out the poultry received without preliminary feeding. Most of the poultry is dressed during the late summer, fall, and early winter months.

When ready for dressing, a bird is taken in hand by an expert killer and picker, bled by cutting the veins in the throat, stuck to loosen the feathers by running the point of the knife into the brain, and is then rough picked, that is, the bulk of the feathers removed rapidly. The bird is next turned over to a pinner, often a woman, who finishes the plucking by removing all the pinfeathers and any other feathers left on the carcass by the rougher. The head is then wrapped in paper and the carcass is hung or laid on a cooling rack. As soon as a rack is filled, it is run into a chill room which is maintained at a temperature of 30° to 32° F. and left there for about twenty-four hours. At the end of this time the body heat will have been entirely removed from the carcasses, a step essential to good keeping quality, and they will be ready for grading and packing. The method of picking described is called "dry picking." Birds so picked are preferred in most markets because of their better appearance. Dry-picked birds also keep better in cold storage than scalded birds. Some poultry is scalded, but this is mostly stock of the lower grades or else stock intended for markets which show no preference for dry-picked poultry.

As soon as the dressed poultry is thoroughly chilled it is graded by class, quality, and weight and packed for shipment. At present most dressed poultry is box packed. Each box holds twelve carcasses, which may be packed in a single layer with the breasts up, in a double layer with the sides up, or in other styles, depending upon the class of the poultry and market requirements or the individual requirements of the packer. Some poultry is also packed in barrels. The barrel pack is used mostly, however, for lower-grade stock, such as old cocks. As soon as packed the boxes or barrels, if they are to be shipped soon, are placed in a chill room where the temperature is about 30° to 32° F. and held there until they are loaded into the car for shipment. If the packages are to be held for some time before they are shipped, they are placed in a sharp freezer where the temperature is from 5° F. to — 10° F. and frozen solid. They are then removed to a room where the temperature is about 10° F. for further holding. Poultry packed and handled in this way without ice is called dry-packed poultry, as distinguished from poultry packed in ice.

Dressed poultry is shipped to market either in straight car lots, which is preferable, or in mixed car lots with some other perishable product,

such as eggs or butter. Refrigerator cars must be used. The car is usually iced with a mixture of crushed ice and about 10 per cent salt in order to secure a temperature sufficiently low to insure the poultry carrying in good condition. If eggs and dressed poultry must be shipped in the same car, the packages of poultry should be placed next to the ice bunkers and along the floor of the car where the lowest temperatures occur, the eggs being placed near the center and toward the top of the load. Reversal of these positions is likely to result in damage to the eggs from freezing and may not carry the poultry in the best condition.



Cold-Storage Holdings of Dressed Poultry in United States, 1921-1923.

Because the quantity of poultry which arrives on the markets in the fall and winter months is in excess of the immediate market demands, the surplus is placed in cold storage and held until the season of shortage, which occurs during the late winter, spring, and summer months. With storage an adequate supply of all classes is available throughout the year. Although the greatest average quantity of poultry in storage at one time during any year appears large, approximately 100,000,000 pounds, this is less than 1 pound for each person in the United States.

Where refrigerator-car service is not available, where the quantity of dressed poultry to be shipped is comparatively small, or where the distance to market is short, ice packing is sometimes used. The dressed poultry after thorough chilling, which is often accomplished in ice water or cold running water, is packed in barrels in layers, alternating each layer of poultry with a layer of cracked ice, while on top of the barrel is heaped a generous header of ice. Carcasses are sometimes packed with their backs against the barrel, with the feet and legs toward the center, and the hollow space at the center filled with a core

of cracked ice. Dry packing, under most conditions, is superior to ice packing. Small lots of dressed poultry, especially when shipped by producers, is often sent to market by express without icing when the haul is short and the weather cool. In hot weather, however, the poultry should be iced.

Market distribution of poultry products.—The typical agencies of distribution in the larger markets consist of wholesale dealers or receivers, jobbers, and retailers. In general, the wholesale dealers receive their supplies of poultry and eggs from shippers, usually in comparatively large lots. These they distribute to the jobbers and to large users such as chain-store organizations. The jobbers, in turn, distribute their supplies to the retailers and may do some grading to meet the needs of the particular retailers which they serve. Jobbers usually operate a delivery service. When the products reach the hands of the retailers they are, in turn, sold to consumers, either in the jobbing grades as received or after a still more refined grading on the part of the retailers.

The functions of these various dealers are not always clearly separated. The wholesale dealer may do some jobbing business, whereas the jobber may act as a receiver to some extent. In the smaller markets in particular there is a tendency for the services of the wholesale dealer and the jobber to be combined in the same hands. The various classes of dealers may operate in eggs or dressed poultry alone or in both. Most dealers in live poultry confine their operations to that line, although this business is sometimes combined with dressed poultry and less often with eggs as well.

CHAPTER VIII

BROKERS AND SALES AGENTS

Middlemen, Functions of, in Marketing of Farm Products.[1]

Manufacturer's representatives, branch houses, etc.—The packer, the canner, the creamery man, or other manufacturer may have a selling organization of his own, which does a large part, or even all, of the work of wholesaling. In some cases this organization consists chiefly of traveling salesmen, while in other cases permanent establishments or branches are maintained. It might possibly be argued that a selling organization which handles only the goods of the manufacturer responsible for it is not really a dealer at all, and should not be subject to the market regulations governing dealers. It is clear, however, that it is in the market and is performing functions very similar to those performed by dealers who are independent of the manufacturers; and it would seem that in any proposed regulation of the markets, organizations of this sort are too important an element to be ignored. In the case of branch houses, such as those of the big meat-packing companies, which handle many goods that are in no sense the products of the main company, there can be no question. As regards this part of the business they are dealers in quite as complete a sense as if they were separately organized as such.

Agents.—Growers and manufacturers sometimes put the selling of their products in the hands of agents of one sort or another, and even a dealer may do this in a market in which he does not wish to do business himself. Frequently these agents are given exclusive authority to act in a given territory or even to handle all the products controlled by their principals, without regard to territorial limitations. Some of the large organizations dealing in fresh fruit and vegetables, for example, enter into contracts with the growers by which the former are made "exclusive sales agents" for the entire output of certain products. Generally speaking, these agents may be regarded as brokers or as commission men, though in some cases their powers are more extensive than those terms are usually taken to imply. In some cases payments received for the shipments of a number of growers are pooled, and the amount paid to each is based, not on the prices at which his goods

[1] Taken from Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 32-39.

were sold, but on the amount of goods of a given grade or kind handled by the agent and the money received for the entire lot.

Brokers.—The broker is essentially a representative of the seller or of the buyer. He does not do business in his own name, but in that of his principal. Title to the goods remains in the seller until the transaction is consummated, and after that in the buyer. Subject to these essential considerations there are a variety of ways in which the business may be done. At the one extreme the broker may merely negotiate the sale or the purpose, and report to the person he represents who, if satisfied, confirms all arrangements and ships the goods direct. In such a case the broker has nothing to do with the physical handling of the goods or even with the payments, receiving his remuneration directly from his principal. Strictly this is all that the work of the broker involves.

Frequently the broker does more than this. Commonly he furnishes his principal with information as to market conditions. Sometimes he attends to the collection of payments, and may even advance the money. In a number of cities in which large quantities cannot readily be sold to one person, the brokers commonly arrange for pool car shipments, attending to the division of a carload among the various buyers after it arrives. If anything goes wrong with a shipment through losses in transportation, rejection by the buyer, or the like, the selling broker may attend to all details necessary for the protection of the shipper's interests. At this extreme the functions of the broker become very similar to those of the commission man.

The selling broker may, of course, deal with the buying broker. He may even turn the business over to another broker, in which case he may split the commission or brokerage fee with him. Several brokers may, therefore, take part in negotiating a single transaction.

The broker commonly receives his remuneration in the form of a "brokerage" fee or commission, though in some cases he is paid a stipulated sum per week or other period of time. The fee may be either a definite amount per unit of quantity, as, for example, 6 cents a pound, or it may be a percentage of the price, 2½ per cent being a common figure for certain kinds of goods. In some cases it is ordinarily less than this and in others more. In special cases it sometimes runs as high as 10 per cent.

Commission houses.—The work of the commission house, or commission man, is in many ways similar to that of the broker, though the services of the former are ordinarily much more extensive and his authority much greater. Like the broker, the commission man acquires no title to the goods, but sells them for the account of the owner, who is called the consignor. The commission man usually attends to all the details of the sale, including the physical handling of the goods and

the collection of the payment for them. In most cases the price is left to his discretion, and no confirmation of sale is necessary. Having the goods in his possession he is able to deliver them to the purchaser.

The remuneration of the commission house, as its name implies, is ordinarily an agreed percentage of the selling price. This is usually higher than that paid the broker, 10 per cent being a common figure, though it is often more or less than this. Where the business is done on a strict commission basis and proper accounting methods are followed, the commission house makes a return, called an "account sales," to the consignor, showing the price received, the deductions for commission, and any expenses properly charged against him, such as, in some cases, cartage. The amount due the consignor is remitted with the account sales or later.

Sometimes, however, the commission house does business on a "net sales" basis, reporting to the consignor simply the amounts due him. In such cases it may be understood by all parties that the price on which the return is based is not necessarily that received for the particular consignment, and even the commission is not definitely fixed. The price may be simply the average received for those in a carload containing a number of consignments, or even the current price on the market at the time of sale. It is obvious that a practice of this sort makes possible various abuses, but when the dealer is honest the consignor is protected against certain risks. The first boxes of fruit unloaded from a car, for example, may bring a better price than the last; and the consignor may be willing to forego the resulting chance of gain in order to avoid the possibility of loss.

Wholesale merchants.—The merchant is a middleman who buys in order to sell again. It is true that the term "merchant" is not the usual one, though merchandising is often spoken of as distinguished from commission dealings. As a matter of fact, there is no one term that is consistently applied to a concern that does a buying and selling business. Sometimes the term "dealer" is thus restricted in its meaning. "Wholesaler" is sometimes even more narrowly used, applying only to the merchant whose transactions are very large, or who deals with the retailer through another middleman. The term "merchant," however, is fairly clear, and, except when it is desired to distinguish between different varieties of wholesale merchants, there is very little chance for confusion in its use.

The merchant differs from the broker or commission man in that the title to the goods in which he deals ordinarily vests in him, and his gross profits depend on the difference between the buying and the selling price. He thus assumes the speculative risks of the market, subject only to the qualification that in the event of his bankruptcy those who have extended credit to him may lose.

Jobbers.—The jobber is a merchant who deals directly with the retailer. He commonly secures his own supplies in the same market as that in which he sells them, buying from other wholesaler dealers of one type or another. The jobber, as distinguished from the larger wholesale merchant, does not appear in all cases. In large markets, and particularly where, as in Chicago, great quantities of goods are shipped out as well as in, the existence of a separate class of jobbers may mark a useful phase of the division of labor. There is reason to think, however, that in some cases a better organization of the markets would render unnecessary a large part of the work done by the jobbers and, by eliminating them as a separate class, would reduce the costs of marketing.

Speculators.—The speculator might possibly be regarded as a variety of merchant, since he buys in order to sell again; and frequently the same man is both merchant and speculator. The speculator, as such, however, differs from the merchant in that he does not aid in the movement of goods from the original producer to the consumer. He depends almost entirely for his profits on changes in market conditions, whereas in the case of the ordinary merchant these changes are an unavoidable incident.

The speculator, as such, does not necessarily handle the goods in which he deals. In some cases he buys them, has them put in storage, and finally has them delivered.

Indeed, what he buys or sells is merely the right to demand delivery, and the matter may be finally settled by a payment of the profit or loss, there being no actual delivery of the goods. Speculation of this sort, however, is less common in the case of perishable than of staple goods.

There are a number of abuses that are sometimes connected with speculative dealings. Some of the worst of these arise out of the fact that risks may exist not only as unavoidable incidents of marketing but as a result of the activities of the speculators themselves. Examples of the latter are furnished by manipulation and monopolistic practices of one sort or another.

Dealers and Their Position in the Markets.

The terms which have just been defined relate to the form of dealings or the methods of doing business. There are a number of other terms that relate to the position of some of these dealers in the markets.

Country collectors.—The country collector is a dealer who visits farmers, country stores, and the like, for the purpose of gathering a sufficient quantity of goods to justify shipment. Considerable amounts of country butter and of eggs are received in the wholesale markets from collectors of this sort. They constitute a type of middleman, how-

ever, whose services are needed chiefly by the small farmers. In the case of the large producer, this work of collecting is unnecessary and the expense incident to it may be avoided by direct shipments, or by sales to the large local dealers.

Shippers.—Broadly speaking, a shipper is anyone who makes arrangements with a transportation company for the carriage of goods. The term, however, is sometimes applied in a restricted sense to the shipper whose business consists largely of sending goods from the growing districts to dealers in the wholesale markets. Such a shipper usually has the facilities and equipment for the proper packing of the goods, a business large enough to permit car-lot shipments, familiarity with the business methods of the transportation companies, and either market connections or such a knowledge of the markets that connections can readily be formed. Frequently the goods are sent for sale on commission, but sometimes they are sold outright. The term "shipper," in its narrow sense, is not ordinarily applied to the dealer who buys goods in a distant market and has them shipped to himself.

Receivers.—In the same way there are some dealers in the wholesale markets who describe themselves as receivers. A concern of this sort is one that devotes a large part of its time and attention to handling goods sent to it by distant shippers. Commonly its transactions are larger than those of the general run of wholesale dealers, and the latter may be numbered among its customers.

Exchanges.—There are two very different kinds of organizations that are called exchanges. One of these serves as a connection between the growers and the dealers in distant markets. The other is an association of dealers in a market city which furnishes facilities for carrying on business and serves its members in various other ways, but does not itself engage in trading.

A feature which especially characterizes most exchanges of the first type is the intimacy of their relations with the growers. Some are mutual coöperative associations of which the growers directly, or through subordinate associations, are members. Others are joint-stock corporations; but, at least in some cases, a majority of the stock is in the hands of the growers. Commonly the exchange is the exclusive selling representative of those for whom it acts, charging them a flat rate or a commission for its services, though sometimes the latter are allowed to sell independently under certain specified conditions and the exchange may sometimes buy from growers whom it does not regularly represent in the markets. Ordinarily it aims to include within its organization as many growers as possible. The exchange commonly attends to the inspection and grading of products and does what it can in the way of aiding growers to get the best results from

their work. It keeps informed, through its own representatives or otherwise, as to the best markets and often does much to develop them, especially through extensive advertising. Shipments are sometimes pooled, so the price received by the grower is not necessarily the actual price less the commission and expenses.

Exchanges of the second type are found in several branches of the food trade, but are particularly conspicuous in the case of butter and eggs. Exchanges of this sort do not themselves engage in the work of marketing, but furnish members with a place in which to do business and in various ways look after their interests. The members are, as a rule, wholesale dealers of all sorts, and commonly only a part—often a small part—of their business is done on the exchange. Trading on the floor of the exchange commonly takes the form of bids and offers, which are openly made and posted on a blackboard. Transactions on the exchange commonly serve as a basis, sometimes the only basis, for the published market quotations.

Packers.—The name "packer" is frequently applied to almost any concern a large part of whose business is to put up food products in packages. Frequently the packer does not materially modify the form of the goods he handles. Some of the dried-fruit packers, for example, buy dried fruit in bulk and put it up in small packages bearing their own brand. On the other hand, the canners are sometimes spoken of as packers. The term is really a general one, including some manufacturing concerns and some that are engaged almost exclusively in marketing.

Distributors.— The primary function of the distributor is to direct the shipment of products from the growing districts to the best markets. One very important case has been found in which a corporation, practically, though perhaps not strictly, coöperative in character, confines itself almost entirely to naming the markets to which the products of its members shall be sent. Generally speaking, however, distribution is incidental to some other part of the work of marketing; and the name is sometimes applied to certain large dealers who handle goods as brokers or merchants. It is obvious that to do work of this sort effectively the distributor must be in touch with the markets in various parts of the country. In some cases this is done through branches or employees of their own, and in others through brokers with whom more or less permanent arrangements are made.

Practices of Commission Men and Brokers.[2]

Marketing, basis of.—It is apparent, as previously noted, that marketing is constantly being done less on a commission basis and more

[2] Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 165-172, 219.

on a basis of outright purchase and sale. But this is at least partly due to the general advantages of the latter method for the producer or shipper rather than to any greater degree of sharp practice among commission men than any other class of produce dealers. In selling for acceptance and payment at the shipping point the shipper receives his money immediately upon the loading of the car, whereas on consigned goods he must wait until they have arrived and been sold, and the sales report has been forwarded by the consignee. Aside from the psychological effect of receiving immediate payment, it is a decided advantage to be released from the risk of transportation and possibility of rejection at point of destination. A Pacific coast shipper of apples estimates the advantage at 3 cents a box from an insurance standpoint, while frequently the price realized in many cases not only equals but surpasses that which can be obtained on sales made in transit or upon arrival in the large centers. The producer who sells for cash at a fair price is always satisfied and will grow another crop. The cash buyer is better posted on the market conditions in various cities, whereas the producer shipping goods on consignment may send them to glutted markets and lose heavily.

Hazards of commission selling.— A produce shipping firm of Wisconsin states that its experience of fifteen years leads it to the conclusion that commission men should by no means be blamed for all troubles which occur. Products of high quality and honestly maintained uniform standards, coupled with an intimate knowledge of the various markets, have permitted this firm to market its products through only a few representatives; and whether the goods moved directly for cash f. o. b. shipping point were sold on a straight commission basis, or were sold subject to inspection upon arrival (the last two methods being those usually employed), the results were practically the same. Some Georgia fruit dealers report that in their experience selling for cash f. o. b. shipping point nets them less money than shipping their peaches on consignment. But this firm is exceedingly careful to send only the best quality of fruit and to ship to commission dealers known by previous experience.

While admitting that there are some dishonest dealers in their line, commission men themselves feel that most of the friction is the fault of the shippers, who charge sharp practice against any firm which does not net for the shipper what he expects. They feel that unsatisfactory returns can be attributed more to ignorance on the part of the shippers than to dishonesty on the part of commission men. They assert that complaints come from shippers who are not posted on markets in general and the special requirements of the markets to which they ship; consequently, they do not know how to prepare their shipments to secure the best market prices. A New York dealer mentioned a car of poultry

which had recently arrived in poor condition and which naturally sold at a reduction from the market price. The shipper, however, could not be convinced of the poor condition of the shipment, and the commission man expected to lose that shipper's future business.

However, some producers and shippers report dishonest methods among commission men, and some assert that they have lost money in everything they sold through this method. Produce firms in Wisconsin report that representatives of commission houses have called on them during the flush of the butter season, inspected the goods held in their cold-storage plants, and pronounced the goods "extras"; but after the goods had been shipped to the commission houses in Chicago, the commission houses sent returns on "seconds." In addition, there is always a large shrinkage reported. However closely a shipment of butter is weighed at the shipping point, the produce firms assert that the commission men always report a weight somewhat less than they themselves have recorded. Such firms feel that if their goods could be shipped to a market in care of a government agent who would weigh and inspect the goods before turning them over to commission man, wholesaler, or broker, the results would be more satisfactory. At least much criticism and friction would be avoided. The shipper is generally in a position where he must accept the returns offered him without opportunity to check up the facts, hence he can seldom prove that he has not received just and fair treatment. Some shippers of live poultry report a disposition among commission men to pay more attention to the interests of their customers than to those of the shippers they represent. If a situation arises in which the interests of their shippers and customers are in conflict, they appear to favor the local customers. The shippers believe that this is because most live poultry is largely sold to a class of dealers who could not stand a heavy loss, so in order to protect themselves the commission men throw the loss on the shippers instead of these dealers.

It is apparent that most well-established shippers who endeavor to get their goods out in high-class condition have relations with good, responsible commission men with whom they have been doing business and in whom they have confidence. But it is equally apparent that in every city there are some commission men who prey upon new concerns before they learn the markets and the relative reliability of the various commission concerns. These commission men make a special effort to watch for new shippers and, in order to induce shipments, quote very attractive prices. When the shipments arrive they generally report shortages, bad condition on arrival, or decline of the market, to account for small returns reported, until after considerable loss the shipper learns from experience to know these men. If the grower or shipper is not too susceptible to the market quotations put out by irresponsible concerns, his chances of loss can be reduced to a minimum.

False returns.—False returns are not always a matter of dishonesty. The commission business is fairly easy to enter and there are some incompetents in it. The dealers claim that it is not always possible to tell what the farmer, or other person for whom the commission man is acting, is really entitled to receive without a well-handled accounting system. Many of the men in the business seem unable to provide this. There is commonly a great rush at certain periods of the day, and as a result it happens that records are not made when they should be, and the commission man must rely on his memory. Mistakes are made, and upon the whole they are not likely to be against the interest of the commission man who makes them. Such methods of accounting, moreover, offer special temptations to fraud, particularly if a man is hard pressed financially. In some cases, however, mistakes are genuine, and one unusually conscientious commission man is reported to have become insolvent because of the unduly favorable reports he made to the men he represented.

The most common case of making false returns, aided, in some cases perhaps, by this inaccurate system of accounting, occurs when the commission man sells a small part of a consignment at an especially good price. He will in such case sometimes make to the man he represents a return showing that all the goods were sold at the lower price at which the greater part of them were actually sold. He may satisfy his conscience by arguing that the especially high price was due to special activity, effort, or ability on his part. It is said by dealers that in former days all commission men, if they were fortunate enough to get $2.25 a package when the prevailing rate was $2, considered the 25 cents as their perquisite. Better knowledge on the part of shippers and government regulation during the War makes this more difficult now.

Shippers generally cannot report definite cases of false accounts, since they are not in a position to verify their suspicions. A commission firm in Philadelphia wrote shippers in Vinemont, Pa., in August, 1918, that pears were selling from $8 to $10 per barrel; in response to this advice 105 barrels of Bartlett pears were shipped on August 21 and 51 barrels on August 23. Upon receipt of returns, the shippers found that the commission firm allowed them from $4 to $6 per barrel and charged a commission of 10 per cent for selling. The commission firm made several explanations for the smaller return, stating that the pears were not of as good quality as they should have been, that the railroad company had shipped them to Noble Street, which was a poor market, etc. The shippers in such cases cannot easily determine whether the returns are false or not.

A shipper of eggs from Indianapolis was induced to ship a car of eggs to a commission house in New York City by the statement that if he

would consign the house a car of eggs it would guarantee to net him more than any other house with which he had been dealing and would pay a draft for a reasonable amount upon shipment. After a personal interview and exchange of wires, a car containing 345 cases of eggs was shipped on April 17, 1917. Upon arrival of the car, the commission firm claimed the eggs were not what it had expected. After holding the eggs in ordinary storage for some time and allowing them to deteriorate by not properly protecting them, the firm sold them at a heavy loss, and the shippers were requested to reimburse the commission firm for what they claim was an overdraft of $1,145. The loss to the shippers amounted in all to about $1,400 on this car. This was due to overanxious commission men willing to guarantee anything in order to get business, and ready to deny everything after goods are received; it was due also to the shipper's susceptibility to the lure of promises and his willingness to leave tried firms on the chance of bigger returns.

A shipper at Burnside, Ky., reports a somewhat similar situation with this same commission firm in New York. A shipment consisting of 570 cases of eggs was shipped on April 26, 1918, from Burnside. The shipment cost the shipper $4,872.42, and the net returns from the commission firm amounted to $4,685.25, a net loss to the shipper of $187.17. Upon arrival the car was reported in bad order owing to damage in transit. The commission firm, upon advice of shipper, had a considerable part of the shipment repacked in order to eliminate the broken and damaged eggs. When the eggs were sold the market was at a point where the shipper was able to sell his eggs at 38½ cents f. o. b. shipping point, yet the commission firm reported the car sold in New York at an average of 33 to 34 cents, less freight and commission. The commission firm claimed this price was due to the damaged condition of the shipment, but since it had been repacked and the broken and damaged eggs eliminated the shipper felt that the shipment had been sacrificed to the extent of 4 or 5 cents per dozen. Since the shipment had been handled on a commission basis, the shipper had to accept the returns and close the matter.

An examination of the books of a New York commission firm by a representative of the Federal Trade Commission showed returns made to shippers of turnips from July 16 to July 22, 1918, to be uniformly rendered at $2.50 per barrel, while details of sales indicated that prices received were $2.65, $2.75, and $3.

Some shippers report that when they send goods on consignment and the market in advancing they get returns on the sales much sooner than they are due, while on a declining market returns are always several days too late. In this way the shipper seldom receives the benefit of the full advance in the market and always suffers the entire loss due to the decline.

The first dishonest returns received by a shipper may not be too small, but may, in fact, be greater than the amount to which he is entitled. This is often the case with irresponsible commission men who come into the market without any clients. They note the names of shippers from the goods on wagons or elsewhere, write praising their goods, and offer to sell at a better price than the shippers are receiving. Getting a client in this way, they sell his goods and report to him a sale at a high price. This transaction represents a loss to the commission man, but he may even repeat the reporting of a price higher than was actually received. The shipper may receive very little or no return from later shipments, however, so that in the end it is certain to be a loss.

Buying by commission men.— Commission men themselves, as well as shippers, report that under certain circumstances commission dealers buy on their own account the goods sent to them on consignment. Acting in good faith as representative of the shipper, and obtaining for him the highest possible price from the purchaser, is obviously difficult when the representative is himself the purchaser. Generally the commission man will sell to himself on a rising market only, whereby he is certain of a profit from the rise, in addition to his commission. In such case he makes return on the basis of the market price when goods arrived. If the market is falling or the goods are likely to deteriorate before a resale can be made, he is more likely to sell on commission. This may be sharp practice, but is not necessarily so, provided the producer is made fully aware of the facts and knows in advance that the dealer to whom he usually sends his goods may act as commission man at times instead of merchant. In some cases the dealer simply will not buy outright if he thinks the markets are not favorable, and the farmer has the choice of having goods sold on commission or not at all. Nevertheless the practice of a commission dealer buying on his own account goods shipped to him on consignment is fraught with danger.

In defense of the practice it is said that the desire on the part of the farmer or shipper for quick returns of sales is often the reason why the commission man sells to himself. He reports at the market price, expecting to sell the goods in the near future at such price as will at least show no loss for him; and it is claimed that this is often done for the shipper's interest, in order to make a prompt return. But it is clear that if his purchase proves unprofitable, he is very likely to purchase other goods at such a price as to equalize the former loss, unless he is unusually honest. The commission man may have disposed of 90 per cent or more of the goods from a car, and the shipper is pressing for settlement. If the produce is being sold from the car, the free time may expire and demurrage charge would be added to the expenses.

In such cases the commission man may purchase himself, that is, assume the risk of reselling, and make his report of sales with this final 10 per cent sold to himself entered at what he considers a fair price. If the market rises, he may make an extra profit; if it falls, or if there is difficulty in finding customers, he may lose.

Some dealers report the character of their sales to be such that it is impossible to do a regular commission business. One company reports that commission men in its market who handle and sell poultry and eggs at wholesale, i. e., in carload or other large lots, receive 5 per cent commission. This concern, however, sells some goods as a wholesaler, some as a jobber, and some as a retailer direct to consumers, and there was no definite percentage basis on which it could settle regularly with all shippers. It had been its custom, therefore, to make a "net return price" at such figure as it considered just, without giving any details of sales made or expenses incurred. After the United States Food Administration forbade the net return reports without full details and made it obligatory that, before a dealer purchased for himself, the shippers should clearly understand that he planned to do so, such firms have either changed their business custom or have had their regular shippers give them in writing full power to purchase at what they may consider a fair price. Often goods sent on commission have to be re-sorted and repacked, which is a source of expense for labor, crates, barrels, etc. Dealers state that while it would be possible to keep a careful account of such expenses, so they might be openly deducted from the selling price, it would involve too much petty bookkeeping. Therefore they make a deduction from the price reported to the shippers. In such cases there is no actual sale to the dealer himself, although the reported price is not the actual sales price.

Commission men, as well as others, state that one may properly do either a commission or a merchandising business, but should not be permitted to do both. For example, a man may purchase 50 baskets of lettuce, either from a shipper or in the market, and at the same time receive another lot on consignment. If the market is good, all the lettuce can be sold at a fair price. If, however, the market is poor, the dealer will certainly sell first those goods for which he has paid his own money; and if any goods are spoiled they will be some of the consigned goods, the loss falling on the consignor. Commission agents at the Halles Centrales, Paris, are not allowed to engage in business on their own account, and it is said that because of this regulation the distant growers have a confidence in their market methods.

In some cases the commission man will sell to himself the goods consigned, while leaving the farmer under the impression that he is actually selling to others. In some instances sales may actually be made and the report to the farmer be literally true; but the sale may be to

an organization of commission firms who then sell at a considerably higher price. Another form of sale of consigned goods is reported which is at least open to the suspicion that the consignee was other than the true representative of the shipper. Goods were sold by the commission man on account of the shipper. The purchaser then left the goods with the commission man to be sold for the purchaser's account.

A western shipper reports an experience in which a broker forwarded an order, apparently from a bona fide purchaser, for a car of choice, recleaned, large, white beans, bill of lading to be sent with draft attached. The contract price was $12.50 per hundredweight for 50,000 pounds f. o. b. shipping point. After shipment was made the market declined. A wire was received from the broker stating that from lack of funds the purchaser was unable to take up the draft, and requesting that he be released and the broker permitted to dispose of the car to the best advantage. The shipper refused, insisting the contract be performed, but was unable to get any settlement, finally being compelled to handle the disposition of the beans himself. Later the shipper learned that the alleged purchaser, who was the father-in-law of the broker, had been dead two years at the time of the supposed sale. It would seem that the broker in this case was "playing the market." If the market had advanced the shipper would have had no difficulty in making delivery, as the broker would have accepted the beans, taken up the draft according to contract, and disposed of the goods to his advantage. At the date of report, six months later, the shipper had been able to dispose of only one-fifth of the beans, these at a loss, and had been under expense for storage at a high rate, insurance, and numerous telegrams sent to various dealers.

Commissions and brokerage on food products in New York City.—Commissions run from 5 to 12 per cent; brokerage, from 2½ to 5 per cent; the auction fee is 2½ per cent. The theory of the distinction between the brokerage charge and the commission charge is that the commission man guarantees the collection of the money, whereas the broker simply negotiates the transaction and leaves the settlement to the principals. The commission man and broker both claim a large credit for personal service in promoting the transactions of their principals, which they maintain is not possible in the case of the auction. For this reason, the commission fee and usually the brokerage are higher than the auction charge. Less-than-carload consignments from all sections pay a commission of from 8 to 10 per cent. In the case of carload lots there is a distinction between the commodities from certain zones, for instance—early vegetables from south of Virginia pay a commission of 7 to 12 per cent, and those from Virginia northward pay a commission of 5 to 7 per cent. There is also generally a concession to associations of from 2 to 3 per cent. The trade is so loosely organized

that it is difficult to enforce specific regulations for the protection of usual trade fees.

Cotton Merchandising Practices.[3]

Consignment business—factors.— In the larger cotton markets of the South—New Orleans, Memphis, Savannah, Houston, and Norfolk, and in a few of the smaller markets—are firms of cotton handlers known as factors. These factors handle cotton on consignment for the account of interior shippers in return for a commission upon the sale. This class of dealers transacts the great bulk of this business. Merchants and exporters at times also handle consignments on a commission basis, but this business is incidental to their main business; that is, the buying and selling of cotton for their own profit. Because of the fact that factors handle such a large part of the cotton held as security for advances, the discussion in this report is confined in large measure to this class of dealers.

Handling consigned cotton.—The following is a brief outline of the ordinary consignment transaction. There are many variations which occur daily, and all that is attempted here is to present enough detail to make clear the discussion which follows later in the report.

Cotton consignments originate chiefly in the smaller markets. Probably the bulk of such shipments are made by interior buyers, ginners, and country merchants who have purchased the cotton from growers. Cotton factors frequently finance such country buyers by advancing funds with which they can buy cotton. Growers are also financed and, in some cases, this help is given in the spring before the crop is planted. In return for this aid the factor expects to receive the cotton bought or grown by the party financed.

The chief purposes of consigning cotton to a factor are to obtain a price based on a sale by an experienced dealer in a competitive market; to permit the consignor to hold his cotton until he is ready to sell; to obtain the advice of the factor in regard to prices and other conditions of importance to the trade; and in many cases to obtain financial assistance. In other words, factors act in the capacity of bankers and advisers, as well as selling agents.

In most instances country shippers when consigning cotton draw on the factor in advance of the sale, frequently, in fact, before the cotton is received by the factor. This is accomplished by attaching a draft to the bill of lading and sending it to the factor. The amount per bale advanced by factors on consigned cotton depends in large measure upon the reliability of the consignor and also upon the state of the cotton market. The maximum advance is about 90 per cent

[3] Report of the Federal Trade Commission on Cotton Merchandising Practices, pp. 1-16.

of the value of the cotton, though the average maximum is from 70 per cent to 80 per cent. In many instances, of course, consignors either do not draw at all, or draw only a small part of the value of their cotton.

When consigned cotton is received by the factor it is weighed, sampled, and placed in a warehouse. Receipts covering the cotton are issued in the factor's name by the warehouseman. The factor may be directed (1) to sell at the market, (2) to sell at a specified price, or (3) to hold for further instructions. In practically every market where there are cotton factors will be found some cotton held by them for the account of country shippers, which has been in store for two or more years.

Sale of consigned cotton in the spot market.—The usual method of selling consigned cotton is over the factor's table on the basis of the actual samples drawn from each bale.

When the shipper instructs the factor to sell his cotton the samples, which are taken from each bale upon arrival, are displayed and buyers are invited to make offers. When a sale is made the factor prepares an account sales which shows the proceeds from the sale, less the following customary charges: commission fee, freight, storage, insurance, and also interest, if an advance has been made against the cotton by the factor. Insurance is sometimes included in the storage charge. In some markets there are also charges for drayage, and if the cotton has been conditioned, or any other extra expense incurred, it is likewise deducted by the factor.

Sources of factor's profits.—The accounts of twenty-one representative factors were obtained, located in Norfolk, Savannah, Augusta, New Orleans, and Memphis. Certain details from these accounts have been combined and are presented below, on a per bale basis, to show the sources from which the profits of such firms are obtained. While the figures shown are for the years 1923-1924 only, the additional information obtained makes it reasonably certain that the figures are fairly representative for the Cotton Belt as a whole and also of the results to be expected in a normal year.

	Average Receipts per Bale	*Average Disbursement per Bale*	*Net Balance*
Commissions	$1.42	.....	$1.42
Insurance	.35	$0.20	.15
Storage	.84	.54	.30
Interest	1.65	1.15	.50
Sample or "loose" cotton	.17	.....	.17
Salaries	....	.98	—.98
General expense	....	.54	—.54
Total	$4.43	$3.41	$1.02

Total bales sold on commission, 368,593.

Profit on commissions.—The foregoing statement shows that the average profit from commissions for the 21 firms in 1923-1924 was $1.42 per bale. The commission charge differs widely between markets and often between factors in the same market. The size of the average commission charge shown by the statement ($1.42 per bale) is affected by the relatively large commissions received by the Memphis factors from which accounts were obtained; these factors reported an average commission charge of $3.39 per bale. In contrast with these figures, the accounts of the Norfolk factors showed only $1.47 per bale, or less than half the Memphis rate, while Augusta and Savannah factors averaged even lower, with a commission charge of $0.96 and $0.97 per bale, respectively. The bulk of the Memphis receipts, according to the secretary of the Memphis Cotton Exchange, are staple cotton running 1 1/16 inches and longer, which has a relatively high value as compared with the shorter staples. This condition combined with the fact that commission rates in this market are on the basis of a percentage of the value of cotton probably accounts for the higher gross earnings from commissions at this market as compared with other markets. The rates for the other markets vary not only as between the markets but frequently within the same market. It was a somewhat general practice in some of the markets from which accounts were obtained to cut the commission rate to favored customers. The usual commission rates were from $1 to $2 per bale.

Insurance.—The average amounts received from, and expended on, insurance, $0.35 and $0.20 per bale, respectively, show an average net gain to the factors on this item amounting to $.015 per bale. It was stated that factors attempted to furnish insurance for their customers at cost. The foregoing figures, however, would indicate that factors made certain that they would not incure any loss on this item.

Storage.—An average gain of $0.30 per bale was obtained by the twenty-one factors on storage charges. This profit resulted from the fact that the factors usually contracted to use a stated space in a warehouse at a specified cost and then charged their shippers a sufficiently high per bale rate to yield a profit. In a very few cases the factors owned or controlled their own warehouses. Practically all factors stated that their chief sources of profit were from storage and interest. They prefer, of course, that cotton be held for long periods, since each month increases the returns from these items.

Interest.—The average amount per bale received by the twenty-one factors as interest was $1.65. The average amount expended was $1.15 per bale, leaving an average profit from interest of $0.50 per bale. This profit of 50 cents per bale was due to the fact that the rate of interest charged their country shippers was higher than that paid by the factors. The difference between these two rates was determined in some cases

by the ability of the country shippers to borrow money. It is safe to say, however, that the average difference throughout the Cotton Belt in recent years has been close to 1 per cent, though a number of factors claim to add but one-half of 1 per cent to the rate paid by them.

Some factors maintain that the higher rate charged by them is justified by the risks of the business. Others claim that as a matter of fact the charge merely covers the expense involved in making the loans. In some instances it was contended that since the factor borrowed a definite sum for a specified period and paid interest for the entire period he was justified in charging his shippers a somewhat higher rate, since some of his borrowed capital would be idle for a part of the period. In the case of a few factors it was found that shippers were paid interest on all funds left with the factor. The rate paid was generally 6 per cent.

Samples or "loose" cotton.—The item of $0.17 per bale for average profit from samples or "loose" cotton is practically all a clear gain to factors, because there is little or no expense to be applied against it. As has been stated, samples are obtained from each bale of cotton as the basis of sales. The "loose" cotton is that which falls from the bales and also parts of the samples, all of which is carefully gathered. While the cost of gathering this loose cotton cannot be segregated from the general expense, it is admittedly slight.

General expense.—The average general expense per bale of conducting the factorage business, as shown by the foregoing statement, was $0.54. This item includes rent, licenses, local taxes, depreciation, wages (labor), telephone and telegraph, and all other items except those set forth in the statement.

Salaries.—The item of salaries averaged 98 cents per bale and includes salaries of clerks and officers.

Average profits per bale.—The total average receipts per bale for these twenty-one factors combined as shown by the foregoing tabulation amounted to $4.43 per bale. The average total outgo was $3.41 per bale, leaving an average profit from the operation of the factorage business of these concerns of $1.02 per bale.

Abuses in Handling Consigned Cotton.

In handling cotton consigned to factors various methods are practiced which are condemned by other factors and other members of the trade and sometimes by the entire trade. It is the purpose of this section to set out seriatim some of these so-called abuses.

Merchandising by factors.—Cotton factors do not, as a rule, buy and sell cotton for their own account. All factors at times buy and sell cotton for their own account, but probably for a majority of

firms such cases are virtually accidental. There are some factors, however, that do a merchandising business in addition to handling consignments. The growth of this practice among factors seems to have been recent. Apparently it is due both to the increase of direct buying in the country by merchants and shippers and to the small size of the cotton crops in the past few years. The combination of these two elements has greatly reduced the volume of consignments and rendered the commission business less profitable.

Factors quite generally take the position that cotton merchants should not handle cotton on consignment, and also that it is wrong for factors to merchandise cotton. They contend that a merchandiser or trader having a personal interest in the market is unable to do justice to his consignors; that he will view the market from the standpoint of a buyer, whereas a factor, if he is to secure the best results for his customers, should have the viewpoint of a seller. On the other hand, factorage firms that also merchandise cotton to a considerable extent maintain that their customers receive better service because of this merchandising. The fact that they buy and sell cotton, they claim, gives them an insight into market conditions that non-merchandising factors do not have and they are thus enabled to obtain better prices for their consignors.

In some cases these factor-merchandisers refuse to buy the cotton that is consigned to them, no matter what the prices offered by the other buyers may be. Other concerns of this sort at times do buy cotton consigned to themselves, but in such cases, they stated, the cotton was always offered to the other buyers and then sold to themselves at the highest price offered by these other buyers. This practice is not permitted in the grain trade. The Chicago Board of Trade (rule 4, section 11) provides that "no member of this association is allowed under any circumstances to be both principal and agent in any transaction in any of the commodities dealt in under the rules of this board." The rule at Minneapolis is even more stringent:

"Whereas, it has recently come to the attention of this board that some shippers consigning grain for sale to members of the chamber of commerce have consented that such grain may be sold to any elevator or subsidiary company owned or controlled by the consignee, and that under such consent consigned grain is at times sold by commission merchants owning or operating elevators to such subsidiary companies; and

"Whereas, it further appears after careful investigation that the sales so made have been fairly made at full market price, and to the satisfaction of the consignors, many of whom believe that at times they are thereby given a larger market for their grain; and

"Whereas, although such transactions have been fairly conducted and entirely satisfactory to the parties thereto, both consignors and

consignees, nevertheless, it is deemed by the board of directors to evidence an unwise practice which, if continued and extended, might furnish temptations for unfair dealing, or excuses for unjust criticism; now, therefore, be it

"Resolved by the board of directors of the Chamber of Commerce of Minneapolis, That hereafter a member of this association to whom grain is consigned for sale as a commission merchant shall not sell such grain to any company, which is either owned or controlled by such consignee, whether the purchaser be an elevator company, or buying company, or mill, or any other sort of a company, or to an elevator, mill, or other company owning or controlling such consignee; and any member violating this resolution shall be subject to the same penalties as provided under section 7 of General Rule IV of this association."[4]

Sale of consigned cotton through the future markets.—In most of the more important spot cotton markets a majority of the factors maintain that they do not have any legitimate reason for using the future markets except as a price-determining medium. That is, they argue that factors should not buy or sell cotton futures in the conduct of the factorage business.

In some markets, New Orleans in particular, there are a few factors that make direct use of the future markets in handling cotton for their customers. These factors hold that it is their duty to their customers to sell the latter's cotton at the best prices obtainable. At times this can be done by selling futures and delivering on the contracts sold. When this is the case the owners of the cotton are notified of the opportunity and if they agree the transaction is made. This practice prevails only in the case of larger consignors, since future contracts are for about 50,000 pounds of cotton in about 100 bales. Moreover, the information obtained indicates that this practice is used only in the case of those shippers whom the factor knows to be favorably disposed to future trading. In other words, the factor will not suggest this method of selling cotton to a shipper who is opposed to future trading, or to those owning but a few bales of cotton.

There are times also when some factors advise their customers to sell their spot cotton in order to take advantage of a "high basis" or a temporary premium for a particular quality.[5] If the customers not opposed to future trading believe the general level of cotton prices is going higher they are sometimes advised to sell their spot cotton and buy futures. In this way the shippers can take advantage of the high

[4] Circular 440, Rules and By-Laws, Minneapolis Chamber of Commerce, revised to 1922, p. 84.

[5] The letter on page 187 from a factor to one of his country shippers illustrates such a condition.

basis or premium and also retain a speculative interest in the market which will result in a profit if the increase in cotton prices occurs.

"July 16, 19—.

"DEAR SIR: The cotton market at this time is being held up by the squeeze now existing in the July option. When this expires on the 25th of this month, it is likely that the basis for spot cotton will break to at least a moderate price over the October contract if not below this option.

"You have on hand with us spot cotton that we can sell on the present market at a basis which is about 400 points on October for middling. It is, of course, not possible for us to tell what the market is going to do, but we believe that the price of spot cotton is going to decline to somewhat around the October contract price when July goes out. If this should be the case you can see that by selling your white cotton now you can effect a saving of at least the difference in the basis.

"We are not urging you to sell and will hold your lot on storage as long as you wish, but we feel it is our duty to inform you of the situation as we see it and let you judge for yourself.

"Crop reports from the belt as a whole are very promising and it looks like we are going to have a much larger crop than last year's.

"Please let us hear from you in regard to the cotton on hand if you are considering selling, for there are only a few more days before the July option expires."

The majority of factors, however, as indicated above, do not favor or encourage dealing in futures on the part of, or on behalf of, their customers. Some concerns go so far as to refuse to handle any future transactions whatsoever for their customers.

Failure to remit to consignee full price obtained.—Factors when handling cotton on consignment are acting, of course, as agents for the consignees. As such it is their obligation and duty to obtain the best possible prices for their customers, as well as to render efficiently all other services. When a sale is made the shipper should receive the full price obtained by the factor less the legitimate expenses incurred.

Only one factor was encountered who admitted that he did not always remit the full sales prices (less expenses) to his shippers. As already stated, country shippers at times order their cotton sold at a specified price; for example, the order might be given to "sell my cotton at 25 cents." The firm in question upon receipt of the instructions to sell at a specified price has offered the cotton for sale and if a higher price was obtained has remitted to the shipper only the specified price less the usual charges, retaining the difference for itself. This it appears has been the usual practice of this concern. When questioned in regard to this policy, officers of the firm maintained that such a course of action was entirely proper since the shipper had specified the price he would be satisfied with and had received it. The excess was a "merchandising profit" which properly belonged to the factor. It is

unnecessary to state that the customers of this firm were not aware of this practice.

While only one factor was found who frankly stated that he withheld from the shipper a part of the sales price, occasional reports were received that other factors have also pursued this policy. The commission's agents, however, were unable to locate any other of these firms that are still in the business.

Legally and morally the duty of the factor, as stated before, is to obtain for his shippers the best prices possible and shippers are entitled to any amount that the factor obtains above the price limits. The only advantage the factor is entitled to when such sales are made is the reputation he may obtain by returning prices better than the shipper asked or expected.

Selling cotton without instructions.—In certain cases it is known that factors have sold cotton consigned to them before the shipper ordered it sold, this being presumably done in the belief that the prices at the time of the sale were higher than they would be subsequently, when the shipper elected to sell.

In the event that the factor has forecasted the movement of prices, if he sells before ordered, in a declining market, he will obviously profit to the extent of the price difference. If he chooses to hedge the cotton sold in the future market, moreover, he would largely avoid the chance of loss in the event that he is incorrect in his judgment as to the course of prices. Regardless of possible profits from the differences in prices in an event of a decline, the factor would receive payment for storage and insurance on the cotton from the time it was actually sold till the date it was ordered sold, although the cotton was not in store nor insured during that time. A further advantage to the factor lies in the fact that he has the use of the money obtained from the sale for the same period.

Early in 1921 a country shipper consigned four bales of cotton to a Savannah factor, with definite instructions to hold. A few months later two advances were drawn by the shipper, totaling $110, or less than half the value of the cotton. In December, 1921, the shipper, when cotton was about 19 cents per pound, instructed the factor to sell the four bales at 20 cents per pound. About January 18, 1922, this firm failed, and the shipper of the four bales received an account sales showing the four bales to have been sold at from 16 to 17 cents per pound. Storage at 75 cents per bale per month was charged from the date the cotton was received to the date of the account sales. No check for the balance due accompanied the account sales, and the shipper has never received any payment for the four bales beyond the $110 drawn in advance.

When this factor's case was tried, it developed in the course of the

trial that these four bales had actually been sold in June, 1921, at about 10 cents per pound. The shipper in question could not recover his four bales, for there was no way of finding out to whom it had been sold, and in all probability it had been spun by the time the factor failed.

Rumors that "some factors" continue to abuse the relationship of agent in the case of cotton consigned to them were heard in several markets. One such rumor was given currency in a pamphlet, from which the following statement is quoted:

"In the cotton trade there are instances where shippers' cotton has been ordered 'hold for further instructions,' but instead has been sold and 'hedged' in the future market; the shippers paying for storage, interest, and charges that were neither earned nor due, and whatever extra profits were made by such transactions went into the pocket of the cotton man. That might be properly termed 'bucket-shop' cotton business."

The author of the pamphlet referred to above, when asked to substantiate specifically these criticisms, admitted they were based on rumors and report.

Borrowing on shippers' cotton in excess of advances.—Undoubtedly the loose way in which cotton collateral has been handled in the South has afforded opportunity for abuses and even frauds on the part of factors. The majority of factors do not have sufficient capital of their own to carry on their businesses and consequently must borrow from some source. During the heavy marketing season they require large loans to finance consignments. This is particularly true when shippers are inclined to hold their cotton for higher prices. The funds necessary to carry this cotton are obtained in several ways. A few factorage concerns are subsidiaries of cotton-buying firms and obtain their funds from the parent organization. Others are financed by a wealthy member of the firm. The majority, however, are largely dependent upon the banks. Practically all factors have a line of credit with some bank or banks, the extent of which is governed by the usual standards. If the factor depends upon assistance from some wealthy member of the firm this line is usually based on the guaranty of the firm's paper by such individual member. Most factors, however, make use of warehouse receipts covering consigned cotton when borrowing beyond the limit of their unsecured line of credit.

When consigned cotton is received by the consignee, warehouse receipts are issued in his name, regardless of whether or no an advance has been made to the consignor. These warehouse receipts are then available as collateral for loans. The consignee should not, of course, borrow more on a receipt than he has advanced on the cotton which the receipt covers, because by so doing he is placing against that cotton for

the purpose of financing his own business a lien over and above what is justified by his advance to the shipper and because in the event of his failure he may involve the shipper in loss. There is little to prevent a dishonest dealer from borrowing more, though in a few localities measures have been taken which apparently have tended to make this more difficult. In many cases, of course, the banks will not lend a factor as much as he has advanced, since the factor may have allowed the shipper to draw a larger amount than the bank is willing to loan on the basis of the receipts.

Advances on short-weight bales and low-grade cotton.—In addition to the above there is a serious risk of loss in making loans on the type of warehouse receipts used in a few markets. These warehouse receipts are known as "various receipts." That is, receipts which are issued for a specified number of bales of cotton but without any designation either of grades or weights. Such a receipt when presented to a banker does not give him any information beyond the number of bales and possibly the marks or brands, this last being of no practical importance from his standpoint. Warehouse receipts such as these have been used to defraud creditors on a number of occasions. The receipt might cover cotton of the poorest quality and yet the borrower could easily represent it as of a higher quality and secure a loan amounting to much more than the value of the collateral. The bales covered by the receipt might be short in weight, that is, considerably less than 500 pounds each, and yet a loan be obtained on the basis of approximately 500 pounds to the bale. During the severe decline in cotton prices in 1920-1921, one or two concerns bought cotton known as bollies or snaps and pledged the receipts on the basis of good cotton. In at least one case receipts covering bales of low-grade cotton weighing but 250 to 300 pounds per bale were pledged for loans on the basis of 500 pounds per bale of good quality cotton.

Loans to consignees and merchants on their own warehouse receipts.—In most of the larger spot-cotton markets such as Norfolk, Savannah, and New Orleans, there are warehouses and compresses which are not closely owned or controlled by cotton merchants, or factors. In Savannah, for example, the stock in the warehouse is owned by practically all the cotton dealers of that market. The New Orleans public warehouse is used extensively by the cotton merchants trading in that market.

In addition to warehouses of these types there are many cotton warehouses and compresses in the cotton belt owned and controlled by individuals who are also merchants or factors. This is, of course, a natural development. These concerns usually handle a large volume of business and the advantages from owning the warehouses and compresses through which they move their cotton are important. Aside

from any revenue from the operation of these plants in handling cotton for the account of others, preferred service is obtained, which is of great importance during a rush season.

The value of cotton warehouse receipts as collateral is affected by the ownership of the issuing warehouse. Control of warehouses by factors and merchants merely accentuates the possibility of abuses by increasing the opportunity for manipulation of receipts.

In the first place, receipts which do not represent any cotton whatsoever could be, and at times have been, issued. If the receipts used call for the grade and weight per bale then either or both of these items may be misstated. Receipts which have been honestly issued and pledged as collateral may be obtained from the lender when the cotton is sold and after the sale the receipts may be used again as collateral at another bank and not canceled as they should be.[6]

The comparatively recent failure of one of the largest cotton factors in the South Atlantic States gave prominence to the possibilities of abuses where warehouse ownership and control is combined with the conduct of the cotton business. In this case it is alleged, among other things, that the factor in question issued or ordered to be issued receipts for large quantities of cotton when there was no such cotton in store.

Bankers do not care to lend to factors or dealers on their own receipts but feel that they must do so. A banker in Atlanta stated that he would like to have the Federal Reserve Bank of Atlanta, of which his bank was a member, rule that member banks must not lend to cotton merchants using their own receipts as collateral. This, he said, would relieve him of the responsibility for turning down such business which he felt he could not do now. This attitude was quite general among bankers.

Repledging pledged receipts.—A cotton merchant who has pledged warehouse or compress receipts with a bank as collateral must have these receipts if he is to move the cotton which they cover, or any part of it. He cannot load the cotton on steamer or cars until he presents the receipts to the compress or warehouseman. He cannot obtain payment for the cotton until he has the bill of lading. To enable the

[6] Up to a few years ago some compresses filled out receipts with pencils. If only a part of the cotton called for by a receipt was sold the receipt was altered by erasing or crossing out the original number of bales and inserting the remainder. In this way a receipt might, and frequently did, become so badly worn that the number of bales for which it finally called could be determined only with difficulty. When the receipt became almost illegible it was destroyed and a new one issued. This practice obtained in Houston, Tex., until 1923 when a cotton factor of that place was found to have raised a receipt for 3 bales to over 1,500 bales. When this was discovered the practice of changing receipts was stopped chiefly because of the demands of the banks for a safer system of issuing receipts.

merchant to move his goods the bank must release the collateral and for the purpose of safeguarding the bank the merchant signs a trust receipt which the bank retains in place of the warehouse or compress receipts. An unscrupulous merchant might then pledge the receipts elsewhere, or sell the cotton and not take up the trust receipt. The length of time creditors are permitted by banks to retain the collateral covered by trust receipts varies. In New Orleans, for example, such collateral may be held by the borrower as long as 30 days. In Houston, however, it must be returned to the bank each day. The New Orleans banks insure their trust receipts against illegal use of the collateral which they cover.

Methods employed to safeguard receipts.—A number of different methods are found to have been employed in recent years for the purpose of safeguarding receipts and preventing fraud. At least one important warehouse company has a bonding company guarantee its receipts; that is, the bonding house guarantees that each receipt is supported by the number of bales of cotton described thereon. In a few markets the local bankers have named one of their number to act as custodian for the local warehouses. This custodian signs all receipts and inspects the warehouses at frequent intervals.

The Federal Reserve Bank for the Atlanta district checks each warehouse in that district upon whose receipts member banks make loans. This inspection will be made upon the request of any member bank and includes an actual count of each bale in the warehouse. Banks in this district believe this inspection to be most desirable.

It is interesting to note the difference of opinion between the banks on inspection of warehouses. A number of banks said they had never felt it necessary to inspect the warehouses of their customers though they had the right to do so. Other banks which did make such inspection stated that they believed it a necessary and valuable safeguard.

General Duties of the Cotton Factor.

Alabama.—Commission merchants and factors, disposing of property for others, must pay moneys due upon demand of the consignor, and failure to do so within three days after demand is deemed a misdemeanor, subject to imprisonment at hard labor for not more than six months or a fine of not more than $1,000 (Sec. 3976, Crim. Code). Dealers in farm produce who directly or indirectly purchase goods for their own account, which have been received on consignment, without prior authority, are misdemeanants and may be fined a sum not exceeding $500 (Sec. 4027, Crim. Code) Factors and commission merchants selling the property of the planter, who take or receive from the purchaser, directly or indirectly, a rebate, discount, or return commission,

or charge their principal for services incidental to handling the cotton more than actually paid, are punishable as if they had stolen the moneys or goods (Sec. 5418, Crim. Code).

Persons who fraudulently convert or embezzle property to their own use, or to the use of another, or secrete fraudulently with intent to convert to their own use, or to the use of another, money or property which has come into their possession by virtue of their office or employment, are punishable upon conviction as if they had stolen it[7] (Sec. 3960, Crim. Code).

Arkansas.—The warehouseman must keep goods of each depositor separate from those of other depositors, so as to permit of their identification, but fungible goods may be mixed with other goods of the same kind and grade. In the case of fungible goods, each depositor shall be entitled to such portion thereof as the amount deposited bears a relation to the whole (Secs. 10366-10367, Code).

Georgia.—The agent must not make a personal profit from his principal's property; for all such he is bound to account[8] (Sec. 3583 of Civil Code). When the agent deposits money in his own name, his principal may follow it and recover it, wherever found, unless the rights of innocent third parties have intervened[9] (Sec. 3577, Civil Code).

Louisiana.—Persons engaged in the commission or brokerage business are under duty to render true and accurate statements to their principals. Those who render false statements or accounts of sales of cotton, or who falsely represent that such cotton is being held for future sale when in fact the cotton has been sold and only a sample retained, are guilty of unlawful practices (Sec. 1, Act 242 of 1910, p. 406, Stats. of La.).

Factors or commission merchants who sell cotton received on consignment without rendering to the consignor within 10 days after delivery a complete account of sale, showing the grade, price received, name of purchaser and his post-office address, are guilty of a felony, and, upon conviction, may be fined a sum of not less than $100 nor more than $1,000, and imprisoned not less than 30 days nor more than 6 months, at the discretion of the court (Secs. 2 and 3, Act 242 of 1910).

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[7] A bailee with a special interest in property may embezzle it (129 Ala. 80, 30 So. 582). The body of the crime may consist of many acts done by virtue of confidential relations (134 Ala. 429, 33 So. 226). Proof that the defendant procured a cotton receipt to be issued in his son's name, which he afterwards delivered to the owner, will not support conviction (88 Ala. 105, 7 So. 50).

[8] 60 S. E. 283.

[9] A factor into whose hands cotton passes which has been sold for cash but has not been paid for, is chargeable with the conversion of the same though he disposes of it at the instance of the buyer and it be sold in due course of trade and in entire good faith and without notice of retention of title by the seller (Flannery v. Harley, 117 Ga. 483; 43 S. E. 765).

Commission merchants and brokers storing or shipping goods for or on account of another party, and negotiating, pledging or hypothecating the cotton press receipt or bill of lading received for such goods, and not accounting or paying over to their principal or the owner of the property the amount so received for such negotiation, pledge or hypothecation shall be deemed guilty of fraud and may be punished by heavy fine or penitentiary imprisonment, or both. (R. S., sec. 824, Stats. of La.)

Mississippi.—Factors owe loyalty to their principal, and if a factor fraudulently secretes, embezzles, or converts to his own use goods or money, intrusted to his possession by virtue of his calling, he shall be deemed guilty of a crime punishable by imprisonment for not more than ten years or by a fine of not more than $1,000, or by both (Sec. 864, Code). Persons fraudulently appropriating personal property or money which has been delivered to them on deposit, where they were bound to deliver or return the thing received or proceeds from its sale, are deemed guilty of a crime and on conviction may be imprisoned for not more than ten years (Sec. 867, Code).

North Carolina.—Agents or consignees who fraudulently or knowingly and willingly convert to their own use, or make away with, or secrete, with a fraudulent intent, money, goods, or chattels intrusted to them, are guilty of a felony, and may be punished as in cases of larceny (Sec. 4268, Consolidated Stats.).

Oklahoma.—A bailee must deliver the thing to the person for whose benefit it was deposited, on demand, whether the bailment was made for a specified time or not, unless he has a lien upon the thing deposited, or has been forbidden or prevented from doing so by the real owner of the thing, or by the act of the law, and has given notice to the person for whose benefit the bailment was made, of any proceedings taken adversely to his interest in the thing bailed which may tend to excuse the bailee from delivering the thing to him (Secs. 5187, 5190, Compiled Stats.).

The detriment caused by wrongful conversion of personal property is presumed to be the value of the property at the time of the conversion, with interest from that time; or, when suit has been prosecuted with reasonable diligence, the highest market value of the property at any time between the conversion and the verdict, without interest, at the option of the injured party; and a fair compensation for the time and money properly expended in pursuit of the property[10] (Sec. 5999, Compiled Stats.).

A person having a lien on personal property cannot recover greater damages for its conversion, from one having a right thereto superior

[10] Applied Seibert v. Bank of Okeene, 25 Okla. 778, 108 Pac. 628.

to his after the lien is discharged, than the amount secured by the lien, and the compensation for loss of time and expenses (Sec. 6001, Compiled Stats.).

Persons instrusted with property, as bailee, or with power of attorney for the sale of the property, who fraudulently convert the same or the proceeds thereof to their own use or secrete the property or the proceeds from the sale of the property, with a fraudulent intent to convert to their own use, are guilty of embezzlement[11] (Sec. 2125, Compiled Stats. 1921). A distinct act of taking is not necessary to constitute embezzlement, but includes fraudulent appropriation, conversion or use of the property (Sec. 2127, Compiled Stats.). Any evidence of debt, negotiable by delivery only, and actually executed, is likewise the subject of embezzlement, whether it has been delivered or issued as a valid instrument or not (Sec. 2128, Compiled Stats.). Persons guilty of embezzlement are punishable as if they had feloniously stolen property of the value of that embezzled, and where the property embezzled is an evidence of debt or right in action, the sum due upon it, or secured, to be paid by it shall be taken as its value (Sec. 2132, Compiled Stats.).

Persons who sell, hypothecate, or pledge merchandise for a bill of lading, receipt, or voucher, without the consent in writing of the person holding such bill, receipt, or voucher, are punishable by imprisonment in the penitentiary for a term not exceeding five years or by a fine not exceeding $1,000, or by both (Sec. 2174, Compiled Stats.).

Persons who with intent to defraud use a false balance, weight, or measure in the weighing or measuring of commodities to be purchased, sold, or pledged are punishable by a fine not exceeding $100, or by imprisonment in the county jail for not more than 30 days, or by both. They are likewise liable to the injured party in double the amount of damages (Sec. 2196, Compiled Stats.).

South Carolina.—Factors or commission merchants who receive cotton from planters and sell the same, failing to pay over the net proceeds to the planter on demand, or apply the same to their own use and benefit, are deemed guilty of fraud, and are subject to imprisonment of not less than one nor more than five years (Sec. 178, Criminal Code).

Tennessee.—The first duty of the factor is to obey instructions; and if he has none, he may act upon his own sound discretion, according to the usages of the trade, as may seem best for his principal[12] (Sec. 3558, par. 25).

Factors cannot, for their own debts, pledge the goods of their principal.

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[11] Bodkin v. State, 16 Okla. Cr. 610, 185 Pac. 835; Cultured People v. Murphy, 51 Cal. 376; People v. Doane, 20 Pac. 84.

[12] A factor who has made advances on goods is not bound to obey instructions to sell, given after the consignment and after the advancements, unless the goods will bring the amount advanced (Blair v. Childs, 10 Heis. 199).

Trover will lie against a factor so pledging the goods of his principal, and against the pledgee who has sold the goods without knowledge of the character in which they were held by the factor and pledgor. But a factor may pledge goods on which he has made advances, to the extent of his interest, if he retains the power to control the sale of the goods[13] (Sec. 3558, pars. 11 and 12).

A fraudulent appropriation of property by any person to whose charge or care it is delivered, subject to the immediate orders of the owners, or to the use of it in his presence, or for the purpose of his trade, is larceny[14] (Sec. 6544). A fraudulent breach of trust is a criminal offense, punishable by a term of imprisonment not to exceed ten years. The fraudulent appropriation of personal property, delivered on deposit or by pledge to a factor, is a fraudulent breach of trust[15] (Secs. 6579, 6580, Code).

Texas.—Factors or commission merchants to whom cotton is consigned for sale on commission or otherwise are prohibited from purchasing or reserving any interest whatever therein, either directly or indirectly, in their own name, or in the name or through the instrumentality of others, for their own benefit or for the benefit of others, without express authority in writing from the owner or consignor of the cotton, or some person authorized by him, under penalty of forfeiture of one-half the value of the cotton, recoverable by the owner of the same by suit in any court of competent jurisdiction in the county where the sale took place or where the offending party resides (Art. 3829, Civil Stats.).

Factors or commission merchants who fraudulently misapply or convert to their own use money, goods, or other property which shall have come into their possession by virtue of their office, agency, or employment, are punishable in the same manner as if they had committed a theft of such money, goods, or property (Art. 1417, Penal Stats.).

Virginia.—Every commission merchant shall, upon receipt of farm produce and as he handles and disposes of the same, make a record thereof, specifying the name and address of the consignor, the date of receipt, the kind and quantity of such produce, the amount of goods sold, the selling price thereof, and the items of expense incurred therewith, and this record, together with payment in settlement for said shipment shall be mailed to the consignor within five days after the sale of such consignment shall have been completed, unless otherwise

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[13] Bank of Trenholm, 12 Heis. 520; McDaniel v. Adams, 3 Pick. 758; Blair v. Childs, 10 Heis. 199.

[14] Where delivery of chattels is made for a certain, special and particular purpose, legal possession remains in the first proprietor. The person to whom the goods are delivered has only the bare charge or custody of them, and may commit larceny by a fraudulent conversion to his own use (Wilson v. State, 1 Port. 118).

[15] Failure and refusal to deliver or return the thing received, or its proceeds, is embezzlement (State v. Leonard, 6 Cold. 309).

agreed upon in writing between the parties. Names and addresses of purchasers shall be furnished by the consignee to consignor, when demanded in case of complaints (Sec. 1263, General Laws). Commission merchants violating the provisions which would cause their certificate of license to be revoked are deemed guilty of a misdemeanor (Sec. 1264, General Laws). Embezzling property stored with brokers or commission merchants, by virtue of their employment, by such brokers or merchants, is the equivalent of larceny, and punishable as such (Sec. 4451, General Laws). And the sale or pledge of goods belonging to another, and failing to pay over the proceeds from such sale or pledge, is larceny (Sec. 4453, General Laws).

Sales by Brokers.[16]

In spite of general complexity, however, explanations of the sales methods of some of the principal, independent, distributing agencies may prove useful. Thus, there is the broker who handles car lots only, as a rule, and who draws his business from coöperative associations, country speculators, large operators, private exchanges, and in some cases private shippers. According to strict interpretation, the term "broker" can be applied only to those middlemen who act as intermediaries between the principals in contemplated transactions and have nothing further to do with the contract itself. The broker normally does not have possession of the articles he deals in, but must carry on all business in the name of his principal. Commodities handled by brokers, as a rule, are sold to car-lot wholesalers or jobbers.

At the beginning of each business day the broker looks over his business, ascertains conditions on other markets, and takes note of the number of cars he has on hand, number enroute, etc. With all this well in mind, he is ready to approach the wholesale trade. His next step is to make a careful canvass of the wholesale district, visiting or calling up by telephone all those who may be interested in what he has to offer. When a possible customer is found, the next step, in case the car or cars have arrived, is to allow the prospective buyer to inspect the contents. After inspection, satisfactory terms are arranged and then before the sale can be consummated it is necessary that the shipper confirm the broker's action. Assuming that the broker is selling a car of apples, Ganos and Grimes for instance, he may telegraph the shipper as follows:

"Jones offers on car MC sixteen eight fifty-four, two fifty Ganos, two seventy-five Grimes, delivered."

[16] Collins, J. H., et al., Methods of Wholesale Distribution of Fruits and Vegetables in Large Markets, Bulletin No. 267, United States Department of Agriculture.

In case this offer is satisfactory, the shipper's reply may read:

"Confirm car MC sixteen eight fifty-four Jones, two fifty Ganos, two seventy-five Grimes, delivered."

Or in case the price is unsatisfactory, the shipper might refuse as follows:

"Jones too low; car MC sixteen eight fifty-four; must have three Grimes."

Collection is often made through a bank located at destination. The shipper sends the bill of lading with draft attached to a bank, at the time the car is shipped, and after inspection the purchaser pays the draft and secures the bill of lading. Some large shipping organizations whose responsibility is well known to railroad officials often temporarily retain possession of the original bill of lading and effect delivery by a signed delivery order somewhat as follows:

"Agent, Missouri Pacific Railroad Co.

"Dear Sir: Please deliver on this order without bill of lading car of apples C. B. & Q. 36066 to John Jones, Kansas City. We pay all charges."

The bill of lading is retained temporarily in this case, as evidence of former ownership, or for use in case a dispute should arise later or claim be entered. It is absolutely necessary to insert the clause "We pay all charges," as in many cases railroads will refuse such delivery unless it is understood definitely which party pays the freight.

Broker's settlements.—Sales by brokers are, as a rule, strictly cash transactions and collection is made when delivery is offered. All cartage expenses in getting the goods from the car to the dealers' place of business are paid by the buyer. In case the broker did not make a direct sale, but handled the goods through auction, his activities would be confined to seeing that the goods arrived at the auction and attending the sale to withdraw the shipment if prices were unsatisfactory.

Broker's expenses.—The broker perhaps handles more business at less cost to himself than any other type of middleman. He has no considerable amount of capital in his business and a large part of his expenses is practically fixed. His heaviest items of expense are usually rent, clerical help, and telegraph charges. The latter, of course, varies with the amount of business handled. As a rule, most of the broker's business is composed of association accounts and accounts of large private shippers, and a very small portion is drawn from small shippers. The broker acts as the exclusive agent on his market for each concern that he represents, and, since he handles car lots only and moves large quantities in relatively short periods of time, he is enabled to render important services at a very low cost to the shipper.

Broker's abuses.—Brokers are often charged with misuse of their privileges in that they may sometimes speculate on goods passing through

their hands. For instance, a broker may make returns out of his own funds for a supposed sale, but hold the produce for a rising market before actual sale is made. If the expected advance occurs, he pockets the increase in price. This practice would prevent a shipper from getting just returns and his goods would not be on an actively competitive basis with other market offerings. In other words, such sales would secure to the grower or shipper the lowest market price quoted on the day returns were made and he would get no benefit from either the expected rise in price or the broker's ability as a salesman. This tendency toward speculation is ordinarily done away with entirely when there is direct dealing between the vendor and the vendee, so far as the handling of money is concerned. As a matter of fact, according to a strict interpretation of the term, the shipper's selling agent ceases to be a broker when he assumes responsibility for collecting and remitting, and so the term "broker" as here used is applied according to trade usage and common understanding. Brokers are charged sometimes with failing truly to represent the shipper. Being always in close personal touch with buyers and having no such close relation to the shipper, there is sometimes the tendency to favor the buyer unduly in order to retain his good will.

The broker's place in distribution.—Brokers act as market salesmen for those producers who are unable to make direct sales and who have no other market representative. They represent shippers at large distribution centers, and by the payment of the very small brokerage fee the shipper can be certain that his goods will be accepted on arrival. The broker, by making prompt disposition of a consignment immediately upon arrival, often saves the shipper many times the brokerage fee. Brokers stimulate and expand the market to a certain extent by their expert canvassing of the trade and any influence that stimulates active buying and selling must be regarded favorably. In general, their chief usefulness lies in the fact that their activities on the market tend to maintain a steady flow of business.

Chapter IX

PUBLIC MARKETS AND AUCTIONS

The Case for a System of Public Markets.[1]

Municipal markets in the United States.—Municipal markets are not new. They were formerly found in every village and city. It was only in the latter half of the nineteenth century that the cities, absorbed in the development of their own industries, began to be neglectful of markets and market places, to be sure, fairly good markets still exist in many cities throughout the United States. Several cities claim fairly comprehensive markets.

Municipal markets do not develop themselves. The American attitude has been to set aside a building or a plot of land for a market and then expect the market to be a success. The making of a successful municipal market with maximum results necessitates virile energetic thought and supervision. In the first place, *there must be a terminal wholesale market in cities of any size where* foodstuffs from both nearby and distant regions may be offered for sale as directly and as reliably as possible. A *second essential is the adaptation of the kind and location of markets to modern customs, to movements in population, and to transportation facilities.* The *third essential to a successful market policy is the encouragement of farmers' markets as distinct from merely groups* of professional retailers, so that producer and consumer may be brought more directly together. *Fourthly, charges for stall rents must be fixed at a point that will bring a reasonable return on the investment* or present value, but not at a point that will return unduly large profits to the city. *A fifth prerequisite to success is to give to stall renters every reasonable facility in buying, preserving, and selling their produce.* Again, the markets must be so regulated and supervised as to cleanliness, purity of food, and honesty in weights and measures, that it will be preferred by consumers as a buying place above other places not so regulated and supervised. And, finally, there must be thorough and systematic supervision and administration of the city's market policy, including reports on retail and wholesale prices, so that the public markets may be a real competitive factor both in attracting trade and in fixing consumers' prices.

[1] King, C. T., *Annals of the American Academy*, Vol. 48-50 pp. 102-116.

The wholesale market for general trade.— The wholesale terminal market is needed to give a reliable clearing place at minimum costs for food produce, coming alike from neighboring farms and from producers in distant regions, thus securing to the city both the season's output of other climes and the greatest possible amount of selling and buying at home.

But few municipal wholesale terminal markets are found in America and such as do exist are not always administered in a way conducive to the best results. Well administered terminal wholesale markets are characteristic of every European city. Typical markets of this character are found in Budapest, Prague, Havre, Lyons, Brussels, London, Paris. The establishment in Paris, for instance, located near the Louvre, and known as the Halles Centrales, consists of ten pavilions and open structures, partly covered by a roof, occupying in its entirety 22 acres and erected at a total cost of $22,000,000. In this vast entrepot, various market supplies are received by rail, by drays, by boats in the Seine River, and by great wagons from the country. Over one billion pounds of products are sold there every year.

The great need of American cities is properly located, adequately equipped, and well administered public terminal wholesale markets. The prime essential for such a market is location at a point where the tracks of all the railroads entering the city can terminate. If possible, it should also be located near the water front with adequate wharfage facilities for all truck boats. If this is not possible, then there should be a second such market on the water front.

An auction department in wholesale markets.—In order to fulfill its mission as a reliable terminal for produce sent into the city, a requisite essential to success is sale at auction by bonded city officials, forbidden to be interested directly or indirectly in the trade of market wares of any kind. The commission to be charged by these licensed auctioneers must be definitely fixed. In Europe the commission ranges around 2 per cent of the total annual auction sales. This in itself is a much lower cost for selling than the usual commission charged in this country. This saving, however, is a very insignificant part of the total savings to be made by adopting the auction system. Great savings will be brought about through the elimination of all commission abuses. Of still greater significance, the producer will be tempted to ship to the city with such a department, knowing full well that he will get maximum returns for his goods. The producer then has three choices: either alone or in coöperation with others, he can rent stands in one of the retail markets; he can ship directly to some wholesaler; or he can sell at this public auction. The experience of European cities is that he adopts the third.

Just such results from auction departments in terminal wholesale

markets are emphasized in the recent special consular report on European markets. Consul John C. Covert says as to this system in Lyons: "Fish and game are brought here for sale from England, Germany, the Netherlands, Russia, and all parts of France. If a grocer or butcher anywhere in France, in fact anywhere in Europe outside of Lyons, has an overstock of any kind of provision, he is always sure that he can get rid of it at the central market auction in Lyons. Often a stock of provisions is sold here at private sale by correspondence for and to parties outside the city." Consular Assistant Frank Bohm writes as to results obtained in Berlin: "The municipal sales commissioners are bonded officials who are forbidden to be interested, directly or indirectly, in the trade market wares of any kind. They are responsible to the market-hall management, and are allowed to collect a certain fixed percentage of all sales made. The primary purpose of these officers is to offer distant dealers and producers opportunity to ship in their wares, and have them brought into the hands of Berlin dealers and consumers, through the agency of responsible middlemen and with the assurance of a published and steady price. A second or indirect purpose is that through their competition with the private wholesale dealers and through the daily publication of their report on the average wholesale prices for all wares and at all the halls, the municipal sales commissioners exercise a steadying influence upon the entire wholesale business. Although it is estimated that they handle only about one-fifth of the total wares received at the central market-hall, it is nevertheless conceded that they indirectly prevent extortion by the private wholesale dealer upon the producer or dealer on the one hand and upon the consumer or retailer on the other."

There can be little doubt that the auction department of the municipal wholesale terminal market is of great value in getting reliable and stable sales for goods sent in alike from the neighboring regions and from the most distant countries. To prevent abuse, it would be necessary to enforce strictly the regulation that all goods sold at the auction department must come from without the city.

The administration of wholesale markets.— Not only can trade be attracted from without by bona fide municipal auction sales at a terminal market and by similar means of giving confidence and publicity to such a market center, but facilities can also be offered of a character that will attract to such centers buyers from all parts of the city itself. As in European cities, chilled rooms can be provided into which perishable produce can be unloaded from the cars, and repacked to suit the trade, without the deterioration inevitably resulting from unloading in a warm atmosphere. Under the market-hall, cool, clean cellars and ample cold-storage facilities can be made available for the temporary use of all buyers at reasonable rates. This will mean goodly

savings in transporting costs and warehouse facilities and will prevent spoilage and lowered values. A municipal canning and preserving plant conveniently located in the building pays for itself and prevents deterioration and waste.

A municipal terminal market makes for many economies in food distribution. By delivering cars right at the wholesale market, all trucking from the railroad terminal to the wholesale market is eliminated. The significance and value of this saving will vary with each of the cities. For instance, every day from New England, quantities of fish are brought to the freight terminal on the Harlem River in New York City, and, because of the lack of marketing facilities there, are then loaded on a barge and taken down to the fish market, there to be sold, only to be again carted back uptown. A municipal market and distributing depot in the Lower Bronx on the Harlem River, at a point of convenient access to the railroads and water lines, would eliminate much of this useless trucking. It is safe to estimate that a terminal wholesale market will save at least from ten to twenty dollars a car in hauling costs. It will effect even greater economies in time, in interest on investments and in facilitating the marketing of the food supply. At many railroad terminals there are such private wholesale markets now. But they are not adequately regulated, they are not supervised by public officials, and they are not coördinated with the terminals of other steam, electric, and water lines.

A wholesale market attracts not only retail dealers, large and small, but also the larger consumers, such as hotel and restaurant managers, and, more pertinent still, makes possible an increased amount of coöperative buying through consumers' leagues and consumers' coöperative associations. This direct buying without the retailer as an intermediary is definitely furthered by fixing the quantities that can be offered at wholesale at relatively small amounts. In the wholesale market at Havre, France, merchandise may be offered for sale in such small quantities as six ordinary sized bunches of vegetables; nine quarts, or, when sold by weight, eleven pounds, of fruit and vegetables—even this minimum being reduced by half during April and May; vegetables which it is customary to sell by count, such as cabbages, cucumbers, tomatoes, etc., 1 dozen; oranges and lemons, 1 dozen; large vegetables, such as cantaloupes, melons, etc., in as small quantities as one of each. In Lyons, quails, partridges, ducks, etc., are put up in bunches of half a dozen or a dozen; eggs in lots of 100; oysters in boxes of 100; butter in lots of 50 pounds. With sales in such small quantities as these, the smaller consumers, through coöperation, and the larger consumers everywhere can buy with but one intermediary between them and the farmer, and that a public auction department that adds but 2 per cent to the cost of goods.

Buyers are further attracted to such markets through careful municipal inspection of the quality, quantity, weights, and measures of all foodstuffs sold. Thus, at the wholesale terminal market at Paris, supplies are received, inspected, weighed, and sold to retailers and consumers, under official supervision so constant and efficient as to preclude the sale of unwholesome food products and prevent extortion and trickery.

Of greatest value to the wholesale terminal market, both because it advertises the market to the producers everywhere and because it gives a basis for comparison with the prices secured by private dealers, is the publishing of a daily bulletin giving the wholesale price of produce, and at least a weekly bulletin giving the retail price as paid by city consumers. This is done in certain European cities with telling effect. Thus the market at Budapest publishes a daily bulletin giving the wholesale price of produce, and a weekly list of retail prices, declaring itself not to be responsible for any controversy which may arise as to results thereof. No one activity on the part of market officials could more forcefully stimulate direct marketing than such published bulletins. Farmers could then have reliable information as to what prices they could secure at wholesale and what prices they could secure by selling their articles directly to consumers.

Mr. John C. Covert, Consul at Lyons, says as to the results attained by the wholesale market there: "During the auction the market women and the keepers of small groceries, fish, fruit, and vegetable stores fill the space in front of the auctioneer to replenish their stocks. This market is most emphatically favorable to the poorer classes. Many poor people bid off a bunch of game or fish, dividing the expense among themselves, thus procuring a luxury that they could not otherwise enjoy. It creates a center in the city to which food comes from many points, largely increasing the supply. It reduces the prices to retail dealers in the market and sharpens competition. The auctions are always public and the woman who buys of a small dealer often knows just how much the dealer paid for the articles in the market that morning."

Retail markets for social trade.—The second essential to an adequate, constructive municipal market policy is the adaptation of the city's markets to movements of population and to the city's environmental needs. As residential centers change, markets decay. Stall rentals must, therefore, be sufficient to provide depreciation and replacement funds so that markets may be relocated in order to follow population movements. The typical European market system includes the central wholesale terminal market, as above described, where retailing is also permitted, and a number of branch retail markets. Thus in Paris, there are, in addition to the Halles Centrales, thirty-three small retail public markets. In Budapest in addition to one central there are six branch

markets. In Antwerp there are two covered and nineteen open-air markets.

Not only must the retail municipal market be adapted to population movements, but it must also be adapted to modern conditions and usages. The retail unit characteristic of the day of the telephone and central supply station is a small store, such as one of the Acme Tea stores, the United Cigar Company stores, the Horn and Hardart restaurants, where there is a quick turnover of capital, and where delivery charges are low. The retail municipal market, to be successful, must adapt itself to this tendency. Its size will, therefore, depend on the number of buyers round about and will be different for each city and in each section of the same city. It need only be large enough to offer a sufficient variety to the purchaser to tempt him to come there to buy. Its success or effectiveness, therefore, cannot be measured solely by the number of stall renters or purchasers. To compete with modern retailing methods, there must be coöperative deliveries, and to compete with the central buying concerns, there must be coöperative buying among the stall renters. In general, through their associations or otherwise, the stall renters must form an aggressive, competing unit, fully cognizant of the advertising value of thorough inspection of their foodstuffs and of virile supervision of their sales practices.

If municipal markets, wholesale or retail, are to be of the greatest social value, every effort must be made to encourage their use by farmers and other food growers. The market of former days was essentially a place where producer and consumer met. But to-day, the stall renters in the markets of the American city of any size are almost all professional retailers and in no sense farmers or producers. Thus in the Old South Second Street Market of Philadelphia, the larger of that city's two municipal markets, out of 315 stall renters there are not over a half dozen farmers. Indeed, in only ten of that city's forty-seven wards do farmers play any considerable part in the sale of foodstuffs, and even in these ten wards they do not sell to over 10 per cent of the people. The time will come, without doubt, when the difference between producers' and consumers' prices will not tempt the farmer to turn salesman for his own goods. But that time certainly is not here now, and for some time to come will be far away.

In the meantime, and, indeed, for competitive reasons, even after this happy state is reached, every encouragement and protection should be given to farmers who desire to sell at the city's markets. In certain of Philadelphia's markets, many professional retail dealers in no sense farmers have out signs proclaiming themselves to be Bucks County, or Montgomery County, or Lancaster County farmers, selling only goods fresh from their own farms, when, as a matter of fact, they have bought the goods that morning at wholesale, or at the best, are jobbers who

buy from farmers. Want of confidence results, as purchasers sooner or later learn of this fraud; both bona fide farmers and buyers then stay away from the market. City ordinances should provide that none but bona fide farmers should display farmers' signs.

Open-air markets.—To give farmers minimum rental costs, at slight expense to the city, in good residence locations, many cities in America and Europe, have set aside streets for open-air or curbstone markets. Vienna has forty such open markets; Antwerp, nineteen. The rental for wagon space, as a rule, is nominal only. Thus in Atchison, Kansas, and San Antonio, Texas, a charge of ten cents a day is made for each wagon, while in Buffalo the rate for a one-horse vehicle is 25, for a two-horse vehicle 50 cents per day. In Brussels, the charge is one cent per day, while a bench may be secured for 2½ cents, or a covered stall for 5 cents, furnished and set up by the city. This practice of merely nominal rentals for stall space is no doubt the correct one. Careful inspection is necessary to make sure that all space renters in such markets are bona fide farmers. If other venders are allowed to use such markets at all, they should be segregated in sections clearly marked by placards as set aside for venders not farmers. This is done in Rochester's market. A third section could likewise be set aside for pushcart venders. All licensees must be required to deposit their refuse and papers in rubbish cans with secure lids and every other precaution taken to keep the street sanitary and clean. Collapsible counters and coverings should be available for use in sunny or in rainy weather, to be removed by their owners after the market is over.

The pushcart, the vender's wagon, and the open-air farmers' markets offer the cheapest possible store at adaptable locations, and thus should give avenues for food distribution at minimum costs. While there can be no doubt that the covered market will be the better in the long run, yet the open-air curbstone market offers a good temporary method of attracting farmers and of giving consumers an opportunity to buy directly. Two and a half miles of streets in Cleveland are lined by 1300 farmers and 400 hucksters. Both Baltimore and Montreal attract 1500 wagons each market day by their curbstone markets. The results of such a market in Des Moines, Iowa, has been described as follows: "Between 100 and 200 farmers gather on the city hall lawn and in the streets adjacent thereto between the hours of 5 and 10 o'clock in the morning, without paying any license or rent. They are permitted to sell direct from their wagons to the city consumer. The result has been that they have received approximately 50 per cent more for their produce than the commission men paid them before, while the city buyers get their produce for approximately 50 per cent less than was paid formerly. By compelling the sellers to display large cards stating whether

they are gardeners or hucksters, the public is enabled to discriminate and to purchase direct from the man who grows."

Municipal markets have secured results. In Cincinnati 60,000 people flock to the Saturday market; in Baltimore, 50,000 on market days. Henry G. Gniffke thus enumerates the results secured by the open-air market in Dubuque, Iowa:

"1. Dealer and consumer come together. There is no middleman's profit to pay. 2. The dealer is under scarcely any expense for rent, fixtures or help. 3. For over 99 per cent of the stuff sold here there has been no freight bill to pay, no cost of crates, refrigeration, or boxes. 4. The seller has no real waste, because he can always dispense of any surplus he may have over to the grocers, the shippers, and other dealers, besides the home bargain-hunters. 5. The purchaser is always sure of fresh stuff. 6. Supply and demand fix the prices, modified by the demands of the shippers for other towns and the abundance of stuff sent in. 7. The variety to choose from is nearly without limit at some seasons."

No section of the United States is now wholly rural. In all parts of the nation, the city is growing apace. This growth of cities in all parts of our country means ever-widening possibilities for local marketing and for selling at home. As the season's output runs from south to north, each city, through national agencies, can now avail itself of every possible variety of foodstuffs. But by proper civic action and coöperative encouragement each city can also buy an ever-increasing proportion of its own season's output at home. This buying and selling at home will mean a larger output from the surrounding farms, the adaptation of that output to local markets; stimulated land values and a more prosperous local community roundabout, a richer purchasing clientele for the city's factories and stores, and a goodly savings in food distribution, and hence in food costs.

Selling at home will not only stimulate output but it will also have a psychological tendency to make the farmer adapt his output to local conditions. To derive the greatest possible profit from his products, the farmer must pay attention to the condition of his goods, to their appearance, and to economy and promptness in marketing them. While the output of any given farm will have to be adapted to soil and climate, to the abundance or scarcity of labor, to the size of the farm, and to the tariff, yet, other things being equal, of greatest influence is the opportunity for marketing. Through proper marketing facilities, Munich, a city with a population of one-half a million, now gets one-fourth of its meats by road from neighboring farms.

Cities cannot live solely by the exchange of goods among themselves. They must also exchange their products for the farmers' goods. The city's prosperity is in direct ratio to the cost of distributing its output.

For the manufacturer as well as the farmer, selling at home means lower distribution costs. The greater the freight and transportation costs, the lower the returns for the urban store. Urban prosperity is enhanced by selling to, and buying from, the country roundabout. In the more direct routing of food-products lie golden prospects for lower living costs. Municipal markets further this direct routing.

The Community Market.[2]

A number of advantages accrue from the well-managed community market both to producer and consumer. Without these neither would patronize it.

Benefits to the producer.— The producer's advantages may be stated as follows:

1. All transactions at the farmers' market are for cash. There is accordingly no loss through bad accounts, nor is the farmer inconvenienced because of delayed payments for produce sold.

2. The farmer gets better prices for his produce, a larger part of the consumer's dollars, than he does when he sells to a dealer. His cash expenses, moreover, are low, a small rental charge for space or a license fee being all that the market asks.

3. Dealing directly with the consumer, the producer has an opportunity to learn what products the market demands, and the qualities, grade, package, etc., the customers prefer.

4. An opportunity is afforded for the sale of small quantities, which the wholesale dealer does not usually care to handle, and which the producer can seldom sell to advantage otherwise. Especially is this true of the fall surplus on the farm, which too frequently goes to waste.

5. The community market offers also a means for the disposal of perishable products which must be marketed promptly if at all. Large quantities of such products can frequently thus be sold without glutting the market.

6. The farmer has the satisfaction of handling his own product and making his own sales; he also has the advantage of the business training which he gets in no other method of sale.

7. The producer has, furthermore, the opportunity to establish a uniform grade under his own brand and label, even for small lots of produce. This is of marked benefit to him in making future sales and establishing his reputation for that product.

8. The knowledge that his market is assured and at hand encourages the farmer to produce as much as possible. This influence of the market is in these times sufficient justification for its establishment where conditions warrant it.

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[2] Extension Bulletin No. 21, Massachusetts Agricultural College.

9. Perhaps one of the greatest advantages of a community market lies in the relief it affords to transportation lines. Too often products are shipped from a community to a large market center, only to be shipped back again to that community. Charges to the consumer are, therefore, much higher than the price to the producer, and transportation facilities are overloaded unnecessarily. These wastes might be saved by bringing the producer and the consumer together in the public market.

10. One of the most important advantages offered the producer by the market is the opportunity it gives him to come in contact with the buying public, and to secure special orders for produce which he can deliver direct to one or several consumers. These often amount to more than his sales at the market.

Benefits to the consumer.—On the other hand, the consumer will usually find that the community market offers him certain advantages also.

1. The prices should be lower than those asked when the product reaches him through the usual retail channels. The costs of this method of marketing are ordinarily so much less than the producer can sell at less than ordinary retail prices and still make a larger profit on his goods.

2. The products the consumer purchases at the market should be of good quality and fresher than when they go through the customary routine of retail trade.

3. Local products should be offered in greater variety at the community market than in the store of the ordinary retail dealer.

4. On account of the possibility of careful official inspection and supervision the consumer should experience no difficulty in the matter of weights and measures.

5. The opportunity to place special orders for farm produce with the farmers at the market is one of the greatest advantages offered to the consumer by the market.

Limitations.—Certain limitations should not be overlooked by the community which is considering the establishment of a public market. There are certain disadvantages which should in fairness be stated.

1. The time consumed by the farmer in attendance upon the market is a matter of considerable importance. The farmer who has but a small quantity to offer cannot always afford to spend his time to sell it by this method. The large producer may find it more profitable to dispose of his entire load at once and thus save his time. On the other hand, the time spent on the farmers' market is often more than offset by the long haul to Boston, Worcester, Springfield or other markets, which the producer now makes to sell his products. The small producers may solve their difficulty by pooling their small lots and placing the whole in charge of one of their number, thus releasing the others.

As pointed out elsewhere, the city table also offers an outlet for these small quantities.

2. The time of the housewife is another matter which largely influences the success of the farmers' market. In some localities it has been found that few patronize the market except the poor who live very near and those who own cars and have maids to do the work at home. The woman who does her own housework often finds it impossible to go to the market, as she cannot leave her work or her children.

3. The carfare to and from the market is an item which deters some consumers from patronizing it. No delivery of goods is possible from most markets except in so far as the farmers deliver their own products, and some customers do not care to carry home their purchases.

4. The fact that all sales are made strictly on a cash basis is an inconvenience to certain classes of consumers, who are likely to trade where they can get credit accommodation.

5. The open market cannot be operated during the winter, and, indeed, not all inclosed markets have proved successful during the cold weather.

6. At most but a comparatively small portion of the food needed by a community can be supplied through the market. The greater part of the fruits and vegetables required must still be secured through the ordinary channels.

Necessary conditions.—The community which contemplates establishing a market for the sale of farm produce should first be assured that certain necessary conditions exist.

1. The community must be capable of supporting such a market. If a majority of the residents maintain adequate gardens the market is not likely to prove a success. This unfavorable factor might, however, be offset by a large summer colony or a heavy automobile traffic.

The committee having charge of the matter must be certain that the movement will have the support of a sufficient number of customers to insure its success.

Very large communities are sometimes unfavorable for the establishment of such a market, because they are already so well served by the local retail dealers. A very small community usually has not a sufficient demand to render a market profitable.

A recent government report finds the public market most successful in cities of 25,000 or more. Some of the larger cities have found a chain of markets desirable. The experience of Massachusetts in 1917 is that sufficient patronage for a successful market may be found in towns of 4,000 or 5,000 population, especially those with large summer populations.

The Massachusetts law provides for these markets in all cities of 10,000 population and over.

Financing the public market.[3]—When funds of any considerable amount are needed, the ordinary bond issue is used most commonly to provide for the establishment of city markets. When curb or other unimproved open markets are used, the small expense incurred can be met from the funds of some established department of the city government.

Many cities measure the success of their markets by the revenue which they derive therefrom. In so far as revenues are an indication of the amount of business transacted, the practice is not especially subject to criticism, but when municipal markets are prized mainly for the high returns which they make from excessive stall rent, then it is very evident that the primary purpose of the market is being defeated by the city itself. In building a retail public market it should be the aim to furnish first-class equipment for the handling of food products at just as low as rental as is possible, considering the running expenses, investment, interest, and depreciation. A reduction of overhead expense is essential if retail quotations are to be lowered materially. A public market should perform this function of lessening the high operating charges of the retailer, and then measures should be taken which will cause this saving to be evidenced in cheaper prices to the consumer.

Considering the financial management of a successful market, there are, very evidently, three methods of operation—at a loss, at cost, or at a profit. Any deficiency resulting from the first method must needs be made up by funds derived from some form of tax. It could be justified from a practical point of view only in case the low stall rents charged were responsible for reduced retail prices and marked communal benefits which might result from the effect of the market as a retail-price governor. However, on account of the fact that under average administration the savings effected by such low rentals do not accrue always to the benefits of the consumer, and in as much as the policy of conducting such an institution at a loss is apt to engender a great amount of opposition, it is no doubt wise to use some other system.

As a matter of large net profits to be gained from a market is incompatible with the whole municipal-market idea, it remains for one to dwell on the advantages of the second method named, that of conducting the market at cost, with the possible addition of a reserve fund to be used in retiring a certain percentage of the bonds at stated intervals. This idea seems to be the most satisfactory when viewed from all angles. It contemplates making the market self-sustaining, a good feature in any business proposition. It makes for very nominal stall fees, thus lowering the overhead costs to the renter. It placates to a great extent

[3] Branch, G. V., Retail Public Markets, Yearbook of United States Department of Agriculture, 1914, pp. 178-184.

that class of citizens who oppose every civic improvement that calls for an expenditure of money.

Whatever the system employed, it is very essential that in leasing market stalls the city retain full control, making the duration of the lease short, and tenure subject to full compliance with all the rules and regulations of the market. In order to vary rentals when necessary, eradicate dishonesty in all forms, enforce sanitary measures, and apply desirable ideas for the general improvement of the municipal market service, it is necessary that the occupancy of a market stall be subject to speedy termination on the part of the management when conditions warrant.

One of the large eastern cities, owner of eleven municipal markets, recently faced a crisis in the conduct of this phase of city activity, due to lack of foresight in the financial policy employed when the various markets were built. In order to recover quickly the amount expended for a market, it was the habit to sell the stalls at public auction. Under this system, by the payment of an annual license and rental, the stall practically became the property of the purchaser. It could be rented, traded, or sold the same as any other possession. As a result, when changed conditions necessitated higher stall charges in order to provide a surplus for much needed market repairs, this move on the part of the city was met by a suit, instituted by the dealers, denying the city's right to increase the rent specified in the original bill of sale. It required about two years' strenuous work on the part of the municipality's legal department to secure from the courts a sustaining verdict, and in the meantime the markets suffered greatly through depreciation.

Under such a system the value of public property accrues to the benefit of an individual, as is shown by the fact that in this city some of the market stalls are appraised as high as $3,000, although their purchase price was not more than half that much. Many are subrented for a sum that will bring 10 per cent on their present value and up to 20 per cent on the original investment. Instances are related of Italian lessees who are now living in their native country mainly on the revenue which they derive from subrenting the stalls which they hold in the markets of the city mentioned.

The privileges of subletting space in a municipal market and transferring a lease to another party are freely offered by many cities to stall renters. A little thought should make it evident that either concession is detrimental to the best interests of the market enterprise. By keeping in mind the fact that one of the chief functions of a municipal market is to lower food costs by reducing the overhead expenses of the dealer, it can be seen plainly that the subletting or transfer of a stand, for a substantial money consideration, adds an unnecessary financial burden,

the amount of which the new occupant must needs try to recover from the buying public.

It is also manifestly unfair to other citizens not so favored for a municipality to furnish low-priced facilities to certain individuals, namely, the stall renters, by the manipulation of which these individuals can realize substantial unearned increment. However, this is exactly what happens when a city leases a desirable municipal market stall for $72 a year and the renter transfers his lease to a third party for a $1,200 cash consideration, or sublets the stall at the rate of $300 per annum. While this is a hypothetical case, its parallel in market transactions can often be found.

In as much as a public market is a community institution, paid for and sustained out of public funds, all values which it creates should be returned to the municipality, except a fair remuneration which necessarily must be paid the stall renters in the shape of profits for the service which they perform. In order that this condition may prevail, one of the requisites is that there be no subletting or transfer of stalls unless, perchance, unusual conditions seem to justify such action. The original renter of a stand should be the user, and when his occupancy is terminated, the space should be given to the first applicant on the waiting list or drawn for by lot.

Market regulations and management.—Probably the average municipal market suffers as much from the lack of proper business management as from any other one thing. The larger proportion of markets are left to manage themselves, and then the cities possessing them condemn the lack of satisfactory service. Is it a cause of wonder that in such markets dealers are in control, prices are fixed, patronage dwindles, and the expected benefits do not materialize? Considering average conditions, how can a city treasurer's office, a board of public works, or a caretaker at $40 per month be expected to conduct such an institution successfully when acquainted with neither the problems of a retail public market nor the service which it should render the people? A competent managing official, therefore, can be reckoned among the chief needs of any city that inaugurates a municipal-market system, and such an official should have not only understanding but vision.

After a market is opened to the public, there are two annoying problems which are of almost constant recurrence. To secure healthy competition among sellers, thus doing away with price fixing, and to eliminate dishonesty in all its forms, are tasks beset with difficulties. Most cities give up the attempt, but one of the middle-western municipalities has solved the proposition to its satisfaction. The city retains absolute control of the market. Full rein is given the superintendent of markets, and all responsibility is placed upon him. When he rents

either the outside or inside stalls it is expressly stipulated that the prospective occupant can sell there only so long as he deals fairly with the public and so conducts his business that it does not become detrimental to the best interests of the market. It required the elimination of only three or four undesirables to impress upon all the other dealers the fact that competition and fair dealing must prevail on that market. As a result, not a single complaint of dishonesty has been made by patrons for nearly two years. Better still, no suggestion of fixed prices is apparent, all dealers working on the principle of a large volume of business at a small margin of profit, rather than the opposite method so often apparent in the present retail system.

The efficiency of many municipal markets is greatly reduced by their subserviency to political influence. Often market stalls are made awards for party service, as are also the offices and positions which a market affords. It is hardly necessary to comment on the destructive effect which such a condition exerts both on the market itself and on the benefits which it should render the community.

There are many who consider the matter of a credit and delivery service in connection with a public market as a debatable question. This would seem to depend on what are to be considered the logical functions of such a market. If a reduction of food prices through lessened overhead expense to the dealer is one, then credit and delivery at his expense should be discountenanced. To afford any considerable economy, all goods on a municipal retail market should be sold for cash, and carried home unless a common delivery system is available, the charges of which are paid by the purchaser. The equipment for such a system could be furnished by private enterprise, if that prove satisfactory, or, if expedient, by the city itself. Such a method of delivery in connection with a market is very desirable and can be made practical.

Many markets have found it advisable to rule out telephones on the ground that a telephone order calls for delivery, and, in turn, establishes a credit charge, if, for any reason, collection cannot be made when the goods are delivered. This rule finds further justification in the fact that ordering by telephone prevents the housewife from personally inspecting, before buying, the quality and assortment of products which the market offers.

Publicity of market news.—The possibilities for good of a rationally conducted market news service in connection with a municipal market system are just being realized. The average housewife suffers an almost daily loss through her ignorance of what products the market most liberally affords and current quotations on foodstuffs in general. Intelligent publicity of reliable information of this nature should prove to many cities a service rivaling in value any other feature of public-market activity.

The city of Berlin has worked out this idea very satisfactorily in connection with its municipal wholesale markets. Several municipal sales agents who sell in the central market, either at auction or private sale, report their transactions to the city authorities, and they, in conjunction with the state market police, publish the prices obtained in the wholesale market each day in the Official Market Bulletin. This practice has proved a meritorious one and is indorsed alike by dealers, trade papers, consumers, and others interested in the distribution of food products.

Conclusion.—Let it be said that this discussion does not aim to cover fully the field of municipal retail markets. Only some of the more salient points which face a city interested in this problem are treated. Numberless questions of a more incidental nature demand careful consideration when the actual construction and management of a market are attempted. Nor is it thought that all of the conclusions reached herein can be applied successfully to every city. Unusual local conditions or prejudices might render advisable an entirely different treatment than is here set forth.

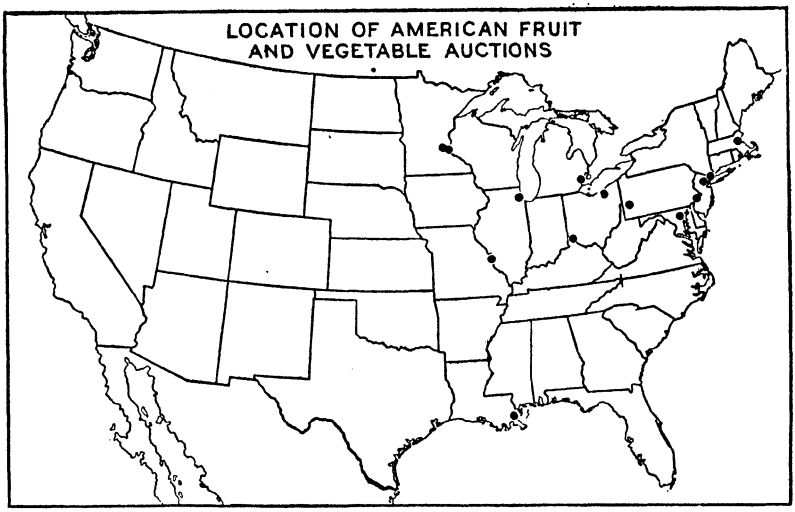
While the municipal retail market surely has its place in the present system of food distribution, its introduction should be accompanied with even more mature judgment than would attend the establishment of business institutions by private agencies, for, in committing itself to the retail-market policy, a city is departing somewhat from the conservative path. The public market is not a panacea for the weaknesses of the retail system, nor is it advocated that its use should displace the old fashioned agencies of retail marketing. Rather, its service should supplement, co-operate with, and to some extent regulate that which they give.

AMERICAN FRUIT AND PRODUCE AUCTIONS[4]

At present there are twenty-four fruit and produce auction companies operating in fourteen of the principal distributing centers of the United States (see map). This number includes two new companies which were organized in 1923 for the purpose of selling car lots of fruits and vegetables at auction while the cars are still at the loading stations, in transit, or in storage. These auctions are commonly referred to as "f. o. b. auctions." Their sales are conducted over leased telegraph

[4] By Admer D. Miller, formerly Investigator in Marketing, and Charles W. Hauck, Marketing Specialist, Bureau of Agricultural Economics. Bulletin No. 1362, United States Department of Agriculture.

The American fruit and produce auction companies have given much assistance in the compilation of the material embodied in this publication. Without their helpful coöperation its preparation would have been impossible.



Fruit and Vegetable Auctions Operating in the United States.

wires which connect the sales rooms maintained by each company in various markets.

Ownership and control of auction companies.—On the basis of the controlling interest, the fruit and produce auctions of the United States may be grouped in two divisions: (1) auctions independent of trade control; (2) auctions controlled by the trade. In the second group are some companies in which the stock control is held by receivers, some in which the stock control is held by buyers, and some in which the stock is held by both buyers and receivers, but with neither group in control. Regardless of the classification in which a given auction company is placed, the receivers doing business with the company are frequently in a position to determine its policies to some extent. The degree of success which an auction company attains depends largely upon the nature of the accounts it has with its receivers and the support it obtains from them. Consequently the receivers' demands are likely in any case to receive serious consideration from the stockholders.

The view is held by some elements of the trade that it is prejudicial to their interests for the control of an auction company to be in the hands of a few powerful dealers or organizations directly interested in the supplies which are sold at the auction. Rightly or wrongly, these buyers and receivers consider that under such conditions it is possible for the supplies, the bidding, the rates and charges, etc., to be so regulated as to give more or less of an advantage to the stockholders of the auction company.

The desire of the trade for impartiality in the services rendered and the charges imposed is causing the gradual discontinuance of certain practices that at times have been a source of dissatisfaction. In some cities these causes, together with a desire for participation in the profits earned by the auctions, have brought about reorganizations of existing companies or the founding of new companies. Auctions have become better established as permanent organizations in the last few years and greater uniformity in their methods and practices is apparent.

At times some of the auction companies will purchase outright or make cash advances on car lots which they believe can be sold at auction to the financial advantage of the company. Local factors inimical to the auction have endeavored at times to boycott the auction and thereby cause it to abandon its sales. In such cases the auctions sometimes have resorted to direct purchases in order to have sufficient offerings to continue sales and to restore a normal auction market. The company, however, which uses its funds continuously for speculative purposes finds it more or less difficult to retain the confidence of its patrons.

It is maintained by some that there is a decided benefit, particularly to the small buyer and seller, in having the policies and practices of the auction companies controlled by interests entirely independent of the trade, since such organizations are of a semipublic service character and their stockholders have no financial interest in the commodities sold. On the other hand, it is possible that the local situation in some cities would cause the auction business to be unattractive to outside capital and that there would be no auctions in these cities if the dealers themselves did not form and operate the companies. When the stock in an auction company is fairly evenly distributed among the members of the trade, there seems to be little dissatisfaction within the trade itself, and scant opportunity for manipulation. The buyers, being stockholders in the auction company, patronize it as far as possible and therefore their sales are usually well attended and the bidding is distributed among a large number. Irrespective of the type of organization, any honestly and equitably conducted agency which tends to bring the buying power of the market together and to stimulate active and unrestricted bidding, would seem to exert a stabilizing influence in the market and therefore, in the last analysis, to be a benefit to both buyers and sellers.

Many of the trade auctions have been reorganized since 1915 and the stock holdings have been more widely distributed among the buyers and receivers. In some cases these auctions are organized on a basis which in a sense may be considered as coöperative, in that a discount is allowed to all stockholders, amounting to a fraction of 1 per cent of the gross value of their purchases or sales, payable at stated intervals.

Position of auctions in channels of distribution.—The agencies and channels of distribution for fruits and vegetables are shown on page 220. It will be observed that in a general way the distributing agencies shown in this chart may be classified into four main groups, according to their functions:

1. The shippers or country assemblers, who either purchase the goods at shipping points or act as agents of the producer or buyer in assembling, conditioning, and forwarding the products to market.
2. Those dealers who receive the products in car-lot quantities in the terminal markets and break them up into smaller units for distribution. They may be the owners of the products or the agents of the owner or the shipper.
3. Those dealers who purchase their supplies in less-than-carload lots and sell them to the retail distributors.
4. The retailers, who sell to the ultimate consumer.

In its functions the auction clearly occupies a station between the shippers and the retailers, but its actual position in relation to the second and third groups is not so readily determined. On the one hand, the functions of the auction are identical with those of the car-lot wholesaler or the commission merchant; on the other hand, it operates in much the same manner as the jobber and other less-than-car-lot wholesalers. It serves both groups, but functions principally in distributing among the trade in jobbing quantities car lots placed for disposal through the auction.

Customarily, goods handled by the auctions are received from the salaried representatives of large shipping organizations or from the auction receivers and are sold to the buyers of less-than-car-lot units for further wholesale distribution, although in some instances commodities sold by the auction companies are received by them direct from the shippers or country assemblers. Moreover, considerable quantities of goods are auctioned direct to the retail distributors without going through the hands of the jobbers or less-than-car-lot wholesalers.

Extent and growth of the auction business.—From gross auction sales of fruits and produce approximating $42,000,000 in 1912,[5] the valuation of these sales increased to $164,091,596 in 1923. (Ed. note.) It is obvious then that auctions are increasing rapidly in importance in the distribution of products that are of a perishable or semi-perishable nature. The increase in the volume of production of many such products and the movement for grading and standardization that is taking place throughout the country may account in part for this. These sales were distributed among the various auction markets. See first table, p. 19.

[5] Sales for 1912 were reported by only four companies. On the basis of the average gain in the sales of these companies for the period 1912-1917, inclusive, it is estimated that auction sales in 1912 totaled over $42,000,000.

GROSS VALUATION OF FOREIGN AND DOMESTIC FRUITS AND PRODUCE SOLD AT AUCTION IN THE UNITED STATES IN 1923

Market	*Gross value of auction sales*	*Market*	*Gross value of auction sales*
Baltimore	$4,374,387	New York	$72,180,617
Boston	16,629,206	Philadelphia	17,328,371
Chicago	14,045,431	Pittsburgh	6,115,403
Cincinnati	3,753,442	St. Louis	4,989,211
Cleveland	6,357,940	St. Paul and Minneapolis	1,326,182
Detroit	*4,072,187	F. o. b. auctions	*6,021,442
Newark	3,174,477		
New Orleans	*3,723,300	Total	$164,091,596

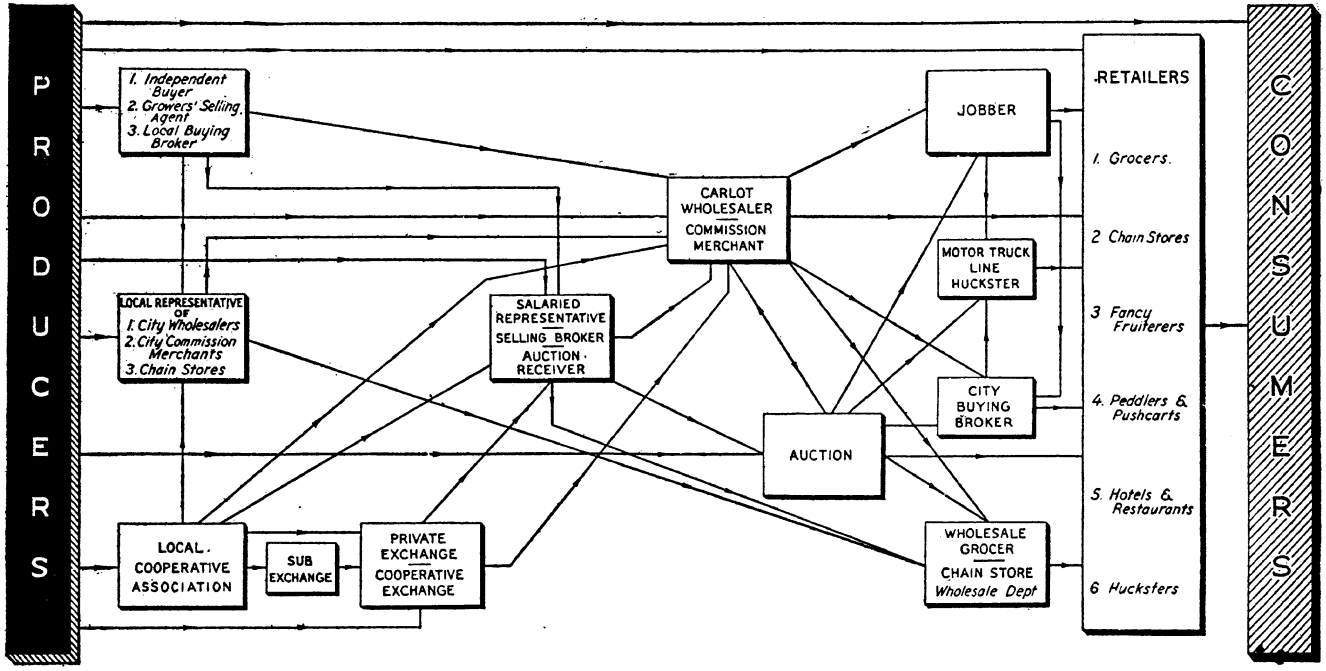
A more extended use of the auctions began in 1916. The increase in sales during the period 1912 to 1917, inclusive, was approximately 50 per cent, but during the period 1917 to 1923, inclusive, the gross sales showed a gain of 160 per cent. These figures are based on the value of the goods sold rather than on car lots and may be somewhat misleading, unless it is kept in mind that the purchasing value of the dollar has not been constant during the period under consideration. Car-lot figures are not available in all markets over a period of years, as many companies do not keep permanent records of the number of cars sold. In so far as these records are available for the years 1919 to 1923 they have been compiled and are presented in the table below.

CAR LOTS OF DOMESTIC AND FOREIGN FRUITS AND PRODUCE SOLD AT AUCTION IN THE UNITED STATES FROM 1919 TO 1923

Market	1919	1920	1921	1922	1923
Boston	4,424	6,981	8,399	8,770	11,284
Chicago	5,656	5,909	6,458	7,977	9,612
Cincinnati	1,753	1,876	2,438	2,106	2,893
Cleveland	2,353	2,882	3,182	3,365	4,884
Detroit	1,053	1,530	1,540	1,906	2,953
St. Louis	2,331	2,773	3,686	2,933	3,848
St. Paul and Minneapolis	748	890	814	898	936
New York	....	....	41,225	45,346	50,313
Baltimore	....	....	.....	5,653	5,256
Newark	....	....	.....	1,772	2,259
New Orleans	....	....	.....	.....	2,700
Philadelphia	....	....	.....	.....	14,862
Pittsburgh	....	....	.....	.....	4,359
F. o b. auctions	....	....	.....	.....	8,835
Total	....	....	.....	.....	124,994

*Estimated.

AGENCIES AND CHANNELS OF DISTRIBUTION FOR FRUITS AND VEGETABLES



The Auction Occupies a Position Between the Producers and the Retailers. It Serves Both Groups, Either Direct or through Other Important Trade Functionaries.

It is difficult to determine accurately the number of cars of domestic fruits and produce sold at auction, since the companies as a rule do not summarize their sales in such a way as to differentiate between the foreign and domestic products. Nevertheless, it has been estimated from sales records furnished by most of the companies that in 1923 approximately 90,000 cars of domestic commodities were sold by the fruit and produce auctions. This tonnage constituted more than 10 per cent of the total commercial movement of 866,317 cars reported by the railroads to the Bureau of Agricultural Economics.

During the year the low point of auction sales is in January or February, when sales are largely confined to domestic citrus fruits, boxed apples and pears, and foreign citrus and dried fruits. Sales steadily increase during the next few months, reaching a small peak in June, when the early deciduous fruits appear in volume, then usually slack off noticeably in July. The volume climbs to the peak for the year in the fall with heavier shipments of citrus and deciduous fruits. After October the sales diminish rapidly during the next two months to the low point for the succeeding year.

In the eastern auctions the volume of domestic citrus fruits sold is approximately one-third greater than the volume of deciduous fruits. In some of the auctions of the Middle West this situation is reversed, two of them selling deciduous fruits almost exclusively. New Orleans sells more domestic vegetables at auction than any other market. Domestic and foreign vegetables are sold at auction in New York, with a perceptible increase in the volume of domestic vegetables offered in recent seasons.

Commodities sold at auction.—Auctions draw their supplies from both foreign and domestic sources, but citrus fruits from California and Florida and boxed apples and other deciduous fruits from the Western States constitute the great bulk of the sales.

In addition to the main supplies, a great variety of commodities is sold in some markets. The following list is taken from 1923 sales in New York City:

Almonds	Cranberries	Mangoes	Pomegranates
Apples	Cucumbers	Nectarines	Potatoes
Apricots	Dates	Olives	Prickly pears
Asparagus	Figs	Onions	Quinces
Avocados	Garlic	Oranges	Raisins
Beans	Grapefruit	Peaches	Satsumas
Cabbage	Grapes	Peanuts	Tangerines
Cantaloupes	Kumquats	Pears	Tomatoes
Celery	Lemons	Peas	Walnuts
Cherries	Limes	Peppers	Watermelons
Chestnuts	Lettuce	Persimmons	
Cider	Loquats	Pineapples	
Corn	Mandarines	Plums	

The sale of foreign commodities by auction is confined largely to the seaboard markets, where they are disposed of locally or transferred to rail for distribution to inland cities.

Imports sold at auction are:

Bananas from Central and South America, West Indies.
Grapes[6] from Spain.
Grapefruit from West Indies.
Lemons from Italy.
Nuts from Italy, Spain.
Onions from Spain.
Oranges from West Indies.
Pineapples from West Indies.

Requirements of an auction commodity.—In the past a widespread misunderstanding of the auction method of selling has prevailed. Some have had the impression that most of the products sold at auction are of poor quality, damaged, or in bad condition, and must be sold immediately at any price. It is believed, however, that this misconception is waning rapidly.

Everything that is merchantable finds a buyer on the auction at some price, but this fact does not justify the shipment of commodities poorly graded or packed. To sell most successfully at auction, all fruits and vegetables, whether of foreign or domestic origin, must be uniformly graded and packed in standardized containers, must be offered at auction in volume sufficient to attract the buying trade, and must appear regularly on the auction when in season. Otherwise there may be a scarcity of buyers in the auction room or a trade more or less completely supplied at private sale, as a result of which the auction cannot be expected to secure as satisfactory returns.

These outstanding requirements are met by practically all products that have become well established on the auctions. Juice grapes constitute a notable exception. Although the many varieties of juice grapes are extremely variable in quality, and although recognized grades for grapes are only beginning to come into general use, nevertheless this commodity is sold on a large scale at auction. The extensive use of the auctions by sellers of grapes may be accounted for, perhaps, by the constant supply of this commodity moving in large volume during its shipping season, and the unprecedented demand during the past few years.

The frequency with which a commodity appears at the auction sales is a factor that has a great influence on the results obtained. A uniform product that is exhibited in volume before the auction buyers regularly during its season, sooner or later will be sought after by them as a regular source of supply. Intermittent shipments cannot be expected to

[6] Quarantine measures against the Mediterranean fruit fly put into effect in 1924 bar the importation of grapes from Spain.

bring the most satisfactory returns. A constant supply will draw more buyers, thereby increasing the opportunities for sale and widening the distribution, and in time should result in higher prices than if the supply is small and irregular.

A car containing several commodities or a large number of brands, marks, grades, or sizes, necessitating the separation of the shipment into more than the usual 15 or 20 lines, is expensive and cumbersome to handle, requires considerable space for display, and takes additional time to sell. Consequently such shipments are not solicited by the auction companies, and they usually sell at some disadvantage.

Difficulties of turning new commodities to auction.—There are lines of fruits and vegetables that are not now being offered for sale at auction. Only a small fraction of the total shipments of vegetables is sold by this method, although most vegetables have been auctioned at times in a more or less limited way.

One reason why more commodities are not sold at auction in volume is the present method of financing crop production. Dealers frequently assist in financing the growers by advances of cash or supplies. In consideration of this financial assistance the grower agrees to deliver all or a stated part of his crop to be marketed by the dealer, and shipments are consigned to him. The dealer who secures a part or all of his revenue from commissions or profits on the sale of these consignments is not inclined to turn them over to the auction for sale, since this would reduce his income. The auction companies as a rule do not solicit this business, as they do not wish to antagonize that element of the trade. In some instances, however, auction companies themselves have made advances to growers or shippers to assist in financing shipments intended for auction.

On the other hand, many growers prefer f. o. b. selling and are unwilling to ship on a commission basis. They consider that they have speculated on the crop sufficiently up to the time it is harvested and packed, without continuing the speculation throughout the marketing process. They prefer to sell f. o. b. shipping point and let the buyer take the chances of profit or loss on the market.

Vegetables and some fruits are commonly sold in the large wholesale markets between hours of midnight and 7 A. M. The buyers of these commodities, except in New York City, are not accustomed to assemble at any one time during this period. Consequently in order to turn these lines to auction the habits of the trade would have to be overcome, and it is a difficult matter to effect a change in the schedule of method pursued.

Terminal facilities in the larger markets at the present time are inadequate, except during the winter and spring months, for the handling of a larger volume at auction. Until steps are taken to enlarge such facilities, both for receiving shipments and for making deliveries after sale,

the selling of vegetables as well as additional fruits in volume presents marked difficulties.

Lack of organization among the growers and shippers of a commodity makes it more difficult to turn that line to the auction. The producers of vegetables have not been so thoroughly organized as the fruit growers, which may account in a measure for the difference in quantity of fruits and vegetables offered on the auction. This lack of organization, the establishment of an f. o. b. market, and the strong competition among the growers and shippers have all helped to develop a situation which makes it difficult for many producing sections to grade and pack any commodity uniformly and to ship a steady supply in the necessary volume required of a successful auction commodity.

Sources of supply.—The growth of the fruit and produce auctions during recent years may be attributed largely to the patronage of large coöperative and private marketing exchanges. An auction company that handles the accounts of one or more of these organizations usually is assured the steady and adequate supply necessary to attract the buying trade and to permit the successful continuation of business for reasonable charges.

In general there are five classes of agencies operating through the auctions. These are named below in order of the volume of business furnished, as determined for the United States as a whole and not for any one market:

1. The larger marketing organizations which maintain salaried city representatives. Such organizations supply approximately 62 per cent of the tonnage sold at auction.
2. Shippers who provide tonnage to the auctions through auction receivers or city dealers, who represent them for a fixed fee or an agreed commission. They supply approximately 20 per cent of the tonnage.
3. Car-lot wholesalers or commission merchants, supplying approximately 9 per cent of the tonnage.
4. Individual shippers, shipping organizations, and associations that, in a few instances, make consignments direct to the auction company. They supply approximately 8 per cent of the tonnage.
5. Brokers, who supply approximately 1 per cent of the tonnage.

About four-fifths of the supplies sold at auction are handled locally through the salaried city representatives and the auction receivers. The former represents only the organization with which he is connected. It may be one of the large coöperative exchanges, a private sales agency or a large shipping organization. The auction receiver may represent individual growers, small local coöperative exchanges, coöperative sales agencies, private or noncoöperative sales agencies, country dealers, etc.

Auction companies generally do not receive direct the shipments which are to be sold, this duty falling either to the personal representa-

tive of the seller or to the middlemen mentioned. These agencies are usually designated by the general term "auction receivers" or sometimes in midwestern markets as "auction contributors."

It is the business of the receiver to handle the car upon arrival, to inspect the commodity for quality or grade and condition, to file any claims arising against the carrier for loss or damage in transit, and to prevent unnecessary delays in handling. He furnishes the auction company with a manifest which shows the number of the packages of each size and grade. The receiver arranges for the time of sale and represents the seller at the auction. He frequently informs the auctioneer as to the general quality of the various lots and is expected to protect his principal by seeing that all bids are recognized before the sale is completed, or if the bids are below the prevailing market prices, to exercise his privilege of withdrawing all or part of the car from the sale.

To render the best service, a receiver must be in close touch with market conditions, including current prices and the volume and character of receipts, both his own and those of his competitors. He should be present at the display of samples to furnish prospective buyers with information regarding the lots he expects to sell. An opportunity is presented here for an active salesmanship, as a receiver who is well established and in whom the buyers have confidence may assist materially in attracting attention to the particular lines in which he is interested.

How the Goods are Handled and Sold.

Terminal and warehouse facilities.—Cars arriving for sale are unloaded either by the auction company or by the railroad company. Warehouse space is usually provided by the auction companies where shipments may be unloaded and held until sold. This space is usually rented by them from the carriers at the freight terminals in locations convenient for the buyers, thus saving unnecessary handling. Ordinarily part or all of the warehouse is heated during the winter months. The capacity of the storage space controlled by the various auction companies varies from a few cars up to 300 or more.

At times when supplies have been extremely heavy and the warehouse facilities have been insufficient to accommodate all the offerings, cars have been opened in the railroad yards for inspection by the prospective buyers without unloading and without displaying samples elsewhere.

Display of samples.—To display the goods and facilitate the sale the products are separated into lines, each line consisting of all packages of the same brand, grade, and size from a single car. Samples are then selected at random by representatives of the auction company and opened for the inspection of buyers. If the fruit is wrapped, the wraps are removed from a number of specimens to show the grade and condition. Usually in lines of 50 packages or less only 1 package is opened, but in

larger lines 2 or more are displayed. In lines of 500 to 1,000 packages as many as 15 may be opened.

These samples are known to the trade as "parts of marks." Most auction companies state specifically in their terms of sale that the sale is not being made by sample but that the package displayed is for the inspection of the buyer in forming his opinion as to the value of the product. It is usually understood in display rooms that prospective buyers may be granted the privilege of opening other packages to determine whether the sample fairly represents the lot, provided such packages are placed in their original condition after examination. In some cities it is found necessary to sell lines by samples without giving the buyer the privilege of further inspection. Foreign lemons are sold strictly by samples, as are foreign grapes, which are displayed upon lifts or tables before the buyers. As soon as the sale begins the samples or "parts of marks" are nailed up and sold with the line, except where samples are not displayed with the line but are hauled to a display room elsewhere. In such cases they are sold separately, and usually at a discount of approximately 10 per cent below the selling price of the remainder of the lot.

The selection of samples is supposed to be and usually is carried on with strict impartiality. But in spite of the fact that most auction companies do not countenance the practice, instances have been noted frequently where auction receivers removed decayed or otherwise defective fruit and substituted sound specimens. This practice, known as "dressing the samples," led to the establishment of a rule in selling foreign lemons in New York City that a representative of the New York Fruit Exchange should select the samples displayed for the inspection of buyers. A fee is charged by the exchange for the service. It is maintained by receivers who do not dress the samples that the practice is well known to the buyers and that they usually discount to a degree the lines offered by receivers who do it habitually. It is probably true, however, that where the samples are displayed with the lines the buyers are seldom deceived by a dressed sample, since they have the privilege of examining other packages of their own selection.

Salesrooms.—Most of the auction salesrooms are on the upper floors of the freight terminals or docks which are used for warehousing and displaying the products.

The auctioneer.—The post of auctioneer is one of great responsibility and demands the services of a man of strong personality, who is experienced in the produce business and well acquainted with the individual members of the trade. Opinions have varied somewhat as to whether it is necessary for the auctioneer to have a knowledge of the quality and condition of the products offered for sale. Some maintain that his duty is fully performed when he secures the highest bid from

those in attendance. Others contend that, if an auctioneer knows the character of the commodities and their approximate market value, together with the particular requirements of the individual buyers, he is in a position to stimulate bidding in a manner not possible to one not so informed. The general opinion of the trade at present seems to support the latter point of view. It is important that the auctioneer understand local conditions, including methods and practices of the various buyers and the sizes and grades on which they customarily bid, so that he may detect any combination among them that may have in view restriction of the bidding.

An auctioneer usually operates under a state or municipal license, the cost of which is borne by the company employing him. He customarily has certain definite duties to perform outside of his selling activities. A number of auctioneers are members of the auction companies; in some instances they are part owners.

Clerks.—The auctioneer is accompanied by two or more clerks throughout the sale and all transactions are recorded as rapidly as made. As soon as a sales sheet is filled it is dispatched promptly to the office, where it is checked immediately and sent to the delivery clerk. Purchases usually are billed to the buyers the same day and always within 48 hours after the sale.

The buyers.— Fruit and produce auction sales are open to the public and any buyer may bid who has complied with the requirements of the auction company or is ready to meet the conditions under which the sale is conducted. The classes of buyers who frequent auction sales are enumerated below, but each market and each company presents individual characteristics as to proportionate amounts of business transacted with each class. The following figures furnished by a prominent New York auction company represents a close estimate of the volume of business done by the auctions with the various elements of the trade in that city: Jobbers, 50 per cent; buying brokers, 20 per cent; peddlers and pushcart men, 15 per cent; chain stores, 10 per cent; and fancy fruiterers, 5 per cent.

Wholesale grocers do practically no buying of fruits and vegetables at auction in New York. Hotels and restaurants and retail grocers generally use the buying broker.

The percentages given are not the same with all commodities. For example, the peddler class in New York City takes about 20 per cent of the California deciduous fruit and the fancy-fruit stores handle about 20 per cent of the lemons. Prior to the establishment of the present quarantine against grapes from Spain, the fancy-fruit stores also took about 20 per cent of the Almeria grapes sold at auction there.

A western company furnished the following figures covering its

sales in a recent year: Jobbers and commission men, 78 per cent; peddlers, 14 per cent; and motor-truck operators, 8 per cent.

Numerically, the peddlers constitute by far the largest class, but according to these figures the largest purchasers are the jobbers. Peddlers who handle only a small volume of goods frequently combine to buy at auction. By pooling their requirements they are enabled to purchase in quantities equal to one or more auction units. One of their number, known as the boss peddler, usually does the buying and the goods are split up later among the group, which generally concedes the so-called boss peddler a profit on the transactions.

Since practically all classes of the wholesale buying trade are represented at the auction, a buyer can be found at some price for each line offered, regardless of its quality or condition, provided the goods have some merchantable value. Since the commodities are sorted into "lines," the buyer at auction can buy the variety, grade, and size that he wishes, and is not compelled to purchase something he does not need in order to secure something he wants.

A factor of increasing importance in connection with the distribution of fruits and produce sold at auction is the motor-truck line operator who establishes regular routes in and around the large cities, supplying the needs of regular customers in the small retail trade. Some of these truck lines have extended their operations from 30 to 50 miles outside the markets. In Chicago eight motor-truck line operators purchased nearly 8 per cent of the two and three-quarter millions of packages sold by one auction company during a recent year.

Advertisement of sale.—Sales are advertised in such manner as local conditions seem to require. The trade publications, newspapers, and printed bulletins published by the auction companies are the usual means employed to inform the trade of the supplies to be sold. Some auction companies issue no announcement in advance of the sales, and the buyers do not know what is being offered until they arrive at the display room.

The sale.—All auction sales are open to the public. In starting the sale, the auctioneer announces the line or lines offered and calls for bids. He generally accepts 5-cent increases. In New York City in order to expedite business usually no bid smaller than 12½ cents is recognized in selling citrus fruits, but 5-cent bids are taken on deciduous fruits. In some instances the increases may be reduced to 2½ cents, as in the sales by telegraph conducted by the f. o. b. auctions. In some auctions it is customary for the auctioneer to call for bids at a price somewhat above the prevailing market, to work down until he gets an offer, and then to accept competing bids in the usual manner.

Occasionally the sale of a car or a line is influenced more or less by "puffers." A puffer is a person who, without having any intention to

purchase, is employed by the seller at an auction to raise the price by fictitious bids, thereby increasing competition among the bidders while he himself is secured from risk by a secret agreement with the seller that he shall not be bound by his bids. These fictitious bidders are also known as "by-bidders" or "cappers." At times receivers bid on their own cars in order to run up the price of the commodity, although not all auction companies will countenance this practice. If by-bidding is discovered, most auctioneers will resell the goods at once, but the receiver retains the privilege of "pulling" or withdrawing from sale any line or car of his offerings which in his judgment is likely to be sacrificed at the sale. Where the owner of the goods or his representative announces before the sale that no bid less than a designated amount will be received, the auctioneer may reject any bid that is less than that amount.

The auctions exercise a considerable influence as an indicator of market values. The auction prices are made public immediately after the sale by the trade publications, by newspapers, and by the price-realized catalogues, and are used to a large extent as the basis for market reports issued by governmental and private agencies. Prices realized by the auction sales on well-established auction commodities are reflected directly in the street sales. Consequently it is advantageous to the seller to offer high-class products of desirable varieties and brands rather than to permit the auction prices to be established at a low figure because of the sale of fruit and produce of low grade and poor condition.

In principle, auction sales are such that when the sale is once made it is binding on both the buyer and seller and the returns are bona fide, giving a staple basis for distribution and reducing the likelihood of dissatisfaction based on misunderstanding or sharp practice. Rebates, secret agreements, private adjustments, and manipulation of accounts are reduced to a minimum by the publicity attending all auction sales. The jobber who buys at auction cannot increase his margin of profit unduly without the knowledge of his clientele, and as a result these jobbers have a tendency to work on a narrower margin.

Buyers are not so interested in whether the price they pay is high or low as they are in knowing that they are buying on a plane of equality with all other buyers. If the open auction—f. o. b. or delivered —is honestly and fairly conducted in all respects, the buyer may have the assurance that he is not at a disadvantage in competing with others and that the price he pays is governed by supply and demand and not by some artificial influence; provided, of course, the supply and demand are sufficiently concentrated. The whole principle of auction selling is predicated upon the necessity for having concentrated in one place a proportion of the supplies of any particular commodity sufficient to attract a large body of the buying trade which handles that commodity.

In those markets where more than one auction company exists, the usual custom is to follow an agreed rotation or schedule in the conduct of their sales. The companies as a rule do not hold their sales simultaneously but follow each other in a rotating sequence, often using the same auction rooms, in order that no company may hold the most advantageous position in the sequence more frequently than its competitors, and that the buying trade may have the opportunity of attending all sales. For the purpose of allowing all receivers to compete on a plane of equality, each auction company further establishes an agreed rotation among its receivers, which changes their position in the sale from day to day. Instances have been reported, however, where influential receivers have forced the auction companies to sell their offerings each day at an hour which the receivers believe to be the most favorable for them.

In certain of the larger markets, keen competition between the auction companies and the large volume of auction offerings have caused some companies to depart from these definite schedules and to hold sales simultaneously with their competitors, in which shipments of the same commodities are offered. Manifestly this prevents to a greater or lesser degree the convening of the demand in one place at one time, even though some dealers maintain two or more auction buyers to enable them to be represented at each sale.

Unit of sale.—To expedite the business, as well as to make it an object to buy in quantities, all auction companies require purchasers to take a certain minimum number of packages, the number varying in the different cities. In Boston, for example, by agreement with the trade one auction company has fixed the unit of sale for citrus fruits at 40 packages. For boxed apples the amount is 40 boxes, but if the line is less than 100 packages the buyer must take the whole lot. Twenty packages is the usual limit, though in some markets it is as low as 10.

The receiver may exercise the right of "no privilege." This phrase is used by the auctioneer when announcing from the stand that the quantity offered by the receiver will be limited to one auction unit. The buyer understands that he will not have the usual privilege of taking as many units as he desires at the price finally determined for the line. This right is often exercised by the receiver when the market on that commodity is unsettled and the bidding is lower than he believes it should be.

Delivery.—Goods are ready for delivery very soon after the sale has been made. The buyer may take delivery of the goods with his own trucks, or may make arrangement with the auction company to have his purchases delivered. In some cities collections are made for the truckmen, the auction company billing the cartage to the buyers. The piers and warehouses in which the goods are stacked frequently become

severely congested shortly after the sale starts, because of the large number of trucks and drays brought in for supplies.

The buyer, as soon as the goods have been "knocked down" or sold to him, may issue instructions to the auction company to deliver certain portions of the lot to persons other than himself. The written order giving such directions is commonly known as a division slip. Division slips are used by buying brokers to advise the auction company that the goods bought are to be charged to the principal rather than the agent.

Broken packages.—When cars are unloaded frequently a few packages are found which have been broken in transit. These are repaired and repacked either by the carrier or by the auction company. Those which can be restored to their original condition are stacked and sold with the line and the remainder are sold at auction to the trade as broken packages or turned over to the railroad company for disposition. The prices at which the broken packages and the corresponding line are sold are recorded, and on this record is based whatever claim the shipper may make against the carrier for loss on broken packages.

Broken packages are known in some markets as ullages or as A-lines. This latter term is commonly employed to indicate not only broken packages, but samples, parts of marks, and containers found to be wrongly marked or in some way different from the remainder of the line.

Split sale.—When sales of a commodity in a given market are divided between the auction and private sales or between two or three auction companies selling at the same time and in competition, the prime purpose of the auction—the bringing of the forces of supply and demand to a sharp focus—is defeated to a greater or lesser degree.

"Split sales"—that is, the use of both the auction and private sale by an individual or organization in selling a commodity in a given market—tend to complicate the distribution of that commodity somewhat and often cause the returns to be less satisfactory than if the sales were all made either by one method or the other. Split sales cause the product of the same marketing organization to enter into competition with itself, and permit the buying trade which relies on that particular brand to fill its needs more or less completely at private sale before the auction opens, or vice versa. They cause the demand to be divided between the auction room and the street, thereby separating instead of convening the buyers. It is evident that the most satisfactory results cannot be achieved by the auction when a large number of dealers are devoting their utmost efforts to sell at private sale as large blocks as possible of the best brands to their most discriminating trade and offering only a residual portion of the commodity on the auction. The converse, of course, is likewise true.

Manifestly the situation is different when practically the whole of

a given line of produce, uniformly graded and packed in standardized containers, is offered exclusively at auction. As a matter of sales policy some of the largest distributors of citrus fruits dispose of their entire offerings in the various markets either by auction or by private sale, but do not divide their sales between the two methods.

Auction Charges.[7]

The commissions charged by the delivered auction companies vary from 1½ to 7 per cent, depending upon local conditions and the extent and character of the services rendered. The usual charges range from 1½ per cent to 2½ per cent. The highest commissions are charged in western markets on products which are seldom handled or which are difficult to handle. Most of the commodities auctioned in the western markets are sold for a commission of from 2 to 3 per cent.

Receivers or shippers who make only occasional use of the auction or who handle only a small volume of fruit or produce, often are subject to additional charges, such as terminal or dock charges, handling expenses, and catalogue charges, which may increase the total cost of selling to 3 to 5 per cent of the gross sales. It is customary, however, particularly in the seaboard markets, for the auction companies to absorb these expenses in dealing with large receivers who use the auctions continually in volume.

Several companies have a fixed terminal charge, which is established to cover the expense of unloading cars, stacking, lining and displaying packages, and delivery to the buyers' trucks. The amount of this charge is paid by the buyer, in addition to the price at which the goods are sold. This terminal charge ranges from 1 to 5 cents per package. Some companies have succeeded in having certain portions of this work done by the railroad companies, in which case the cost is probably included in the tariff and goes back to the shipper instead of being involved in the operating expense of the auction company, or paid by the buyer as a terminal charge.

The auction receiver generally charges the shipper a commission ranging from 1 to 7 per cent of the gross sales. The usual charge is 5 per cent, out of which are paid the charges to the auction company, amounting usually to from 1½ to 2½ per cent. Some auction receivers make a fixed charge of $10 to $25 per car. Certain large shipping organizations which are heavy contributors to the auctions handle their business through their own salaried employees, thus securing individual representation and frequently at a substantial reduction from the usual receivers' charges.

Some auction companies make a stated charge for cataloguing their

[7] For charges made by f. o. b. auctions, see p. 236.

offerings, ranging usually from $1.50 to $3 a car. Others absorb this expense in their commission. A few companies make a practice of billing a catalogue charge against all receivers except those who steadily furnish a large volume of business to the auction. As a rule the auction companies make a charge for recataloguing a car that has been withdrawn from a previous sale.

In some cases large and influential receivers or shippers have been able to secure from the auction companies a somewhat better rate than others are given. These preferential rates consist of reductions in commissions, reduction or elimination of cataloguing or terminal charges, etc. Apparently these rebates are often made by private arrangement and do not follow any definite schedule. A flat rate would appear to be more satisfactory from the standpoint of the small buyer or seller, although there may be some justification for charging a variable rate, graduated in accordance with the volume and character of the business, provided such rate is open to all who meet the required conditions.

Settlements.—Large auction companies usually allow purchasers of domestic products a credit term of 10 to 15 days. This term is sometimes extended to 30 days on foreign products. In many cases the buyers carry deposit accounts with the auction companies in order to establish a credit, the companies paying interest on these deposits. Buyers who have not arranged for credit with the auction companies are required to pay cash before delivery. Some companies transact all their business on a cash basis. Almost all auction companies guarantee the solvency of their buyers and settle with the receivers within 24 or 48 hours after the sale, so that any losses from bad accounts are borne by the company. In order to make prompt settlement with their receivers while extending credit to their buyers it is often necessary for the auction companies to borrow relatively large sums from the banks, especially during active seasons, when receipts are heavy.

There is little inducement for a buyer to spend a long time in the auction salesroom awaiting an opportunity to bid on a small line of goods in which he is interested, provided he can fill his needs promptly and conveniently at private sale or can employ the services of an agent to represent him at the auction. Many retailers and jobbers who buy in lots too small to justify their attendance at the sale secure their supplies through buying brokers, who usually make a charge of about 5 cents per package for their services. Those who purchase through such agents usually arrange a credit with the auction company against which the purchases of the broker are charged. If the broker arranges the credit with the auction company, he usually makes an additional charge of 5 cents per package. In the large markets there are a few brokers who buy for principals whose business is uniformly large, for commissions ranging from 1 to 3 cents per package.

Adjustments.—So far as the auction company is concerned, the price at which the line is sold by the auctioneer generally is final. After the sale is completed, should there be any cause for an adjustment by reason of condition of the product, or such mistakes as billing the wrong grades or sizes, or for any reason previously unknown to either buyer or seller that would work a material injustice, the buyer must deal directly with the receiver or his agent and not with the auction company. Mistakes in delivery, cataloguing, etc., which are directly traceable to the auction company are adjusted by them; however, and the adjusted price is the one shown on the price-realized catalogue. Since the buyer may examine not only the opened samples but other packages before the sale, there seldom is need for adjustments.

F. O. B. Telegraphic Auctions.

In 1923 two new companies were organized which have as their purpose the auctioning of car lots of fruit and vegetables by telegraph while the cars are still at the loading stations, in transit, or in storage. One of these companies maintains headquarters in Pittsburgh with salesrooms in Chicago, Detroit, Cleveland, Boston, New York, Philadelphia, Omaha, and St. Louis, and also has its leased wire extending to Los Angeles. During the season of heavy shipments of the commodities it handles, it also connects with a number of important producing sections including Orlando, Fla., El Centro and Fresno, Calif., and Yakima and Wenatchee, Wash. The other company has its main office in Chicago with branches and salesrooms in Pittsburgh, Philadelphia, New York, Boston, and Detroit, and connects with some of the important shipping points in season.

The first of these companies began operating in June, 1923, with sales conducted in Pittsburgh only. In October the sales were extended to include several of the principal markets in the Eastern and Central Western States, with the salesrooms connected by a leased telegraph wire. In October the second company began operations, employing much the same principles as the basis for the conduct of its business. These two companies, one operating for about 2½ months and the other operating for approximately 7 months had sold up to January 1, 1924, an aggregate of about 8,835 cars of fruits and produce, valued at more than six million dollars.

The activities of these so-called f. o. b. auctions have been more or less seasonal in their character. Their operations have been expanded during the grape and cantaloupe seasons and contracted during the remainder of the year. In fact, both companies have at times temporarily discontinued business in slack seasons.

Methods of sale.—Each car offered for sale in these f. o. b. auctions is inspected at the point of origin or in storage by a Government inspector, or in some instances, by other inspectors who are not Federal

or State employees. The Government inspector issues a certificate to the applicant for inspection showing the quality or grade and condition of the lot, which is acceptable to all United States courts as prima facie evidence of the truth of the statements therein contained. The contents of this certificate are transmitted to the auction company along with the car number, date of shipment, origin of shipment, routing and manifest, or in case of stock in storage, sufficient data to identify the lot. The auction company upon receipt of this information immediately lists a complete description of the car in its catalogue at each of the salesrooms, the car appearing under the same lot number in each market.

The trade in the territory adjacent to each market in which salesrooms are located is notified of the date and hour of each sale and is supplied more or less regularly with catalogues. In some cases the authorized agents or representatives of out-of-town buyers attend the sales and bid on the offerings in which they are interested, in competition with the local trade. The information obtained in the catalogue enables the buyer to determine the relative value of the various cars offered, and furnishes a basis for judgment in buying.

Each car lot listed in the catalogue is offered at open auction simultaneously in all the salesrooms, and bidding is carried on over the leased telegraph wire. Bids are accepted in increases as small as 2½ cents. Each bid is placed on the wire as it is made and is announced simultaneously by the operators in all of the salesrooms, together with the name of the city in which the bid was made. The chief auctioneer is stationed in the main salesroom at the headquarters of the company, and the lot is "knocked down" by him after the bidding has ceased. The cars at times are sold as rapidly as one a minute.

The successful bidder issues billing or diversion instructions to the auction company. He may re-offer the car at a subsequent sale in the hope of making a profit or finding a market, and frequently upon arrival cars which have been purchased through the wire auctions are put into local distribution through the delivered auctions.

Commodities sold.—Grapes and cantaloupes make up the bulk of the volume. The list includes a number of vegetables which are seldom or never seen on the delivered auctions, and such commodities make up a rather substantial percentage of the whole. The following products were sold during 1923:

Apples	Celery	Onions	Radishes
Apricots	Chicory	Oranges	Rhubarb
Beets	Eggplant	Parsley	Spinach
Cabbage	Grapefruit	Pears	Tangerines
Cantaloupes	Grapes	Plums	Tomatoes
Carrots	Lemons	Potatoes	
Cauliflower	Lettuce	Peppers	

Charges and terms of sale.—All sales are made for cash f. o. b. shipping point. The buyer assumes all transit risks and transportation charges and agrees that the Government inspection report shall be final and binding. The auction company, after deducting its commission and cataloguing charge, remits the net returns to the shipper within 24 to 48 hours after the sale, but frequently extends credit to the buyer, provided he can furnish a bond with surety approved by the company. All buyers, however, are expected to pay to the auction company at least 25 per cent of the gross value of the car at the time the sale is made. To those buyers who have established a credit with the auction company, sufficient time is granted for final payment to allow the cars to arrive at destination under the regular time schedule.

Charges made by the two f. o. b. auction companies differ. One receives from the seller the sum of 2½ per cent of the gross sale, with a minimum charge of $15 per car, plus a cataloguing charge of $2.50. The buyer pays a so-called wire charge of $10 per car. The competing company charges the seller 5 per cent of the gross sale, with a minimum charge of $30 per car, plus a cataloguing charge of $1.50. This company, in addition, assesses a service charge on the buyer in accordance with the following schedule:

	Cents per package
Cars containing 249 packages or less	5
Cars containing 250 to 499 packages	3
Cars containing 500 to 899 packages	2
Cars containing 900 packages or over	1
Cars of boxed apples	1½

If a car is withdrawn from a sale by the seller and is re-offered at a subsequent sale, the auction company makes an additional charge of $15 plus the cataloguing charge and commission when the car is re-listed.

One of the f. o. b. auction companies has been active in promoting the development of soliciting organizations in producing sections for the purpose of supplying shipments for sale through the auction. For their service these organizations usually charge an additional 2½ per cent. The grower or shipper receives his returns through the soliciting organization.

The terms of sale of the two companies are similar in effect, except for the charges made. The following is a copy of the terms in force by one company:

"All buyers, sellers, or authorized agents of buyers, sellers, or purchasers, do hereby agree that all sales and purchases shall be made under the conditions hereinafter set forth:

"1. All offerings at the auction conducted by the —— auction company will be inspected by the Government-State inspector at loading

point or point satisfactory to the above company, and copy of such inspection report will be printed in the catalogue, which said report all buyers or their representatives agree shall be accepted as binding and final. Should any inspection other than Government inspection be used same will be so published and will be acceptable to the above company, and both buyers and sellers agree to accept same as above specified.

"2. All sales and purchases are made at the buyer's sole risk at point of origin of shipment as per inspection report of such inspector at such point.

"3. All sales are for cash, payable at the time of sale unless otherwise agreed in writing by the —— auction company.

"4. Such buyers who desire credit shall furnish to the —— auction company a bond, with surety to be approved by said company, the amount of credit to be fixed by the said —— auction company.

"5. The —— auction company will receive as payment in full for their services as herein described the sum of 2½ per cent of the gross sales, with a minimum charge of $15 per car and a cataloguing charge of $2.50 per car.

"6. The —— auction company is hereby authorized to immediately pay, on behalf of any purchaser, to the owner of the merchandise so purchased, the full purchase price thereof less charges for their services as shown above, and the purchasers of said merchandise hereby agree to pay at once to the —— auction company the full purchase price of all merchandise purchased, regardless of the condition of the goods so purchased, or the failure of the carrier to make delivery of the commodity so purchased.

"7. The —— auction company shall not be responsible for delays in transit or mistakes in manifest, car numbers, or any other matter whatsoever, but will assist in every way possible to bring about a satisfactory adjustment between buyer and seller.

"8. The sellers or their representatives shall file diversion orders within 24 hours after sale, billing cars as instructed by the —— auction company. Should the seller fail to furnish such diversion instructions within the time specified, the sellers shall be responsible to the —— auction company for all claims arising out of the nondelivery, in accordance wth the terms hereof.

"9. All agents of buyers or sellers shall, before making such purchases or sales, furnish to the —— auction company written authority signed by their principals, empowering them to make such sales or purchases.

"10. Should cars not be direct shipments or be held at some point, such information will be listed in catalogue. Otherwise it is understood that cars listed are direct shipments en route at time of sale.

"1. Correct routing and destination of all cars should be furnished at time cars are listed."

Advantages and limitations.—Advocates of the f. o. b. auctions point to several advantages which they maintain may be expected to accompany this method of buying and selling fruits and vegetables. These claims are enumerated below:

1. The shipper is said to benefit in that he receives his returns within twenty-four or forty-eight hours after the car is billed or as soon as diversion to the buyer is confirmed. He may reduce materially the speculation which often accompanies the selling of a car of produce and can eliminate the expense of a private sales force in the terminal markets. Furthermore, f. o. b. auction sales put him into position to discontinue shipments as soon as prices drop to a point where profits are nonexistent, thus saving the expense of harvesting, grading, packing, and loading products which he knows in advance will sell at a loss. He does not have to wait until his car arrives in a terminal market to learn what it will sell for, and consequently the f. o. b. auctions tend to reduce shipments automatically and immediately in times of overstocked markets and low prices.

2. It is asserted that since all buyers purchase on a plane of equality, irrespective of the volume of business done or the cities in which they are located, the best market for each car is found automatically and speedily. This permits the routing of the car direct to its ultimate destination. Because of the more prompt delivery, the risk of damage and deterioration in transit is reduced. Savings are accomplished by eliminating the time and expense involved in extra private telegrams, extra bookkeeping, multiple diversions, demurrage, extra icing, etc., that are caused by delays in finding a market for a given shipment.

3. These auctions encourage the use of government inspection at points of origin, and this inspection serves to bring about an improvement in the quality of the shipments. The shipper naturally endeavors to secure a government certificate which shows his products to be well graded and in good condition. Waste is reduced thereby, since the grower or shipper is induced to refrain from harvesting and packing and paying freight charges on products of inferior quality which will not return a profit.

4. The buyer is kept posted constantly on conditions in producing sections and in other competing markets, and this prompt information together with the government inspection enables him to dispense with personal representatives in the shipping sections.

5. It is contended that f. o. b. auction sales, assist in equalizing prices and distribution among all markets represented at the sale, in proportion to their capacity to absorb shipments.

It must be remembered in considering these claims that many of

them are almost wholly dependent upon the auction handling a volume of each commodity offered sufficient to attract the trade, thus permitting the assembling of the supply and demand. The success or failure of this method of distribution no doubt will be determined largely by the ability of the f. o. b. auctions to attract a large number of buyers representing a large number of markets.

It is also essential that the auction win the confidence of the trade by avoiding all suspicion of unfairness in carrying on its business. The catalogues must show accurately for each car listed all the facts contained in the original government inspection certificate, as this is the only evidence which the buyers have on which to determine the value of the car. Distortion of these facts, either intentionally or otherwise will cause the trade to lose confidence in this method of buying and selling.

"By-bidding" and fictitious sales should be eliminated by the auctions, wherever such practices can be detected. Reference to the catalogues reveals that in some instances the same car has been sold and resold at two, three, or even more successive sales, being listed at each sale for the account of the original shipper. In such cases it is popularly believed that when the wire bidding does not reach a figure at which the shipper is willing to sell, the car is bid in by the shipper or by the auction company acting as his representative, the car then being reoffered at subsequent sales in an effort to secure a better price.

The tremendous increase in production and consumption of fresh fruits and vegetables in recent years has created a demand for the development of every possible channel of distribution, and the f. o. b. auctions constitute a natural outgrowth of this demand. This method of selling is comparatively new, and under present practice is limited to sales in car lots. It remains to be seen whether it will safely pass through the period of experimentation and become permanently established as an influential factor in distribution.

Summary.

Twenty-four companies are now engaged in the business of selling fruits and produce at auction in the United States. These companies operate in fourteen of the principal distributing centers, all but one of which are located in the northeastern section of the country.

Numerous changes have taken place in the auction business in recent years. Reorganizations, consolidations, and the establishment of new companies have occurred in several cities. Most of these changes have resulted from the demands of the trade for impartiality in the services rendered and the charges imposed, and from their

desire to participate in the profits earned by the auctions. The tendency is toward greater uniformity in methods and practices.

Some auctions are controlled by members of the trade, others are independent of the trade. Irrespective of the type of organization, an auction must render impartial service in order to merit the confidence of its patrons. If it is honestly and equitably conducted the auction tends to assemble the supply and demand in the market.

Auctions in the receiving markets whose sales are made only after arrival of the goods are known as delivered auctions, in contrast to those selling by wire before arrival, known as f. o. b. auctions. The former, as a rule, sell in jobbing quantities, the latter in car lots.

The delivered auction occupies a position in the channels of distribution between the shippers and the retailers. On the one hand, its functions are identical with those of the car lot wholesaler or the commission merchant, while on the other it operates in much the same manner as the jobber and other less-than-car-lot wholesalers. It serves both groups.

A great variety of commodities are sold at auction, but the majority of the supplies consist of citrus and deciduous fruits. Vegetables constitute only a very small fraction of the auction sales.

Fruits and vegetables to sell successfully by this method should be uniformly graded and packed in standardized containers. They must be offered in volume sufficient to attract the trade and must appear regularly on the auction when in season. They may be of foreign or domestic origin.

Limited warehouse and terminal facilities, unfamiliarity with auction methods and practices, long-established prejudices and customs of buyers and sellers, lack of uniformity in grading and packing, and inadequate control of shipments—all these constitute marked difficulties in the way of turning new commodities to auction.

The auction business has increased substantially during the past few years. This may be attributed largely to the patronage of large coöperative and private marketing exchanges. Their salaried city representatives and the auction receivers furnish approximately four-fifths of the supplies sold at auction.

The auction disposes of a large volume of goods in a relatively short time. Every lot offered can be sold at some price, regardless of its quality or condition, as all classes of the quantity-buying trade are represented among the buyers.

Auction sales are open to the public, and anyone may buy. The selling is done in the open, and the prices realized are published. This publicity tends to minimize rebates, secret agreements, private adjustments, manipulation of accounts, and similar practices.

Charges and commission rates assessed by the various auction com-

panies lack uniformity but in most cases are less than the cost of selling by private sale.

Auction companies customarily forward the net returns to the shipper within twenty-four to forty-eight hours after sale is made. Credit is often extended to the buyers; but this does not affect the returns to the shipper, as any losses from bad accounts are borne by the auction.

Practices at Fruit Auctions.[8]

Although the opinion is generally expressed that the selling of fruit by auction is efficient, with little waste and a minimum expense, there is some criticism of auctions and of certain methods in connection with them.

It is contended that private sale of fruit would tend to maintain a more uniform price, since the auctions overemphasize the influence of both supply and demand, with resultant wide fluctuations in prices. For example, at one time in 1918 lemons sold at auction as high as $11 and $12 a box, a price which dealers claim could not have been obtained under a system of private sales. These high prices brought in a larger supply and caused a falling off in demand. The price dropped to $1.50 and $2 a box, only about sufficient to pay for packing and freight charges. This meant a serious loss to the shippers and to those dealers who had bought a supply at higher prices. It is claimed that under a system of private sales the price for lemons would have remained about $4 or $4.50 a box during the entire summer. With this steady price the shippers would have been more certain of profitable returns, while dealers would not have lost money because of the alternate boosting and breaking of the market by the auction.

Certain of the large fruit distributors will not sell at private sale to dealers in cities where auctions are conducted. It is stated that the refusal to sell privately is absolute, no matter what price the dealers offer for the products. The result is more intense competition at the auction and a tendency to force higher prices there. This naturally makes it easy for the distributors to manipulate prices by increasing or decreasing the supply; and some dealers allege that by keeping the supply in New York somewhat below the usual demand the distributors make artificial high prices. In their private sales in cities where there are no auctions the distributors then sell most of their goods with the proviso that dealers are to pay whatever is the New York auction price. A somewhat similar manipulation is reported regarding a fruit importer who advertised large quantities of pineapples to be sold by auction. He put up for sale only a small amount, evi-

[8] Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 178-180.

dently intending to dispose of the balance to his customers in interior cities upon the basis of the price received at the auction—where he had stimulated interest for a large demand and had intentionally provided a limited supply.

It is alleged that at some of the auctions the buyers attempt manipulation by getting together and agreeing not to bid against one another or by delegating one man to buy for all parties to the agreement.

Some fruit brokers complain that certain auctions are unfair in that they show favoritism for the fruit of certain large distributors. This is done by offering their fruit for sale first more than half the time. The advantage lies in the fact that a large number of buyers congregate at the opening of the auction and as soon as their needs have been satisfied they depart. Therefore, cars of fruit which are sold late do not get the benefit of so many potential buyers. Consequently the price realized for the shippers of these cars tends to be somewhat lower. Brokers would have the auctions adopt a plan by which consignees would take turns in being first to sell; but they allege that the auctions are unwilling to displease their largest customers or are in some manner tied up with them. The latter would appear to be the explanation in the case of some of the auctions at least, since the auction company is owned or controlled by the firm which represents the large shippers as their local consignee. Some dealers claim that this favoritism goes to the extent of charging different rates of commission to the various consignors of fruit.

It is charged that the auctioneer sometimes shows favoritism to certain buyers by accepting their bids and knocking down the goods to them when other buyers are willing to bid higher prices to secure the fruit, and that he often boosts prices by means of false bids.

Dealers also assert that it has been a common practice for the consignor of the goods, or his representative, to bid up the price of the goods at the auction. Justification of this is claimed on the ground that the practice is at times necessary to prevent the seller from sustaining large losses; but dealers feel that this could be more fairly accomplished by openly withdrawing the goods if proper prices are not being obtained.

Another practice which is reported is that by which the broker representing out-of-town dealers receives compensation from the seller for aiding in boosting the auction price. For instance, it is said that if an importer has consignements of lemons listed for sale, he may go to a broker known to have buying orders and offer him a personal rebate of 10 cents a box if he will buy these lemons, bidding whatever is necessary to get them. The seller may perhaps provide a dummy bidder to bid the price well up. Thus the owner of the lemons realizes so much that he can well afford the rebate. The broker receives his

commission from the dealer for whom he buys, and in such case collects from the seller also. It is stated that after the control of the Food Administration became effective this practice was discontinued, because of fear of losing licenses.

It is charged that formerly the importers of foreign lemons often doctored the samples upon which bids at the auction were made and that considerable loss was frequently experienced from goods being inferior to the samples on which purchase was made. Conditions are now reported very much better than formerly, as the dock committee of the New York Foreign Fruit Exchange now inspects imports and sees that samples are opened fairly.

Other practices of which complaint is made are the collection of a terminal charge and of a delivery charge. Several of the auction companies which have a monopoly of the auction sales in their cities have recently assessed upon the buyer, in addition to the 1½ or 2 per cent commission received from the seller of goods, a so-called terminal charge. This is arbitrarily fixed at 5 cents a package on fruit regardless of the size of the package or the price it brings. That this terminal charge is a heavy additional burden on the marketing of the fruit is well demonstrated in the case of one auction company, the Baltimore Fruit Exchange, whose books were examined. With a paid-up capital of $11,000 this auction company in 1917 had an income of $69,800.21, of which $38,308.45 was obtained from this 5-cent terminal charge. Certain auctions also make a charge for delivery, even if the buyers haul the goods away. Buyers who themselves take away the goods are entitled under the rules of the auction to a credit, but if it is not definitely asked for it is not deducted from the bills.

The Auction—a Modern Method of Selling.[9]

The auction, together with the supplementary work of the operators, fully attains the necessary steps in good salesmanship; *(a)* attention, *(b)* interest, *(c)* desire, *(d)* conviction, *(e)* decision and action.

The auction is a big event in the market each day at a specified hour. It is advertised; its prices are vital to the whole trade; people are talking about it; and no buyer could forget it if he tried. These features account for the first two steps, attention and interest.

The auction has a reputation for fair dealing; customers are usually satisfied, representatives of the auction explain the beneficial features; the prospective buyer is induced to visit it; he inspects the samples and finds them of the usual quality; he sees others inspecting the samples for the purpose of buying; and as the auction selling be-

[9] Benjamin, E. W., Scientific Marketing of Farm Products as Illustrated by the Marketing of Eggs. *Annals of the American Academy*, Vol. 114, p. 114.

gins, desire and conviction on the part of the prospect usually develops in quick succession. The prospective customer observes the quick and fair play of prices up and down, and he finds that he can purchase as few or as many cases as he wishes; and the last aim of salesmanship—decision and action—is almost invariably obtained.

The auction thus plays into the hand of the sales solicitor.

The real duty of the auction is to fix the prices quickly, and accurately. The larger the proportion of the market's total buying power which attends the auction, the more accurate will be the prices. It becomes the rule that a customer on the auction is more valuable than a customer off the auction. The marginality of each customer is quite likely to be reached on the auction if it is popular enough to attract a good proportion of the buyers.

By having the buying power of the market centralized the sellers are able more accurately to determine their own correct price marginality. An auction in the hands of one knowing the facts relative to present and prospective supply and demand places such a seller in a position to stabilize the market for the manifest benefit of the industry. Reservation prices and direct reservations of supply are frequently employed by the seller to offset a feeling of panic, irregular supplies, or a temporary decline in demand.

No one buyer or seller nor limited group of them can possibly possess the knowledge supplied in a few minutes at an active auction. History is made there, and it is made quickly enough to be of use for further trading.

The auction is very sensitive and the prices indicate any slight change in the relative position of the supply and demand forces.

The publicity of auction prices permits a prompt recognition of wholesale price changes, by the producers, consumers, and all intervening agencies, thus encouraging quick adjustments all along the line.

The fact that personalities are removed from good economics when the prices are fixed has a permanent appeal to most buyers. There are no favoritisms at auction.

The auction is a device for price fixing, a machine of economics. The writer believes that the more general adoption of the auction plan of selling will be recognized as one of the achievements of science for marketing.

CHAPTER X

PRODUCE EXCHANGES

Types of Exchanges.[1]

There are two very different kinds of organizations that are called exchanges. One of these serves as a connection between the growers and the dealers in distant markets. The other is an association of dealers in a market city which furnishes facilities for carrying on business and serves its members in various other ways, but does not itself engage in trading.

First type.—A feature which especially characterizes most exchanges of the first type is the intimacy of their relations with the growers. Some are mutual coöperative associations of which the growers directly or through subordinate associations are members. Others are joint-stock corporations; but, at least in some cases, a majority of the stock is in the hands of the growers. Commonly the exchange is the exclusive selling representative of those for whom it acts, charging them a flat rate or a commission for its services, though sometimes the latter are allowed to sell independently under certain specified conditions and the exchange may sometimes buy from growers whom it does not regularly represent in the markets. Ordinarily it aims to include within its organization as many growers as possible. The exchange commonly attends to the inspection and grading and packing of products and does what it can in the way of aiding growers to get the best results from their work. It keeps informed, through its own representatives or otherwise, as to the best markets and often does much to develop them, especially through extensive advertising. Shipments are sometimes pooled, so the price received by the grower is not necessarily the actual price less the commission and expenses.

Second type.— Exchanges of the second type are found in several branches of the food trade, but are particularly conspicuous in the case of butter and eggs. Exchanges of this sort do not themselves engage in the work of marketing, but furnish members with a place in which to do business and in various ways look after their interests. The members are, as a rule, wholesale dealers of all sorts, and commonly only a part—often a small part—of their business is done on the exchange. Trading

[1] Report of the Federal Trade Commission on the Wholesale Marketing of Food, p. 38.

on the floor of the exchange commonly takes the form of bids and offers, which are openly made and posted on a blackboard. Transactions on the exchanges commonly serve as a basis, sometimes the only basis, for the published market quotations.

An Instance of Specialized Exchange.[2]

Nature of cotton exchanges.—It should be clearly understood that, while most of these cotton exchanges are corporations, they are not engaged as such in the cotton business in any way. Instead, they are mere associations of individuals who in their financial operations are free to act as they like, subject to the general regulations of the exchange. Exchanges, as such, do not buy or sell cotton, and, except that occasionally some exchanges derive a small income from fees for the inspection or grading of cotton, they have no direct financial interest in the product itself. Their income is derived from membership dues, rents of buildings, investments, or similar sources. This characteristic of cotton exchanges should be clearly appreciated. The impression which appears to exist in some quarters that exchanges in their corporate capacity act as a unit in the cotton market is altogether erroneous. Market operations in cotton are wholly matters of individual concern. Moreover, the individual members of exchanges, instead of having a common interest and acting as a unit, ordinarily have market interests of the most diverse and conflicting character. It is true that from time to time certain members of exchanges act in unison by means of so-called cliques or pools, but it is entirely safe to say that it has never happened that such cliques have included the entire membership of an exchange. The idea that all the members of an exchange are banded together as a unit to prey upon the outside trader is not well founded. Outsiders have undoubtedly suffered from the coöperative efforts of certain members of exchanges to manipulate prices, but such concerted manipulation is not conducted by an exchange, as such, or by all the members acting together. Unjust rules, it is true, may have been adopted from time to time by exchanges in their official capacity; but this is a matter distinct from actual financial dealings in cotton, and one with which this report deals at some length.

It is worth emphasizing that cotton exchanges were in their origin primarily associations of merchants intended to facilitate the business of such merchants. Although spinners (the consumers) and planters and growers (the producers) are sometimes members of exchanges, the basis of such organization is the cotton merchant. The merchant is a dealer in actual cotton. He may buy either directly from the grower or from so-called interior merchants, who are practically storekeepers

[2] From U. S. Report on Cotton Exchanges, 1908, pp. 56-59.

and who collect cotton directly from the grower. Such a merchant, it may be noted, is generally spoken of in the trade as a "buyer," the term "buyer" having a technical sense. Other cotton merchants who receive cotton on consignment to be sold on a commission basis are known as "factors." They sell their cotton to cotton "buyers" and seldom directly to spinners. There are thus two sets of middlemen. The number of factors, it may be noted, has decreased heavily in recent years. A cotton exchange also includes a great many brokers who may not handle actual cotton at all, but who simply act as agents for other interests, particularly for spinners, merchants, or speculators, either in the purchase or sale of spot cotton or of future contracts. Many brokers, it may be noted, deal exclusively in contracts and have nothing to do with spot cotton, while so-called spot brokers frequently have nothing to do with future contracts. Many speculators, particularly those conducting extensive operations, are members of cotton exchanges, as this entitles them to lower rates of brokerage and to other advantages not available to outsiders. Of course, any one of the interests named may exercise the functions of another. Thus, a merchant may also act as a broker or he may be a heavy speculator. A speculator in turn may be interested in the ownership of mills as a spinner.

The proper and professed functions of a cotton exchange may be briefly enumerated as follows:

1. The maintenance of suitable facilities for the conduct of business by its members.
2. The adoption of rules and regulations for the conduct of such business.
3. The collection and dissemination of useful information.
4. The maintenance of just and equitable principles in the trade.

In pursuance of such charter provisions, it has been the general custom of cotton exchanges to acquire buildings for the use of their members, such buildings usually containing, in addition to a general trading room, or "floor," numerous offices, which are rented, thus providing a source of revenue to the exchange.

An exchange a great market place.—Before passing to a discussion of these specific features of the future system, it should be emphasized that one of the great functions of a cotton exchange is the bringing together of buyers and sellers or their representatives. An exchange is a great market place. Transactions are, of course, greatly facilitated by the mere congregation of buyers and sellers and their representatives on the floor of an exchange. In the case of those exchanges on which a future business is conducted it should be noted that there are really two markets, one for future contracts and the other for spot cotton. The future market is not used to bring the producer and the spinner directly together, but is rather a meeting

place for cotton merchants (or their representatives) and brokers, who stand between the producer and the spinner. Spinners, for reasons explained in detail in a later part, do not ordinarily receive their supplies of cotton directly on exchange contracts, but enter into private arrangements with merchants or brokers for the particular kinds of cotton which they require. These merchants, moreover, ordinarily do not obtain the cotton which they need by receiving it on exchange contracts. Such merchants, as already emphasized, use the future market mainly for hedging purposes, and the future ring to this extent becomes, as already pointed out, a great clearing house for Britain who may be manufacturing cotton goods for shipment to China, and who desires to purchase a contract as a hedge, is instantly brought into touch with the cotton planter of the South who desires to sell a future contract against his crop or with the cotton merchant who has accumulated a supply of cotton against which he desires to sell a hedge. The enormous advantage of such hedging transactions to the spot merchant, however, has been fully illustrated so that it should be apparent that the future market, while not designed to bring the final consumer into direct touch with the producer of cotton, may perform quite as legitimate a function as if it accomplished this result directly.

Of course, in addition to hedging transactions, a vast volume of speculative business is conducted in contracts. These, however, as just pointed out, are closely intertwined with hedging operations and may greatly facilitate the latter, although at times they undoubtedly are a source of disturbance.

An Instance of a General Produce Exchange.[3]

The New York Produce Exchange is a great big market-place, nothing more, nothing less. On its floor wheat, corn, rye, oats, barley, and other grains; flour, meal, hops, hay, straw, seeds, pork, lard; all sorts of meat food products, tallow, greases; cotton-seed oil and various other animal and vegetable oils; naval stores of all kinds; butter, cheese, and other commodities are bought and sold in quantities ranging from a single package to whole cargoes. It is a place where men engaged in various mercantile pursuits and in allied industries, manufacturing or otherwise, gather for various purposes; to keep in touch with each other and thus in touch with all that is going on in the business world, to gather daily information concerning growing crops, stocks of merchandise, movements of produce, current quotations for all sorts of produce in all markets of the world; to trade with each other as principals and for others as brokers and commission men; and to make initial arrange-

[3] Carhart, E. R., *Annals of American Academy*, Vol. 38, pp. 215-220.

ments for the care of all the details incident to business transactions, such as freight engagements, insurance, inspection, warehousing, delivery, etc. It is, moreover, a market-place where all transactions are safeguarded; where men must deliver what they sell and pay for what they buy; where, by force of all the circumstances, honesty must prevail, for here customs of trade have crystallized into rule and regulation, all grades and qualities are carefully defined and all trade terms and phrases clearly understood.

Each one of the various trades, such as the flour trade, the grain trade, the cotton-oil trade, the steamship trade, etc., is to all intents and purposes an exchange by itself. Its members meet together in a given place on the floor. It is presided over by a trade committee, which interprets its rules and decides all disputes under the rules. It makes its own rules and regulations, subject to the approval of the board of managers; and in the making of its rules every trade member has a vote, thus making its rules the composite judgment of all interests concerned therein—great corporation, small dealer, buyer, seller, broker, commission man, exporter, etc.

Over and above these rules are the by-laws and rules of the exchange itself, which apply to all trades alike and have to do largely with the internal affairs of the corporation and its membership.

Hence the exchange has come to be a meeting place, not only of the man who handles cargoes for world distribution, but of the butcher, the baker, the grocer of New York City and vicinity, who recognizes the conveniences it affords, the opportunities it presents, and the safety it gives.

The exchange itself is merely the organized machinery of a great market-place. Its main chartered purposes are: to maintain a suitable room for such market-place; to inculcate just and equitable principles in trade; to establish and maintain uniformity in commercial usages; to acquire, preserve, and disseminate valuable business information; and to adjust controversies and misunderstandings between persons engaged in business—and this is all that it does..

In discharging its functions it appoints and licenses, on the nomination of the various trades concerned, inspectors and weighers; maintains a grain inspection bureau, a flour inspection bureau, and a chemical bureau for the official analysis of certain food products. It provides machinery for the adoption of trade rules and their enforcement. These trade rules apply to the non-member as well as to the member, and the non-member as well as the member has the privilege of using the machinery provided by the exchange to compel their enforcement. Through its rules for the handling of business, large economies of labor and expense are effected, and it virtually becomes a great clearing house of commerce.

It has general agreements with warehousemen, with great railroad lines, with various steamship and other maritime interests, covering the general needs of the trade at large, and, in many instances, these agreements have resolved themselves into forms of bills of lading, charter parties, etc., and are used generally in the commerce of the port. Agreements with the railroad companies also provide for the grading of grain at the railroad terminals in such manner as to effect large economies in labor, expense, and terminal space. In the matter of grain, even the charges for receiving, weighing, discharging, towing, lightering, blowing, screening or dusting, etc., are subject to general agreements entered into by the exchange and the various interests concerned therein.

The regulated conduct of business on the New York Produce exchange and similar exchanges accomplishes in a very natural way what the congress and the courts have been seeking to accomplish by force of law; that is, by the free and unrestrained use of an open market it prevents combinations in restraint of trade. The great monopolistic corporation is the one great foe of the commercial exchanges. An open market in which all the world may trade is just what such corporations do not want. It may be of further interest to note a fact of which all merchants are well aware—that an open market in which there is large trading tends to minimize fluctuations in value. A narrow market means violent fluctuations, but a great broad market, capable of absorbing all business thrown into it, reduces fluctuations in values to a minimum.

Of course, in the same degree that the exchange makes trading easy and safe for the merchant, it makes trading easy and safe for the man of a speculative turn of mind who wishes to act on his judgment as to values in precisely the same way that the title guarantee and trust companies, in combination with great estates and other financial interests making it easy and safe for a poor man to buy a home or for anybody to buy real estate, make it, in the same degree, easy and safe for a man of a speculative turn of mind to buy and hold real estate for an advance in value. In this connection it should be remembered that, though by the perfection of its machinery for the handling of business transactions, it enables men to make speculative purchases and sales, it also, by the same perfection of machinery, enables merchants to remove entirely the element of speculation from their business.

An indication of the great variety of interests represented on its floor is found in the fact that an attempt to make up a classified business list of its present membership resulted in a list of eighty-four headings, and one of these was miscellaneous with 202 members included therein; 297 members are identified with the flour industry; 256 with grain; 374 are receivers and shippers of general commodities; 133 are con-

nected with transportation interests, 91 of these being identified with the steamship trade, showing the great importance of the export trade on the floor; 131 are provision men, 88 are concerned in the various lines of oil, 64 deal in stocks and bonds, 54 are bankers, 50 are insurance men, 38 are brewers, 37 are grocers, 63 are executives of corporations, etc. Hay, seed, feed, elevating, inspectors, weighers, measurers, tallow, greases, fertilizer, naval stores, millers, custom brokers, lawyers, bakers, coffee, lumber, vinegar, dried fruits, beans and peas are all included in the list, and so it goes on.

Even this partial list will, no doubt, surprise those whose only conception of a produce exchange is that it is a place where a few men meet for the purpose of speculating in wheat for themselves and for others. It is quite true that there is a wheat pit on the floor of the exchange; the grain business of the port could not be transacted without it. There is also a lard ring and a cotton oil ring. The trading in lard is insignificant. In cotton oil the trading is heavy, but is practically all confined to those whose business is in some way or other related to it. In wheat alone is the trading at all general, and this is because it is an article of universal interest. How small à figure the speculative business as such counts in the businees of the whole membership is shown by the fact that only 256 members are identified in any way with the chief article of speculation, and of these many are not at all concerned with the speculative side of the business and do not even use the future market in their business transactions. Over 100 of the 256 credited to the grain trade are in this class. No record is kept in New York of daily transactions in "futures in wheat." The business is largely contingent on the stock of wheat carried, and this in turn, aside from local needs, is contingent on the exportable surplus of the current crop and on whether Europe is buying our wheat or not. European interests trade largely in the New York market, and their operations are mostly of that hedging character so essential to the safe conduct of legitimate business.

The New York Produce Exchange is a semi-public institution. Its charter is a broad one and the state expects a full return in service to the community. Its functions are not alone to maintain a room for its own use and to establish uniformity in commercial usages for its own benefit. It must gather and disseminate valuable business information. This it does. Instantaneous quotations are shown on its blackboards in wheat, corn, and oats from Chicago, Toledo, St. Louis, Kansas City, Minneapolis, Duluth, and Winnipeg; in provisions and oils from Chicago; and cables are shown from Liverpool, Paris, Antwerp, Berlin, Budapest, and Buenos Ayres, and all this information is given to the public through arrangement with the telegraph companies. Its statistical department is maintained at an expense of between

$40,000 and $50,000 per year, and renders very valuable service to the whole community.

One of the chief functions of the exchange in connection with its public service is to foster and develop the commercial interests of the port of New York. In this the exchange itself is vitally interested, for anything affecting the commercial interests of the port, either favorably or unfavorably, is instantly felt by its members. While it interests itself in all legislation affecting commercial interests, probably its chief service to the port at large lies in its constant effort to keep open all avenues leading to New York. Under this head may be placed the efforts of the exchange to force the withdrawal of differential railroad rates against New York and its splendid work in connection with the new barge canal, for which it is largely responsible.

In an effort to adjust controversies and misunderstandings between persons engaged in business, its arbitration committee plays an important part. This committee has large powers in all matters submitted to it. It has the power to subpoena witnesses within certain districts, and all its decisions have the same force and power as a decision of the supreme court, and upon proper filing and proving the clerk of the supreme court will issue a judgment thereon. The arbitration committee has always been held in high regard by the business world. It has been extensively used, and by its splendid service has done much to advertise and popularize arbitration as a means for the settlement of business differences.

The complaint committee is the grand jury of the exchange and is the key to the enforcement of all its rules. All trade differences not submitted by agreement to some one of the trade committees or to the arbitration committee for settlement may be brought to an issue by a complaint. This results in an inquiry by the complaint committee, whose first aim is to conciliate the disputants. Failing in this, it either dismisses the complaint or refers it to the appropriate trade committee for settlement or to the board of managers for discipline. Non-members may use the committee or may be proceeded against in any case arising in connection with a transaction entered into with or through a member. Disciplinary action against non-members may result in their being denied representation on the floor of the exchange and members prohibited from trading for them. Many agreements to arbitrate are reached and many cases are settled out of court by threatened use of the complaint committee.

Trading in Futures.[4]

Future trading is a comparatively modern commercial practice and, as measured by extent and variety of use, is probably more important

[4] Report of the Federal Trade Commission on the Grain Trade, Vol. F5, pp. 17-34.

in the United States than elsewhere. It is especially important as applied to grain trading. The character and uses of the future contract have not hitherto been described with sufficiently specific detail, it is believed, for a proper comprehension of the system. Hence, it has been found necessary to devote the present volume to what is essentially a description of future trading operations.

The future contract is not a contract of sale but an agreement to sell at a future time on specified or understood terms applying to a prospective actual sale. Such an actual sale may or may not occur as a result of the future transaction. Reference to transactions in futures as "sales" and "purchases," however, is in accordance with trade usage and scarcely avoidable, despite its inaccuracy from a legal viewpoint. Payments made at the time of giving an order or of the execution of a future contract are not part payments toward the purchase price but are merely deposits made to secure the rights of each of the contracting or interested parties. Such "margins" are deposited by the seller as well as by the buyer.

Time of settlement.—As a matter of fact, the great majority of future contracts are settled before maturity and without any actual sale occurring. In other words, it is only exceptionally that a transfer of grain or payment for grain occurs as a result of future trading, though delivery is necessarily contemplated in a valid future contract. Such contemplated delivery is generally obviated by a subsequent contract, or contracts, which have the effect of canceling the first contract.

It should be noted that settlement and cancellation of future contracts prior to the time of delivery is essential to the serviceability of the most important of the business uses of the future contract, namely, "hedging." Affording an opportunity for hedging—which is a device to enable a merchant or manufacturer to avoid certain commercial risks —is the principal economic service of future trading. For example, an elevator company, on buying a thousand bushels of actual grain, sells a contract for a thousand bushels of futures against this cash purchase, expecting to buy in this quantity of futures at the time the actual grain is sold. Any marked change in market or other conditions will affect the prices of actual or cash grain and of contracts for the future delivery of grain substantially alike. If, therefore, the price of the actual grain purchased declines 10 cents between the time of its purchase and the time of its sale by the elevator company, the price of futures will presumably also have declined about 10 cents. As the elevator company when it bought the actual grain also sold a future contract, the company is thus enabled to buy in the same quantity of futures for 10 cents less than it paid for them, thus compensating itself for its 10-cent loss upon the actual grain and leaving it with only its ordinary merchandising margin. Similarly, only the merchandising margin of profit is left

if prices go up, though the cash grain be sold for much more than the ordinary excess above the price paid for it. The point of interest as regards hedging in the present connection is the fact that the hedger will not ordinarily deliver on his future sale. He will probably not wish to hold the grain long enough to reach the delivery month, and furthermore the grain is likely to be of such a quality that he can get a premium for it in the "sample market" that is not obtainable through delivery on the future. His future contract enables him to avoid speculative risks in price, but does not necessarily involve delivery. It should be noted that a miller similarly hedges by buying futures against flour sales contracts, and that the miller also seldom wishes to take delivery on his hedges, preferring to buy grain with reference to its adaptation to his particular needs and on the basis of the testing of samples.

Settlement by offset.—The process of settlement by offset is designed to dispose as soon as possible of sales and purchases of the same trader that cancel each other, and also of sales and purchases of different customers of the same commission house that compensate or balance each other at the time and do not involve a net obligation to other houses. Such settlement is accomplished by various types of "clearing" and the methods of clearing future contracts, whether by clearing houses or otherwise, which constitute characteristic features of future trading, are described in detail.

Future trading in grain, quantity of.—Considerable effort has been made by the Commission to determine the quantity of future trading in grain in the United States. The quantity of future trading in grain varies considerably from year to year, but for some years has been above 20,000,000,000 bushels. About five-sixths of this trading is done on the Chicago Board of Trade.

In view of the magnitude of this figure, it is evident that most future trades are short lived. They often do not remain "open," in fact, for as much as a day. A "scalper" or professional pit trader operating for his own account may both buy and sell 500,000 bushels in a day and have nothing open at the close of the market because his purchases and sales cancel each other. Another class of traders looks, however, to price changes occurring during a much longer period. The effect of the trading of such a speculator, who may have 5,000,000 bushels or more open for several months, is of a different significance and of much more importance comparatively than might be inferred from the mere number of bushels involved in his transactions. The extent of "open trades" and the variation in the quantity of open trades from time to time will be considered in connection with the statistical data of future trading to be used in a later volume.

Deliveries.—The point of chief economic interest in connection with the subject of deliveries is not the ratio of deliveries to transactions,

which is, of course, small, but that delivery is contemplated as an eventuality and consequently has more or less effect on the production, price, and consumption of the commodity dealt in. These aspects will be considered in a later volume.

The most important physical facility for future trading consists of the great private wire systems which make it possible to give an order for a future transaction and obtain the report of its execution a thousand or more miles from Chicago in a matter of two or three minutes. These private wire systems are very expensive and are a heavy charge upon the grain trade and other interests that use them. So far as relating to the grain trade, the systems are designed primarily to serve future traders, though of late used in promoting and serving cash grain business. The facilities offered doubtless tend to encourage speculation, though not exclusively or principally in grain. It is impossible definitely to separate the stock exchange service from the grain trade service of the private wire systems.

Margins.—Speculative trading, as distinguished from investment, is often defined by reference to "margins," and while this is not exact it is not essentially misleading. The margin is both a commercial credit device and a deposit made to secure others interested against loss because of nonperformance of a future contract. The margin deposit in the case of a stock purchase may be in intent and effect a first payment toward an investment, but it is not possible to make an investment in a grain future. The use of futures for hedging, however, involves the same employment of credit and of deposits by way of security as applies to speculative trading.

The Nature and Prerequisites of Future Trading.[5]

The "future" described.—A "future" may be defined as an agreement on the part of the seller to deliver, and of the buyer to receive and pay a certain price for, a certain kind and quantity of a commodity at some specified future time, under conditions prescribed by an exchange or understood in the trade. It will be noted that the actual transfer of the property is made at a date more or less forward from the date of the bargain and of the fixing of the price. Payment for the grain as well as delivery is postponed. The seller may or may not have the grain, for example, in his possession at the time of making the sale. The buyer may not want the kind of grain he has bought; a miller, for example, preferring to obtain most of his grain from the country while using the futures market as a hedge. Such illustrations lead into the consideration of uses of the futures market. It suffices for present purposes to make clear the fact that future trades are not the same, as

[5] Op. Cit.

regards the nature of the obligations they impose and the uses to which they are put, as ordinary contracts of sale. In particular none of the ordinary purchase and sale responsibilities is incurred immediately.

Trading prior to the possession, or even to the existence, of the commodities to be delivered is an incident of commercialized industry, of which examples are to be found in the oldest and simplest of the so-called "trades" or crafts, and, of course, on a greater scale under modern methods of manufacture. A tailor sells a suit before he makes it, and often before he buys the material. A building contractor might be said figuratively to sell houses "short." Many lines of manufacture produce chiefly under orders from customers. But these cases serve to illustrate the distinctiveness of future trades instead of their similarity to other commercial transactions. Future contracts are not agreements to produce and deliver a specified and identified article, while the house, or the suit, is "built" for a specific customer, according to a specified design. In the case of a manufacturer of standardized goods making and selling on order, specifications for the commodity to be delivered are detailed. Furthermore, the principals on the contract are and normally remain the same and identified throughout its life.

The futures market.—In future trading on the speculative exchanges the specifications as to the commodity to be delivered are a matter settled by the rules of the exchange and not directly by the individuals concerned. This condition naturally results from the desirability of a continuous volume of comparable trades large enough to constitute a serviceable market. Such uniformity of terms and conditions is of general commercial advantage, but is also a special need, and an indispensable feature, of a futures market. In the case of futures a further step in the direction of detachment from specific commodities and individuals is taken in the practice of "substitution of principals," by which the identity of the person responsible to make or take delivery on a particular contract is merged in a mass of such contractual obligations under a protective guaranty. The results of the process of evolution indicated are not involved in the definition of the future contract, but are necessary to an understanding of how it works.

The "grain trade" with active futures markets as a part of its machinery is something different from, or more than, the mere trade in grain. This statement does not mean that the added machinery is economically superfluous or undesirable. It does mean that future trading is to some extent a thing apart and properly a subject of special study, of course, with due regard to its foundations in, and connections with, the cash grain trade. The character of the connection between the market for future contracts and the market for actual grain is an important subject for later consideration.

Prerequisites of future trading.—A prerequisite to the development of future trading as above described is homogeneity in the commodity dealt in, such that commercial units are interchangeable. A further requisite is the durability, or minimum degree of perishability, of the commodity, which in effect permits a physical exchange from present to future. Included in this second requisite is ample provision of storage facilities at terminal markets.

As regards durability and storage, whatever is lacking under natural conditions for the keeping of grain has been supplied by the development of elevator warehouses, often of individual capacity running into millions of bushels. But there are differences of degree between grains, at least in the condition in which they are actually marketed, as regards keeping qualities.

Grain as handled in bulk is in its nature fairly homogeneous in kind and quality. For commercial purposes, however, a system of grading much increases the availability of grain in this respect for future trading. Moreover, the practice of handling and storing in bulk tends to promote the needed uniformity of quality or grade by washing out slight differences in quality through the mixture that is inevitable in the process of bulk handling, supplemented by the intentional mixture for the purpose of reducing variant grades that is practiced while the grain is in storage. Not only is the grain in store interchangeable, but the warehouse receipts, which are the evidences of ownership, are also interchangeable, i. e., are negotiable instruments. This fact has an important bearing on the availability of warehouse receipts as collateral for loans. Thus, in effect, the entire stock of grain in public storage at a given market becomes a single deliverable supply in a sense that is seldom approximated in ordinary commercial dealings. Grain stored in private elevators also can easily be put into public storage for delivery on future contracts, and in fact at Chicago most of the grain in public store has been through the hands of such elevator merchandisers.

Another requirement of future trading that relates to its basis in cash or spot trading is the need of an adequate supply of the actual commodity and a fairly constant supply from year to year, flowing to or through the terminal market where the futures market is established. This, in turn, supposes adequate physical facilities for receiving and storing the commodity. Without such a condition, the proper connection of the futures market with the cash market by way of deliveries on future contracts cannot be maintained. For similar reasons, a grain in which there is a small and variable crop is not well adapted to future trading. Rye and barley futures established prior to 1917 did not work satisfactorily and were discontinued, it is said, for this reason.

Volume of trading and the implied continuous trading activity is sometimes mentioned as a prerequisite of future trading. Large volume

is obviously not such a prerequisite, but is essential to the highest efficiency of a futures market. Because of this need, and because of the possibility of concentrating future trading, regardless of the location of the trader, many active grain exchanges are not able to maintain futures markets, and the quotations of those that are found are in many cases "nominal," or, if their quotations represent actual transactions, the prices are based upon quotations received over the wires from Chicago. The grain futures market is concentrated at Chicago to a degree in nowise explained by the importance of Chicago as a cash grain market.

Of the five principal cereals, wheat probably qualifies for future trading in the highest degree. Dry wheat is not surpassed in durability, but it is not superior in this respect to rye and oats. On the other hand, in number of natural varieties used in commerce and in the importance of their differences in relation to commercial utilitization, wheat departs from the ideal requirements for future trading more than any other of the five, with the possible exception of barley. In variations of quality or grade for a given variety, barley probably shows the greatest range. As regards keeping qualities, corn is uncertain, though careful selection for grade and condition will reduce the risk.

Commodities subject to future trading.—Commodities traded in by way of futures in the United States, in addition to cereals, are cotton, coffee, sugar, flaxseed, grass seed, pork products (mess pork, lard, and short ribs), cotton oil, and certain metals (tin, copper, spelter, or zinc, lead, and probably others). All these meet the requirements of the above list of prerequisites. In some cases the transactions are more nearly "to arrive" in nature than strictly futures. It is said there was at one time a futures market in petroleum at Oil City, Pa. This list is probably not complete and the distinction between the future contract and other contracts may not always be exact. Often the trading is by the "call" method and does not take on the character of a full-fledged futures market.

Other commodities that appear to meet the requirements, but for which there does not appear ever to have been an organized market for future trading, are tobacco, vegetable fibers (sisal, jute), coal, and possibly other raw materials that are largely of uniform quality and are produced and transported in great volume—supposing, of course, a system of grading in each case, doubtless the establishment of separate futures for different varieties, and due recognition, as regards coal, of the different prepared sizes.

Though future trades are in general quite different from ordinary sales, it is not always possible to draw the line exactly between the two. If there is delay in the transfer or conveyance of title, and cor-

responding postponement of payment, such a trade or contract may be called a "future" without doing great violence to the idea.

Probable origin of the Chicago future contract.—A history of future trading in grain in the United States would be chiefly the history of the Chicago market. Although the present type of Chicago future contract was not then fully developed, future trading in practically the present form became important in the United States during the Civil War. The letting of large contracts for the supply of the armies in the field had much to do with the development of this system of dealing in provisions and oats.

The large development of "to arrive" trading in grain at Chicago prior to the Civil War was probably the source from which the "future" was gradually evolved. Of course, "to arrive" dealing was much older, but previous to its development in the grain belt prior to the Civil War such trading had been mostly an incident of international trade involving shipment by water. The distance from which grain came to Chicago made the application of a similar system for land shipments natural there. It is of curious interest to note that "to arrive" dealing as now practiced in Chicago is, so to speak, a "tail" to future trading, the price for "to arrive" sales and shipments being usually based upon the price of the adjacent future as made on the day of sale. In other words, future trading has entirely outgrown in importance, and now dominates, the type of trading from which it was doubtless originally developed.

Adoption of rules governing future trading in 1865.—Naturally it is difficult or impossible to give an exact date for the beginning of a commercial practice. Rules governing future trading were first formulated and adopted by the Chicago Board of Trade in 1865. In May of that year a rule on margins was adopted reading as follows:

"On all time contracts made between members of this association satisfactory margins may be demanded by either party, not to exceed 10 per cent on the value of the article bought or sold on the day such margin is demanded, said margin to be deposited at such place or with such person as may be mutually agreed upon. Such margin may be demanded on or after the date of contract, and from time to time, as may be deemed necessary fully to protect the party calling for same. Should the party called upon for margin, as herein provided, fail to respond within twenty-four hours thereafter, it shall be optional with the party making such call to consider the contract filled at the market value of the article on the day said call is made, and all differences between said market value and the contract price shall be settled the same as though the contract had fully expired."

It is interesting to note that any changes made since that date affect

phraseology and administrative details only. This rule, with an administrative change providing for the deposit of margins with the treasurer of the association unless otherwise agreed upon, was incorporated in a systematization of the general rules and by-laws of the Chicago Board of Trade, adopted in October, 1865, covering also other features of future trading and constituting the formal and comprehensive recognition in principle of this special type of commercial dealings. Such trading had been going on for at least 10 years and had become especially important during the Civil War, but provision had not previously been made for its regulation.

During the early days trading at "buyers' option," as well as buying and selling for a great variety of short periods, was practiced. Now the contracts are so well understood to be at seller's option that no reference to this feature of the contract need be made. The option in question is, of course, merely as to time of delivery within the specified delivery month. "Seller 15 days"—one of the forms in early use —suggests the ordinary to arrive sale. In fact, these earlier future contracts were commonly made by country owners of grain who expected to fulfill them by shipment to put into store for delivery at Chicago for loading into cargo boats. One reason, dating back to early conditions, for the importance of the May future is the fact that this month comes at about the time of the opening of navigation on the Great Lakes.

A clearing house established at Chicago in 1883.—A clearing house for facilitating the offsetting of trades between houses without waiting for customers to close them was organized at Chicago and put into operation on September 24, 1883. The system of clearing has remained the same at Chicago down to the present time, though other and more economical, as well as more thoroughgoing, methods have been adopted at Minneapolis and elsewhere. The date of the adoption of the clearing system is of interest in the history of future trading, not only because of its important place in the machinery of future trading, but also because the date probably marks a period of maximum activity in futures, and it was doubtless this condition that in large part compelled the use of some economical centralized method of settling trades.

A more highly developed and more economical type of clearing house was organized at Minneapolis in 1891 and is generally used by futures exchanges in the United States, but not at Chicago.

Future trading methods not yet perfected.—The sixty years during which Chicago has been the great market in the United States for grain futures show many improvements in rules and methods of dealing.

The most important of these, however, if one may judge by the incidents of such trading, have been made in the last 20 years. For

the period prior to 1900, the history of future trading in Chicago seems to have been largely a history of corners, and the market seems to have afforded more opportunity for this and other forms of manipulation than for the development of an economic organization adapted to the needs of the public. However, this impression may be due to the tendency to record what is sensational rather than what is serviceable. Since 1900 there have been comparatively few important corners. The condition that developed in wheat futures in the spring of 1917 has been referred to as a corner, but not correctly, since there was not present the element of intentional manipulation which is essential to the idea.

Further development and improvement of the system and methods of future trading are, of course, to be expected. Trading as carried on at Chicago did not weather the entry of the United States into the World War, but perhaps that could not be expected of any system of speculative trading. If the conditions that developed in the spring of 1917 in relation to the trading in May wheat should be described as a "natural" corner, that argument does not alter the fact of a breakdown of the system. In this case the longs were desirous of accepting delivery and had purchased futures in order to obtain thereby the actual grain. The fixing of a settlement price considerably away from the cash market in place of requiring delivery or the buying in of contracts was unjust apparently to certain milling interests and other consuming purchasers.

The whole situation may, perhaps, be dismissed with the statement that there was an overshadowing need of Government action to prevent hoarding and profiteering under the extraordinary conditions due to the war. The tendency of prices on the exchanges to run wild may be regarded as but one incident of a generally abnormal situation.

Grain Future Markets of the United States[6]

Markets where grain futures are traded in.— A grain exchange may or may not have a futures market. Even where the rules provide for such trading, there may actually be no such market. An interest in cash grain does not of necessity involve an interest in futures, hence the existence of an important cash-grain market does not involve the development of future trading on a sale that constitutes a serviceable market. Speculative dealings, furthermore, are not dependent upon contact with the grain or upon the product of any particular locality, hence they tend to be concentrated upon the best markets, instead of being decentralized and located at the natural outlet of a grain-growing territory. Important primary markets for cash grain may develop no

[6]Op. Cit.

future trading. Any future trades in the way of hedges, etc., that may be needed, can be executed on a central market, distance as such not (at least in theory) constituting any difficulty.

There is also at Duluth a futures market for the special variety of wheat known as durum. There is similarly a market for kaffir corn (including milo maize and feterita) at Kansas City. In addition to the food grains, flax futures are traded in at Duluth. Toledo has futures markets for the several important kinds of hayseed—clover, alsike, and timothy. The New York Produce Exchange has a futures market in cottonseed oil. At New York, also, and at New Orleans are important markets in cotton futures. Butter and eggs, prior to the entrance of the United States into the World War, were traded in through a call for futures on the New York Mercantile Exchange, the New York Butter and Eggs Exchange, and the Chicago Butter and Egg Board. Provision futures (pork products) are traded in at Chicago. This enumeration probably exhausts the list of futures markets in the United States for this country's agricultural products.

The continuous market and the call market.— A futures market cannot serve its purpose to the best advantage unless it be continuous; that is, unless there are present in the pit throughout the hours of trading a considerable number of members ready to buy and sell at the slightest change in the market and to act upon each news item that may bring about a readjustment of values. It is obvious therefore that a small futures market cannot serve its purposes efficiently. Even if there is sufficient trading to be "continuous," the volume may be so small that a large hedging order, of 100,000 bushels, for example, cannot be placed to advantage because traders cannot be found who will take so much except at a large concession. It is said that at Chicago a single trader has, on occasion, been known to sell as large a total as 5,000,000 bushels in successive offers without forcing the market down more than an eighth of a cent.

Where there is not sufficient interest in futures to maintain a continuous market, some trading may be done on the call basis. This amounts to holding a sale at an appointed place and time for various lots of grain, cash as well as futures. The call is largely used as a method of determining quotations, more or less fictitious in their nature. The serviceability of call futures for hedging and similar uses is limited. There has been no call trading in futures in connection with the Chicago Board for many years. Future transactions as reported for the smaller markets often refer in part to, or are even constituted by, call trades.

Extent of business interest in futures on fifteen grain exchanges. The comparative degree of interest in future trading on the various exchanges mentioned above—and upon others not there men-

tioned because not dealing in futures—is indicated by the classification of members with reference to whether they are primarily occupied with future trading or not. The following list includes all the important, and even the rather unimportant, cash-grain markets in the United States. When an exchange without any future trading of its own shows some members occupied mainly with futures the trades are, of course, executed on some other exchange, mainly Chicago.

NUMBER AND PROPORTION OF RESIDENT MEMBERS OF VARIOUS EXCHANGES ENGAGED PRIMARILY IN FUTURE TRADING.[7]

Exchange	*Resident members in grain trade*	*Primarily engaged in future trading*	
		Number	*Per cent*
Chicago	1,000	639	63.9
Milwaukee	182	21	11.5
Duluth	126	3	2.4
Minneapolis	464	35	7.5
Omaha	141	13	9.2
Kansas City	169	17	10.1
St. Louis	389	46	11.8
Peoria	79	5	6.3
Indianapolis	84	9	10.7
Cincinnati	102	1	1.0
Louisville	68	...	...
Toledo†	24	5	20.8
Buffalo	86	10	11.6
Boston	224	4	1.8
New York‡	236	55	23.3
Baltimore	129	5	3.9

‡ 95 members of over 1,600 unclassified.
† Firms.

Chicago, with 64 per cent of its resident membership occupied primarily with futures, stands in a class by itself. Its unquestioned predominance in this respect is borne out by statistics of the volume of futures traded in, as appears in the next section.

The Distributive Function of Speculation.[8]

Why has commercial distribution in the United States become so largely identified with a speculative class of trading capitalists? The answer is, that it has been found best for the producing and the consuming interests of the community that the risks of distribution should be localized in a separate commercial class whose members are in a position to inform themselves as to all the factors, past, present, and

[7] For further details see Vol. II of this report. Philadelphia statistics unobtainable.

[8] Report of the Industrial Commission, 1900, Vol. VI, Distribution and Marketing of Foreign Products, pp. 28, 29.

prospective, affecting the future course of prices. If the risks of distribution fell upon the farmer, it would increase materially the risks of capital required and thus raise the rate of interest he should have to pay as producer, because increased risks always raise the rate of interest. This would increase the cost of production and consequently tend to reduce consumption by rise of price to consumers. Such rise of price beyond a certain point would reduce the volume of trade. If consumers assumed the risks of distribution there would be very inadequate provision for the future. Irregular supply of subsistence soon breaks down the economic efficiency of consumers, besides impairing their regular consuming capacity as customers of the producer. Hence, the community—producers, traders, and consumers—all suffer together. Regularity in supply of the means of subsistence is a great desideratum in economic welfare, but it is so automatic a process that we really do not notice how it is accomplished. The work is done through the medium of a market price; a higher price brings forth more, a lower price brings forth less. Now it is the speculator who has to decide in advance on the price at which a regular supply will in all probability be forthcoming from producers in sufficient quantity to meet the regular requirements of the consumer. One speculator might place the future market price too high, another too low, but as a class they correct and check one another. It is to their interest as distributors to call forth all that the consumer will take, and no more.

Correct judgment.—Speculators as a class are, therefore, interested primarily in a correct judgment, as much so as is either the producer or the consumer of the product in which the trader speculates. If, for instance, the Liverpool wheat speculators should, through an error of judgment or calculation, set the price of May wheat ten cents below the correct world price, the surplus stock would meanwhile be disturbed elsewhere until the shortage in the Liverpool supply became evident from a rise in the price paid by consumers. This would bring some of the misdirected shipments to Liverpool, but not so much as if the blunder had not been made in the beginning; other places, whose speculators more correctly anticipated future prices, would supply themselves more fully than usual. Thus the volume of trade at Liverpool would be reduced by a valuation too low to bring an adequate supply; the consumer's customary demand would be inadequately supplied at the undervalued price, and the total expenses of distribution increased by the defective judgment of the speculator.

Services, kinds of.—Two kinds of services are peculiar to speculative distribution: (1) the service of assuming the risks that arise from changes in the relation of demand and supply, and (2) the service of giving the right direction to the commodities available for consumption. Even in famine-stricken India the government regards speculative

distribution of supplies as on the whole far more efficient than any bureaucratic distribution could be. Without this, modern markets would be deprived of a very great share of their efficiency in serving producers and consumers. In fact, those who have thought out the subject most thoroughly have found in this directive work of speculation the chief justification for its existence. Where government has assumed even part of the risks of crop distribution, as in Russia, piles of wheat rot in one section while people starve in the next.

"The central feature," says Professor Emery, "in the economic organization of modern society is the market. From the point of view of the individual the production and distribution of commodities are carried on with a view to their exchange. The regulator of exchange, and, therefore, of production, is value. Consequently the producer will expend his energies on such commodities as will have the greatest market value as compared with the expenses of production, just as the merchant will take them to the market where they will command the highest price. But this adjustment of production and distribution according to values will be accurate only when he thinks he can get a return greater than his outlay. The merchant buys only when he thinks he can sell at a higher price. In both cases there is always the risk that before the production is completed or the sale made the value of the commodity may fall. Similarly, there is a chance that it may rise. In the one case there is a loss, in the other a gain, to the producer or the merchant. Hence, it may fairly be said that the test of the perfection of the organization of trade is the promptness with which such changes are learned and the accuracy with which they are predicted. It is by a due appreciation of this fact that one comes to a realization of the importance of organized speculation. If it is found to be the means of making the needed prediction, it will also prove itself the chief directive influence in the economic field in which it prevails."

Farm products, speculative dealings in.— Speculative dealings in farm products have, then, these three facts to consider: (1) the distance between producer and consumer; (2) concentration and distribution of surplus crops at the right times and places; and (3) the formation of a business judgment based on the ratio of the visible supply of the world's grain and cotton, for example, to the customary demand of its consuming communities. The scope of this task of forming a judgment upon world-wide conditions, and forming it accurately enough to stake millions of capital upon it, is perhaps the heaviest hazard in our whole modern economic organization of society. But some class of investors do it, or consumers must pay a higher price for their product, and producers must be content to enter the market with fewer competitors ready to buy and carry their surplus. Producers and consumers together, without the speculative mechanism at work, would

have to divide the risks of distribution between them. Neither of these interests is prepared to do this. Sound commercial policy is the best served by a rational division of distributive labor, in which economic freedom and economic responsibility are equally respected.

Speculative agencies, economic services of.—The economic services of speculative agencies engaged in distributing farm products are threefold:

1. They localize industrial risks among a commercial class whose special function it is to distribute surplus supplies over deficit times and places in such a way as to lessen the uncertainty of producers and consumers.

2. They relieve producers and consumers from carrying a whole year's stock, enabling the former to convert his crop promptly into cash capital and the latter to supply himself as his periodical needs may require without enhancing prices beyond the ordinary rate of risks and returns of such capital investments.

3. Competition of speculative dealers tends more than any other force to reduce profits of these agencies to a minimum per unit of commodity handled. Released from other economic functions, it is to their interest to seek to reduce the risks of distribution to a minimum. By expert acquaintance with the conditions that involve risks the hazardous elements are gradually limited if not entirely eliminated.

Stabilization of Prices.[9]

Two main methods of price-making may be noticed: cash and speculative.

Cash.—The cash sales are of two classes: those made by producers to consumers and those made to distributors widely scattered over the territory and hence so close to consumers as to be able to handle the goods with relatively little speculative risk. Of the first class of cash sales, we have as the best instances such as are made around every village by producers to consumers. These sales need not concern us although their prices may be anything but stable. They are unorganized.

Of the second class of cash sales one of the best instances is the California Fruit Growers' Exchange. Here we have organized cash selling to distributors who make a quick turnover. The California Fruit Growers' Exchange does not speculate, but on the basis of minute information feeds the market geographically, as it were. Chronologically it has less control over the situation.

Speculative sales.—It is within the speculative market that we must concern ourselves most. Of this there are two main varieties.

[9] Hibbard, C. H. Paper read at the Thirty-third Annual Meeting of the American Economic Association, Atlantic City, December 29, 1920.

The one is exemplified by the middleman who purchases at his own risk goods not immediately wanted by the consumer, perhaps not in the form ultimately wanted, but which the producer nevertheless wishes to sell. This is the case with cotton, grain, and meat animals. The other type of speculative sale is much more closely related to the cash sale. It is illustrated by the raisin market. The crop is produced during one season of the year. It is prepared for us by the producers, but unlike wheat and cotton it is held by the producers until the trade demands it for almost immediate consumption. Here we have the calculated price. It must not be inferred that speculative price is not a calculated price, or that a calculated price involves no speculation. The speculator is calculating to the best of his ability. The difference lies in the degree of speculation involved as contrasted with ascertainable facts and probable results. In the case of the calculated price, which thus far has obtained in goods of a fairly durable kind, and moreover goods for which the demand is distinctly elastic, it has been found possible for the producers to become strong instead of weak bargainers, and to suggest prices, which for the time may look like fixing prices. The walnut and raisin growers show perhaps as sound skill and ability as any producers' group in this respect. They are sometimes charged with an exercise of monopoly power.

What these companies actually do is to sell, either for immediate or future delivery, commodities which in their opinions are going to be wanted at a price calculated by them on the basis of complete information concerning supply, and an estimate, based on current and past facts relating to demand. This is a price involving a degree of speculation, and the speculative risk is borne by the producers. The price thus arrived at is relatively stable. The goods are of such a character that it is possible to finance the farmer through advances obtained by loans. Risks, and other expenses, are reduced to a minimum and the producer feels, one time with another, that he is getting what his goods are worth. Under all ordinary circumstances sales will be made at different prices but this is of no importance to the individual producer since the sales are pooled.

Stabilization, need of.—Our discussion to-day centers on the question of stabilization, and this may pertain to stability with respect to sales within a few hours, a few days, or spreading into seasons, as from fall to spring. It has been said repeatedly that the unholy manipulators of the grain pits hold prices down while farmers are selling with the well matured and oft repeated plan of putting them up in the spring. If this is such a foregone conclusion, the remedy is obvious. Those who have wheat should hold it till spring and so get the desired price along with the speculators. In other words, the cure is counter-speculation. But if this is a fair statement of the unfair situation, why does not

some other professional speculator take the opposite course from that of the crowd and buy "long" with as much spirit as the "bears" manifest in selling short, thus narrowing the probable margin of gain? In other words, what reason is there to believe that the professional speculators all prefer to make their money by selling short until the very bottom price is reached, after which, in a rising market, they must buy back every bushel they have sold short and presumably enough more to net them a fortune due to the upturn. It must be left to those who have faith that it can be done to show the method of procedure. To those of a skeptical turn of mind the required formulas are wanting. To begin with, the statistics available show that the price of wheat in May is usually but four or five cents above the December price, and even should we double that amount to conform to the present high figure it would hardly look attractive to the outsider.

The preponderance of evidence goes to show that organized speculation is a steadying influence in the marketing world. Nowhere else does the producer have such full information as to the value of wheat as in the United States and Canada; nowhere else does he get as large a proportion of the price paid for grain by the miller or similar manufacturer. Even so, the market is far from perfect and the question is how to improve it by way of taking out the ups and downs, smoothing the curve. The desirability of doing so is beyond question. The difficulty is to find the means of carrying out the program.

Stabilization, methods of.—The remedies proposed may be reduced to three main kinds. First, there is the ownership of the entire marketing machinery from producer to consumer either by voluntary coöperation or state aid as proposed by the Nonpartisan League. Second, there is the coöperative action on the part of large groups such as the United Farmers of Canada, who take the farmers' grain at a price which the market at the time seems to justify, handle it from country station to the central market, to the mill, or to a foreign port, and return to the group the pro rata returns from the transaction. This results in better prices, and in a measure, more stable prices, but does not eliminate fluctuations primarily. Pooling plays a relatively small rôle in this operation since it does not apply to the first payment for the produce, but only to subsequent additions in the form of trade dividends. The best instance of substantially the same plan is that of the California Fruit Growers' Exchange in the operation of which the ups and downs are equalized fairly well by the pooling process, extending by grades over the sales of each week to each shipper. Third, the control through virtual ownership of the produce, as in the case of the walnut and raisin growers. Here pooling may be extended at will over the season, and the marketing process may be thus unified.

In the great cotton and grain markets the latter two methods are contending in the minds of reformers for the first place. Shall the market be accepted much as it is and through the elimination of expense the highest price, which skill and forethought can accomplish, be obtained, or shall a new market be created outside of and independent of the present boards of trade? With live stock the same principles apply, but with much more difficulty. If mere stability of prices over short periods is the desideratum it can no doubt be obtained by coöperative organizations of producers into strong marketing companies which shall handle the produce whether wheat, cattle, or potatoes, and by a pooling process take the kinks out of prices.

If the long seasonal swings of prices are looked upon as the main manifestation of evil, pooling will prove an inadequate weapon and a more drastic remedy must be sought. Here the feeding of the market will be required. In the case of several commodities already mentioned it can be done. It can be done without question with cheese; in fact a great start has been made in that direction. It should apply to butter with no insuperable difficulties. How then about wheat and live stock? In the case of wheat, which would be almost infinitely easier than live stock to handle in this way, it must be admitted that the proposals up to date are not very impressive. It takes no more words to propose the unification of wheat marketing than of raisin marketing, but to put it into practice requires the coöperation of a hundred times as many farmers. The work of the organization after it is once formed will require a world knowledge, and the operation by those in charge will be subjected to a scrutiny and a comparison such as to give one pause. The first thing which interested parties would propose, no doubt, would be a cutting loose from the world market by a tariff wall. That an organization of wheat growers for the marketing of wheat could be formed with enough coherence and with sufficient size to compel attention is probably not an impossibility. It must not be forgotten, however, that there are a million and a half wheat growers in the United States and that wheat will grow on many farms not now producing it, and that it is but four months from seed time to harvest. Whether or not a group of wheat growers can sit back and wait for millers to come to their terms may well be doubted, unless, indeed, the terms are entirely reasonable as viewed by the buyers. To sit on 100,000,000 bushels of wheat and make that the controlling factor in the wheat market for the year is easily done in imagination at a farmers' meeting but the seat may not prove to be so secure in the actual market. Unless a tariff wall of sufficient height be erected to furnish very real protection, our Canadian friends will part with some of their wheat at about the going world figure and any premium demanded by the farmer company over the world market price will hardly be collectable.

Instability, elimination of.—To eliminate the difficulties of instability of prices it would seem that a farmers' company big enough to be able to employ the best of marketing experts with information pertaining to the field of its operations, able and ready to take advantage of the existing market facilities, to sell wheat, for example, in American or European ports; to deal with millers or speculators or order buyers, as our big grain firms now deal; to be able to store grain for those who want to take a chance on future markets, advancing money borrowed on the strength of warehouse receipts to the grower speculator; commanding the situation as a dealer in wheat; pooling sales; and returning to the grower the price received minus expenses—such a company could act as a stabilizing force and incidentally get all that the market, a competitive market, will afford for its clients.

It should be remembered that the supply of agricultural produce must of necessity be projected in advance, a matter of months or years. It cannot be put up and down from week to week by employing more men and capital, as is the case with coal. Few problems present greater difficulties. Even so, a widespread network of coöperative companies with unified intelligence can no doubt, when necessity compels it, feed produce, cotton, grain, and live stock into a market somewhat in proportion to demand—a demand about which the main facts are known.

This is what is being done, in part, in the city milk markets. The producers are taking care of the surplus and pooling the sales. By this means surpluses are bound to be reduced, since every monthly statement to the producers is testimony on the wisdom of producing for a market according to its demands.

It may be playing an inferior rôle to suggest that we had best make haste somewhat slowly in the matter of stabilization of prices, but it would seem the part of wisdom and safety to use the machine we have, even in spite of some defects, rather than to scrap it before its successor has reached the blue-print stage.

Pooling has worked admirably in the sale of such unlike products as wool and cheese; and, although it will not be an easy matter to apply the principle to cotton, grain, and live stock, who shall say it cannot be done. It would be just as logical to complain about the erratic rising and falling of a gauge in a tank into which unknown and unanticipated quantities of liquid were being promiscuously poured, blaming the gauge for not keeping at the same level, as to complain about the middleman on the score of unsteady prices. It is time for the producers to begin to regulate the supply flow for the season before complaining further about instability of prices. Unregulated competition requires a balance wheel of regulation. Supply and demand will still operate, but they must be made to operate according to rule instead of as outlaws.

CHAPTER XI

WHOLESALERS

Car-lot Wholesalers.[1]

A very important factor in market distribution is the car-lot wholesaler. These men purchase fruits and vegetables from coöperative associations, country merchants, car-lot assemblers, traveling buyers, buyer brokers, individual growers, speculators, and city brokers. They distribute goods to the jobbing and retail trade or to the country trade. Thus it will be seen that their activities cover a wider field than do those of almost any other type of distributor.

A large part of the business done by the car-lot wholesaler is transacted very early in the day. Most of these early morning sidewalk sales are for cash, and in a great many cases the buyer does his own delivering. Later in the day, beginning about 8 or 9 o'clock in the morning, telephone orders come in from grocers all over the city for deliveries to be made later in the day. The greater portion of this business is for credit, but settlement is usually demanded within a period of one or two weeks. Still later in the day shipments are made up for distribution to country customers in neighboring towns. Thirty to sixty days' credit is extended to these customers. The orders from this country trade may be by telegram, by letter, or through private traveling salesmen. As a rule, these sales to the country trade are the most uniformly profitable of any to the car-lot wholesaler. Prices charged are usually slightly higher than can be secured from resident buyers on the market. This, of course, is justified, as extra packing and cartage charges are involved. The country trade, as a rule, makes little attempt to keep in close touch with market prices, but prefers to place orders regularly with selected wholesalers or jobbers and depend upon receiving fair treatment.

In addition to selling to the retail trade, popularly known as "retailing," car-lot wholesalers distribute considerable quantities of goods to jobbers. The "jobbing price," it should be noted, is usually less than prices charged the retail trade for the same articles. This lower jobbing price is, of course, to protect the jobber and insure him at least a small margin or profit when he, in turn, sells to the retailer.

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[1] Collins, J. H., et al., "Methods of Wholesale Distribution of Fruits and Vegetables on Large Markets," Bulletin No. 267, U. S. Department of Agriculture.

Sales out of storage and clean-up sales.—Many car-lot wholesalers buy when prices are cheap and put the produce in storage, distributing later when prices admit of a fair profit. This involves a certain element of risk, as a market may not take on a better tone in time for the wholesaler to move his stored goods to advantage. Some of the heaviest losses in the wholesale trade are the direct result of dealing in stored goods.

After a heavy day's sale there is usually a considerable amount of miscellaneous produce left on hand. At this point hucksters and peddlers purchase the odds and ends that are unsold and clear the market for the next day's offerings. These sales are to be commended, as considerable quantities of low-grade stuff are thus placed within the reach of the consumer at reasonable rates, and the practice serves to rid the market of a surplus of low-grade produce.

Costs and profits.— Profits to the car-lot wholesaler vary greatly. Since he deals very largely in perishables in large quantities and on his own account, his aim is to make as much profit as possible on each sale. He has better chances to make wide margins than has the jobber, because in many instances he deals directly with the farmer, who is an inexperienced seller and unfamiliar with market methods. However, the car-lot wholesaler buys in large quantities for future sale and thus takes greater risks than the jobber, who buys in small quantities from day to day, moves goods rapidly, and in cases of sharp market declines is able to close out very quickly.

Average net profits at this step in distribution are usually less than is popularly supposed. For instance, during the fall of 1914 apples were handled in Chicago and Kansas City on a gross margin of 25 cents a barrel, oranges at 10 and 15 cents a box, and lemons at 25 cents a box. The margin of profit varies greatly on individual sales and ranges from less than nothing to 50 per cent. Business competition is usually very keen and prevents any long-continued, excessive margin or profit. The car-lot wholesaler's business is subject to all overhead fixed charges, such as interest on investment, labor, and rentals, and in addition he is subject to the costs of much extra service, such as resorting, repacking, and the making of special deliveries. Considering his costs of doing business and the services which he renders, the car-lot wholesaler probably operates on as small a margin of profit as any middleman concerned in food distribution.

Functions performed by car-lot wholesalers.—These men perform the absolutely essential functions of acting as primary distributors of produce arriving at market in car lots. Any reforms which may be accomplished in distributive methods must take into consideration the fact that some definite agency must undertake the work of breaking car lots and starting distribution at market centers. Hence, the car-lot

wholesaler is undoubtedly a highly important element in present-day distributing machinery.

Wholesaler's Excessive Expense for Delivery.[2]

The delivery of goods from the wholesaler's or jobber's place of sale to the store of the retailer is a matter of very serious import, in as much as wholesale dealers say that the cartage cost has grown out of all bounds since the advent of trucks and automobiles. In their experience both retailers and consumers ask and demand entirely too much service and usually get it, because there are always merchants who do not have any adequate system of cost accounting to check up their expenses and thus make it impossible for a few to put into effect any movement for restricting this sort of cost. The consumer demands from the retailer frequent and special deliveries and obtains the accommodation. The retailer, in turn, requires that the same service be given to him and therefore imposes on the jobber and wholesaler. He orders frequently and in small lots, generally stating that he is out of the goods and needs them for some orders already given by his trade; and the jobber or wholesaler makes a special delivery of the goods for him. These special deliveries add heavily to the expense of doing business, as it costs practically as much to deliver one sack of potatoes as it does ten or more sacks. In some cities this free delivery of wholesaler or jobbers extends to all retailers within 30 miles, goods within the city being delivered by truck, those sold outside sent by express. The competition for business has been the incentive to extend deliveries because each firm fears that if it does not give a requested service some other firm will; or one firm gives an extension of service and all others are compelled to do likewise or lose customers.

Not only is the wholesaler called upon to deliver at frequent and irregular intervals, each time with small orders, but the delivery charge upon a community is still further increased by the fact that the retail dealer will often order in small quantities from three or four concerns on the same day, causing that many more deliveries to take place. Every firm seeks the same trade, and delivery wagons of the competing firms cover the same ground each day and give special delivery in addition when called for. It is not uncommon to see three or four large trucks of that many wholesale or jobbing firms standing before a single small retail store. The cost of these individual delivery systems in the cost of additional labor required and the expense of maintenance of trucks and wagons is a large item to be figured into the wholesale prices; and the time and actual cost of many deliveries of many firms over the same

[2] Report of the Federal Trade Commission on the Wholesale Marketing of Food, pp. 159-163.

routes, often to the same customers, form expenses which are eventually passed on to the consumer.

A custom which adds greatly to the expense of delivery has crept into the jobbing trade. It is the present method in many cities when delivering the goods to the retailer to place them wherever may be desired. This is often the basement, or second or third floor. Such a practice not only causes many hours of labor to be lost, through the delays to truckmen, but necessitates in many instances the sending of two, and sometimes more, extra men with the truck. In addition truckmen are many times delayed at the retailer's store through inattention and delay on the buyer's part in giving him a prompt receipt for the goods and general indifference of the retailer to the fact that the truckman has others to serve. Long delays on the delivery route caused by the loss of time in placing goods in various parts of the stores add greatly to the deterioration of perishables, which in any case occurs to some extent during delivery.

Many remedies have been suggested for the reduction of cartage expense, and some of them have been tried with varying success. In some cities wholesalers sell f. o. b. their warehouses, leaving the matter of delivery to the retailer. This has the result of throwing the effect of improper ordering upon the retailer himself, with the result that he is apt to order in larger quantities to save himself special trips. It is doubtful, however, whether sending a great number of retailers' wagons to the wholesalers is a more economic method than delivery by the wholesaler himself.

In other cities attempts have been made to have the various wholesale dealers agree to cut down the number of trips and give only curb delivery in fair weather, with threshold delivery in stormy weather, leaving it to the clerks of the retailers to place the goods in the store during their leisure time. They arrange so that on the same day all trucks of all dealers cover the same district, in order that retailers may not continue to obtain daily delivery service by ordering from a different dealer each day. With this has been tried the plan of charging the retailer for any special delivery. Such plans are difficult to put into effect, because dealers are often led to break any such agreement through desire to increase business, and all are more or less suspicious of each other.

Fruit and produce dealers in Peoria introduced during the early part of 1918 a system of making a charge for deliveries. But two wholesale grocers continued to give free delivery; and since they handled a large part of the same line of goods, the cartage charge had to be discontinued by the others. The charge made was 5 cents per 100 pounds, with a minimum charge of 15 cents to any part of the city or suburbs. In the dealers' opinion this experience indicated that a charge for cartage would

reduce delivery expenses at least twenty per cent as well as turning man power into more necessary lines.

A rather comprehensive plan for limited deliveries, with a charge for special delivery, not only for foodstuffs but for all merchandise, was put into effect throughout the state of Utah during the War. This was carried out under rules drawn up and promulgated by the Commercial Economy Board for Utah with the support of the Council of National Defense and Food Administration. With this government sanction it was exceedingly successful.

The delivery regulations as applicable to the wholesalers in Salt Lake City provided that no vehicle might go to the same customer nor over the same route more than once per day (twice per day for highly perishable goods) in the down-town section, nor more than once every other day (once each day for highly perishable goods) outside the down-town section (hospitals, hotels, restaurants, and depots excepted); that each vehicle might leave the wholesale house as many times per day as need be if fully loaded or if going over a different route each time; that one special delivery a day was allowed to a customer in case of necessity, but a minimum charge of $1 for this delivery must be paid by the customer, the purpose of this charge being to discourage special deliveries. Beyond Salt Lake City limits deliveries were limited to not more than once weekly for nonperishable goods and twice weekly for perishables, deliveries for great distances of this character being justified only by loads of at least 75 per cent of the carrying capacity of the delivery truck. The regulations further provided that deliveries were to be only on the ground floor, and that receivers were to expedite the departure of the delivery man in every way possible. Mr. W. F. Jensen, State Commissioner of Commercial Economy, in a letter to the Federal Trade Commission under date of November 21, 1918, writes:

"It is difficult to determine just what the saving is. I am told that four of our department stores in Salt Lake City are saving $150,000 per annum in delivery costs. That, of course, is a great deal for a town of this size. I should say that all these reforms in deliveries, as a whole, might make a saving of $1,000,000 in Salt Lake City alone, a town with about 110,000 population. I believe I am safe in saying that reducing deliveries from three and four per day to one delivery per day, to each house, actually made a decrease in operating costs for retail merchants of anywhere from 3 to 6 per cent on the total volume carried on. Or, in other words, if it cost them 20 per cent to do business, these curtailments would reduce that 3 to 6 per cent, and in the long run I believe the public is securing benefits from the saving.

"It has resulted in quite an increase in the 'cash and carry' plan, which is the most economical of all. The average saving in deliveries, as applied to wholesalers, might be from 1 to 2½ per cent on the total done;

while, in a general way, all deliveries, as applied to wholesalers and retailers under these rules and regulations issued by us, certainly reduced the number of men or boys employed, the number of trucks, horses, and wagons operated from 35 to 75 per cent."

To what extent these economies will be continued after the War emergency it is impossible to state, but the social benefit of these and similar economic adjustments has been so clearly demonstrated that dealers may be willing to coöperate. Such benefit should be made to accrue, either through competition or government regulation, very largely to the consumer.

Many dealers, however, feel that even such regulations do not eliminate all unnecessary delivery expense, since there still remains the duplication incident to individual deliveries of several dealers covering the same routes. Such wholesalers suggest the creation of a delivery company, either as a coöperative affair of the dealers or as an independent venture, which would consolidate all deliveries with well-defined routes both for receiving the loads and for making deliveries. Such a company could provide itself with proper vehicles for the transportation and protection of foodstuffs and give only such delivery service as would be of the best economic advantage.

Wholesaler's Rôle in Reducing Distribution Costs.[3]

Some economists have maintained during the last few years that the costs of getting merchandise from producer to ultimate consumer are excessive. While a portion of this criticism is justified, many retailers and consumers have been misled by it, in that all the underlying facts have not been analyzed. Since most of the criticism is directed against the distribution of manufactured products, it behooves every manufacturer, wholesaler, and retailer carefully to analyze the important factors which enter into the costs of distribution.

Anyone who has given serious thought to this subject must admit that in present methods of distribution there is much unnecessary expense and waste which should be reduced so far as practicable. There are some goods which, owing to their nature, can be sold by the manufacturer directly to the ultimate consumer without adding to the expense involved; but this is true of a very small part of the output of our numerous manufacturing plants. Again, there are other goods which can be sold economically by the manufacturer directly to the retailer, then by the retailer to the consumer. What percentage of goods can be handled most economically by each of these two methods, it is impossible to say. Generally speaking, the most economical method

[3] By Rudolph Tenk, President, Tenk Hardware Company, Wholesalers. *Printers Ink*, Vol. 130, February 19, 1925, pp. 103-112.

of distribution is for the manufacturer to sell in liberal quantities to wholesalers who are located at advantageous points throughout the country—the wholesaler selling to the retailers, who, in turn, sell to the consumers. That there is some unnecessary expense in this chain of distribution is evident; but the method has advantages which save the consumer far more than the expense which might be eliminated.

To convince ourselves of the truth of this assertion, we have only to consider the large number of retailers and consumers located in the small towns and villages. Without the service of these retailers, the millions of consumers who cannot easily get to the large or small cities would be seriously inconvenienced; and as a result the output of the manufacturer, too, would be materially reduced, for the reason that things we can procure only at great sacrifice or inconvenience we often do without. Anyone who feels that the jobber is not an absolute necessity in our economic scheme of merchandising needs only to analyze the distribution of our population and the capital rating of the retailers of the country.

The distribution of our population for the year 1924, as shown by statistics, is as follows:

Towns under 1,000 population	124,437
1,000 to 2,000 population	3,508
2,000 to 3,000 population	1,284
3,000 to 5,000 population	1,026
5,000 to 10,000 population	721
10,000 to 25,000 population	461
25,000 to 50,000 population	143
50,000 to 100,000 population	76
Over 100,000 population	69

It will be seen that there are 130,255 towns of 5,000 or less population, as against 1,470 cities of more than 5,000. An analysis of the capital ratings of the stores listed as general, drug, dry goods, hardware, and grocery shows that there are 508,937 of these stores of all ratings, but of this total only 17,311 have capital ratings of $50,000 or over. Anyone who has had experience in extending credit to retail merchants in cities and towns of less than 5,000 population knows that very few of these stores come under ratings of $50,000 or more, and that the greatest number come under ratings of $10,000 or less. If wholesalers were eliminated, and the small-town merchants were obliged to buy directly from the manufacturers, it would not be long before the failures among these dealers would be appalling, owing to frozen stocks and losses of sales resulting from inability to get what they need on short notice and at low transportation costs, in quantities to suit their business. The dealer in the small town cannot create a sufficient volume of sales per item to enable him to buy in sufficient quantities from the manufacturer directly.

It is nothing uncommon, for instance, to find on a retail merchant's bill of hardware, which often amounts to only $75 or $100, that the items consist of the products of twenty or more different factories. In many sections of the country orders from hardware merchants located in small towns average less than $35, and many of these orders average less than $1 per item. This is sufficient proof that the wholesaler, by combining in these orders the products of many factories, distribute these goods at a much lower cost than the manufacturer could do.

Another important element which should not be overlooked in computing the costs of distribution is the fact that the wholesaler—especially the local wholesaler—can study the sales possibilities of his territory much better than even the retailer himself. The manufacturer sends representatives to place his lines with the wholesalers. These salesmen are usually well trained and qualified to present and explain the manufacturer's line to the wholesaler's buyer. The buyers in wholesale houses are usually men of long experience and training. These buyers, in turn, instruct the wholesaler's salesmen how to present these lines to the retailers. If the manufacturers (in the lines enumerated) were required to sell all of their products directly to the retail merchants, they could not afford to employ the same high-class salesmen that they do when selling to the wholesaler, because the volume of sales of the dealers in the small towns would not be large enough to justify paying the salaries and expenses demanded by the class of men these manufacturers need to represent their lines properly.

The local wholesaler has the further advantage of being able to make a closer study of the sales possibilities of his territory, since he has a small number of salesmen working in a limited territory, who, being thoroughly conversant with the needs and demands of their respective territories, are in a position to give accurate information to the buyers and to the managers of the wholesale house.

Dealers need wholesalers.— Since the retailer must place many orders to keep his stock assortments complete and stay within the limits of his capital, the salesman representing the wholesaler can get enough business on each trip to make profitable frequent visits to his customers; whereas, if the dealers in the small towns were obliged to buy these goods directly from the manufacturer, the volume of business would be so small that the manufacturer's salesmen could afford to call only at rare intervals. It is apparent that the wholesaler, by reason of his diversified lines, can supply the needs of the retailers in the small towns at a lower cost of distribution and transportation, in quicker time, and with much less of the dealer's capital tied up. Without this service many merchants would not have sufficient capital to carry the needed assortment.

Of course there is some unnecessary expense which means waste, in

this chain of distribution. There are several things which have helped to bring about the conditions leading to this unnecessary expense. One of these is the excessive number of merchants in the same line of business in a town. In some small towns, where the potential business of the field is enough to support perhaps only one retailer in a particular line, it is not uncommon to find two, three, four, or even a greater number of retailers in the same line. To maintain this excessive number of retail stores is an unnecessary expense to a community, notwithstanding the public imagines it is benefited by such competition. Eventually some of these merchants fail. The result is further economic loss to business, for which the consumers pay in the end.

Nor does this condition obtain only among retailers. In many sections of the country there are too many wholesalers working the same territory. Many retailers believe that they are helping themselves by maintaining strong competition among these wholesalers. It is not uncommon to find retailers whose total purchases might be profitably divided between not more than two wholesalers, buying from three, four, five, or even more wholesalers. This practice forces the wholesalers to handle too large a proportion of small orders, which, of course, increases their expense as well as the selling price of the articles involved.

Some of the unwise practices which have crept into the wholesaler's business were clearly brought out in an article which appeared in *Printers Ink,* February, 1924: "Wholesalers—Manufacturers' Representatives or Order Takers?" It would be well worth while for every manufacturer who desires to maintain his factory brand, and for every wholesaler, to read that article. The author pointed out the disadvantages which result from manufacturers trying to have goods represented in every wholesaler's stock, as against the advantages of maintaining exclusive representation in fewer stocks, advantageously distributed over the country.

Many of the more important manufacturers of automotive supplies have seen the wisdom of this policy; and they are now placing their lines with fewer wholesalers, selecting those who can give broad distribution, but whose trade territories will overlap as little as possible.

Fewer dealers, less expense.—Recently I talked with a manufacturer who has adopted this method of selecting his distributors. He told me that two years ago he had the names of more than 2,000 customers on his books. During 1923 he reduced the number to 750. He was so well satisfied with the results that on still closer analysis he found that 450 distributors could take care of all the trade in his line, and enable him to handle his sales at a lower cost; also, that, by reason of the increased volume now received by his distributors, they could sell at a slightly lower price and still make a satisfactory net

profit. Many manufacturers of automotive supplies have had similar experiences. Some manufacturers in other lines have adopted the plan of having fewer but exclusive distributors.

Another advantage of closer coöperation between the manufacturer and his selected distributors is that the advertising of these manufacturers is usually of national scope, which enable the wholesalers and retailers all over the country to coördinate their advertising with that of the manufacturer, particularly with the advertising of the live manufacturer who liberally provides, in his advertising appropriation, for planned dealer-helps and local newspaper advertising tie-ups. This last means more than free electros that "hog" the dealers' message.

Closer coöperation between manufacturers, wholesalers, and retailers keeps the distributing chain lubricated; it enables merchants to do a larger volume of business on smaller stocks at lower expense, thus serving the consumer more satisfactorily and at lower cost. This is especially true in important lines in which there are frequent changes in styles. A further advantage results to the manufacturer when the dealer buys through the wholesaler, in that the dealer can maintain his assortments better, and in that way keep the manufacturer's newest goods on display.

Also, depreciation is reduced materially, since neither manufacturer, wholesaler, nor retailer is required to carry so large a stock as is necessary when the goods have been shipped much greater distances to the retailers. Wholesalers can introduce new items of a branded family more economically than the manufacturer can, because it costs very little more for a wholesaler's salesman to show new items when he is visiting a dealer to get orders for his regular lines, and still further benefit the dealer by being able to ship small introductory orders economically.

The wholesaler and his salesmen are the "watch dog" for the dealer, as many manufacturers are not organized to give satisfactory service to dealers in the settlement of little complaints. When manufacturers, wholesalers, and retailers realize their full responsibility to do everything possible to bring the products of the factories to the ultimate consumer at the lowest possible cost, and take steps to eliminate unnecessary expense and waste as much as is possible in the chain of distribution, only then will they be entitled to the recognition and the reward they claim as their just dues.

Wholesaling Groceries.[4]

During the past few months a good many acres of print paper in the aggregate have been covered with expositions of the sins, omissions, and shortcomings of the wholesale grocer. Most of the writers have agreed

[4] Bulletin of the National Wholesale Grocers' Association of the United States, Vol. 10, No. 9, pp. 6-10.

that something was radically wrong with him; but the bulletins issued from the bedside have seldom coincided as to diagnosis, and the attendant physicians have pretty nearly come to blows over their prescriptions.

"Business as usual."— And in the meantime the jobber has gone along dealing with conditions instead of theories, and doing the best he could (according to his individual ability) to make a definite, self-contained business yield a profit. The trouble with most of the critics and prognosticators, as I see it, is the fact that they insist upon treating the jobber as a factor in some particular scheme or system of merchandising, while the jobber is primarily interested in the immediate problem of making his business pay. If he regards himself as a factor in a scheme of distribution at all, he does so only after he has solved the problem of meeting his expenses and showing a profit at the end of the year.

That is a distinction that I think must be clearly understood before any intelligent conclusions can be based upon this—or any other—discussion of merchandising trends and general trade conditions. The jobber's immediate self-interest has got to be taken into account in any plan that seeks to win his coöperation, and any scheme for his reformation and restoration to his former glory is not likely to prove successful except upon the same basis.

The facts.—In a word, what we are considering in this article is not the jobber as a purely abstract "factor of distribution," but the jobber as a concrete and tangible individual who has got to make both ends meet under actual (not theoretical) conditions, or go out of business. It happens that in the grocery field there are so many of these concrete individuals fighting for a share of the business that the situation is rapidly becoming acute, and it is probable that developments will take place rather sooner than in other fields.

It does not alter the fact, however, that the type of jobbing house which is ultimately going to survive and flourish will be that which is best able to earn net profits from its operation, and not necessarily that one which happens to be in harmony with somebody's pet merchandising theory.

From my own observation of the situation I am inclined to agree with those who vociferate that the grocery jobber is, generally speaking, ceasing to perform his time-honored functions as a distributor. To an increasingly large extent, it appears that jobbers in this field are getting on the basis where they serve the manufacturer merely as a selling agent on commission besides acting as a credit shock-absorber, or else become purveyors of private-branded merchandise on their own account.

The reasons.—The old-line wholesaler who kept the factory wheels turning by placing orders for six or nine months in advance, and provided local reservoir of merchandise to be tapped when and as

wanted, has very largely faded out of the picture. I have talked with specialty manufacturers who seemed to feel that the old-line jobber did this out of the deliberate malice of his heart, and who were therefore inclined to curse the whole jobbing tribe from Dan to Beersheba and back again as the deliberate enemies of advertised, trade-marked goods in general. I have talked with others who have regarded the fading out of the old-line jobber as merely one of the untoward conditions resulting from the War, and who expect to get back on the old pleasant basis again in some indefinite future when things have "settled down." A glance at some of the figures, however, will serve to indicate, I think, that it was something besides malice that led to the change in the old-line jobber's attitude, and that the "War conditions" merely accentuated a process that had long been under way.

According to a market analysis prepared by the National Wholesale Grocers' Association, there are to-day 6,348 wholesale grocers in the United States. On the basis of the 1920 census figures, that is one wholesaler for every 16,652 consumers. These wholesalers do a total annual business that is estimated at $4,104,597,274; which is a little more than 36 per cent of the grand total of food product sales at wholesale prices.

Are there too many grocery stores? These figures seem to indicate as much. In 1850 there were 192 families for every grocery—to-day there are but 51 families for every grocery store, and the weekly sales volume has dropped from $1,920 to $510—yet the overhead has jumped enormously.

Year	*Grocery Stores*	*Pop'lati'n per Store*	*Families per Store*	*Weekly Sales Volume*
1850	24,479	960	192	$1,920
1860	40,000	850	186	1,860
1870	74,410	527	105	1,050
1880	101,849	490	98	980
1890	114,849	574	108	1,080
1900	156,479	423	84	840
1910	195,432	470	94	940
1920	300,000	310	63	630
1925	327,122	208	51	510

The average number of retail customers per wholesaler is 90, divided as follows:

Retail Grocery Stores	327,212
Delicatessen Stores	5,289
General Stores	148,715
Department Stores	371
Hotels	15,904
Restaurants	76,623
Total Retail Outlets	570,114

The average number of consumers per retail outlet (1920 census) is 185. And in addition there are the 24,857 chain stores handling groceries which, generally speaking, do not figure as customers of the wholesalers at all but which do serve to reduce the volume of sales of his customers.

The average wholesale grocer, therefore (assuming for the moment that such an individual actually exists—which he doesn't), is a business concern which is serving 90 customers, each of whom in turn serves 185 consumers, and his annual gross sales amount to $646,595.

Now let us take a look at what has been happening to the old-line wholesaler, who used to be such a solid factor in the trade. In particular, I want to call attention to something that has been happening to his immediate market.

What has happened.—The figures tabulated on this page are, in my opinion, rather significant, although they do not by any means tell the whole story:

On the basis of that table it is not so difficult to see one of the reasons (and I think the main reason) why the old-line wholesaler has so largely abandoned the practice of buying in carload lots, and why nearly 80 per cent of the manufacturers consulted in connection with this report state that the service they are receiving from jobbers is steadily decreasing in value. For years on end the jobber's market has been splitting up into smaller and smaller units, and the sales units which go to make up his annual volume of business have become smaller and smaller on the average. Where the average retailer in 1900, for example, placed an order that was based on the requirements of eighty-four families, the same average retailer today is buying on the basis of only fifty-one families. The size of the average order has shrunk by nearly 40 per cent in twenty-five years, but the cost of getting and handling the order has not shrunk in proportion. As a matter of fact it has materially increased. "Hand-to-mouth buying" was undoubtedly encouraged by the conditions that followed the collapse of the war bubble, but in the grocery field, at least, its roots go a good deal deeper than that.

It is to be remembered also that during this same period the development of specialty merchandising has very largely taken place, and the number of individual products has been vastly increased. Where the jobber in 1900 could satisfy the normal requirements of his trade by carrying stocks of perhaps half a dozen different brands, he would have to carry many times that number of brands in order to do the same thing to-day. It is noteworthy, furthermore, that, during most of the period in question, there has been widespread and persistent propaganda on the part of manufacturers on the subject of turnover. Dealers have been urged and entreated by precept, argument, and analogy, to buy in

smaller quantities and buy oftener. It is somewhat curious to note that many of the manufacturers who are most severe in their comments on the shortcomings of the jobber are the very concerns which have been particularly active for years in educating retailers to the advantages of small stocks and rapid sales. Though it is obviously impossible to measure the effect of this propaganda, it is hardly fair to blame the jobber for taking a leaf out of the manufacturer's book, and deciding that what was recommended for the good of the retailer's soul might be beneficial in his own case.

New type retailer.— Another development that has been taking place more rapidly than ever of late years is a change in the type of retailer.

"I haven't seen much prominence given to this in any discussion of the subject," says a member of one of the largest organizations in the country dealing with the grocery trade, "but it is a fact that the business of retailing groceries (aside from the chain stores) is very rapidly getting into the hands of certain foreign elements. Not so very many years ago, the grocery was identified as a 'white man's business,' but that time is very rapidly passing. In a good many localities to-day it is almost impossible to find a strictly neighborhood grocery store that is not operated by a foreigner—generally an Italian or a Greek. The thing has gone a good deal farther in some places than in others, of course; but it is happening everywhere. The business is simply going into the hands of those who are willing to put in long hours at hard work for a margin of profit which no longer appeals to the rank and file of Americans who have been educated up to a much higher standard of living.

Keenest competition.—"Along with this foreign element in the trade there has sprung up a large number of jobbers who cater almost exclusively to this class of business. For the most part they are simply 'desk jobbers,' who buy from the manufacturer only to cover orders actually in hand, and to a large extent they get the cash from the retailer. Individually they don't amount to much, perhaps, but when you take a swarm of them, such as there are in New England, for example, they make a very serious dent indeed in the volume of the territorial jobbers. In order to compete with these the territorial jobber must establish local branch warehouses, and practically put himself on a cash-and-carry basis. When he does that you can see for yourself where he gets off on the question of carrying reserve stocks for the manufacturer."

Still another factor in the situation has been the chain store. Buying practically exclusively from the manufacturer direct, the chains have

State	No. Jobbers	Estimated Gross Sales	No. Retail Grocers	Total Sales Outlets Grocers, Restaurants, Hotels, etc.	Estimated Total Food Sales at Wholesale Prices
Alabama	190	$ 96,945,996.00	9,027	16,911	$ 246,558,270.00
Arizona	51	13,821,812.00	461	1,266	35,087,010.00
Arkansas	196	72,128,248.00	6,627	13,142	183,981,420.00
California	145	132,083,986.00	6,822	15,408	349,820,405.00
Colorado	47	37,188,066.00	2,518	5,436	98,661,045.00
Connecticut	74	52,082,470.00	3,809	5,944	144,716,255.00
Delaware	11	8,500,846.00	1,057	1,643	23,415,315.00
Dist. of Col.	18	14,118,122.00	1,283	1,997	45,944,905.00
Florida	166	39,277,980.00	3,783	7,701	101,689,350.00
Georgia	308	118,133,888.00	12,300	21,342	304,087,360.00
Idaho	22	17,952,004.00	893	2,089	45,345,930.00
Illinois	243	254,623,552.00	20,318	31,733	680,954,400.00
Indiana	144	117,951,260.00	9,161	15,764	307,690,950.00
Iowa	90	100,412,978.00	5,672	11,693	257,422,205.00
Kansas	93	73,216,810.00	4,909	10,333	185,771,985.00
Kentucky	174	88,436,700.00	11,933	21,597	228,746,150.00
Louisiana	180	74,778,594.00	6,492	11,915	188,843,445.00
Maine	55	32,978,636.00	3,020	5,378	85,641,470.00
Maryland	76	57,065,218.00	6,201	9,339	152,214,405.00
Massachusetts	182	138,968,872.00	9,759	14,144	404,497,380.00
Michigan	147	146,671,832.00	8,638	16,487	385,183,260.00
Minnesota	73	98,275,662.00	3,954	9,312	250,548,125.00
Mississippi	170	74,593,604.00	3,970	11,536	188,014,890.00
Missouri	181	132,280,774.00	12,010	20,074	357,425,775.00
Montana	44	22,567,610.00	930	2,695	57,633,345.00
Nebraska	53	53,622,240.00	3,023	6,532	136,118,960.00
Nevada	14	3,104,652.00	451	1,099	8,127,735.00
New Hampshire	24	18,423,822.00	1,300	2,374	47,623,715.00
New Jersey	100	96,126,168.00	8,941	13,618	331,369,500.00
New Mexico	58	14,908,396.00	1,187	2,099	37,836,750.00
New York	487	378,165,848.00	29,203	40,152	1,090,448,460.00
North Carolina	373	106,364,798.00	11,300	19,338	268,707,915.00
North Dakota	24	26,609,520.00	1,754	3,677	67,921,560.00
Ohio	202	203,981,972.00	15,519	27,112	604,736,370.00
Oklahoma	123	84,442,158.00	6,800	11,973	212,569,715.00
Oregon	34	32,037,058.00	2,306	3,827	82,255,845.00
Pennsylvania	395	315,283,378.00	27,304	40,972	915,601,785.00
Rhode Island	26	24,546,018.00	1,803	2,346	63,461,685.00
South Carolina	177	69,580,888.00	6,458	10,961	176,791,020.00
South Dakota	29	26,242,430.00	1,688	3,468	66,837,435.00
Tennessee	179	87,554,882.00	10,561	19,187	245,477,925.00
Texas	432	193,632,472.00	12,245	21,340	489,638,940.00
Utah	18	18,049,288.00	1,309	2,295	47,186,580.00
Vermont	18	14,322,744.00	1,278	2,062	37,004,940.00
Virginia	214	92,166,910.00	10,612	18,909	242,464,635.00
Washington	51	55,114,402.00	2,618	5,298	142,445,205.00
West Virginia	105	59,798,130.00	6,968	14,344	153,688,605.00
Wisconsin	104	107,511,678.00	6,481	11,219	276,367,035.00
Wyoming	28	7,951,892.00	416	1,033	20,412,210.00
Total	6,348	$4,104,597,274.00	327,122	570,114	$11,084,989,975.00

State	Stores	Total Sales	Total Grocery Sales	% of Total Volume
Alabama	126	$ 4,193,280.00	$ 1,677,312.00	0.41
Arizona	16	532,480.00	212,992.00	0.56
Arkansas	110	3,660,800.00	1,464,320.00	0.76
California	898	29,885,440.00	11,844,176.00	0.33
Colorado	171	5,690,880.00	2,276,352.00	2.04
Connecticut	436	14,510,080.00	5,804,032.00	4.
Delaware	65	2,163,200.00	865,280.00	4.1
Dist. of Col.	320	10,649,600.00	4,259,840.00	8.8
Florida	105	3,494,400.00	1,397,760.00	0.9
Georgia	263	8,752,640.00	3,501,056.00	1.15
Idaho	14	465,920.00	186,368.00	0.4
Illinois	1,334	44,395,520.00	17,758,208.00	0.26
Indiana	385	12,812,800.00	5,125,120.00	1.6
Iowa	192	6,389,760.00	2,555,904.00	0.9
Kansas	82	2,729,960.00	1,091,984.00	0.53
Kentucky	230	7,654,400.00	3,061,760.00	7.3
Louisiana	57	1,896,960.00	758,784.00	0.4
Maine	96	3,194,880.00	1,277,952.00	1.4
Maryland	287	9,551,360.00	3,820,544.00	2.4
Massachusetts	1,715	57,075,200.00	22,830,080.00	5.6
Michigan	556	18,503,680.00	7,401,472.00	1.9
Minnesota	146	4,858,970.00	1,943,588.00	0.7
Mississippi	46	1,530,880.00	612,352.00	0.32
Missouri	803	26,723,840.00	10,689,536.00	2.9
Montana	44	1,464,320.00	485,728.00	0.8
Nebraska	162	2,063,360.00	825,344.00	0.6
Nevada	11	366,080.00	146,432.00	1.8
New Hampshire	47	1,564,160.00	625,664.00	1.3
New Jersey	2,736	91,054,080.00	36,421,632.00	10.8
New Mexico	17	565,760.00	226,304.00	0.59
New York	4,358	145,034,240.00	58,013,696.00	5.3
North Carolina	84	2,795,920.00	1,118,368.00	0.4
North Dakota	42	1,397,760.00	559,104.00	0.8
Ohio	2,848	94,781,440.00	37,912,576.00	6.1
Oklahoma	44	1,464,320.00	585,728.00	0.28
Oregon	65	2,163,200.00	865,280.00	1.05
Pennsylvania	3,825	127,395,840.00	50,957,336.00	5.5
Rhode Island	63	2,096,640.00	838,656.00	1.3
South Carolina	85	2,828,800.00	1,135,520.00	0.6
South Dakota	37	1,231,360.00	492,544.00	0.7
Tennessee	799	26,590,720.00	10,636,288.00	4.3
Texas	167	5,557,760.00	2,223,104.00	4.5
Utah	62	2,063,360.00	825,344.00	1.7
Vermont	36	1,198,080.00	479,232.00	1.28
Virginia	362	12,047,360.00	4,818,944.00	2.
Washington	140	4,659,200.00	1,863,680.00	1.3
West Virginia	126	4,193,280.00	1,677,312.00	1.08
Wisconsin	228	7,587,840.00	3,035,136.00	1.09
Wyoming	16	532,480.00	212,992.00	1.04
Total	24,857	$824,013,200.00	$329,398,716.00	2.99

progressively cut down the share of the business that fell to the jobber, until, at the present time, direct sales to the chains represent about fourteen per cent of the total volume of sales through jobbers.

Will chains grow?—There seems to be considerable ground for the belief, however, that the chains have already done their worst, so far as the jobber is concerned. Competition between the chains themselves has grown to be so keen that there is no longer very much virtue in the cut-price appeal, and they are gradually being forced to compete upon the same basis as anybody else, namely, service, quality, and personality. There is considerable evidence that the chains realize this condition themselves, and a well-defined effort is being made to persuade chain-store executives to abandon the policy of featuring low prices exclusively in favor of advertising service and personality. In the opinion of a number of authorities with whom I have talked, the grocery chains will do little more than hold their own for the future. At any rate, I have not been able to find anybody, either among jobbers or manufacturers, who could be persuaded to get very wildly excited over the chains. And it is not so many years ago when it was hard to persuade a grocery jobber to talk about anything else!

Much the same thing is true with regard to the coöperative wholesalers' or retailers' buying syndicates, which have also played a part in complicating the troubles of the jobber. Though they exist in considerable numbers, and account for a considerable volume of business in the aggregate, they do not seem to be anything like the factor that they are in the drug trade, for example.

"Co-ops" on wane.—"Compared with the chain store," says the observer quoted in connection with the changing type of grocery retailer, "the coöperative in this field is a flea-bite. In the first place, the average retailer in this field hasn't the mentality to grasp a proposition of that sort, even if he could be persuaded to dig up the price of a share of syndicate stock. In the second place, the retail grocer, take him as you find him, has very little conception of the value of coöperation. Association activities cut very little figure with him, and the idea of coöperating with his competitor down the street doesn't appeal. There are successful coöperative wholesale grocery houses in various cities, like Philadelphia and Newark, New Jersey, for example, and a lot of experiments are being tried all the time. But the successes are the exception and not the rule. The day may come when the coöperative will be a real factor in the grocery trade, as it is in the drug trade. But it hasn't come yet."

The foregoing opinion is generally confirmed by the reports which I have received from jobbers throughout the country. Judging from these reports, the coöperatives appear to be most active in the Middle Atlantic states, in Minnesota and Iowa, and on the Pacific Coast. Else-

where the reports are practically unanimous to the effect that this form of competition is decreasing or non-existent.

A minor factor in the situation is the wholesale wagon peddler or truck jobber. Though these distributors are operating in connection with a restricted number of lines, and are as yet entirely without any definite organization, they do materially reduce the jobber's volume of sales in congested territory such as along the Atlantic seaboard and in some territories of the Middle West.

Now the old-line grocery jobber, under the impact of conditions such as those outlined above, has been forced to seek safety in one of two general directions: the establishment of a local demand for private branded goods for which he was the only source of supply, or the increase of his rate of turnover by cutting down his investment in reserve stocks and reducing the number of lines carried in stock. The process is pretty accurately described in the following letter from a prominent importer of tea, coffee and spices:

Day-to-day buying.—"For the past two or three years the buying of private labels by the jobbers has increased at least 50 per cent in our territory, and while it has not decreased the business on our factory brands to this extent, the sales of same to jobbers who have adopted private labels shows a decided falling off. This private label mania seems to have extended to even the small wholesale grocers who work only two or three men, and whose territories are limited to a radius of twenty-five miles or so around the town where they are located.

"On the other hand, so far as the manufacturers' brands are concerned, the majority of wholesale grocers are rapidly becoming nothing more than brokers or commission men. They have cut their buying of even nationally known advertised goods to the lowest possible quantity that will make a shipment, and in most instances they have the goods sold before they order them. They simply try to buy enough to take care of the orders in hand, and follow this process continuously.

"We have wholesalers who formerly placed orders for regular jobbing quantities either weekly, semi-monthly, or monthly that are now placing daily orders to cover what they actually sell from day to day. They expect the same discounts we formerly granted them, and expect rush delivery of every order. This means that we are obliged to carry these stocks of manufactured goods that the wholesaler formerly carried. This necessitated our increasing our capital by 50 per cent two years ago which, with other increases incidental to the handling of orders in small lots, has exactly doubled our overhead expenses in the last two years."

Two classes of jobbers.—I have literally dozens of letters from other manufacturers, expressing exactly the same point of view.

"Our product is comparatively new," says an eastern manufacturer, "and we find that we cannot get any assistance from the jobber in the introduction of our goods. For this reason, we have built up our own sales force, supplied them with cars, and each morning every salesman takes a load of goods along sufficient for the normal requirements of the day. If he goes into new territory he sells the merchant, and upon receipt of an order delivers the merchandise and gets his money for it right away. Through this method we are avoiding all questions of credit. Furthermore, we are finding this method just as cheap if not cheaper than trying to sell through jobbers under present conditions, and for that reason we are passing up the jobber entirely, at least in this section of the country."

"Our business," says a large Middle West producer of high-grade canned goods, "has come gradually to be divided about equally between our own advertised brands, and goods packed under distributors' brands. This, you may say, is highly inconsistent, but this policy has resulted only after long consideration, and is proving satisfactory from a profit standpoint.

"This leads us to make this prediction: that in a comparatively few years the jobbing trade will be divided into two distinct groups, having little if anything in common. We will have in one group the large manufacturing jobbers, like Reid-Murdoch, Austin Nichols, Francis H. Leggett, etc., who will be engaged solely in the marketing of grocery products under their own brands, either of their own manufacture or otherwise. The other group will consist of small jobbers, distributing advertised brands and bulk products at a small discount by ordinary jobbing methods or by the cash-and-carry system. They will be merely warehousemen and credit shock-absorbers, and entirely undependable for any sales help. In other words, we do not believe that there is long going to be any middle ground. Every jobber must decide sooner or later which road he is going to travel, and those who hesitate too long, it seems to us, will certainly meet with an adverse and untimely end."

Seventeen turns a year.—On the surface of things, it does look as though that prophecy might be fulfilled, which would mean the extinction of the old-line wholesaler altogether. The unanimity with which the jobbers report that they are cutting down reserve stocks, reducing the number of lines carried, opening cash-and-carry branches, adopting methods of compensating their salesmen on the basis of actual margins of profit, etc., etc., is too impressive not to be taken seriously. The manufacturers' exhortations on the subject of turnover have evidently been taken to heart by the jobbers with a vengeance. One jobber covering a territory in the Middle West that includes sections of three important states writes as follows: "Our business is steadily in-

creasing, and we are making money on it. We turned our stock seventeen times in 1924. Show us a better one!"

Perhaps it will come about—this practical extinction of the old-line service wholesaler in the grocery field. I don't know, and nobody else knows definitely sure for certain. But before it happens, it is relatively certain that the experiment will be tried of setting up an alternative.

CHAPTER XII

RETAIL TRADE ORGANIZATION

A General Outline of Retail Trade Organization.[1]

Retail trade.—A large majority of the retail stores in the United States are what I prefer to call unit stores. Sometimes they are called "independent" stores or "regular" stores. A unit store is a store without an elaborate departmental organization that is owned and managed as an independent unit for the sale of goods through personal salesmanship. Unit stores are used most extensively for the distribution of merchandise such as groceries, hardware, agricultural implements, shoes, men's clothing and furnishings, jewelry, cigars and tobacco, and drugs.

The unit stores furnish the most numerous outlets for many kinds of merchandise. They provide the only means whereby large numbers of consumers can be reached regularly. They are adaptable to the service requirements of their patrons. Frequently, the proprietor of a unit store has built up a strong personal clientele. The market for merchandise distributed through unit stores is not dominated by a few large powerful buyers.

The company store is another type of store that is generally operated on the unit principle. This has come into especial prominence during the last few years of rising prices. The American Woolen Company, for example, has recently established a store at its plants in Lawrence, Massachusetts, for the sale of merchandise to its employees. Similar stores have been organized by several other large employers of labor. To the manufacturer or wholesaler seeking distribution for his product, the company store presents a problem, because of the doubt as to its permanency and the friction that it causes with many of the unit stores with which it competes.

The retail-wholesale store is another institution that complicates the sales problem for many a manufacturer. Such a store is one that carries on a retail business and also operates a wholesale department. A store of this type ordinarily demands wholesalers' discounts. It is, therefore, in a position to buy goods for its retail department at manufacturers' wholesale prices. It oftentimes becomes a troublesome competitor of the unit stores, to which the manufacturer cannot afford to sell at wholesale and which are forced to buy from wholesalers at prices higher than the wholesale-retail store purchases its merchandise.

[1] Copeland, M. T., *Journal of Political Economy*, Vol. 28, pp. 381-387.

The metropolitan specialty store, especially for articles such as women's wearing apparel, has become an important factor in the sale of some kinds of merchandise. This type of store has operating expenses quite similar to those of the other types of stores with which it competes. Its main advantages appear to be those that accrue from specialization.

A department store, according to the customary usage of the term, is a retail store organized on a departmental system in which one of the large departments is dry goods. Wherein does the department store have its chief advantages? Its size frequently gives it a buying advantage. Oftentimes it is able to obtain wholesale prices or high discounts, because of the large quantities that it purchases. Its size, however, apparently does not give it any advantage in operating expenses. From such scanty information as is now available it appears that the ratio of operating expenses to sales is as high in department stores as in unit stores. Frequently the expenses are higher in department stores in proportion to sales. Some of the failures of department stores during the last ten years have been due, I believe, to a mistaken theory that a large volume of business necessarily meant economy in operation.

A chain-store system is a group of scattered stores with single ownership and centralized management. Ordinarily a central warehouse is operated from which merchandise is distributed to the retail branches. The chain-store system has the advantages of large-scale buying and wide dispersal of the individual retail branches. It has facilitated the development of standardization of equipment and of methods of operation and management. Chain stores have been most successful in marketing those products that ordinarily are sold through unit stores. Chain stores are located at points where it is most convenient for their patrons to visit them.

Manufacturer's retail branches are occasionally chosen by a manufacturer as the logical outlet for at least a part of his merchandise. The establishment of retail branches by a manufacturer is not ordinarily, however, for the purpose of economy in expense of operation. It seems to have been the general experience of manufacturers who have established retail branches that they are not able to operate their stores more economically than the average unit store or department store is operated. Such branches generally have been established for other reasons. One of these reasons is to insure a steady and sure outlet for at least a portion of the manufacturer's product. There are also several instances in which manufacturers have established a small number of retail branches for educational and promotional work. The L. E. Waterman Company, for example, has a store in New York to provide service to the purchasers of its pens and also to serve as a laboratory in which to study retail problems. The Dennison Manufacturing Company has four retail branches that are used as agencies for promoting

the sale of its products, but not in competition with the independent retail stores that carry this merchandise. Whenever a manufacturer decides to open a retail store, he finds immediately that his action is capitalized by his competitors who seek to develop a spirit of antagonism among retailers on the ground that the manufacturer is entering into direct competition with his own customers.

A mail-order house ordinarily is a business that sells at retail from catalogues and not over the counter. The orders are received by mail at a central warehouse whence the goods are shipped to consumers. The chief field for the development of mail-order sales has been in the rural districts and small towns. The catalogue of a mail-order house gives an opportunity for shopping somewhat akin to the visit to a department store. The large mail-order houses, to be sure, have utilized their buying power and their established clientele to sell many products outside the range of shopping goods. Whether a mail-order house is able to operate at substantially lower expense than unit stores is a question that has not yet been definitely settled. At all events, concentration of buying power and the tendency to cut prices frequently have caused manufacturers to hesitate to seek distribution of their products through mail-order houses.

Coöperative stores have not been sufficiently successful in the United States, up to the present time, to present a substantial marketing problem. A coöperative store, properly speaking, is one that is owned and managed by consumers. The typical coöperative store is organized on the Rochdale plan, whereby each member of the society purchases one or more shares of stock at a small amount per share. The number of shares that one member may hold usually is limited, and ordinarily each member has one vote irrespective of the number of shares of stock that he holds. Dividends are commonly paid upon the stock at the ordinary local rate of interest and the remainder of the earnings, aside from such as may be set aside for reserves or surplus, are distributed to the members annually in proportion to their purchases. This system has had a tremendous development in European countries, but in the United States the number of coöperative stores is small and many of those in existence have led a precarious life. During the last eighteen months, the coöperative movement has received a new impetus in this country through the influence of labor-union men. This may prove to be a new marketing factor of large significance.

Retail public markets present problems of quite a different character from those encountered in other types of retail stores. Municipal markets in which booths are leased to dealers, to be sure, are not far different from other classes of retail stores. Public markets in which producers sell to consumers, however, bring in a new set of problems.

Wagon retailers include those merchants who do not operate a retail store, except perhaps as an incidental adjunct to their business, but who retail merchandise from wagons that deliver the merchandise at the homes of the consumers. The milk trade is one of the notable examples of business that is carried on by wagon retailers. Suggestions, such as have been made from time to time, that a coöperative system should be used for milk delivery, run afoul of this fact, that the only place of business for the ordinary milk dealer is his delivery wagon. If he gives up his independent delivery system, he practically gives up the independence of his business.

The ice business is another trade carried on by wagon retailers. In this trade the heavy loss through shrinkage tends to discourage duplication of routes and, therefore, to result in the development of local monopolies in the ice trade. As in the case of the milk dealer, the ice merchant ordinarily must maintain a delivery system if he is to carry on an independent business. Both milk and ice are commodities of such general use that these trades present unusual marketing problems of broad public policy. Many of these problems have not yet been solved satisfactorily.

Bulk retailers, as I have termed them, include the final class of retail merchants. Examples of this class are coal merchants and lumber retailers. In these trades a merchant must necessarily carry a large stock requiring a heavy investment of capital. The trade is seasonal and sales are usually made in bulk lots on specification. The individual consumer seldom visits the place of business of the retailer.

The Importance of Retail Trade in the United States.[2]

Scope and sources of retail trade information.—No important field of business statistics has been so neglected by both governmental and private investigators as that of retail and wholesale merchandising. While quite comprehensive inquiries have been made concerning production and operating conditions for manufacturing establishments, mines, railroads, telephone and telegraph companies, gas and electric light companies, electric street railways, farms, banks, ships, and fisheries, the size and distribution of trade has continued to be a subject for speculation. The National Bureau of Economic Research, in compiling their three-volume work on "The Income of the United States," published in 1921-1922, did not even make an attempt to estimate the income of wholesale and retail workers, but merely grouped them with professional men and "all others" who contribute to the national income; and a committee of the American Statistical Association has recently recommended that a census be made of whole-

[2] Lawrence B. Mann, *American Economic Review,* Vol. 13, pp. 609-617.

sale and retail trade, stating that "on the distribution of commodities, one of the greatest of national interests, we have no accurate information." Considering the frequent statements that the chief waste in delivering goods to the ultimate consumer is due to the "middlemen" and that the "middlemen" obtain exorbitant profits, it certainly would seem wise for the Bureau of the Census to make at least a decennial census of trade. The obvious reason why such a census has not been made in the past is the wide distribution of retailers and the small operating units involved. The improvement of means of transportation and communication, however, would seem to minimize these difficulties, and the desirability of checking the completeness of income-tax returns adds an imperative reason for a comprehensive investigation of sales and income from stores.

Having noted the incompleteness of trade data, let us next examine the information which is available. The most important sources of published data are: (1) the United States Bureau of the Census; (2) the United States Internal Revenue Bureau; (3) the Federal Reserve Board and the twelve Federal Reserve banks; (4) the Bureau of Business Research of Harvard University; and (5) the Bureau of Business Research of Northwestern University.

The Bureau of the Census secures every ten years, in connection with the population census, data concerning the occupations of all gainfully employed persons in the United States. Prior to 1910 persons engaged in trade and transportation were grouped in one main division, although many of the subclassifications were of such a nature as to indicate whether the occupation was in connection with trade or transportation. Beginning in 1910, trade was made a separate division, although there is still no clear separation between retail and wholesale merchandising. A further difficulty arises from the fact that accountants, cashiers, stenographers, and many other types of clerical workers in stores were placed under the separate classification of clerical occupations in 1920 without any segregation as to type of employing industry. For the year 1910, however, a cross classification was provided showing both type of employment and the employing industry for clerical workers, and this serves as a basis of estimate in segregating the numbers of these workers employed at stores in 1920. The occupational returns are published by states, as well as for the nation as a whole, so that they furnish some information concerning the regional distribution of trade throughout the United States.

The income-tax returns of the Internal Revenue Bureau are divided into two main groups: corporation returns and personal returns. Statistics of corporation income are published in more detail than statistics of personal income. Gross income, cost of goods, interest paid, and compensation of officers are published as totals for all trade corporations

making returns, while net income and income tax paid are segregated for wholesalers, department stores, and all other retailers. Statistics compiled from personal returns show net income obtained from trade together with the total amount of tax paid. In addition, the published personal returns for 1917 showed the gross sales of all retailers who made personal returns for income from business.

The Federal Reserve Board in coöperation with the twelve Federal Reserve banks secures monthly reports on sales from about 1200 wholesale firms, 500 department stores, 60 retail chains (operating 23,000 stores), and 4 mail-order houses. The department stores also report the monthly value of their merchandise stocks, and certain of them furnish information concerning their outstanding orders with wholesalers, the promptness of their collections from customers, and the number of their employees. Most of these data are available since 1920 on a monthly basis and since 1919 on an annual basis.

The Bureau of Business Research of Harvard University has been conducting a rather intensive service for retailers for a period of about ten years. Systems of accounts were developed for important classes of retail merchants and later annual statistical reports were obtained from merchants who used this system of accounting, and the results were analyzed and printed. By this method analyses have been made of the operations of retail grocers, retail shoe dealers, retail druggists, department stores, and other types of merchants. These analyses in most cases show the percentage of profits and various important items of cost to gross sales, the rapidity of turnover, and the differences of trade conditions according to the size of store and section of the country.

The Bureau of Business Research of Northwestern University also makes analytical studies of trade, but has confined itself chiefly to the clothing industry.

The Bureau of Foreign and Domestic Commerce has recently commenced studies of the size and location of stocks of certain classes of merchandise, such as canned goods, but has not yet published the results of its work.

The size of retail trade in 1919.—An analysis of the size of retail trade may best be made for the year 1919, as the complete returns of the Census of Manufacturers are now available for that year, the returns of the Census of Occupations on January 1, 1920, have been published, and data on income-tax returns, sales of agricultural products, and foreign trade are about as complete for 1919 as for later years.

The only statistics compiled by the Bureau of the Census for retail trade, as indicated above, are those of occupations. Consequently, employment is the measure of retail trade which is most rapidly available. If estimates be made of the clerical workers engaged in retail trade for January 1, 1920, on the basis of ratios in 1910, and of the relative

number of workers at wholesale and retail establishments for certain minor groups, it appears that the total number of persons employed in retail trade at the beginning of 1920 was approximately 3,350,000, as compared with 813,000 employed in wholesale trade, and 41,614,000 in all occupations.

A second important measure of the importance of retail trade is the total value of sales. This may be estimated for 1919 in three ways: (1) by totaling the value of all manufactured and unmanufactured articles entering retail trade and adding to their value at factories, farms, or ports a reasonable mark-up for expense of wholesale and retail distribution; (2) by calculating from statistics of income given by the Internal Revenue Bureau the gross sales of all reporting retailers and adding to this a conservative estimate of sales for those making no returns; and (3) by studying the average sales per employee at reporting stores and multiplying this by the total employment at all retail stores.

The table below shows the important classes of commodities which ultimately enter into retail trade, together with the approximate value of each class in the year 1919:

Articles Manufactured in U. S.	$25,573,000,000
Fresh Vegetables and Fruits	978,000,000
Milk and Butter Sold from Farms	824,000,000
Eggs and Chickens Sold from Farms	785,000,000
Fish Marketed	25,000,000
Coal Sold at Retail Yards	686,000,000
Imports of Manufactures, etc.	1,062,000,000
Total	$29,933,000,000
Exports of Manufactures, etc., Deducted	3,025,000,000
Cost of Articles Entering Trade	$26,908,000,000

This total seems to be conservative, as each of the figures entering it was carefully analyzed and reduced to a minimum. For example, all manufactures which are used as capital equipment, building materials, or are sold directly to consumers by manufacturers' agencies (such as automobiles, computing machines, etc.) were excluded from the total of manufactures. In obtaining the value of fish marketed only figures of catch at the largest seaports are included, and the value of coal includes only anthracite, as it is believed that most bituminous coal is sold by wholesale distributors to large consumers and that the value of bituminous sold at retail roughly balances the value of anthracite sold at wholesale to large consumers. Studies by the Federal Reserve Board and the Harvard Bureau of Business Research indicate that it is reasonable to consider 10 per cent the average mark-up of wholesalers and 25 per cent the average mark-up of retailers. This mark-up, it

should be remembered, has to be sufficient to cover most of the costs of transportation for these articles, all expenses of wholesalers and retailers, and net profits. If it be estimated that $26,908,000,000 worth of goods entered trade in 1919 and was marked up 10 per cent and 25 per cent, respectively, by wholesale and retail dealers, the total value of retail trade in the United States during the year was $36,998,000,000.

The gross sales of corporations in retail business who made income-tax returns for 1919 are secured from the gross sales of all trade corporations by an estimate based on the relative net sales of retailers. Gross sales of individuals making returns from business are calculated from their net sales in 1919 and the ratio of gross to net sales in 1917. Finally, a comparison of the total number of income-tax returns for retailers with the total number of retailers as reported by the Census of Occupations or listed by the J. Walter Thompson Company in "Population and Its Distribution" indicated that there were about 1,000,000 retail establishments that made no income-tax returns in 1919. If the average gross sales of stores making no return be considered $15,000 a year, the total gross sales of corporations, retailers making personal returns, and retailers making no return in 1919 must have aggregated approximately $36,195,000,000.

The third method of approach in determining the value of retail trade involves the estimate of average sales per employee. A recent study of the Harvard Bureau of Business Research indicates that sales per employee at grocery stores vary between $11,000 and $12,000 per annum. Sales per employee at department stores which report to the Federal Reserve Bank of New York, on the other hand, are only averaging between $8,000 and $9,000 per annum. On the basis of these two important studies and estimates by a number of practical merchandising experts it seems fair to estimate average sales per reported employee at $10,000 annually. As the number of retail workers at the close of 1919 was 3,350,000, the estimated value of retail trade obtained by this method would be $33,500,000,000.

As the value of retail trade in 1919 secured by these three methods varies within a reasonable margin of error it seems fair to take the arithmetical average of the three results as a final estimate. Calculated in this manner the retail trade of the United States reached in 1919 a total value of approximately $35,500,000,000.

The mark-up of goods sold at retail usually ranges from 10 per cent to 100 per cent and averages about 25 per cent, as stated above. As the value added by retail trade averages at least 20 per cent of the selling price, the total value added to merchandise by retailing in the year 1919 was about $7,100,000,000. The following table indicates the importance of retailing, as compared with other large American industries in 1919.

IMPORTANCE OF RETAILING

	Number of Workers	*Value Added to Product*
Manufacturing	12,819,000	$25,042,000,000
Agriculture	10,953,000	21,022,000,000
Retail trade	3,350,000	7,100,000,000
Railroad transportation	1,908,000	4,996,000,000
Mining	1,090,000	4,613,000,000

It may be noted that retail merchandising is clearly the third most important industry in the United States both from the standpoint of the number of workers and the value of their work.

The trend of trade since 1919.—No complete statistics of employment at retail establishments are available for any date since January 1, 1920, but it is possible to measure the trend of trade since 1919 with reasonable accuracy from the statistics of retailers who report to the Federal Reserve banks and do an annual business of over two billion dollars. An adjustment of the total volume of retail sales on the basis of this large sample indicates the following value of retail trade for the past four years:

1919	$35,500,000,000
1920	41,600,000,000
1921	36,500,000,000
1922	36,400,000,000

These figures indicate that the total value of trade reached a maximum in 1920, but was relatively stable in the other three years. These figures are substantiated by the trend of gross sales of trade corporations published by the Internal Revenue Bureau. It is worthy of note that income-tax figures and studies by the Harvard Bureau of Business Research indicate, on the other hand, that net profits of retailers were relatively small in both 1920 and 1921, but showed much improvement in 1922.

Geographical distribution of retail business.— The statistics for separate states have been compiled by Federal Reserve districts in the table on page 300.

Growth of new types of retail organizations.—Retail trade remained the field of the small business man with limited capital long after manufacturing, mining, transportation, and communication had been organized into corporations operating in large units. However, three new types of retailers—the department store, the mail-order house, and the chain—have been gradually introducing large-scale methods into the retail field.

The table on p. 300 indicates that retail trade is relatively smaller than wholesale trade in the Boston, New York, Chicago, St. Louis, and Minneapolis districts, which are particularly large jobbing centers. Retail business bears a particularly high ratio to population in the New York, Boston, Chicago, and San Francisco districts, while it is relatively small

PERCENTAGE DISTRIBUTION BY FEDERAL RESERVE DISTRICTS

District	*Retail trade*	*Wholesale trade*	*Population*	*Income*	*Banking resources*
Boston	7.5	8.0	6.7	7.7	6.6
New York	17.5	18.0	12.5	16.8	26.7
Philadelphia	6.6	5.2	6.4	7.1	7.3
Cleveland	9.4	9.0	9.4	9.8	9.8
Richmond	6.6	6.3	9.2	7.0	5.3
Atlanta	6.3	6.4	9.3	5.7	3.8
Chicago	15.1	16.4	14.6	16.0	16.1
St. Louis	7.3	8.2	8.5	6.7	4.6
Minneapolis	4.4	5.1	4.8	4.5	3.8
Kansas City	6.2	6.5	6.6	6.3	4.9
Dallas	4.8	4.2	5.5	4.6	2.9
San Francisco	8.3	6.7	6.5	7.8	8.2

in the Richmond, Atlanta, St. Louis, and Dallas districts. It is of interest that the variations in volume of retail trade by districts correspond more closely with variations in income and banking resources than with variations in population. This indicates that the size of retail trade is much more dependent on the wealth of a district or community than upon its population.

The operations of the new types of retailer have been extended to all sections of the United States, and the country has been divided between them according to their comparative advantages. The department store is most successful in large cities, and is now found also in practically all towns of over 5,000 population. Mail-order houses, on the other hand, have obtained the bulk of their business from the scattered rural population who obtain in this way a much wider choice in their purchases than is possible at the small stores of local dealers. The unit stores of chains, like department stores, were located at first only in the large cities, and at present their chief territory is the great cities, notably Philadelphia, New York, Chicago, Boston, and Washington. The chains, however, have not confined themselves to the development of strictly urban territory, but are now proceeding to extend their operations to most of the towns, particularly in the eastern sections of the United States.

It is very difficult to secure complete information concerning the number and the extent of the operations of large-scale retailers, but a rather extended survey of the field indicates that there are at present about 3,000 department stores, 100 mail-order houses, and 1,000 chains in the United States which, together, operate about 100,000 stores and handle over 25 per cent of the total retail business.

There continue to be about 1,200,000 small retailers in the country, and their combined trade is still about three-fourths of the total. Their relative importance will probably continue to decrease, but there is no probability that they will all be forced out of business, as they usually have the advantage of convenience of location as compared with depart-

ment stores and mail-order houses, give more personal service (including credit and delivery) than chain stores, and are receiving closer coöperation from wholesale dealers who look upon the large-scale retailer as a common enemy. The department store and mail-order house offer the consumers advantages in selection of goods from a larger stock, while the chain store usually offers goods at lower prices than independent dealers. The most real advantages of the large retailers, however, do not lie in their volume of buying or selling, but in their superior organization of work, better accounting systems, and more rapid turnover of stocks of merchandise.

The department store and mail-order house were already quite fully developed prior to the World War and their recent growth, while large, has not been extraordinary. The extensive development of chains, on the other hand, has taken place within the last decade, so that the following statistics of number of stores operated by five leading chains are of special interest:

STORES OPERATED BY FIVE CHAINS

1913	1501	1918	5266
1914	1970	1919	5764
1915	2803	1920	6180
1916	4123	1921	6494
1917	4630	1922	7670

These figures indicate that the number of chain stores has increased over 400 per cent during the period of nine years ending in 1922, while the total number of retailers increased only 11 per cent in the decade from 1910 to 1920. These figures, moreover, probably tend to underestimate chain growth as they include only chains which were established prior to 1913. A large proportion of the chains operating at present were not in existence in 1913, so that a tabulation of all chain stores operating in each year would probably show an even more rapid rate of growth.

The table below, which is compiled from statistics reported to the Federal Reserve Board, shows the comparative change in dollar sales of important types of large-scale retailers in the years from 1919 to 1922, inclusive.

INDEX NUMBERS OF RETAIL TRADE (1919 = 100)

	1919	1920	1921	1922
Department Stores	100.0	118.7	110.8	112.5
Mail-order Houses	100.0	103.1	71.6	78.5
Grocery Chains	100.0	144.3	126.3	143.5
Five and Ten Cent Chains	100.0	118.1	124.1	140.5
Drug Chains	100.0	120.2	122.7	126.9
Cigar Chains	100.0	132.5	131.6	128.6
Shoe Chains	100.0	120.9	117.2	115.0
Music Chains	100.0	109.3	85.6	101.0

These figures include the same reporting concerns for each year, but each group of chains has considerably increased the number of unit stores operated since 1919. It will be noted from this table that all types of reporting retailers had larger sales in 1922 than in 1919, except mail-order houses. The small mail-order sales indicated the curtailed buying power of the farmers, as compared with industrial workers, which was due to the low prices paid for many farm crops in both 1921 and 1922. The relatively large sales of groceries by chains in 1922 were not due to any sudden expansion in consumption of groceries, but to a remarkable increase in the number of chain stores. The Great Atlantic and Pacific Tea Company, Piggly Wiggly Company, Jones Brothers Tea Company, the American Stores Company, and most of the smaller grocery chains rapidly increased the number of their operating units during the entire year 1922 and the first six months of 1923. At the present time plans are under way for a further large expansion in number of stores operated by the five largest chains of five and ten cent stores. In fact, the history of the chain development to the present time seems to indicate that this form of organization is most advantageous in the grocery and low-priced variety business, although it has also become an important factor in the drug, cigar, dry goods, shoe, men's wear, hat, and candy businesses.

Recent Changes in Markets.[3]

To-day one of our problems—one of our most serious ones—is getting the dealer to see the market opportunity we create in his community and to see how he can cash in on that opportunity. We should also show the manufacturer who is creating a market opportunity that he can visualize in concrete terms to that dealer, and can get that dealer in a constructive way to go out and cash in on it, not by price-cutting but by constructive selling on the right basis.

This new market that has come, as we see it, is a quality market. To us it is much more significant than simply that one market has come in and another gone out. The market that has come in is the market that would appreciate your product. A merchant to-day says his market is critical.

We believe that the market that is to be sold to-day is an intelligent market, a thoughtful market, and that the key to the sale of that market is the putting out of a satisfying product. You may have various grades of pianos, but for each grade there should be a satisfactory product for that price, and then the problem is to sell it on the basis of the satisfaction which that will give.

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[3] Parlin, C. C., "Market for Quality Products Is Strengthening," *Printers Ink*, Vol. 119, 1922, pp. 85-87

There is another important change that has taken place which is due to the effect of the automobile on our markets. The automobile has revolutionized the merchandise map of the United States. A few years ago it was difficult for a manufacturer to get his product properly distributed in the rural districts, because the farmer was so far away from everything that he had to take what was near at hand. He practically had to buy the piano that was offered by the village man or by the traveling itinerant who brought one around and left it. He might, perhaps, in the case of a piano, travel by train somewhere and have one shipped out to him by express; but, nevertheless, for the most part he was very much isolated in making his purchases. To-day the automobile has changed the whole situation. It has rendered obsolete the merchandise map which, for a generation or more, we have been building up.

In the first place, as we built our merchandise map, we divided it up into towns of six miles square, according to Thomas Jefferson's plan, which he learned from reading the Roman classics. Then we put these into counties, so that we had five or six one way and four or five the other. In the center of that county we put in a county seat and over in the next county another county seat, so we had county seats about every thirty miles. The farmers couldn't all get to them with their horses, so, in between, we had another little shopping town, some frequently falling on the county line. You might almost call it a county-seat town. Still, they couldn't all get to those places, which were now fifteen miles apart; and in between them they put up little villages so that every seven miles we had something. Then came the automobile. To-day 85 per cent of the farmers in the area we studied in Kansas have automobiles. Eighty-five per cent are independent of the village. They could go to the county seat. They could drive on further. They could go where they pleased to make their purchases, and the net result was that this farm market which had previously been pretty well closed to the manufacturer now became an open market for well-known goods.

There is another thing: The automobile has revolutionized the social life of the farmer. The farmer was able to get into town and be a part of the church and the various activities. The people from the city could get out to the farmer and visit his home; and the very same influences that had been transforming our city homes were now at work transforming our farm homes. The children with the automobiles and the motor buses are going to the city to school, they are bringing their school friends back, and they, in turn, want the things that are in the city homes.

Yet it is a somewhat sad commentary upon the piano industry when

we look upon the home equipment that we found in the little rural city of Sabetha.

There were 525 houses in this little city, 87 per cent of them had electric lights, 61 per cent had electric irons, 21 per cent electric washing machines, 55 per cent oil stoves, 48 per cent bathtubs, 40 per cent furnished with hot water and steam heat, 48 per cent had vacuum cleaners, 77 per cent had telephones, 44 per cent had pianos, 42 per cent had automobiles, 32 per cent had talking machines. Since January 1, 1918, up to midsummer of 1920, or about one year and a half, of those farmers, 24 per cent had bought an automobile, practically a quarter of them; 22 per cent of them had bought a washing machine; 22 per cent had bought a talking machine, and only 4 per cent had bought a piano.

There were 553 farm homes. Electric service was not available there; but of the actual farmers, 84 per cent had washing machines, 94 per cent had telephones. More farmers had telephones than did residents of the little village, and 83 per cent of these farmers had automobiles, while only 4 per cent of them had pianos. Forty-nine per cent, or approximately one-half, of these farmers had bought an automobile since January 1, 1918, approximately two-thirds had bought washing machines, one-quarter had bought a talking machine, and only 9 per cent of them had bought a piano.

Obviously, the problem in your industry is the sales problem. It is the problem of creating in the minds of the American public the desire to buy. In the second place, from your individual standpoints, the desire to buy the particular brand which you may be interested in promoting. There are several factors that are operating fundamentally very much in your favor if you can cash in on them.

Retailing the Most Expensive Step in Distribution.[4]

The most expensive part of the distributing system is the retailing. Analyses of price increments from producer to consumer show the greatest percentage of increase to be between the wholesaler's and the retailer's price. This means that the costs of distribution in the city are greater than the costs of getting goods to the city, or that the means used are much less efficient, or both. The retailer is not to blame for the large increase which he adds to the price. His services are many times more complex and costly in themselves than the services of any of the other middlemen. These dealers are under expense for rent and advertising, for getting their supplies to their stores, for maintaining sanitary conditions and attractive appearance, for telephone and delivery

[4] From Report of The Mayor's Market Commission of New York City, 1913, pp. 15-16.

service, and, for carrying credit accounts. The habit of telephoning and demanding delivery many times a day—a practice which in the aggregate probably adds considerable percentage to the cost of goods—has become common, and it is not to be expected that it will be broken easily.

Every step toward better living conditions has its price and must be judged according to whether it is worth that price. Precautions for cleanliness, such as putting goods in packages, and wrapping fruit in tissue paper, and the convenience of having a multiplicity of small stores with their duplication of service, all mean increased cost, and, so long as the public demands these things and pays the price, business will continue to provide them. If the retail dealer can find a market such as a wholesale terminal market, where he can buy his goods cheaper, he will be able to sell them cheaper. Especially will this be so with the small dealers who now must keep horse and wagon to go to market. If they can have their goods delivered to them by automobile trucks from the market for a nominal charge one of their expenses will be lessened. Another cause of expense to the retail dealer is the fact that, while he deals mainly in a small number of articles, he often thinks it necessary to invest his capital in a large number of articles which remain on show in his store and are seldom bought. This is dead capital, which adds to his expense.

It has been suggested, and the idea is being tried out in some places, that retail dealers should have different prices for the same goods, according to the service they render. For example, one price for cash sales to people who carry the goods away themselves; a higher price for cash and delivery; a still higher price for credit and delivery. This would ensure the customer who paid cash and carried away his goods the minimum price and save him from paying the bills of other customers who bought goods on credit and failed to pay their bills. It is an open question whether such a plan will be feasible. The same end will probably be reached, in some neighborhoods at least, by the establishment of small stores dealing in a few articles and selling for cash to customers who live near enough to carry the goods away.

The greatest fault of the present retailing system is the inflexibility of price. They fail to reflect the fluctuations of wholesale prices so greatly that the wholesale market may be glutted and goods be spoiling in the freight yards, and the retail prices through the city be scarcely depressed. This condition is due to many causes: A season of high prices will accustom the public to regard those prices as normal, with the result that they either cease to buy the article or view with suspicion goods marked at a lower figure. The public knows very little about wholesale prices, as they are not reported in a way to reach average consumers; consequently, the demand for goods is not formed

intelligently. The system of marketing goods through a long series of dealers tends toward rigidity in demand and price. Both jobber and retailer are cautious about buying more than their accustomed trade will move off, and, rather than take the risk of buying freely when the market is low and working up a demand for the goods, will buy the usual quantity and hold it for a profitable price. Better markets, that will put the retailer in direct touch with primary market conditions, together with greater publicity of wholesale prices, will undoubtedly make him and his trade more responsive to conditions of supply.

CHAPTER XIII

DEPARTMENT STORES AND MAIL-ORDER HOUSES

Analysis of a Department Store.[1]

A department store is a group of some 50 to 150 departments, at least one-half of which have nothing in common with one another except that they are housed under the same roof, supervised by the same general management, and can do business with approximately the same customers. If a department store has developed a volume of $10,000,000 in 100 departments and the departments are alike in size, the average volume would be $100,000 for each department. Advantages in purchasing are based on volume, but the department doing a $100,000 business has little buying advantage of which the single store carrying a similar item may not avail itself, if it too does a $100,000 business. The size of the whole store's business quickly loses its importance when it must distribute its purchasing power in scores of markets.

The department store lacks complete specialization. It is to be assumed that the best ability of the department-store personnel is usually found in the chief executives and used in the general management of the business. In the specialty-store or chain-store system the entire organization is interested and concerned in the important details of a few departments. The consumer and resource markets are intensively exploited. In the department store the intensive merchandising is in the hands of a department manager or buyer. Outside assistance, research, and development can be only general in character. The exploitation of each department is primarily dependent upon one man.

Convenience and style goods.—Retail merchandise may be divided roughly into two groups:

1. Convenience items—items of relatively small price which depend for sale primarily upon convenience of location.
2. Dry goods and style items.

The former class includes novelties, notions, drugs, food, and tobacco products. The latter includes clothing, accessories, house furnishings, and piece goods.

Although the department store offers the convenience of shopping for many items under one roof, it cannot compete in convenience of location for any one group of items with the corner drug, tobacco, or grocery

[1] Mazur, P. M., "Future Developments in Retailing," *Harvard Business Review*, Vol. 2, pp. 434-446.

store. Nor does its purchasing power compare favorably with the chain system handling these items.

Even if successful price competition were possible for the single-department store, it would still continue to labor under a serious disadvantage in the sale of convenience items.

The department store is established and operated for the sale of merchandise of a fairly high average price. Although the expensive service features do not represent a high percentage cost of the total volume, they would impose upon a large number of very low-price transactions an overwhelming burden. These services exist and the consumer will use them. If the convenience items become increasingly important in the department store, the cost of operation will be materially increased.

Although location is important for the store selling dry- and style-goods, it is not so important as goodwill or confidence. Convenience merchandise is often nationally advertised and branded, and the unit prices are so low that confidence in the name and character of the retailer is not important. But in the case of dry goods and style items, the average consumer is ordinarily inexpert in judging values and quality of merchandise and, because each item to be purchased involves the investment of an appreciable amount of money, there is obviously a certain amount of buying inertia to overcome, confidence to be created, and goodwill to be built.[2]

Next to food products, clothing is the most important item in retail business. The bulk of clothing is distributed through (1) single specialty shops, (2) chain specialty shops, (3) department stores.

The four essential factors of a clothing business are style, price, quality, and selling service. The position of the department store as a factor in the distribution of clothing depends upon the type and grade of clothing, and also upon which of the four factors are emphasized by the public.

There seems to be some psychological value in the specialty shop for men. At least, the general department store appealing mostly to women finds it difficult to build a men's business as a coördinate part of the whole enterprise.[3]

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[2] The importance of this goodwill and the desire to capitalize this essential factor undoubtedly have been the causes of the growth of department stores from small shops to large institutions. The small shop that was successful—that is to say, the shop that enjoyed the confidence and goodwill of the public—began to extend its activities over an ever-increasing number of departments, until eventually it became what we now know as the great department store.

[3] This may be due to the fact that the department store grew from smaller shops which catered to women, although a few stores grew from men's business. Some department stores have attempted to solve the problem by housing the men's departments in a separate building, while many separate the men's departments from the rest of the store.

Convenience and isolation are more important to men than to women. Shopping is not a natural habit with men as it is with women. Men's clothes have reached a stage of relative standardization. The style factor is not so important as in women's wear; national brands have been more fully exploited; individual store goodwill and the necessity for local interpretation of wants lose some of their importance. It would seem, therefore, that the men's business has a good chance to seek the specialty shop conveniently located, and, more particularly, the chain shops where the logical reasons for low prices may be exploited.

Style, importance of.—Although all four factors—style, price, quality, and selling service—are important in the sale of women's clothing, the factor of supreme importance to women is style—style fitted not only to the community, but also to the patronage of the store. Even when price is very important, it does not overshadow style; but more often determines the kind and grade of business for which styles must be provided.[4]

In women's wear, style, price (value), and quality are not subject to absolute measurement by chemical analysis, direct price comparison, or absolute style standards. Their measurement depends upon the skill of selling service and the customer's confidence in the store and its advertising. The specialty shop privately owned offers the opportunity of personal interpretation of the wants of patrons and more particularly the opportunity of personal, authoritative selling service. The relation between the consumer and the department head is apt to be more impersonal than between the store owner and his patron. Personal service and presumably individually selected merchandise are the advantages of the specialty shop, and for these reasons it has held and probably will hold the highest grade of business.

The department store deals in mass and is much more impersonal. Volume is its strength, and it must obtain volume if it is to get and to give price concessions. The average department store finds difficulty in operating its style departments successfully, and it is in this branch of business that specialty shops have made their greatest inroads.

Resident buying office.—As a result of this fact, and the necessity of procuring volume purchases, two developments may be noted: (1) the growth of resident buying offices, and (2) the increasing custom of leasing departments. There are already hundreds of resident and associated buying offices. These give some of the advantages of group buying to separately owned stores. The interests of buyer and store, however, are not always identical. The knowledge of the selling market possessed by the resident agent usually cannot be detailed or accurate.

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[4] Sometimes quality is a determining factor, for example, in the case of the economical housewife or business woman; but ordinarily obsolescence in women's clothing is far more important than depreciation or wear.

When there exists the combination of accurate knowledge of the community's needs and the ability to satisfy these needs quickly and economically, the resident buying plan in the resource market is successful.

Leasing departments.—The plan of leasing departments to foreign corporations is expanding rapidly. This plan adds to the advantages of the department store many of the benefits of chain-store operation. The danger lies in admitting any foreign substance into an organic body. So long as the contractual requirements are met by the lessees, the owner of the store is apt to adopt a *laissez-faire* policy toward the leased departments. In the relief from responsibility there is also a lessening of pressure. The chain of leased departments, therefore, often does not enjoy local supervision to any greater degree than the chain-store system. As in the case of the resident buying office, the interests of the store and the department owner may not be identical at all times. The goodwill of the leased department is, after all, being built for the store, there is no permanent equity for the lease owner. Short-time policies may overshadow the wiser long-time program. In spite of these disadvantages, the plan of leased departments is certain of extensive development, particularly in cities of medium size.

The department store has certain other advantages. Being housed within one building, it is subject to constant, even though general, supervision of the chief executives. It is older than the chain-stores and, therefore, has established its goodwill. To duplicate the distributing service of the department store by means of specialty shops in a chain or as individually owned units, it is necessary to operate a large number of separate enterprises each of which must build an individual goodwill at great expense. Moreover, specialty shops ordinarily use street-floor locations which represent a large percentage of the rental value of the building; and a one-floor department store obviously would be uneconomical. Finally, the department store, through its volume and multiplicity of departments, can afford to use relatively large advertising space frequently and, through its specific appeal on certain items, it can bring in people who represent possible customers for many other items.

Consolidation of department stores.—The department store of any size and in any location has certain points of strength and weakness, an analysis of which is illuminating.

The weaknesses may be summarized as follows:

1. It lacks the personal character of the specialty shop.
2. It is dependent to a great extent upon department managers for the results of each department.
3. It lacks specialization in the effort of the entire organization. It does not have pressure of dependence for success or failure upon each of the departments.

4. It dissipates retail volume in converting it into purchasing power in each of the many markets supplying its merchandise.

5. It lacks variety of stock in convenience items as compared with novelty and notion shops, such as five and ten cent stores.

6. As implied above, it has not the tremendous advantage of location of particular stocks, which is such a factor in the success of the convenience chain stores.

The advantages can be enumerated as follows:

1. Its goodwill already exists, having grown over a period of years. The burden of proof is upon the newcomer. Many chain or specialty shops must go through an expensive stage of development and operate in high-priced, street-floor locations to cover the range in distribution and goodwill now held by the department store.

2. It has a relatively large volume which permits extensive advertising. Its advertising has real news value, since it appears under the name-plate of a well-known community institution. Each successful specific appeal creates potential shoppers for all of its departments.

3. It offers to its patrons the convenience of shopping for many items under one roof.

4. It has a larger distribution volume in each of its departments than that of a single specialty shop.

5. As a result of its fairly large total volume, it is able to attract and hold relatively high-grade chief executives.

6. Since it deals in relative mass distribution, it is more permanent in character than the specialty shop handling style items. Its appeal is less personal. Its personnel can be made less important to its continued success than is possible in the specialty shop with a personal service appeal.

7. Because of the variety of its departments it has more stability than the average specialty shop. The atmosphere of personal service is essential in a high-grade business. It is likely that the specialty shop will retain that business, but the specialty shop must remain relatively small to hold this advantage.

In convenience items the department store can compete only in price. Since convenience items do not represent a large part of the department-store business, and since increased volume of sales is apt to incur uneconomical expenses, it is probable that the department store will not attempt very aggressive competition with the chain stores.

Therefore, of the disadvantages enumerated, only three seem, upon analysis, to be truly significant: (1) the dependence upon the department manager; (2) the lack of intensive specialization and singleness of effort; and (3) the dissipation of the value of volume when reduced into purchasing power in many markets.

These three disadvantages can be eliminated by consolidation of

department stores into groups. What are the specific advantages and disadvantages of department-store consolidation?

Obviously, there are two chief functions in retailing—buying and selling. Of these the most important is selling. Although it is necessary first to buy in order to sell, after the creation of the original inventory it is much more necessary to sell in order to buy. The distribution market must control the buying activity. The resource market must serve the needs of the consumer market. The formula when turned around is attended by grave dangers.

Therefore, any consideration of consolidation must always be from the point of view of the complete protection of the selling units. All this means that any organization for the consolidation of purchases must be an agency of service for the sellers. Local initiative and management cannot be submerged. The burden of proof must always be upon standardization. Even within these prescribed limits the successful execution of a program of consolidation must proceed carefully. To the members of such a consolidation there should come the following advantages:

1. Purchasing power of direct value in buying staples, which form an important part of the volume of sales of the department stores.
2. Ability to buy supplies and equipment in large quantities at appreciable savings.
3. Ability to coöperate on style purchases without destroying individual local-style selection.[5]
4. Experiments can be made with the advantage of distributing the risk.
5. European markets can be intensively developed.
6. Such a group can engineer a series of huge and spectacular purchases beyond the reach of any single unit.

The enjoyment of consolidated purchasing power need not prevent any unit from taking advantage of local and individual conditions.

Besides the tremendous strength of consolidated purchasing power, there is made possible a strength in organization which is of almost equal importance. Consolidation offers practically all the advantages of the chain store useful to the department store. It makes possible for each kind of merchandise carried the development of organizations which no one store can afford. It makes available continuous market knowledge of an intensive character. It offers the opportunity of developing a group of buying service units, each of which will be the

[5] Prices will be influenced by money volume of a year's business as well as by unit quantity of individual orders. Accounts will be worth more to the manufacturer. The most expert trading ability can be used to fix prices and terms for the group. Organization will be available for the search for, and development of, resources. Style tendencies can be noted and circulated.

most significant in its own resource market. These units will add strength to the individual organization; they will add to each store protection against complete dependence upon its own buying personnel.

The existence and proper operation of these specialized units, interested in only one section of the general business, will apply a pressure for results in each section that will add to the strength of the general executive control of the store. Each of these groups will correspond to the specialized interest of the chain-store system.

From a more general point of view, the existence of a consolidated group will add continuity of management. There will be many sources from which to draw for organization material. Weaknesses can be supported by strength from other spots. The opportunity for growth will attract men of the right quality and the realization of those opportunities will prevent mental inertia which comes from slow progress or waiting for dead men's shoes.

The retail business has in the last analysis only one asset—organization. The overburdening of any organization with good men is not advisable. If growth of opportunity is not rapid enough to use the organization's developing abilities, the development will cease; and, except under normal circumstances, sluggishness will set in or a tremendous labor turnover will cause the loss of valuable human assets and make necessary a series of training programs.

The limitation of growth within one building in one community is apt to have the same result as the attempt to keep on increasing the crop of wheat from 100 acres of land. Diminishing return sets in. It is necessary to invest more and more effort and money for increased results. It is good to reach the point of diminishing return and perhaps to carry on a bit further. But a continued "progress" upon the curve surely is not wise. There are undoubtedly many other advantages, and each of these already enumerated could be discussed at length. But enough has been suggested to give a general survey of the industrial factors which will contribute to the progress of department-store consolidation.

Such a growth will require the investment of huge capital. No one man or group of men has the means or can hazard the risk of carrying the financial burden of very large industrial or commercial enterprises. The public must become a partner through the medium of so-called public companies, part of whose securities is held by public investors.

To the department store undoubtedly belongs the premier opposition to present-day retailing. Although there are evidences of some loss of strength, it lies in their own hands to build themselves into powerful organizations able to develop as the needs of the public grow and able to withstand economic shocks.

Consolidation is inevitable if industrial evolution is still in force.

The past fifty years have seen the growth of the single-department store units; the next fifty years will see the consolidation of many units into large and powerful groups.

The Department Store Aims to Eliminate the Jobber (Wholesaler).[6]

Department store, principle of.—In principle, the department store is a collection of stores in different lines of business under one roof. At the head of each substore or department is a buyer and manager, a paid employee who takes the place of the proprietor of the ordinary specialty store so that there is a change of form but not of essence in this regard. Some of the departments of the larger department stores in the greatest centers do buy direct from manufacturers, thus appearing to eliminate the wholesaler (jobber). But, generally speaking, they do not buy in genuine jobbing quantities, or accept deliveries of stock in advance of seasons, or carry stock ahead, as do the jobbers. This has necessitated that manufacturers who cater to this department-store trade establish their own branch warerooms in the leading centers for the convenience of these customers, so that, in place of the independent jobber, we have the manufacturer setting up what amounts to a jobbing business with his own capital—a change of form but not of substance. Nothing has been eliminated. No labor has been saved. The producer merely assumes what was previously the jobber's job.

But several other associated facts should be borne in mind. Most department stores buy largely from jobbers. Some lines of goods they buy "direct," but still, as a department store carrying full assortments, not one could exist without the service of the jobber with his ready stocks to supply their "fill-in" orders between seasons and the incidental convenience items that they buy only in small lots. Therefore, to the extent that they do buy direct and cause the establishment of manufacturers' warerooms for their convenience, they are superimposing these new substitute-jobbers upon the already existing system of jobbing establishments which must be continued for the service of ordinary stores and even for their own use on goods they cannot buy direct. Therefore, instead of eliminating, they have added to the complexity of the distributing machinery and somewhat to the expense. It may not be without significance that even before the World War the most striking advances in the cost of living were concurrent with the great development of the various methods calculated to eliminate and save middlemen.

It cannot, however, be implied that they alone were responsible for it. Again, as to department stores, it must be remembered that those really

[6] Ingersoll, W. H., "Can the Middleman Be Eliminated?" *Marketing*, January, February, March, 1920.

falling under this head are to be found only in our very largest cities. They are adapted to serve in congested centers of population only, and even in these centers they are so far from the homes of the residents that smaller neighborhood stores and specialty stores do many times the volume of trade of all the department stores of a city put together. They are, therefore, an insignificant factor in the whole system of distribution of a nation.

The big store as its own master.[7]—The question is asked, "What are the three chief influences that have affected retailing on a large scale in the last twenty-five years?" Surely all merchants would not agree as to the three most potent influences upon the large store's development. These influences have been many, and largely interdependent—influences so closely allied that one storekeeper might consider one factor as chief, with others closely related as secondary, while another would reverse the order of importance.

However, it seems to us that the question might be answered thus:

First, the wonderful development and extension of electric street railway systems in the last quarter century has been a tremendous factor in the centralization of trade and the growth of the large retail store. It is assumed, of course, that the stores singled out by the public for great expansion have been conducted by men alive to the possibilities of development from the beginning, possessing a degree of energy and skill somewhat above the average, and a broad and intelligent conception of, and a determination to render, good *service*.

But without the trolley car, the subway, and the improved suburban train service, there would be few large stores and fewer good stores. Let us imagine a woman suddenly deprived of her present splendid facilities for shopping—not only as to transit, but as to the vast assortments of always fresh merchandise of every description, the many conveniences, delivery service, etc. *It would be a calamity.* The small neighborhood stores thrive and will continue to thrive, and women could not do without them. But the great central store is one of the important *educational institutions* of modern times, and one of the chief influences toward its development is improved transit facilities.

Organization and individual efficiency.—Another important influence affecting the large store has been the creation of systems and standards of organization, so that efficiency of service is not wholly dependent upon high efficiency in the individual. And this, notwithstanding the fact that development of individual efficiency among employees is the most serious problem confronting the large storekeeper to-day. If, however, it were essential that the entire force should be

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[7] Durbin, R. H., "The Big Store as Its Own Master," *Printers Ink*, Vol. 80, July 18, 1912, pp. 70-72.

made up of *expert* sales people, bookkeepers, etc., it would be impossible for the large modern store to secure the thousands of people required, and, therefore, impossible economically to distribute the vast quantities of merchandise handled. Individual efficiency or intelligent initiative is always rewarded, and nowhere is it truer that there is "room at the top" than in the great store. But supervision is still a large factor. The progressive merchant of twenty-five years ago who had the ability and foresight to train his small force, to make real merchants out of them, found, at the right time, under his own roof, efficient managers and supervisors to guide the recruits who have come into his employ so fast that he could not even know them by sight as his employees. And so, while we constantly work to educate the individual, to increase his value to us and to himself, success depends upon skillful organization, a system that locates and corrects mistakes, and efficient personal supervision—departmental as well as general.

Employees come and go. For example, the large store employs young women by thousands; and it is presumed that all of them expect to marry some day—at least, most of them do so. And here it may be mentioned that the entering of women into department store business in the last twenty-five years has been a strong influence affecting the large store. Without these bright helpers the large store as it is to-day could not exist, while the influence upon the women themselves has unquestionably been elevated and educative, at least in stores of the better class.

Advertising as a factor.—Perhaps modern informative advertising should be placed among the three chief influences that have affected the large retail store's growth. In fact, progress would be very slow without continuous publicity—and, so far as this country is concerned, publicity through the daily newspapers. Here, too, come to mind some of those interdependent factors—the development of the modern newspaper itself, its wonderful news service, special features, reduction in cost, tremendous growth in circulation; these, in turn, influenced by the linotype and other mechanical marvels. The modern store and the modern newspaper have grown up together.

There is one important influence affecting modern retailing on a large scale, which must be mentioned as closely related to those already discussed. This is the intelligent coöperation of the manufacturer and retail merchant—especially the recognition by the manufacturer of the great centrally located retail institution as his most powerful ally in securing quick and wide distribution of his product. There is a mutual helpfulness here which would make an interesting story in itself—one of the features of which would be the big store's ability to relieve the manufacturer of large quantities of merchandise

on hand, disposing of thousands of suits, waists, corsets, fountain pens, razors, bags, shoes, stockings, gloves, or other articles in a day or two without disturbance of general trade—making food for live advertising and constituting one of the influences toward the big store's popularity.

Big store versus the small store.[8]—The small store frequently has an advantage over the large store, because of the personal attention the dealer is able to give to his selling. In most of the small or moderate-sized towns the dealer is nearly always "out in front." He watches every sale if he does not make it himself. In many cases he makes the sale himself, and, with his knowledge of the cost and the margin of profit, together with the confidence that comes to him naturally from being the boss, he is able to talk better than an employed salesman. He also has the advantage of knowing just what the same article costs his competitor, and that helps him. Then, too, the fact that he is the proprietor invariably creates a certain confidence in the customer.

The writer has frequently had an opportunity to observe the selling methods of the large stores—in some cases the largest stores in the country—and it is interesting to note the difference between the large and the small store. The largest stores of the better grade always seem to have excellent salesmen. The men seem to be acquainted with the merchandise and to know how to present it interestingly. But there often appears to be a certain lack of something vital in their work. They seem to be too far removed from any personal interest in the sale. To the critical observer they appear to be working for a salary, although they do their work conscientiously and ably. In nine cases out of ten their work is commendable. Nevertheless, the fact remains that they lack the vital interest in each individual sale which the dealer who does his own selling possesses. With the small dealer it is his bread and butter and the welfare of his business and his family. He is closer to the precipice or danger line. He must make good. If he is a young dealer, just starting in business, he will study night and day to acquire every possible selling point of every article in his store. When his customer comes he is alive with ideas, and, naturally, his work has a zest, and a confidence-breeding energy that is contagious. A young, hard-working dealer is the best kind of a risk for a manufacturer. Such young men should be encouraged and helped by generous credit methods on the part of the manufacturer. They are high-grade men and will repay in loyalty the manufacturer who helps them over the first few difficult years. After they get over the "hump" in the road, they come back and stick to the men who first helped them.

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[8] Anderson, Frank, "The Big Store versus The Small Store," *Printers Ink*, Vol. 79, April 25, 1912, p. 44.

But the big store can, and often does, inspire its salesmen with a personal interest. We have one department store in mind in the furniture department of which over one hundred thousand dollars' worth of furniture is sold in a year, with only two salesmen on the floor. But the buyer, in this case, is the explanation of the success of the department. He is always on the job; he keeps his eye constantly on his men; he steps in and makes many a sale himself, and he is always alive, active, and planning further increases. He makes his men feel that they have a personal interest in every sale. He rewards them with ample bonuses. He keeps them closely in touch and in sympathy with the policy of the house.

It depends largely on the individual store or manager as to whether its salesmen feel the personal interest. A distant, repressive policy of handling salesmen will result in the salesmen working hard to make good, in order to hold their jobs. But there will be no warmth in their work. If they see the boss but seldom, and then only to be criticized and scolded, their ardor will not increase. They will do their duty, but they will not put that surplus energy into their work that comes from enthusiastic devotion to the house and from a knowledge that they are getting a square deal. To make men give you their best you must treat them as men.

The big store and the big business will always suffer a handicap in the face of the tremendous concentration of effort on the part of the small store or business. The thing to do is to modify and minimize that handicap. It can be done through organization, through solid and real interest in the salesmen, so that they will feel the same desire to clinch every sale or rumor of one that comes their way as does the small store.

Mail-order Problems.[9]

It is commonly asserted that the big mail-order houses succeed over the regular local, small-town dealers for three reasons:

1. It is taken for granted that the expense of retailing through the mail-order method is less than over the counter in regular stores.
2. The advertising and salesmanship of the mail-order houses is in many cases much more efficient than in regular small-town stores.
3. The great mail-order houses have much stronger buying power than most small-town retailers. Because it underbuys, it is urged, it can undersell the regular methods.

Let us examine each of these points in detail.

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[9] Nystrom, P. H., Bulletin of the University of Kansas, Vol. 16, No. 7, pp. 9-13.

First.— In testimony given before the Parcels Post Subcommittee of the Committee on Post Offices and Post Roads in the House of Representatives, Wm. C. Thorne, vice-president of Montgomery Ward & Company, stated that the costs of doing business in mail-order concerns range from 16 to 25 per cent of sales. In figures collected by the writer from seven of the largest concerns, the range was found to be from 16 to 26 per cent, or an average of 21 per cent of sales.

If one takes 21 per cent as the average or normal cost of doing business by the mail-order method, one must add other items of expense to the goods before they can be considered as delivered to the customer. For example, there is the expense of sending the letter and money order, the interest on the money during the wait for the goods, and the transportation charges.

It is reported that the average order received by Sears, Roebuck & Company, during 1914 was $6. It may be safe to estimate that this average transportation, and other expenses included above, amount to about 60 cents, or at least 10 per cent of the order. Adding this to the mail-order-house cost of doing business, an average of 21 per cent raises the cost to 31 per cent of sales. In these figures we have considered no net profits at all—just expense. To these items the mail-order house must add whatever profit it is able to get. In the case of Sears, Roebuck & Company, the net profits amounted to 10 per cent of their sales during 1914.

If no other consideration but expense is allowed to enter our comparison, it may be shown that the mail-order method of distribution is not an economical one, for the bulk of goods handled by mail-order houses can be, and is, handled through the regular channels of distribution, the jobbers and retailers, on a margin of 30 per cent of what the consumer pays. Efficient distributing methods can carry groceries, hardware, implements, dry goods, clothing, and furniture from the producers to the consumers on an expense of 30 per cent of the sales. In expense of distribution the mail-order house has no superior advantage over the regular retailer.

Second.—It may be admitted at once that the large mail-order houses are using superior methods of advertising and salesmanship. They hire the best talent that money can procure. Great pains are taken to secure the customer's interest and goodwill, as well as his money, through the catalogues. Their advertising is scientific, because it does just what is wanted of it. The correspondence departments are in charge of wonderfully efficient letter writers. After studying the mail-order houses and their methods, the wonder is that they do not get more business than they do.

Third.—The buying power of the mail-order houses is undoubted. They do get prices in many lines of merchandise that permit them to

undersell regular dealers, even after loading on their expense and a generous profit. The only remedy seems to be for the retailers to get together and demand, through buying associations or otherwise, prices as good as those given the mail-order houses. In lesser ways, the retailer can refuse to handle the goods upon which he is unable to meet the competition of the mail-order houses. He can push price-protected goods. He can help to get price maintenance legalized and recognized in the courts. Perhaps eventually he can get legal action against unfair price discriminations in the same way that small shippers obtained relief from the railroads through the enactment of the Interstate Commerce Act. The buying power of the mail-order house is the one point at which the small retailer is unable to compete successfully working by himself. To secure adequate protection, he must seek the help of his fellows and of the public.

Finally, I am inclined to think that the mail-order-house business will not continue to grow in the future as it has in the past. I do not mean that it will decline. There is a place for the mail-order merchant under modern conditions, and we must make up our minds that he is here to stay. All that can be desired in this direction is equality of conditions of competition.

The social conditions of this country have helped the mail-order houses considerably. Mail-order trade is largely country trade. The country dweller in this country has been willing to give his trade to mail-order houses because he has had little or no interest in his nearest town. The American farmer lives as no other farmer in the older civilized countries. In this country he lives out in the country on his farm all by himself. His lonely life makes an independent individualist out of him. The farmer in European countries lives in villages, and he goes out on the land only to work, not to live. The German, French, or Austrian farmer lives in his village, perhaps next door to the shopkeeper, the mechanic, or the burgomaster. His interests are village interests. He gets together with the retailers on matters of religion, education, politics, and health, and he also gets into intimate contact with the retailers on matters of trade. You can't do a mail-order business that amounts to anything with farmers who live that way.

This condition seems to be passing away. The second and third generation of farmers want to enjoy more social life than the pioneers enjoyed. They are coming into town for social purposes, for schooling, and other reasons. The townspeople are waking up to the need of forming closer relations with the country people, and a better feeling between town and country is the result. Under equal conditions, the farmer is not likely to send his money away to distant merchants if he realizes that he has interests in his home town.

Quantity Prices Their Chief Advantage.[10]

That there is practically no difference in the cost of doing business as between the large mail-order house and the jobber-dealer method is the conclusion of Professor P. H. Nystrom, of the University of Wisconsin, presented before the Judiciary Committee of the House of Representatives at Washington.

The only real advantage the mail-order house enjoys, according to this authority, is its power to enforce the granting of quantity discounts which are out of proportion to the service actually rendered to the manufacturer or producer by the purchase of his goods in large quantities.

One thousand retail dealers and salesmen have contributed to the fund of information upon which this specialist drew for his evidence before the Congressional committee. The 1,000 distributors referred to have been members of Professor Nystrom's classes during the four years that he has been conducting (under the auspices of the University of Wisconsin and the University of Minnesota) short courses for merchants, arranged on somewhat the same plan as the courses for farmers at the agricultural colleges.

Public policy the test of right methods.—"I take it for granted," said Professor Nystrom, by way of preface, "that the method of distributing goods that must prevail in the long run must be the most economical method, and anything that bolsters up any other method that is artificial or more expensive is socially wrong. The retail dealers, as well as other business men, must conform themselves to the method that is most beneficial to the consumers and that will most economically meet the consumers' demands. I do not see that there can be any other philosophy or theory at the back of this economic problem.

"What we call the usual channels of distribution involve the distribution of goods from the producer to the wholesaler, from the wholesaler to the retailer, and from the retailer to the consumer. I want to compare that method with the mail-order method of distribution. Under the mail-order method the producer sells, in most cases, direct to the mail-order house. In probably 75 to 90 per cent of the cases the mail-order house purchases its goods direct from the producer and then sells them direct to the consumer. Now the ordinary impression that you would gather is that in the first method of distribution there are two middlemen between the producer and the consumer, whereas, in the second channel, there is only one middleman. In the ordinary way of looking at the matter, if we eliminate a middleman, the presumption is that we have saved a certain amount of expense.

"But let us look at the facts in a truer way. The wholesaler gathers together the products of many producers. Then he distributes them

[10] *Printers Ink*, Vol. 88, August 6, 1914, pp. 60-71.

in bulk, or in suitable quantities and assortments, to the retailers and the retailers distribute them to their immediate trade in their communities at the time and in the manner desired. In the mail-order method of distribution there is the activity of gathering the products together by the mail-order house in a manner very similar to that of the wholesale house, but instead of shipping the goods out in bulk or in large quantities, as the wholesaler does to the retailer, the shipments from the mail-order house are made in small lots—that is, each shipment is made to an individual customer.

Waste in individual shipments.—"Now we can appreciate what a problem is involved in the mail-order-house method of distribution as compared with the distribution through the regular channels, when we remember that the customers of the mail-order house may run into the millions. In fact, one mail-order house claims to have over 6,000,000 regular customers and another claims to have 3,000,000. Every order sent to a mail-order house has to be separately filled and separately sent out by some means of transportation to the ultimate consumer. The separate shipment of each parcel in this way must be a large expense in this method of distribution. In other words, the producer-wholesaler-retailer method of distribution has this advantage, even if we assume that it does not have any other, that the shipment of the goods from the producer to the consumer is made in a much more economical way than are the shipments made by the mail-order-house method of distribution.

"I have made it my business during the last few years to make a collection of data on the costs of doing business in the various kinds of concerns that are distributing goods. I have collected statements showing the costs of doing business in over a hundred retail concerns, seven of which are mail-order houses, but most of which are general stores in various towns in the states of Wisconsin, Illinois, Indiana, and Minnesota. The cost of doing business in wholesale concerns runs all the way from 6 per cent to 15 per cent of the sales. The cost of doing business in retail concerns, depending, of course, upon the line of goods carried runs all the way from 10 per cent up to 25 per cent and even to 30 per cent of the sales. Of course, the percentages depend altogether on the kind of institution it is and the grade of its efficiency. If you eliminate the department stores, whose expense is somewhat higher, the average cost of doing business in the small stores—that is, the stores in small towns in the state of Wisconsin, so far as my figures indicate, is somewhere about 18 per cent. The cost runs from 15 per cent to 22 per cent, and I take the average to be, according to the figures I have collected, 18 per cent.

"The cost of doing business in the mail-order concerns, from seven of which I have obtained the figures, runs from 16 per cent to 26 per

cent, and the average is 22 per cent of sales. William C. Thorne, vice-president of Montgomery Ward & Company has testified that the cost of doing business in the mail-order houses runs from 16 to 25 per cent and my figures correspond almost exactly with his. Now, if the cost of doing business in the retail stores averages about 17 or 18 per cent, to that must be added the cost of doing business by the wholesale concerns, and that cost, as I have stated, runs all the way from about 6 per cent to 15 per cent. It is from 6 per cent to 7 per cent for groceries, and from that figure up on other lines of goods. The cost is from 12 to 15 per cent, for instance, on hardware.

Add transportation to costs.—"In order to find the entire cost of distribution by either of the two methods I have outlined, we would have to add to the cost of doing business in the stores the transportation items, in one case from the producer to the wholesaler and from the wholesaler to the retailer, and in the case of mail-order distribution from the producer to the mail-order house and then from the mail-order house to the consumer. Of course, the regular retailer charges to his expenses the cost of delivering the goods to the consumer—that is to say, his delivery expense is counted in with his cost of doing business. The figures which I have given for retail stores include the delivery expense. Therefore, no further account need be taken of that. All of the figures I have given showing the cost of doing business are based on the sales and not on the cost of the goods.

"The cost of transportation from the producer to the mail-order house is probably about the same as the cost of transportation from the producer to the wholesaler. So far as I have been able to learn, the difference is not great. To make a fair comparison of the costs of doing business we can start with the wholesaler in one case and the mail-order house in the other, and then add the items as they occur on the way to the consumer. To the 22 per cent representing the average cost of doing business in the mail-order houses we would have to add the transportation charge to the consumer. The average order handled by a mail-order house in Chicago, according to the statement of one of its executives, is somewhere around $10. He stated that it was between $8 and $11, and the average is, as I have said, somewhere about $10 per order. Now, I understand that the transportation charges on packages of that value average about 50 cents. We may probably take 50 cents as the averge cost per package for transportation, and 50 cents is five per cent of $10, which is the assumed average value of the average order. Therefore, you must add 5 per cent to your 22 per cent of expense and that will give you a total of 27 per cent.

"That 27 per cent represents the cost of distribution by the mail-order method. From 27 to 30 per cent of the sales prices takes care of the expenses of distributing a very large part of the goods that go

through wholesalers and retailers. The differences, therefore, in the expenses of distribution by these two methods, considering nothing else but expenses, are very small, and I can hardly say that there is an advantage on either side.

"So far as my figures have gone they do not show that the mail-order house has any distinct advantage, in the way of a lower expense of doing business, over distribution through the regular channels of trade. It has several disadvantages, so far as the consumer is concerned, in not being able to give the personal service that retailers should give, and not allowing a free inspection of actual goods before purchase. Whatever advantage the mail-order house has over the small store lies not in its method of merchandising, but in the fact that the mail-order house is able to buy large quantities of goods at special or quantity prices—at inside prices. Another factor that gives it an advantage is the character of its advertising.

Equitable quantity discounts defined.—"As to quantity prices, I do not say that there should not be some sort of a quantity-price system. When the merchant goes to the producer or to the wholesaler and buys a large quantity of goods from him, the merchant is taking those goods off the hands of the producer or wholesaler and he is saving the producer or wholesaler storage charges, insurance charges, the cost of handling goods in smaller quantities, etc. Therefore, I believe that the merchant in this case is entitled to a price that takes into account the savings that his quantity purchase gives to the producer or wholesaler who supplies him with that large quantity of goods.

"But when he gets the advantage of this special or quantity price it simply means that he assumes extra expenditure himself; he is undertaking to do his own storage business, to insure his own goods, and to handle them himself, and he must, therefore, incur those expenses himself. He is advancing his own money, upon which, of course, he must have interest. So that, on that kind of quantity price, he will not be able to sell his goods to the customer at any lower price than the retail dealer who buys in small quantity. There will be no appreciable difference in that respect between the concern that gets that kind of quantity price and the retail dealer who buys in small quantities. But there is a different inside or quantity price which the producer or jobber sometimes gives to the distributor. This inside price is very much lower than the price at which less favored buyers can procure the same goods. This inside price represents a special favor; it is a discriminatory price, and that is the thing that makes the principal trouble in the field of distribution, and especially between small-town dealers and mail-order houses. No dealer will buy goods at a quantity price—that is, no large dealer, such as a mail-order manager—unless he has in mind the possibility of getting a price lower than that quoted

to his competitor—that is, an inside price—and in many cases the mail-order concerns—I have traced this down in several instances—are able to make a very large net profit on the goods that they sell and still sell them for less than the small retail dealer can.

"The special or inside quantity price is, to my mind," continued Prof. Nystrom, "the greatest evil in modern merchandising. The unfair price is given to the big dealer here and there, to the dealer who has plenty of capital; not because he is efficient, but simply because he has so much money. I take it that the mere presence of money does not mean efficiency. The big capitalistic concern gets prices which permit it to sell goods to the ultimate consumer, in some cases, when it so desires, for less than the prices at which the average retailer can buy them.

"I have looked at this thing from the standpoint of the ultimate consumer as well as the retailer. If a manufacturer should sell to the dealers at large for the same price at which he sells to this one special retailer, the ultimate consumer would eventually be benefited. However, in most of the cases that I have studied the quantity price that he gives to the large dealer could not possibly be given to all dealers, consequently, but few consumers gain any advantage from this discrimination. If the producer did that he would be doing a losing business, and to bear that out I want to give one or two illustrations.

The case of a trunk manufacturer.—"A trunk manufacturer in the Middle West has been selling trunks to one of the large mail-order concerns in Chicago for a number of years. He has been selling them at inside prices. The regular retail dealers to whom he has sold have found during the past few years that their customers were able to buy one kind of trunk that he produces at about the same prices which those trunks were being supplied to the regular retail dealers; that is, their customers were able to get these trunks from the mail-order house for less than the retail dealers could supply them. The retail dealers naturally found their trade dwindling on this particular line and they stopped handling it.

"The orders for trunks became smaller for this factory and finally the manufacturer found himself in this position: He was unable to find a sale through the regular channels of trade at all, because there were no retail dealers who wanted to handle his trunks by reason of the fact that they could be obtained from the mail-order concern at a lower price than that at which these dealers could get them. At about the time this dawned on him he made the buyer of this large mail-order concern a proposition that the mail-order concern should take over his entire product. The buyer was willing to do that and such an arrangement was made and the entire product taken. When that arrangement had been completed this factory manager hired a cost accountant to go

over his plant and determine what the costs of making these trunks were. On investigation it was found that he was selling trunks at less than cost, and that the price that was paid by the mail-order concern amounted to about the cost of labor, material, and direct charges, but did not include overhead charges at all. The manager of the factory has frankly said that he faces nothing but bankruptcy.

"That is an illustration of the kind of quantity prices that I have in mind. Only a few of the largest retailing institutions, such as mail-order concerns, are able to get such prices. If manufacturers were to give inside prices to everybody they would soon have to quit. In case the quantity price is permitted, the small dealers will be unable to compete with large capitalistic dealers. Small dealers will have to get prices that are equivalent or equal to the prices that are being given to the big dealers in some way; otherwise they will be forced out of business entirely. There is a way, although I do not know that it is legal; but it seems to me it is their only salvation if you do not make price discrimination illegal, and that is to combine. These dealers can combine and say to the producers, 'We must have the same price that is given to these large competitors of ours.' I think that a combination of several hundred retailers of this kind could get equal terms and compel the manufacturer to do as well by them as anyone else.

"Comment has been made in various quarters on the growing practices on the part of mail-order houses of ordering shipments direct from the producer to the consumer. But the same situation exists in the case of wholesalers. I should not say there would be much difference in this regard. Wholesalers, in many cases, have articles shipped direct from the producer to the retailer instead of going through the wholesale house. This practice prevails especially with reference to heavy articles. Many articles that are handled by wholesale houses, as, for example, dry goods, groceries, and so on, are handled in the same way by mail-order houses—they are brought together and reshipped. As proof that there is a weakness in the mail-order method of distribution I want to point out that some of the mail-order concerns are beginning to establish branch warehouses to which they have goods shipped and from there redistributed. They have certain central points from which their goods are redistributed to the consumers. So it would seem that there is not the greatest economy in the pure mail-order form of distribution, and that it is necessary for the mail-order house to borrow some of the methods of distribution through the regular channels of trade.

Mail-order and retail costs compared.—"Although the mail-order house sells for cash and the little retail dealer gives credit, the costs of distribution through the little retail stores compare very favorably with the cost of distribution through the mail-order method, con-

sidering all items of cost. The cost of doing a mail-order business from the producer to the consumer is tremendous. The cost of putting up a catalogue in one of the largest mail-order concerns is 92 cents. To this must be added the cost of keeping its mailing lists in order, together with the cost of transportation of the catalogues to the consumers, bringing up the cost to probably $1.15, $1.20, or $1.25. Many of these catalogues are wasted.

The Present Status and the Future of Mail-Order Business as Seen by a Foremost Authority.[11]

The mail-order business is an extremely technical and difficult one. The proof of this statement lies in the fact that, although the selling of merchandise by mail has been in practice in this country for a full half century, the number of conspicuous successes can be counted on the fingers of one hand. So far as New York City is concerned, more money has been lost in the mail-order business than was ever made in it, and if one omits the two leading Chicago houses, the same statement can be made for the balance of the country. We must, therefore, not take too seriously the statement that "Blank & Company, of Sweetwater, Tenn., have decided to give up their catalogue department, because they have come to the conclusion that the mail-order business has seen its best days."

I have been asked whether the period of rising prices that began about 1896 and culminated in the spring of 1920 did not contribute largely to the success of the mail-order business. I do not think so. While prices rose, it is true, between 1896 and 1916, they rose very gradually. But in that time the successful mail-order houses increased the number of their customers by leaps and bounds. The spectacular rise in prices took place in 1916, 1917, 1918, and 1919, and during those years, although the money value of merchandise sold by mail-order houses increased greatly, it is my judgment that the number of people who bought by mail increased much more slowly, if at all. The point here is that the greatest period of growth in the mail-order business was during the time when the rise in prices was very gradual.

Opinion based on false premise.—It seems to be human nature, when searching for the answer to a problem, to ignore the facts that stare us plainly in the face, and to seek some occult and fantastic solution. The volume of business done by mail-order houses decreased greatly during 1921, as a result of which people who know nothing about it shout from the housetops that the industry has seen its best days and henceforth will be on the decline. The bottom seems to

[11] By S. G. Rosenbaum, President of National Cloak and Suit Company, *Printers Ink*, Vol. 118, Mar. 9, 1922, pp. 10-12.

have dropped out of the steel business, but I have not heard anyone say that the United States Steel Corporation will have to go out of business. The big packers showed enormous declines in their business and lost great sums of money last year; but I haven't heard that beef, pork, and mutton have gone out of style. The leather men and big rubber corporations lost fortunes, and, in many instances, their sales are only a percentage of what they were two or three years ago; but no one says that our method of distributing leather goods or rubber goods is wrong.

Now let us analyze the situation and see what are the actual facts. The mail-order business of necessity caters to the people living on the farms and in the very small towns and villages contiguous to the farms. Relatively little business is done in the large towns or in the large cities. The six million farmers of the country and their families are the best mail-order customers, and next to these come the people who live in the tens of thousands of villages and small towns in which the shopping facilities are of the most primitive character.

In the period of declining prices through which we have been going for the last two years, the farmer has been hit hardest of all. Wheat that sold for $2.75 a bushel early in 1920, went down to about $1; corn that sold for $1.75 went to about 30 cents; cotton that could be turned into cash at the rate of 40 cents a pound, went to about 11 cents. The same conditions apply to cattle, sheep, and hogs. The farmer, from the very heights of prosperity, went swiftly to the depths of depression. His condition affected the towns and villages around him. Is any other explanation needed to account for a decline in the volume of mail-order sales?

But this is not the whole of the picture. I have always maintained that in a mail-order business in particular, the dollar-and-cents turnover is not the only indication of prosperity. In my judgment a much more important factor is the number of people who are buying by mail, and in our particular business we are now serving more customers than ever before in our history. It is true that the dollar-and-cents value is not so big, but that is due to the fact that an article that sold for $1 in the spring of 1920 declined to, say, 70 cents by the spring of 1921, and is to-day selling on a basis of 55 cents.

A prominent financier made the statement the other day that prices will drop gradually for the next ten years. I believe that prophecy will be fulfilled, but note the word "gradually." If prices were to have such drastic declines as occurred during 1920 and 1921, the mail-order business would have to be adjusted to meet such a condition, but such declines are not possible.

A certain standard piece of cotton goods which is the barometer of the cotton goods trade sold for 26½ cents in April, 1920. It dropped

in a few months to 7½ cents, and has since gone back to 8 cents. A certain grade of women's hose which sold for $7.12 a dozen in June, 1920, now brings $2.50 per dozen. The pre-war price of this article was $1.90. These examples are not exceptions but are thoroughly typical. Now suppose we should return to pre-war prices after a term of years, the drop must of necessity be so gradual that it should not at all affect the merchandising ability of a well-organized concern.

In discussing the future of any industry, there is one question that must be asked: Does it or does it not fulfill an actual economic need? The mail-order business caters to people who have no, or very inadequate, shopping facilities near their homes. It is based upon three principles: the right goods, the right prices, and the right service. It can operate economically and efficiently. Generally speaking, it has been conducted on honorable and high-grade lines—"The customer is always right." You have a combination here that is hard to beat.

Chapter XIV

THE CHAIN STORE

The Significance of Chain Stores to All Types of Distributors.[1] The chain-store system of distribution is a normal development of the evolution of business. Department stores and mail-order houses began to appear simultaneously about sixty or sixty-five years ago and chain stores came soon after. The department stores resulted naturally in large cities from the development of modern advertising methods, rapid transit, and the use of telephones. Mail-order houses resulted from rapid spread of population over great areas with which ordinary methods of distribution could not keep up, the use of modern advertising methods, and, coincident with the development of easy and safe means of transportation and the improvement of the mail service, rural free delivery, and so on. Chain systems followed the tendency that has been dominant in nearly all lines during the last fifty years toward concentration and consolidation of enterprise.

The department store consolidates ownership and management of many lines of merchandise under one roof. The chain store consolidates the ownership and management of many units within the same line of merchandise, but with decentralized location.

The first of existing chain stores seems to have been the Great Atlantic & Pacific Tea Company, which was established in 1859. The Jones Brothers Tea Company came into existence in 1872, and Woolworth's 5- and 10-cent stores in 1879.

In a general way, we may state that grocery chains, including tea and coffee retail distributors, were the first in the field. During the eighties and nineties the 5- and 10-cent stores, together with their prototypes, the "99-cent stores," the "racket stores," and the "novelty stores," came into existence. Since 1900 the chain store idea has spread to a great variety of lines, including tobacco products, confectionery, drugs, haberdashery, clothing, dry goods, automobile supplies, restaurants, bakeries, and barber shops.

Some statistics and what they mean.— There are now probably more than 2,000 chain-store systems, in existence in this country, with a total of more than 100,000 retail outlets. Alfred H. Beckman, secretary of the National Chain Store Grocers Association, is authority for the statement that seventy-five chain grocery organizations operate

[1] Nystrom, P. H., *Printers Ink*, Vol. 119, June 1, 1922, pp. 129-132.

about 50,000 stores. The total volume of all chain organizations must be considerably in excess of a billion dollars. Estimates have been made that within the grocery field 10 per cent of the total business is already done by chains, and it does not seem to be an exaggeration to estimate that more than 5 per cent of all goods sold to consumers in this country pass through chain stores.

In as much as chains operate mainly and most successfully in the larger cities, their progress is much more noteworthy, since in such cities as Philadelphia and New York probably more than half of all food products going to the consumer are sold by chain stores and large proportions of other goods as well. To the independent retailers and department stores this progressive growth of chain stores is, naturally, becoming more and more a matter for serious consideration.

Any study of such figures as are available sufficiently indicates the inroads made in the business formerly passing through other hands; but just how much of the rapid growth of chain stores is due to consolidation of ownership of existing stores, in which stores formerly owned by independents pass into the hands of chain-store organizations, and how far the chain-store type of merchandising is succeeding in competition, unit for unit, against independently owned stores, is somewhat difficult to determine.

The management question.—One of the principal points of competition between chain stores and independent stores is the competition of management between chain-store experts operating indirectly through assistants and the independent store managers who operate directly and in personal contact with their businesses. That some independent store managers are outdistanced in this race is not surprising when one considers the lack of training many of them have when entering the business. Many independent store managers are quite content, under the stress of such competition, to sell out or give in to the chain and become lieutenants or rank and file men under the direction of the chain-store experts. On the other hand, the chain store sometimes meets defeat. I have heard chain-store executives say, "I never locate a store in the community in which there is a live independent dealer"; and "Sometimes we make a mistake and get into a community where there is a live merchant, or where one who formerly was more or less dormant began to adopt up-to-date merchandising methods on our arrival. As soon as we discover these conditions we pull up our store and sell out our lease."

I suppose it is the experience of practically every chain organization that it is impossible to make progress in certain localities, and in consequence it is more profitable to drop the store there and move elsewhere.

That neither the chain store nor the independent store has the mo-

nopoly of the best methods of management is sufficiently proved by the figures on the costs of doing business. If by either system a big gain could be made, naturally it would be reflected in costs; but the facts are that in both chain stores and independently owned stores costs vary from low to high percentages. These variations, as we have already seen, are due, in part, to differences in services performed, as already indicated; but more important still, from the standpoint of the future of both the chain store and the independently owned store, they vary in proportion to the managerial ability of their respective executives, and the better type of manager is found in both chain and independent stores. The profits go to the better managers, whether they are in chain stores or independently owned stores.

When we come to buying, however, the chain stores seem to enjoy a decided advantage over most independent stores, because of their power to buy in large quantities. A few illustrations will suffice to indicate how far this may go in the case of some of the largest chains. Among the many items handled, one organization purchased 90,000,000 pounds of candy and 20,000,000 pounds of enameled ware in one year. In another organization the annual purchases amounted to 50,000,000 pounds of coffee, 200,000,000 pounds of sugar and 30,000,000 cakes of soap. In another organization single orders were placed at one time, respectively, for 12,000 ready-to-wear skirts and 12,000 dozen pairs of ladies' hose. If quantity controls price, and everybody knows that it does to a certain extent, then chain stores are entitled to, and undoubtedly do, secure reductions from the prices usually charged retailers.

Some chain organizations have adopted policies which are almost certain to reduce the fighting efficiency of their concerns. One of these is the practice of filling all executive positions from the ranks within the company. This is a policy that operates most excellently as a present incentive to the employees within the organizations. It may even work so well for a time that many employees will undertake work for an organization of that kind at less than market rate salaries, taking chances on getting promotion within in lieu of larger salaries elsewhere; but the ultimate effect, as experience has repeatedly shown, is an inbreeding of ideas, a solid growth of conservatism, and a more or less crystallized caste system within the organization, reducing its flexibility, preventing it from expanding, and reducing its ability to take full advantage of opportunities presented to it under new conditions that arise. This is not an argument against promotions from within. It is rather an argument for filling positions of responsibility with the best possible men, no matter where they come from. The results of inbreeding work very gradually, however, and proper remedies may be applied in the concerns that follow these policies before the danger point is reached. Buying advantages are almost certain to be equalized between the chains and

the independent retailers through the gradual development of associated efforts of the independent retailers themselves. Such coöperative associations grow slowly. Independent retailers, in common with all other masses of people, learn by degrees through costly experience. One reason why chain stores have been so successful in the immediate past is because the independent retailers have been so slow in getting together for their mutual interest. The reaction will soon come.

In conclusion, chain-store systems are here to stay. They came into existence because there was a definite field of service for them not adequately covered by any other type of retail institution. Most of the chains have made their success by offering a more limited type of service than is given by most independent retailers, and also by specialization in merchandise.

The chain organizations, by reason of their necessities, have developed certain phases of retail distribution to a very high degree of efficiency. The chain stores have thereby taught important lessons to all store managers of all classes of stores. For example, the impetus for more complete and more intelligent retail accounting has come to most independent store managers largely by example of the chain stores. The methods of arrangement and display of merchandise that chain stores have found necessary and profitable have resulted in opening the eyes of independent store managers, who have learned with evident astonishment of the value of securing the best possible locations from seeing the chain stores exhaust every possible scientific means to determine where those locations may be.

Finally, the chain stores have taught the retailers of every country the great lesson of getting together in buying.

Independent stores have a great deal to learn from the chain stores. Some of this instruction will, I fear, be expensive to both teacher and student; but in the long run, out of the readjustments in retail distribution that are taking place through the spreading of chain stores, we may look forward to a much more efficient system of retailing that will not only cut the costs of distribution but also will eliminate many of the wastes that now occur between the producer and the consumer.

The Chain Store and Distribution.[2]

Trends of development.—The most rapid growth of the chain store has taken place in the grocery, drug, five and ten, dry goods, tobacco, and confectionery lines. It is essential to understand the reasons for this:

1. The public demand in these lines is well defined; is not subject

[2] By Walter S. Hayward, *The Annals of the American Academy*, Vol. 115, pp. 220-224.

to great fluctuation in times of business depression; and in each case there is a "repeat market."

2. The articles handled fall mainly in the class of necessities, or semi-necessities. That is, they are regarded as essential by a proportion of the market large enough to insure a steady demand.

3. Because of the standard character of the stocks, and the broad demand, a high rate of turnover may be maintained, which allows the chain to make a small but steady margin of profit at frequent intervals.

4. Buying or purchasing is standardized and centralized at headquarters.

5. Since articles are of small unit value, and not bulky or heavy, the chain store is able to operate on a cash and carry basis—a factor of great importance in chain-store growth.

6. Merchandising is largely a matter of display and price advertising.

7. Standardization of methods has made it possible to centralize management at headquarters and to control member stores under managers who, while they may have a pecuniary interest in sales made by their stores, have nothing to say about the conducting of them.

The application of the chain-store idea to the retail fields which handle but one or two lines has been attended by new problems, and the outcome is not certain as yet. This applies to chains selling shoes, hats, hosiery, shirts, sporting goods, radio supplies, or millinery. It excludes the manufacturer's chain, which has its own problems to meet. The specialty chain must consider:

1. The greater diffusion of the market, making it necessary to resort to advertising to obtain sufficient volume of sales. Shoes, hats, and hosiery are not purchased so frequently as groceries and other articles of daily need.

2. The necessity, in some cases, of operating on a service basis, thus bringing the chain directly into competition with the independent.

3. The difficulty of centralizing management, when the several links of the chain are divided by wide intervals of space.

4. The greater degree of salesmanship required. The selection of a hat, of a pair of shoes, or of a radio set requires a much higher degree of salesmanship than is required in the type of chain which sells purely by display, or on a definite demand from the customer.

Non-chain fields.—Finally, there are certain fields in which the chain has made practically no headway, such as hardware, jewelry, and perishable food products.

The hardware field has witnessed several strategically planned attempts to inaugurate chains. Some years ago, the National Hardware Chain failed to make a success. Recently, the Winchester Stores took a flying start, well-heralded, well-located. and well-advertised. But,

like the drug store chain, which specializes in toilet articles, soda water, etc., the hardware chain finds that it sells little hardware, and has rather the character of a sporting goods chain.

The jewelry field is also practically unoccupied by chain systems.

In other words, in those fields where the stock is very large, where the turnover is necessarily small, or whether it is difficult to cut prices, the chain store does not flourish.

The lack of chain success in the meat and fruit trade would seem largely due to the difficulty of supplying the various stores in accordance with demand. Furthermore, local sources of supply often have to be utilized and the uniformity of stock, which is so important a part of chain system, cannot be maintained.

The grocery field.—The grocery chain is definitely committed to a merchandising policy which includes "loss leaders" and private brands. It is also committed, however, to the policy of selling what the public demands. The chain takes the attitude that it is the function of the manufacturer to create public demand for his product. If he has not the capital nor the desire to do this, the chain cannot be induced to do it for him. The articles on the shelves of the grocery chain must be their own salesmen, and they must move, or make room for those that will.

What the manufacturer and jobber are primarily interested in knowing is the future potentialities of the grocery chain. The present trend is briefly this: All secondary considerations put aside, the chain store sells on a price basis; the independent grocer on a service basis. Each has its own clientele. When a chain store opens in a new locality, it will automatically obtain its quota of trade, provided there is no other chain competition. The independent retailer will have to resign himself to seeing a certain portion of his trade leave him. If there are too many independent retailers, the weaker ones will succumb. The grocery field, however, will only support a certain number of stores selling on a price basis. In the urban and suburban sections, this demand has already been taken care of. The great extension of the grocery chain at present is in the small town and rural community.

Suppose, however, that some chain system announced its intention to operate on a service basis. "It cannot be done," says the sceptic. "Once remove the price attraction and the chain cannot survive against the individual service of the independent proprietor." This may be true, but it does no harm to point out that the chain still would have the advantages of combined purchasing power, of centralized management, and of standardized retailing.

The drug chain.—The situation in the drug field is by no means settled. To date, the large drug chain has been mainly a downtown proposition in urban centers.

The feature of its policy has been its ability to merchandise articles never before associated with drugs. It has departmentized its activities, and follows close on the heels of the department store in its scrutiny of customer habits and traits, consumer preferences, and other factors.

Like the grocery chain, the drug chain cuts prices on standard articles for "loss leaders." It may have private brands of its own, but so many of the drug chains consist of a few stores only that this is not the general rule. While it is not possible to reduce stocks to any small number of items, there is a settled endeavor to avoid untried innovations, and to carry only articles for which there is an established demand. The turnover of the drug chain, for this reason, is in excess of that of the independent drug store.

Like the grocery store, the true drug store is a neighborhood proposition. But the obstacles in the way of chain operation are greater because of the variety of stock necessary to carry, and the difficulty in maintaining adequate turnover without the large volume of trade secured only in down-town locations. There are, however, small chains which endeavor to operate drug stores in suburban locations, and which are moderately successful. There are undeniable possibilities along this line, but the great opportunities present in the grocery field are lacking.

The United Drug Company has utilized the chain idea in its extension of Rexall agencies. Instead of operating the store itself, it has induced the proprietor to sell its brand, and assists him with publicity and dealer helps.

The five- and ten-cent store field.—The tremendous selling power of these stores, based almost entirely on the display of the article, is well worth the manufacturer's careful attention. Purely as a source of sampling, many manufacturers of branded articles have found them to be advantageous. Other manufacturers have been able to dispose of surplus production to advantage through such channels. Still other companies have turned their entire energies to supplying the needs of the five- and ten-cent chains.

The five- and ten-cent field is one where there is virtually no independent competition. It would be practically impossible for any organization without huge buying power and great volume of sales to provide the variety and assortment of values now obtainable on the counters of the five- and ten-cent store.

Unlike the grocery and drug chain, the five- and ten-cent store originated in the small town, and only spread to the city in the later stages of its development. Its extension is, however, limited by the necessity of a certain minimum population in order to sustain a stipulated volume of sales.

The dry goods chain.—There are two aspects of the chain situation in the dry goods field. In the first place, there are the organiza-

tions, like the J. C. Penney Company, which operate in communities of moderate size, standardize operations, and sell from a limited stock of staple goods. Such chains fill a definite need in towns and cities which cannot afford to support urban department stores. They give the consumer a choice in up-to-date merchandise which the strictly local retailer would not, under ordinary conditions, be able to do.

The greater qualities of management required in the dry goods field make it necessary to give the local manager a larger degree of control than in most other chain fields. In the case of the Penney stores this amounts to a one-third interest.

The advantages of chain-store organization have been recognized by certain department store groups, in so far as buying and financial control is concerned. While not chains, in every sense of the word, they pool their resources in making purchases, and are thus able to realize substantial economies. The local operations are, however, usually carried on separately.

Tobacco chains.—The manufacture of tobacco products lies mainly in the hands of a few large concerns. The tobacco chain developed and grew, much as the grocery chain, from a hitherto unexpressed consumer need for a store which would provide fresh tobacco goods at reasonable prices. The United Cigar Stores was among the first of the chains to give careful attention to the small niceties of retailing, such as the entrance flush with the sidewalk, the "thank you" with every purchase, the psychology of the open door and the lighted interior. It stressed the arrangement and economy of space so that one man operation could take care of a maximum number of customers. It laid careful plans to secure the most desirable locations, realizing that the tobacco store, like the candy store, depended for practically all its business on the passer-by.

The present situation in the retail tobacco field is that in the city the chain store has practically supplanted the other retail tobacconists, while, in the small towns and suburbs, tobacco is handled by the news merchant, the grocery store, the drug store, or perhaps the general store.

The confectionery field.—The candy chain has hitherto been another city proposition. It is no uncommon thing to find on the same block five or even six candy stores belonging to different chains. While candy is a convenience article and purchased, therefore, wherever the buyer happens to be at the moment, and while most candy is purchased by men who are notorious for buying from the nearest place, there is a definite difference in the various brands.

A great many confectionery chains are owned by manufacturers such as Huyler, Loft, or Page & Shaw, or else they control their own factories, as do the United Retail Candy Stores.

The candy store not only has to overcome competition from other candy stores, but also the competition of drug stores, news stands, groceries, and other retailers where candy is to be purchased.

Other fields.—The chain-store system which sells clothing, shirts, shoes, hats, stockings, waists, millinery, or any other line of wearing apparel, usually operates as the exclusive agency of one manufacturer's line, or else serves as the retail outlet of some particular manufacturer. While it sells articles which come under the classification of necessities, the intervals between a purchase and a repurchase by one individual are great enough to confine the existence of such chains to the cities.

The Thompson chain in Chicago, and the Waldorf chain, with headquarters in Boston, are samples of what aggressive merchandising tactics can do in the restaurant line. The Childs Company also shows what may be accomplished, even where table service is provided.

There are several fields which have not been covered in the above survey, such as the sporting goods, the radio, and the bakery chain. The radio chain is one of the latest arrivals, and bids fair to prove successful, provided stock can be standardized sufficiently to insure a fair turnover. They present somewhat the same problems as do automobile supply stores, where there are a great many brands and no definite demand developed on the part of the consumer.

The Chain-Store Grocer.[3]

High-class merchandise, efficiency in service, quick turnover and the cash and carry system are the essential elements which tend to develop the chain grocery store industry and these elements prevail in the well-conducted chain grocery store organization.

Chain grocery store organizations, properly conducted, perform the function of both wholesaler and retailer, though eliminating a considerable overhead expense, enabling the passing on of a low cost to the consumer.

The chain-store grocer seldom stocks many various and conflicting brands of the same food product, but concentrates his efforts on one or two brands and keeps up a free and continuous movement on them, though always mindful of the consumer's demand.

In selling to responsible chain grocery store organizations, the manufacturer eliminates a considerable overhead expense in the cost of traveling salesmen and so-called specialty salesmen. The average quantity purchased by responsible chain grocery store organizations is usually much larger than that purchased by so-called wholesale grocers or job-

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[3] By Alfred H. Beckmann, *American Economic Review*, Papers and Proceedings of the Thirty-fourth Annual Meeting of the American Economic Association, Pittsburgh, Pa., December, 1921, pp. 186-190.

bers. The buying is done at the headquarters of the chain grocery store organization, without any sales expense on the part of the manufacturer or producer. Where chain-store organizations operate in different sections of the country, they usually have warehouse facilities which enable them to assemble their supplies direct from the manufacturer and redistribute to the individual stores at a lesser cost than applies otherwise, considering freight and cartage.

The consumer can and does obtain a low cost through the ability of the chain store to buy direct in larger quantities. The chain store grocer turns his stock over from twelve to twenty-five times per annum, sells for cash, makes no deliveries, and the consumer is saved an average of 15 per cent in buying, due to the efficiency of the home of the chain-store organization.

Values compare most favorably, in that the chain-store grocer cannot prosper unless he supplies the best of what the public demands, and carries such articles as the consumer calls for. Further, some chain grocery store organizations manufacture a great many of the products which they sell. Some of the larger ones can milk, bake bread, can tomatoes, peas, etc.; manufacture flavoring extracts, cocoa and chocolate, macaroni, spaghetti, and noodles; grind spices, bottle vinegar and olives, manufacture ammonia, bluing, and very many other articles necessary in the home, which does not apply to so-called wholesale grocers, as they would not be assured of their outlet as is a large chain grocery store organization.

That the consumer receives the benefit of low costs in buying from the chain store is proved by reason of its many units. It is able to buy car lots where the individually owned grocery can only buy in small quantities, and by the further fact that there is scarcely a chain grocery store organization making a greater net profit than 3 per cent on its sales, while the so-called retail grocers claim—and it is so contended by them—that their gross margin must be 30 per cent to make any money, while the chain store grocer's average gross cost of conducting business is between 13¼ per cent lowest and 18½ per cent highest.

The turnover in the chain store occurs much oftener than in the regular retail grocery store, therefore the goods are fresher; and the rigid system of cleanliness keeps the store in perfect condition. The chain store has fostered the package idea, and the days of the outside display —such as the open mackerel tub, molasses barrel, loose crackers (all subject to exposure and germs) and the old-fashioned sawdust on the floor—are things of the past, especially for sanitary reasons.

One of the great advantages, as we see it, of the chain store to-day, is that the majority of them put a price tag on every article of merchandise they sell—the children are treated just the same as the grown people, there is no attempt to overcharge. Another fact is that custom-

ers having to carry their merchandise with them do not overbuy, and the chain store idea has more and more made a shopper of the housewife; she is glad to go from store to store, seeing where she can save a cent or two per pound on butter or three cents per dozen on eggs, or a cent or two on canned goods, etc. All this tends to economy, not only in her mode of living so far as the food and household articles are concerned, but we think develops in her an idea of economy which she practices in all other pursuits of her life.

The credit end of the ordinary retail grocer is, of course, an extravagance breeder, and encourages unnecessary and unwarranted buying, not only at the expense of the consumer but of the retailer as well, as the grocery bill generally is paid reluctantly if at all, and is largely the cause of the many failures of retail grocers.

Public appreciation of the chain grocery store is rapidly growing. Ten years ago it was estimated that chain stores in what is known as the Metropolitan District of New York did about 12½ per cent of the volume of business in their line, while to-day it is estimated at about 50 per cent.

The wholesale grocer serves as a merchandise and financial banker for the retailer and is indispensable to the retailer in some sections of the country, while the retailer serves the consumer, though at an added cost, where no chain-store grocer operates.

It is estimated that there are about 4,000 wholesale and 350,000 retail grocers in the United States. The 350,000 retail grocers are a number larger than is necessary properly and economically to serve the consumer, and the up-to-date retailers have long ago realized this as proving a detriment to the industry.

Unfortunately, 75 per cent of the so-called retail grocers are not merchants; they don't know how to figure cost or sales expense, and as a rule don't know how to attract trade.

The average retailer, or rather the majority of small retailers—and they are in the majority—have, as a rule, very little capital when they enter business, and the wholesale grocer extends a line of credit in addition to furnishing the opening stock. Immediately the retailer is established, he is called upon by the salesmen of other wholesale grocers —a duplication of overhead expense —and the wholesaler who is really entitled to all that retailer's business finds his sales diminishing, and is obliged to await the pleasure of the retailer for payments on goods purchased, ranging from 30 to 60 days or even longer, further emphasizing the credit evil. Not less than 75 per cent of retail grocers require credit accommodation of the wholesale grocer, while the chain-store grocer both buys and sells for cash.

The chain-store grocer is entitled to the same or better recognition than is the so-called wholesaler or jobber, not only because he buys in

larger quantities than does any other medium of distribution, but because he performs the functions of both wholesaler and retailer, distributing his purchases from warehouse stocks direct to the consumer, through his retail stores wherever located.

Because the consumer pays cash and carries home his purchases, he is entitled to a lower cost than where a charge account and telephone and delivery service prevail; and the low cost should govern in all cases, including such products as are marked by manufacturers and producers at a certain price for resale, or an implied or so-called "suggested" resale price. No distributor should be compelled to obtain an unreasonable profit from the consumer when the distributor's operating cost warrants only a reasonable profit, and with which such distributor is satisfied.

Some manufacturers of so-called grocery specialities have expressed themselves as being fearful that eventually the chain-store grocer organizations would exploit their own brands in competition with regular so-called factory brands, and that this, to some extent, was a reason for not encouraging the chain stores; but this idea is ridiculous and does not even bear consideration. First of all, the chain-store grocer displays best for the manufacturer and proves of benefit to the consumer because he carries and sells what the consumer calls for; next, the supposed fear is totally unfounded for the unassailable reason that practically every wholesale grocer in the United States is a manufacturer in fact though not in name and exploits his private brands in competition with advertised manufacturer's brands—has done so for very many years and the tendency is growing. He seeks to have the retail customer buy his private brands rather than the manufacturer's, though he claims to be THE distributor for the manufacturer. As a rule the compensation from the manufacturer to the distributor does not adequately cover the cost of distribution under existing circumstances, and this latter is, to a great extent, the cause of the introduction of private brands, as the wholesaler saves a large overhead expense in advertising.

In summing up, I might say that the Chain Grocery Store represents large volume, rapid turnover, low operating costs, good values, efficiency, and judicious advertising. It is here to stay, because the public has been convinced that good values and low costs may be obtained when buying from well-organized chain grocery stores.

Advantages of Chain-Store Organization.[4]

Can employ big men.—In *organization,* the chain has had the great advantage of being able to do business on so large a scale that

[4] Hurd, C. W., and Zimmerman, M., "A Summing up of the Chain Store Situation," *Printers Ink,* Vol. 89, December 24, 1914, pp. 68-73.

it can support men of large experience and talents who can divide the work and specialize. The independent man, on the other hand, finds it difficult to be at once a general executive and a specialist on every point. Nevertheless, the chains' advantage is one that cannot extend indefinitely. What the chains have found out about business is being passed along to the independents.

In the *locating* of stores and the renting and handling of real estate, the present advantage again must lie with the chains, which often save store rent and make a profit on their realty operations. But this can be, and is certain in time to be, copied by the combines.

The chains did in the beginning have great *buying* advantages, and still do, over most independent retailers; but the coöperative organizations are already not far behind the chains on staples and can, with better organization, meet them on an even basis. The chains' advantage of getting "inside prices" as they do at present will be nullified by the combines' competition. Dating abuses will be abolished or balanced. Evolution is driving the chains into manufacture, and the combines will probably do the same, even though many of them are now loyal to the manufacturers.

Chains' selling advantage.—The present *selling* advantage of the chains over most independents is shown by the much greater rapidity of their turnovers. In some lines and in some respects these advantages are due wholly to legitimate buying, selling, and pricing. In others it is due to manipulation of stores or departments, so as to carry some at small or no profit, and discourage competition. They push their own brands. When they have many stores in a locality, they can advertise locally, which independents cannot do alone. Premium advertising is a strong feature with most chains. But all these are temporary advantages which the independents can, and already are beginning to, neutralize, by organization. National advertising had been started by the combines before the chains.

When we come to *sales management and personnel,* we find the glaring weakness of the chain. Inadaptability of salespeople who can with difficulty be handled in the mass give great advantage to the independent storekeeper who has only a few people to control and educate, and these few are under his personal supervision. Lack of competent managers limits and delays extension. Grafting is a great occasion of loss.

No natural accounting advantage.—In *accounting* the chains have no natural advantages over the independent retailer, although at present they utilize the best methods while the independents generally do not.

The chains' *cost of doing business* is generally reputed as being greater than the independents. This is a mistake. The total overhead

of the chains is often very much larger, but when this is divided into a large number of stores doing business, it often shows surprising figures. But this can hardly go on. The greatest savings by system in the chains' organization have already been made. They can hardly be repeated, except in the organization of other chains and the independents. Competition will bring the costs up.

There is, in short, apparently *not one advantage* the chains now enjoy which cannot and will not be cut down in time by the independents. Even the manipulation of stores and departments, and of cutting prices and carrying stores and departments at a loss in one locality in order to kill off competition is not solely their opportunity. The retailers' coöperatives could easily meet it by supporting a local member in fighting back. It is a mere detail of organization. But there is likelihood that this kind of competition will be declared unfair and penalized. Although the courts have not yet passed on it directly, it was one of the condemned practices of the old Oil Trust.

The real superiority of the chains over the independents, even when combined, is a superiority *derived from the past.* They were first to develop the combination of resources and coöperation of personnel on a large scale, and they are still profiting by it. They have standardized organization and selling methods and cut out wastes. In common with nearly all retailers, they have been guilty of unfair competition; but they do not owe their success entirely to it as many observers think. They have made a great contribution to American business.

But against this present superiority set the highly important fact that these standard practices to which the chains owe their rapid growth are no longer their exclusive possession—their invaluable trade secrets. They were developed at great cost over many years by high-salaried and profit-sharing executives; but they are now known to all live independent dealers. Men are continually going out from the chains and opening stores and chains of their own. Trade papers in each line explain and discuss every detail of their management. The result is that the methods have become public property, the *recognized standard ways of doing business* at retail which good executives are expected to know and practice, and which, ultimately, all will practice.

Retail business being standardized.— Thanks to the chains, *all retail business is being standardized,* and, in consequence, the chains are losing, even if slowly, the enormous advantages they started with. Unless they can find new advantages to take their place, they will find it harder and harder to shake off even the little fellow.

Can they find such advantages? They have already found one. The only big outstanding improvement in method the United Cigar Stores have made in the last five or six years is their recent decision to open agencies in cities and towns where they have no stores. A smaller chain

claims this was its idea first. It is a big idea anyway, for this reason: that agencies will enable the United Cigar Stores to blanket the country as it could not otherwise do for years and then to *advertise its own private brands nationally* as well as locally.

The Chain-Store System.[5]

Growth of the general volume of sales in this country has been reflected in the success of three important methods of merchandising—the installment plan, the chain-store system, and mail-order distribution. Installment selling, discussed in a previous report, has now reached an unprecedented figure, variously estimated at $5,000,000,000; the record of sales of five representative mail-order houses showed an increase of 72 per cent from 1922 to 1925; and all of the more important chain stores in 1925 had the most profitable year since their organization.

This situation seems to refute the argument that development along one line has been harmful to development along another; that the extension of the installment system, for example, has been harmful to ordinary retail selling. The American has become a good enough buyer to increase his cash-and-carry purchases, as well as his mail-orders and his installment buying.

The various methods of merchandising are adjusting themselves normally to the type of purchase to which each is best suited. Motor cars are not bought by mail-order, but 75 per cent of them are purchased on the installment plan; and the chain store is mainly concerned with groceries and small articles of little value, not so well suited to other methods of selling.

The total volume of retail sales in the United States amounts to about $35,000,000,000 annually—fully half the national income. Of this total about 68 per cent is handled by general retail shops and merchandise stores; 16 per cent by department stores; 4 per cent by mail-order houses; 4 per cent by company stores; and 8 per cent by the chain systems.

There are approximately 4,000 big and little chain systems in the country controlling 65,000 unit stores and handling upward of $2,800,000,000 worth of retail business each year. This is only a little more than half the estimate of sales on the installment plan during the year, but represents an increase of nearly 22 per cent over 1924. According to figures furnished by the Federal Reserve Bank of New York, between June, 1924, and June, 1925, the number of units maintained by reporting chain systems of all kinds increased 16.2 per cent.

Index figures furnished by the Federal Reserve Bank show the

[5] Anonymous.

heavier increase in chain-store sales during the past few months as compared with the sales of mail-order houses and department stores:

RETAIL STORES (WITH SEASONAL ADJUSTMENT)
1919 = 100

	Department Stores	*Mail-Order Houses*	*Grocery Chains*
December, 1924	131	123	242
January, 1925	124	110	249
June, 1925	126	120	257
November, 1925	129	116	266

The prosperity of the chain store has been made possible largely by the economies in operation. The chain system eliminates the middleman's profits by eliminating the middleman. The chain system as a rule either has its own wholesale establishment or buys direct from the producer, securing its goods some times more cheaply than the individual retail grocer or the department store. The retail grocer buys from 70 to 80 per cent of his stock from jobbers and wholesaler; but the chain store purchases 80 per cent of its stock direct from the manufacturer.

Also, there are no losses from bad debts under this plan of merchandising. Since the chain store extends no credit, it has no collection expenses, and its bookkeeping costs are lessened. There is a similar saving of interest due to the lack of charge accounts.

Successful operation of a chain system seems to be limited to the handling of certain classes of goods—staple foods, household supplies, variety goods—that can be bought in large volume for a quick and sure demand. It will appeal to a class of customers who are willing to pay cash and carry their purchases with them; those who expect more elaborate service—and this group is by no means small—and a more fancy type of commodity will patronize the individual grocer, whose business is still likely to thrive.

The intense competition in the methods of selling American commodities is giving way before a natural adaptation of the method of sale to the object to be sold. Each kind of merchandising is finding its logical field.

Chapter XV

COÖPERATIVE STORES

Organization.[1]

General.—The membership ranges from 1,600 to 30, while the average for all the stores surveyed was 228. Although there were some notable exceptions, as a general rule, it was found that the success of the stores was almost in direct proportion to the membership. This may be due to the fact that the well-managed store usually has little difficulty in increasing its membership, while the poorly managed store soon loses the support of the members with which it begins operation.

It was surprising to find so small a proportion of the stores controlled by farmers' organizations, such as the Grange and the Farmers' Union. As a matter of fact, the farmers' organizations have taken the initiative in starting many stores, but not finding themselves strong enough to support the business out of their own membership, they have thrown the conditions of membership open. Even where such stores have been successful, they have frequently had a bad effect upon the farmers' organization. In some cases the farmers, expecting great things from their store, have allowed the local farmers' organization to fall into decay, claiming that the store was all the organization they required. In other cases, where the store fathered by a farmers' organization has been a failure, the effect has been even more disastrous to the association.

The survey brought out the fact that the location has a great deal to do with the success of the store. The best location, however, is not always synonymous with the most expensive or most central location. Much depends upon the type of trade. In the case of stores dependent largely upon country trade the proximity of horse sheds and hitching facilities is an advantage. Such conveniences usually cannot be had in an expensive central location. On the other hand, there are instances which tend to show that the store should not be located too far from the points where country roads converge.

Five of the stores studied had undertaken the establishment of branches in outlying districts. Almost without exception, the policy

[1] Bexell, J. A., et al., "A Survey of Typical Coöperative Stores in the United States," Bulletin No. 394, United States Department of Agriculture.

of establishing such branch stores was found to be unsatisfactory. In all cases the branches were found to be a heavy drain on the working capital of the parent store. It was also found that the members in the branch district were inclined to rely for success upon the parent association, thus weakening the branch. It appeared, too, that the average manager secured by coöperative stores lacks the business ability necessary for the management of more than one store. Hence, although the policy of establishing branches is right in principle, as shown in numerous cases under private and corporate management, notably the well-known chain stores, the results of this survey would indicate that a coöperative store should consider the matter with the greatest care before undertaking the establishment of branches.

It will be noticed that most of the stores have the usual officers and board of directors. The most common number of directors is five and the usual term of office is one year. Questions directed upon this policy seem to indicate that the one year term does not give sufficient stability of policy. Of course, it frequently happens that old directors are reëlected; but in many instances new directors are elected at the end of each year, and it is stated that by the time they leave office they are just beginning to gain the experience necessary in order to be of real value to the association. In the case of one of the most successful stores many of the officers and directors had served for over twenty years, and the by-laws provided that only one-third of the directors should be elected annually. Even if new directors were elected, which did not often happen, at least two-thirds of the board were always made up of experienced men. It was found that in some associations the president was elected directly by the members and was ex officio member of the board of directors. In the majority of cases, however, he was elected by the members of the board from among their number. It would appear that on the whole the latter plan makes for greater efficiency.

It is a common practice for the by-laws to provide an auditing committee of two or three, to be elected from among the membership at its annual meeting. More rarely the auditors are appointed by the board of directors. The experience gained by those making the survey leads to the conclusion that the auditing committee should act as a connecting link between the membership and the management, keeping check at all times upon the business practice of the association and counseling the directors whenever the condition of the business appears to demand special attention. This would indicate that the auditing committee should be elected by the members at their annual meeting and be made directly responsible to them.

As will be more fully discussed in a later section, the results of the

survey bring out very clearly that one of the greatest weaknesses of coöperative stores lies in the lack of thoroughness in their audits.

Operating.—The business organization of a coöperative store does not differ materially from that of any other retail store. The business is usually too small to admit of the type of efficiency which can be secured only by having specialists charged with definite responsibility for certain divisions of the work. In most cases the manager himself is compelled to be a sort of business jack-of-all trades. He is usually the responsible head of the store, and at the same time must act as buyer, head salesman, and bookkeeper. The man who combines efficiency in all of these kinds of work is rarely found, as usually he is in business for himself. It is unusual for coöperative associations to be willing or able to pay the salary which will secure a man of this type. The salaries paid to the managers in the stores under consideration varied from $45 to $250 per month, making an average of $106 a month for the forty-two stores from which figures were obtained. This fact alone is sufficient to explain why the majority of the stores were not more successful than the tables indicate.

Finance.—The points covered in the section of finance bring out the essential differences between the corporate and coöperative type of organization. In general, it may be said that with the coöperative type the shares of stock are smaller; that these shares do not determine the voting power of the member; that paid-in capital stock usually bears a fixed rate of interest, while dividends are based upon the business and not upon holdings of stock; and that certain restrictions are placed upon stock transfer. The laws of most states require that a definite authorized capital be fixed in the charter or articles of association, while in others the amount of stock need not be fixed. The latter practice corresponds with the coöperative laws of several European countries and aims to permit an indefinite growth in the membership and capital stock.

The shares of stock vary from $1 to $100, with an average par value of $53. When questioned as to the best size for a share of stock, most managers expressed themselves as in favor of the share of large denomination. It seemed to be the consensus of opinion that the share should not be smaller than $25, but much depends upon conditions. The character and density of population, the kind of business conducted, nearness to wholesalers, and many other features have a bearing on the best size for a share of stock. Well-capitalized stores were found with shares of small denomination, while other stores are very insufficiently capitalized on the basis of $100 shares. In general it is considered inadvisable for any store in the United States to begin operations with a share of less than $10, although here again there are exceptions.

Most of the stores allow members the privilege of paying for stock in installments. Others, again, sell their stock and receive some form of note or agreement to pay for it at a specified time.

The following abstract from an auditor's report is illustrative of an abuse which has weakened many of the coöperative stores:

"In view of the fact that a majority of your members have not liquidated their note obligation in payment for shares, I recommend that no patronage dividend be declared or paid covering the year 1914, and that the amount be carried as surplus. . . . Permit me, in conclusion, to express the hope that the members will pay their notes and thereby place the company where it rightfully belongs, and furnish the opportunity for it to grow large and successful."

A feature which probably has a greater influence on the successful capitalization of a store than the size of the share of stock is the amount of capital which one member may hold. Some of the earlier coöperative laws fixed the upper limit which one member could hold at a figure which has since been recognized as too low. In the stores under discussion the upper limit varied from $10 to $8,000, with some stores placing no limit. It is difficult to say where the line should be drawn. With voting power restricted to one vote, with interest on capital stock limited to not more than current interest rates, and with the coöperative policy of distributing profits in proportion to the amount of business transacted by each member, it is difficult to see how serious injustice can result from the concentration of the bulk of the capital stock in the hands of a few members.

Of those stores reporting, thirty-seven stated that interest was paid on the capital stock; the maximum given was 8 per cent, the minimum 5, and the average 7 per cent. These figures do not indicate any great advantage to the holders of capital stock.

The manifest purpose of the coöperative store is to make savings for its members in the purchase of household and other supplies. Patrons are charged the customary retail prices for the locality in which the store operates. Then, at the end of the specified period, the accumulated surplus is distributed in proportion to the purchases which each patron has made during the dividend period. Following the Rochdale plan, non-members are frequently allowed half the rate of dividends on purchases allowed members.

Credit.—Practically all of the stores required, at times, more capital than was provided by the sale of capital stock and accumulated surplus. The interest paid averaged 7 per cent, which cannot be regarded as excessive. As in the case of any other business, the ease with which a store is able to borrow depends upon its commercial rating. When a store is successful and has a high rating, it can secure all the capital it needs upon the note of the association. For many

struggling stores, however, the only way in which credit could be obtained was by having those who were most interested indorse a bankable note in favor of the association. In many cases, especially where the borrowing has been done to bolster up a poorly managed and failing business, the practice of indorsing the notes of the association has been responsible for serious losses to members.

It was found that some stores systematically used their credit at the bank in order to discount their bills, saving a profit to the store by this method. That this is not common, however, is indicated by the fact that only eighteen stores reported the uniform practice of taking advantage of discount, while fifteen never discounted their bills. Among those reporting the practice of discounting their bills, the saving ranged from a minimum of $150 to a maximum of $7,000 a year, with an average of $1,673 for the eighteen stores taking regular discounts. The figures indicate that not enough attention is given to this source of profit. It was found that among the most successful stores following the practice, the cash discount paid a considerable proportion of the operating expense. In addition to the saving effected, the practice of taking discounts has an important effect upon the wholesale houses and the buying efficiency of the store.

Of fifty stores, only two were found to be doing a strictly cash business. Most of the managers claimed that the extension of credit to customers was absolutely necessary. The time for which credit was allowed varied from one to six months, the average credit period given for twenty-seven stores being two months.

The practice is unfair in that the man who pays cash usually secures goods at practically the same price as the man who uses six months' credit. This unfairness has led to the practice among a few of the most successful stores of charging interest on all bills running over thirty days. In many cases it was found that inexperienced managers, in their enthusiasm to expand the business, had involved the association in serious difficulty by a too wide and promiscuous granting of credit to customers. In some instances it was found that the accounts receivable amounted to more than the entire subscribed capital stock.

On the other hand, one of the advantages claimed for the coöperative farmers' store is that it serves as a credit institution, tiding the members over until harvest or until "payday." Indeed, one of the most successful stores preferred to do a credit business, and reported that 98 per cent of its trade was on this basis. The reasons given for its preference were greater simplicity and uniformity in its accounting system and the larger volume of trade resulting from the credit business. The reports of 36 stores showed that, on the average, half of the sales were on credit and the other half cash.

For twenty-four stores the average annual loss due to the granting

of credit is 1.17 per cent. This is much higher than the average for stores under private management, as indicated by the results of the Harvard survey, which found the common loss for bad debts to be one-half of 1 per cent.[2] Moreover, there is reason to believe that this does not tell the whole story. As a matter of fact, the estimate placed by the manager of an unsuccessful coöperative store upon the uncollectible proportion of the accounts and bills receivable, which he is carrying upon his books, is very unreliable. In one case, which is probably typical of many others, the amount was estimated at $145 for the year, when, in reality, the amount which was afterward found to be uncollectible was nearer $2,000. This loss, of course, falls upon all who pay for their goods.

Entirely apart from the loss involved, the credit system is unjust. Either those enjoying credit should pay interest, or customers paying cash should receive a cash discount. The reports of those who have tried to do business on a cash basis indicate that the credit system has become so rooted in American business as practically to be ineradicable. Many of those questioned characterized it as "a necessary evil."

Purchasing.—The most successful stores confine their purchases to a few reliable firms, rather than scatter their orders among too many wholesale houses. In fact, one store on the verge of bankruptcy ascribed its failure in large part to this practice, since, in time of difficulty, it could claim but little support from its numerous creditors. Among the many objections to scattered buying are: (1) greatly increased and useless office work; (2) divided support of the wholesalers; (3) excessive buying and danger of overexpansion; (4) too great diversity of stock; and (5) loss of advertising opportunity afforded by standard lines.

It is interesting to note that only twenty-seven stores believed that they bought at the lowest price, while eleven said positively that they bought at a disadvantage. The reasons given were: (1) inability to take advantage of discounts; and (2) in a few cases, discrimination on the part of wholesale houses against the coöperative store. The former handicap is to be traced generally to such causes as insufficient original capital, tying up of capital in accounts receivable, over-investment in slow-moving or dead stock, loss of capital through bad management, etc. On the latter point a few stores asserted that they were sometimes discriminated against in the prices they were compelled to pay; that they were not given equal credit privileges with private and corporate enterprises; and that they were refused certain lines of goods at any price. Credit men say that this obtains only when the store has

[2] Harvard University, Bureau of Business Research, Bulletin 5, "Expenses in Operating Retail Grocery Stores," 1915, Sup. 7.

unsatisfactory credit rating or record and when cut prices and discounts are allowed on fixed-price goods.

Selling.—The annual sales of the stores under consideration ranged from $7,500 to $623,703, with an average approximating $88,000.

The percentage of expense to sales indicates a wide variation, ranging from 7 to 17 per cent. Even more surprising is the range in the percentage of gross profit made on the business, ranging from 10.5 per cent to 24.5 per cent. In accounting for this range one element is the kind of business. The higher figures are for businesses having a large trade in dry goods, shoes, and men's furnishings, while the lower rates were made in stores handling groceries and a few farm staples. The percentage of net profits to sales shows the variation one would expect.

Almost all of the stores under survey were located in country towns, with the majority of the membership drawn from the farms. Hence there is an average of 63 per cent of farmers' patronage for the 43 stores reporting, with a range of from 4 per cent to 95 per cent of country trade.

Most of the stores reported a large percentage of non-membership trade, the range being from 1½ per cent to 90 per cent, with an average for the forty-two stores reporting of 40 per cent of the trade from non-members.

This non-membership patronage is due to several factors. Eighteen of the stores hold out the prospect of some dividends on purchases to non-members, thus securing trade. Again, many persons are in sympathy with the coöperative movement and expect to become members if the store succeeds, and in the meanwhile they give it a share of their trade. Finally, a great deal of the non-membership trade which falls to coöperative stores is more or less accidental and due to the fact that many Americans give little thought to their choice of a place to trade. This indifference also helps to some extent to account for the fact that 34 stores reported an average of 20 per cent of their members as "non-active," showing little interest in the store and giving it practically none of their trade.

It was found that success, loyalty of members, and non-membership trade hang very closely together. Let a store fall behind and fail to pay dividends and it soon loses the support of both members and non-members. The opposite case is illustrated by the experience of one of the most successful stores, which in twenty-six years has missed paying a dividend but once. It reported 100 per cent active members and a large non-membership trade.

It must be admitted that in general the result in net profits are somewhat discouraging. Only eleven stores out of sixty, or 18⅓ per cent, were able to show a net profit of 5 per cent or over.

Accounting, reports, and auditing.—The survey made evident that the business practice, including the system of records, is probably the weakest point in the management of coöperative stores. Investigations by the Office of Markets and Rural Organization have shown this to be true of nearly all other coöperative enterprises.[3]

This weakness is due to lack of training on the part of the managers themselves, to inability to pay the salary required by trained accountants, and to the general failure on the part of the membership of coöperative associations to realize the importance of a clear and constant record of the state of their business.

One thing that impressed the investigator was the lack of uniformity of systems, forms, and equipment. This lack made it very difficult to secure statistics which would give a comparative estimate of the success of the stores. The investigation conducted by Harvard University in its attempt to bring about standardization of accounts and office methods disclosed the same lack in practically all other retail stores.

Operating expenses.—The percentage of expense to net sales is not excessively high. It ranges from 7 to 17, with an average of 11.7. This percentage is for 33 of the stores, and is probably a much better showing than would have been made had all the stores been able to contribute to the data from which this percentage was calculated. In view of the fact that some of the managers stated it as their belief that it cost somewhat more to run a coöperative than a privately owned business, this percentage is surprisingly low. The Harvard investigation of grocery stores found the lowest cost of operation to be 10.4 per cent of sales, the highest 25.2 per cent, and the common percentage 16.5, as against the coöperative averages just quoted.

In considering this showing for the expense of operation, there must be taken into account the average gross profit of 21 per cent for the stores studied by Harvard as against 17.7 per cent for the 30 coöperative stores for which the gross profit could be calculated. The circumstances under which this investigation was made did not permit the investigator to go back of the accounting system in every case to see whether the data upon which gross profits could be estimated were sufficiently reliable.

For some of the stores not included in this percentage column of gross profit, it was quite certain that the manager was working in the dark, and did not actually know the amount of his gross profit. For example, in several cases a manager who handled principally groceries

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[3] Basset, C. E., Moomak, Clarence W., and Kerr, W. H., "Coöperative Marketing and Financing of Marketing Associations," In United States Department of Agriculture Yearbook, 1914, pp., 185-210. Kerr, W. H., and Nahstoll, G. A., "Coöperative Organization Business Methods," United States Department of Agriculture, Bulletin 178, 1915, p. 20.

and farm produce said that his gross profit was about 21 per cent. Upon analyzing the statements, however, the amount was found to be very much below what he estimated. This was due to the fact that certain commodities, such as butter, eggs, sugar, flour, and practically all farm produce was handled upon a very close margin, and sometimes at an actual loss. These items bulked much more largely in the total business than the manager realized. One store, for example, went bankrupt within a period of ten months because its manager thought he was running upon an average of 20 per cent gross profit, while in reality he was running at a net loss of 7 per cent on sales, and his gross profit was only a little over 10 per cent.

The average cost of all salaries and labor amounted to a total of 6.4 per cent of the net sales as compared with 11.7 per cent for the total expense. That is, the salaries and labor form 54.7 per cent of the total expense of running the business. This surely is not excessive. The Harvard survey of grocery stores disclosed the fact that the salaries in the average retail grocery under private management were 60.6 per cent of the total expense, or almost 6 per cent higher. For forty-two stores the average salary paid the manager was $106 per month. But if six of the stores which pay their manager $150 per month or over are eliminated, the average for the other thirty-six amounts to only $79.50. The average salary for the bookkeeper was also too low to secure efficiency. The ten states in which these stores are located have average wages considerably higher than the average would be for the country as a whole; from this it is seen that the wages paid by the coöperative stores are very low.

In addition to the regular salaries and wages there are insignificant outlays for officers and directors, and often for an occasional helper. The most common policy is for associations to pay their directors $1.50 for each meeting attended, except where they occupy a position in the business on regular salary. Occasional help costs the daily wage of from $1 to $2.50 a day, with an average of about $2 per day.

In addition to their regular wages, the coöperative laws of some states stipulate that employees shall receive dividends on the amount they receive as wages, just as members receive dividends on purchases. As a matter of fact, however, this principle of dividends and bonuses to employees is generally ignored, and some stores even go so far as to stipulate in their by-laws that no employee shall receive any reduction on purchases. Employees in such stores must become members in order to participate in dividends. Among the stores visited during the survey only two were found which actually had distributed dividends on wages.

The directors of one of the most progressive of the stores have made the provision that when profits reach a certain figure employees are made participants in the increase. This is in the form of a bonus, the

payment and amount of which is left to the discretion of the board of directors.

SUMMARY: BALANCE SHEETS AND OPERATING EXPENSES

Average Number of Members (43 stores)	228
Total Resources (46 stores)	$1,695,759.17
Total Liabilities (46 stores)	$514,672.61
Total Paid-up Capital (50 stores)	$831,377.98
Average Resources (46 stores)	$36,854.33
Average Liabilities (46 stores)	$11,188.54
Average Paid-up Capital (50 stores)	$16,627.56
Average Net Worth (46 stores)	$25,675.79
Average Surplus, Undivided Profits, and Unpaid Dividends (46 stores)	$9,728.12
Average Per Cent Membership Trade (42 stores) ..... per cent	60
Average Per Cent Credit Sales (36 stores) ..... per cent	50
Average Rate of Interest Paid on Borrowed Capital (37 Stores) per cent	7
Average Per Cent Active Members (37 stores) ..... per cent	80
Average Annual Sales (45 stores)	$87,781.91
Average Gross Profit on Sales (29 stores) ..... per cent	17.7
Average Rate of Operating Expenses on Sales (33 stores) per cent	11.7
Average Produce Bought (estimated) (22 stores)	$12,126.08
Average Annual Cost of Audit (15 stores)	$56.00
Manager's Average Monthly Salary (42 stores)	$106.00
Salesmen's Average Monthly Salary (31 stores)	$50.00
Saleswomen's Average Monthly Salary (26 stores)	$32.00

Observations and Conclusions.

The figures collected in this survey bring the conclusion that the majority of the coöperative stores established are unsuccessful in achieving their main object—saving on purchases to members and a reduction of the high cost of living. This conclusion is borne out by the supplementary notes collected from managers who could not apply statistics, and by notes on interviews with leaders who are acquainted with the store movement in whole sections which could not be covered in detail. But that there is one real service which the coöperative stores have performed seems to have been demonstrated again and again. Even in cases where stores have failed absolutely and gone into bankruptcy, they have frequently been responsible for the introduction of improved business methods in the towns where they were established. They have had the effect of stimulating competition. In cases where the merchants have competed keenly against the coöperative store, they have been compelled to adopt more efficient business methods. This has resulted in lower prices to every consumer in the locality and frequently in better prices to farmers on produce.

In the case of one particular farmers' store, it was estimated that the farmers of the locality received an increase on their butter, eggs, and

poultry in one year which would have amounted to more than the entire paid-in capital stock of the coöperative store. This gain went to every farmer in the community, regardless of whether or not he was a member of the coöperative association.

The manager of one of the most successful of the stores included in the survey expressed the conviction that the coöperative store is to the business community what the governors are to the steam engine, and that on account of its regulative influence there ought to be a coöperative store in every town. The same manager was of the opinion that it would be an equally undesirable condition to eliminate privately owned business from any town.

In addition to whatever salutary influence the coöperative store may have upon the business community, the survey shows that there are possibilities in the coöperative store, if properly organized and managed, for the accomplishment of important savings to members, thus opening the way for a reduction of the high cost of living. This leads to a summary of the conditions of success and the causes of failure.

Briefly stated, the conditions of success may be summarized under the headings:[4] (1) leadership; (2) capable management; (3) favorable environment; (4) adequate legal safeguards.

1. Leadership.—In every case where a store was found to be a conspicuous success, that success could be traced to the influence of some conspicuous leader. The part which leadership plays in holding the membership of the association loyal to their store is not confined to the organizer. The outstanding leader who has the ability to round up the community must be supported by others who have some talent for leadership. The manager himself must be "a good mixer." In fact, in the most successful stores every clerk has been chosen with a view to adding more enthusiasm and support to the business. Leadership, to be permanently successful, must build up an organization which will be self-supporting and self-perpetuating. A mistake frequently made by the leader responsible for the establishment of a successful association is that he does not provide the necessary organization which will enable it to perpetuate itself after he has severed his connection. Where such is the case, the society is foredoomed to go to pieces as soon as the strong leader is removed. Cohesion must ultimately rest on education, on loyalty to an institution, and on principle rather than on the blind following of a leader.

2. Capable management.—After all that has been said, little need be added in support of capable management as an essential condition for the success of the coöperative store. It should always be remem-

[4] Compare with the rules adopted by the Rochdale pioneers in 1844 and the causes of failure of coöperative stores as given in, Wisconsin State Board of Public Affairs, "Report upon Coöperation and Marketing," 1912, pp. 29, 34.

bered that business efficiency is as essential in the coöperative as in any other type of business organization. Unfortunately for the movement, the average enthusiast who feels a call to promote the coöperative movement has in the past laid more stress on sentiment than on business efficiency. This type of promotion is usually followed by a policy which soon brings the business to a disastrous end.

3. Favorable environment.—In several communities in which successful coöperative stores were found, investigation revealed that there had previously existed some natural bond of union, which in itself was an important factor in determining the welfare of the business. Of these may be mentioned predominating nationality, common occupation, church affiliation, and fraternal organization. The existence of such communities may be taken as a good omen for the success of any kind of business organization on the coöperative plan.

4. Adequate legal safeguards.—A coöperative association, even more than a corporation, requires a legal standing which will secure safety. Every coöperative association is intended to be a sort of public-service institution, and, as such, it should have the legal safeguards which some states have provided by recently passed coöperative laws. In one of these laws, a survey of the locality is strongly recommended before an organization is effected. The same law requires financial statements to be sent twice a year to an official charged with the duty of protecting members of coöperative associations.

The causes of failure, it is evident, are largely the opposite of those conditions which make for success. The converse of the foregoing four conditions of success would be: (1) lack of leadership; (2) poor management; (3) unfavorable environment; and (4) lack of proper legal safeguards.

1. Lack of leadership.—Frequently an outside leader comes into the community and through his enthusiasm arouses the people to a condition in which they are ready to enter upon the establishment of a coöperative store. Then, after seeing the enterprise started, he goes to other communities and leaves the association to work out its own salvation. In many such communities the organization dies from lack of interest as soon as the promoting spirit is gone. In other cases, the leadership in a community may be of such an unpractical character as to lead the association into attempting something which is actually impossible of realization. In such cases, also, disaster is sure to follow.

2. Poor management.—Let the management be ever so efficient, an association may still fall short of success if unpractical leaders force it into attempting the impossible. But even if it be presupposed that the business is adapted to the needs of the community, and every other condition favorable, it may still fail entirely through bad management. Among the outstanding shortcomings of the inefficient manager have

been noticed reckless buying, excessive extension of credit, too great overhead expense, overexpansion, failure to provide a surplus, no allowance for depreciation, inefficient business practice and accounting methods, lack of proper auditing, and failure to secure the support of wholesale houses because of scattered buying.

3. Unfavorable environment.—Where a coöperative association has been thrust into a community which is naturally divided against itself through racial prejudice, interdenominational strife, excessive individualism, or where there is insufficient business to pay the expenses of a store, there can be little hope of success for the association.

4. Lack of proper legal safeguards.—One cause of the failure of many different types of coöperative associations is the lack of proper legislation. Some of the stores organized in the early days under corporation laws have had their stock centered in the hands of a small body of members who have controlled the association in their own interests, and have distributed among themselves whatever surplus accrued as dividends upon capital stock. This means the entire failure of the association from the coöperative standpoint. On the other hand, coöperative laws have been passed by many states that offer no adequate safeguards in the form of preliminary investigation and subsequent inspection. On account of the semipublic nature of the coöperative business, it is believed that both of these safeguards are essential to success.

Recent Growth of the Coöperative Store.[5]

Where coöperation thrives.—Following are some of the advantages which coöperation has enjoyed. First of all, it is honest. Not that coöperators are morally superior to the common run of humanity, nor that private trade is characteristically dishonest. But under coöperative enterprise the incentive to fraud is entirely removed. The store manager, the wholesale director, every official, is on a salary basis, and were he to increase the income of the business through deception or overcharging, the surplus would only go back whence it came—into the pockets of those who had been defrauded, in the form of the rebate on purchases. Thus the coöperative store member's mind is at rest in his own store. He knows that the man behind the counter can gain nothing by misrepresentation. His position is still more secure where organization has reached the wholesale stage of development, for the wholesaler is able to hire experts who can guard their employers against deception.

This element of disinterestedness was perhaps the biggest influence in favor of the coöperative stores during the early days of the War

[5] Sonnishsen, A., *Printers Ink*, Vol. 103, May 9-16, 1918, pp. 49-51; 125.

in the European countries. When private speculators in food stuffs went rampant, sending their prices sky high, the prices in the coöperative stores remained the same for months afterward. So heavy was the rush to the coöperative stores that, for a long period, outside purchasers had to be excluded in Great Britain, and even new members had to be debarred for a period. All this was an object lesson which the public has not yet forgotten.

The second advantage coöperation has over private business is the cash rebate. Coöperative stores probably find it harder to get on their feet than private stores. But, once successful, the coöperative is able to return its whole profit, minus the tax for expansion, to its customer. No retailer can do that. This rebate acquires still more significance when it includes the savings on wholesalers' and manufacturers' prices, as is the case in Great Britain. All these sift back to the members. How many retailers could afford to return 13 per cent on purchase prices to their customers? Yet that is the average rebate in such highly developed countries as Great Britain. It means a great deal when practically all of a family's income goes into the store, for a great many stores build houses and rent them out to their members on the coöperative basis.

When the manufacturing stage is reached the economic advantages become very marked. Before the wholesale factory lays the cornerstone of its manufacturing plant, it knows exactly how much of its product can be disposed of. Its market is already organized, goodwill and all. This eliminates advertising, salesmanship, and the promoter's commission. In every local society there is always an inner group of enthusiasts who boost coöperation as a social ideal. These are the self-appointed salesmen of the wholesale factory's output. The women especially devote themselves a great deal to this work. In nearly all countries there is a special organization of women known as the "women's guild." True, much money is spent in propaganda, but this is taken up by a separate organization and is largely financed by direct dues. The wholesale and the local societies merely make contributions to this fund. But this propaganda is permanent in its results; it creates a moral solidarity and a loyalty—a goodwill which covers the whole coöperative trade.

Nevertheless, coöperation also labors under certain disadvantages. First of all, there is the wage question. The membership is largely made up of the higher grade of the laboring classes, and these are always in sympathy with the highest union conditions for the employees. To-day the two British wholesale societies employ about 40,000 workers in their productive plants alone, while the local societies engaged in production probably employ as many more. Store forces bring the total number up to several hundred thousands. So it is obvi-

ous that the labor question is becoming an important element within the movement. Backed by the Women's Guild, these employees are constantly demanding more wages and shorter hours, until union conditions are now far exceeded. And, on the other hand, the boards of directors, face to face with private competition, are constantly resisting these demands. How persistently this problem troubles the wholesale societies may be realized by reading the reports of the quarterly meetings.

But this advantage on the part of the private trader is now being offset by the tendency of the coöperatives to get back to original sources of supply—the land. The British wholesale societies have increased their tea plantations in Ceylon from 3,000 acres, before the War, to 20,000 acres. Obviously they can beat the chain store on tea. The same is true of soap. The manufacturers have acquired plantations in West Africa where they raise their own palm oil, and they have fat-rendering plants in Australia. They have purchased literally thousands of acres of fruit orchards at home, where they raise fruit for their jam factories. Now they are also beginning to produce their own wheat. Perhaps the chain store proprietors may respond by a similar move on their part, but until they do they are at a disadvantage with the coöperatives. For now the smallest coöperative has the advantage of owning its own tea plantation, wheat fields, etc.

I now come to what is probably the permanent limitation of the coöperative system.

Coöperation's strong point, its specialty, *is quality, service, durability. But it is weak on "style."* As an illustration: the big Leeds society, with its dozens of branch stores and big manufacturing plants, produces shoes which will outlast any shoe for the same price sold in private stores. But, like our army shoes, they are not much to look at. So the younger generation lets the old folks buy coöperative shoes and goes elsewhere for its own shoes. The same is true of clothing. The coöperative ready-made suits are not of elegant or fashionable cut. So the trade of the younger people who are willing to pay higher prices for appearance is lost.

However, the wholesale society does turn out very elegant women's dress goods, and the coöperatives are likely to learn in time. But I am pointing in a significant direction.

The wholesale societies manufacture furniture in big quantities. But because they do manufacture in big quantities *they are bound down by conventional designs, such as will appeal to vast numbers.* Thus, the furniture manufacturer who can put his personality into his designs, who can create a handsome chair, or an elegant bookcase, is in very little danger from coöperative competition. On the other hand, his market is restricted to special tastes.

Another instance: the wholesaler raises tons of fruits for its jam

factories. But this should not trouble the private horticulturist who can produce a peach so delicious that people will pay a higher price to eat it fresh. The wholesaler raises carloads of cucumbers for pickles. But the gardener who can raise a special, frost-defying cucumber will still get his price for the product of his labor and enthusiasm and patience. No coöperator would deny it him. When we want plain pickles, we turn to the coöperatives. But if a passion for fresh cucumbers overcomes us in the month of April, private business will probably get the benefit of our trade.

This same rule obviously will apply in the field of mechanical invention. Coöperation has no quarrel with our patent law. Financially it is able to pay as big a price for an invention as any private corporation. If it is an invention applying to any of the big industries in which it is engaged, it will probably get the invention, at the inventor's own price. But if it is a new mouse trap—well, there is no reason why the inventor should not build up a private trade of his own. The coöperatives will even patronize him, if the mouse trap is really good.

Nor need it necessarily be a mechanical invention. The same holds true of any specialty of genuine value. Generally speaking, coöperation is teaching its members the economy of goods in bulk, so that an advertised brand of plain flour has very little chance of a market in the coöperative stores. But Worcestershire sauce, as an instance, has, for it consists of a special recipe, the invention of human genius. A special soap of medicinal value, let us say, would also find the coöperative movement a good market. The man with such a genuine commodity can force his way into the very heart of coöperation, for the wholesale buyers are looking only for what is demanded by their employers, the rank and file of the movement. They have no hobbies. Produce such a specialty, advertise it, and create a demand for it, and you can talk business to the wholesale buyer.

Where coöperation thrives.—And here, in agreement with Mrs. Sidney Webb, who has written brilliantly on the coöperative movement, I am inclined to believe is the boundary beyond which coöperation will never pass very far. *Coöperation is for mass production, for big industry. Private business has ever been a good pioneer.* Mrs. Webb believes that neither socialism nor coöperation is adapted to enter into this outlying domain. Invention and genius are by their nature individualistic. They must be left to individual initiative.

Coöperation should ever welcome competition. Collective monopoly is no more desirable than private monopoly. Should coöperation ever acquire universal control of flour milling, the door should always be left open to the private miller. If he can enter and make good, then there is the basis for an inquiry into coöperative management. Obviously there would be something wrong, which should be rooted out. The

stimulus to do so would be given by the private miller, even though eventually it might work his own undoing. But potentially he should be ever present.

Do Coöperatives Successfully Eliminate the Middleman?[6]

Finally, how do consumer-owned coöperative enterprises function on this proposition of elimination?

Fair examples are found in the great coöperative societies of England and Scotland.

The customary process in the formation of these enterprises is for the people of a community to join together and each to subscribe the equivalent of about $5 or $10 towards the capital for setting up a local retail coöperative store which sells both to the subscribing members and to the general public, but dividends based upon the profits of the store are paid to the subscribers, not in proportion to their stock holdings, but to their purchases at the store.

They start out, then, by *not* eliminating the retail store, but by establishing a new one in the community and owning it themselves.

"Coöps" go to the source.—Although many of these "coöp" stores buy in part or mainly from ordinary jobbers, the majority have joined in setting up their own coöperative wholesale societies. Thus the consumers own the retail stores and the retail stores own their own jobbers. Single ones of these wholesale "societies" do a business of several hundred million dollars a year, selling exclusively to the coöperative retail stores. So great are their operations that they also own several factories and on foreign continents own their own plantations and warehouses.

But in these very facts of the way in which these consumer-owned institutions organize to perform their functions is the strongest demonstration that the wholesale and retail middlemen cannot be eliminated. They may be owned, their profits may be turned back to the consumers or part of the consumers; but it is futile to start to "buy direct" or to cut out the jobber or retailer. And the wastes and losses also must be borne by the consumer, and it must not be overlooked that these "coöp" stores often fail or run into losses.

It remains to be considered whether, in spite of the non-elimination of middlemen, the coöperative society and the other recent types of distributors merit the measure of success they enjoy, or whether they are psychological rather than economic phenomena—temporary and passing.

As to the coöperative store system, it may be admitted that there is no saving in the machinery of distribution. Even to the matter of traveling salesmen representing the wholesale societies and calling upon

[6] Ingersoll, W. H., "Can the Middleman Be Eliminated?" *Marketing*, January, February, March, 1920, p. 1.

the very retail stores which own them, all of the paraphernalia of the ordinary jobbing and retail system is duplicated. The wholesale societies find that it is necessary to explain their wares, answer questions and objections, and stimulate the managers of the retail stores to order more and new goods, and they maintain a large staff of travelers to accomplish these and other purposes. Advertising is similarly employed.

If they do all of the work of the conventional distributing system and eliminate none, where may they be expected to make savings for their consumers?

The second of our tests referred to saving unearned or unreasonable profits taken under the existing distributing system. Can the coöperative or other large retail institutions maintain themselves more efficiently and cheaply, and thus make savings and earnings to the ultimate users of commodities?

On a keen competitive basis.—Do the ordinary wholesalers and retailers extort exorbitant profits offering a chance to puncture inflated prices on that account? They are on a keenly competitive basis. They compete with each other and also with the chain stores, manufacturers' stores, and department stores. If there were any general, willful overcharging, it would seem as though it would immediately react to drive trade from those who indulged in it. Yet the vitality and persistence of the stores and jobbers of the old order baffle and annoy those who look for and seek their early removal. On the other hand, the growth of department stores, chain stores, and especially of the great "coöps" systems of Europe, and the popular impression in some quarters that they can and do undersell the small stores which obtain their goods through customary channels, had caused them sometimes to be hailed as deliverers from the burdens of the high living costs which have grown so persistently higher and their commercial success is accepted as proof of fitness.

Yet if all the work of the old system remains to be done under the new, one must wonder whether it is because a hired manager of a store which he does not own is necessarily more capable or interested or efficient than the owner-proprietor whom he is intended to replace. Do people ordinarily work better for others than for themselves? Do they watch the small economies, have they the incentives for hard work, close supervision, and skillful management when others take the profits or stand the losses? Will the managers, foremen, and laborers work harder, produce more, or take less wages in a factory owned by absent consumers than in one of the ordinary variety?

Chapter XVI

COSTS OF MARKETING

What the Retailer Does with the Consumer's Dollar.[1]

Just so long as small, inefficient stores remain in business consumers need not expect to obtain foods and retail services at lower costs. This is true because small stores can neither buy goods to advantage nor reduce operating expenses. While present margins barely cover the expenses of small stores, they do provide profits for stores large enough to buy efficiently and to reduce expenses. Contrary to public belief, it is the excessive costs of small, inefficient stores that make present margins necessary. Those stores that make profits do so not by increasing their margins but by reducing their costs. Volume of business is the first step necessary to bring increased efficiency. Among small stores, increased volume of business can be accomplished only by consolidation. If they are not consolidated, improvement of retailing requires their elimination.

Meaning of technical terms—*Buying price.*—This is the price retailers pay to farmers, wholesalers, or others for the products handled in retail stores. Since retailers buy mostly from wholesalers this term indicates primarily prices paid to wholesalers by retailers.

Selling price.—This is the price retailers charge consumers for goods. It covers all articles sold, whether they are carried home by the consumer or delivered by the retailer. Furthermore, it is immaterial whether the goods are paid for in cash or charged.

Operating margin.—This refers to the number of cents out of each dollar paid by the consumer which the retailer does not pay out in buying foods. Operating margin, in other words, is the difference between the money taken in for all goods sold and the money paid as buying prices for these same goods. The percentage margin, usually means something different to retailers than to consumers. Consumers think of the margin as a percentage added to the wholesale price, retailers think of their margin as a certain percentage of the selling price.

[1] Theodore Macklin and P. E. McNally, Bulletin 324, Wisconsin Agricultural Experiment Station. To obtain complete facts covering both sides of the consumer-retailer situation, the Wisconsin Agriculture Experiment Station, coöperating with the Wisconsin Division of Markets, and backed by the Madison Association of Commerce, conducted a careful investigation. The results are presented in this bulletin.

Operating expense.—This refers to every conceivable kind of expense or cost which a retailer must meet in his business, with the following exceptions only: (1) salary, wages, or other compensation to the storekeeper or manager, who runs the business; (2) wages or other compensation to members of the owner's family, who work without receiving pay; (3) interest on the investment in fixtures, stock of goods, or other essentials to the grocery business.

Balance.—This means the portion of the retailer's income left after paying for all goods bought and meeting operating expenses. It is a fund from which the following expenditures must be made, if made at all: (1) compensation for the services of the storekeeper or manager; (2) compensation for otherwise unpaid family labor of storekeepers; (3) interest on money invested in the retail business; (4) profits; and (5) total balance, which must also include the value of goods taken for the storekeeper's family use, but not paid or otherwise accounted for.

Price variations and retail margins.—The retailer is in business to make a profit. In striving for it the storekeeper is legally competing for a reward which goes to the relatively efficient dealer only. The truth of this statement lies in the fact that many storekeepers fail to make wages, not to speak of profit. To make a profit requires the retailer not only to buy at as low prices as competitive conditions permit, but to sell for as high prices as other retailers are able to secure from consumers. In addition he must keep operating costs at a minimum. Because market prices change from day to day the buying prices for retailers are not identical for all. Similarly, consumers' demands fluctuate so that like margins on the same kind of products cannot be obtained by all retailers. Neither can one retailer necessarily secure the same margins from day to day or month to month. Because prices fluctuate, there are periods of loss and periods of gain in every business. When apparent shortage causes a higher price level, as was recently the case in the sugar market, the retailer who had previously purchased stocks of sugar at low prices received a high margin merely because he asked and received the current competitive sugar price. Regardless of how much or how little he may have paid for his supply, his procedure was economically justifiable. Competition, if it works at all, is bound to make prices seek the same level, but not necessarily a lower level, all political and popular condemnation of the principle to the contrary.

MARGINS* RECEIVED BY RETAILERS ON VARIOUS COMMODITIES IN 1919

Article	*Usual Margin Per Cent*	*Highest Margin Per Cent*	*Lowest Margin Per Cent*
Cream	8	20	8
Butter	7 to 10	10	3
Flour	7 to 10	15	3
Eggs	8 to 13	18	4
Soap	10 to 15	20	3
Oleo	11 to 15	38	9
Fruit	10 to 20	35	8
Bread	15 to 20	24	7
Lard	15 to 20	25	9
Cereals	15 to 23	25	5
Cheese	20	25	5
Coffee	20	30	9
Meats (canned)	20	33	12
Meats (fresh)	20	25	17
Bottled Goods	20 to 25	35	10
Canned Goods	20 to 25	33	12
Cookies	20 to 25	30	5
Tea	20 to 25	40	15
Candy	25	40	20

* Margin expressed in percentage of retailer's selling price to consumer.

Besides price fluctuation, the number and character of services rendered and the costs of these services are likely to adjust margins through competition to a level justified by the character of services rendered. The perishability of products and many other factors also influence the width of margins. Slackening of demand resulting in the accumulation of perishable vegetables forces a fall in price because greater loss would result from spoilage than from selling at a price enough lower to dispose of the supply. With these observations in mind it is of interest to note that retailers in Madison sold foods at prices which left them the margins shown in the above table. The usual margins received ranged from 7 to 25 per cent depending upon various conditions or characteristics some of which have been noted.

Extreme variation in size of retail stores.— A very high proportion of the retail food stores are small. In fact, almost four-fifths of the stores sell less than $50,000 worth of products annually. It is significant that almost one half of the seven-million-dollar food supply of the city is handled by these small, individual concerns. It is impressive on the other hand to find in the following table that five stores, representing only 6.3 per cent of the stores studied, handled one-third of the aggregate sales; while one-fifth of the stores made more than one-half of the total sales. The size of stores in a very important way affects the efficiency of retailing as will be shown later.

SALES MADE BY 79 STORES IN 1919

Size Group	Number Stores	Aggregate Sales	Average Sales per Store	Per Cent of Stores	Per Cent of Aggregate Sales
Under $10,000	8	$33,563.28	$4,195	10.1	1.0
$10,000, under $20,000	19	250,864.19	13,203	24.0	7.5
$20,000, under $30,000	11	262,402.97	23,855	14.0	7.9
$30,000, under $40,000	11	383,991.61	34,908	14.0	11.5
$40,000, under $50,000	14	618,840.05	44,203	17.7	18.6
$50,000, under $60,000	6	316,651.85	52,775	7.6	9.5
$60,000, under $100,000	5	359,312.58	71,862	6.3	10.8
$100,000 and over	5	1,101,270.37	220,254	6.3	33.2
Total	79	3,326,896.90	42,113	100.0	100.0

How retailers divide the consumer's dollar.—More than four-fifths of the consumer's dollar was paid by Madison food retailers for the goods which consumers bought. In fact, from 84 to 85 cents was expended for food products by the average retailer out of each dollar paid by consumers. The average margin received by retailers, therefore, was about 15 or 16 cents on each dollar of sales. The costs of operating the different stores varied considerably as is indicated by figures in the two following tables. It is surprising no doubt to find that the large stores take no larger margins than do the small retailers and that, while expenses vary considerably, the balance obtained is practically the same per dollar of sales for large as for smaller stores. The average operating expenses were from 11.7 cents to 12.3 cents for each dollar paid by consumers, while the average balances made were from 2.5 to 4.5 cents. Comparisons of the items of expense in the different sizes of stores may be made by reference to figures in the following tables.

DISTRIBUTION OF CONSUMER'S DOLLAR BY SIZES OF RETAIL STORES MAKING DELIVERY

Items of Expenditure	Average for all 17 Stores Cents	Average for 12 Stores under $50,000 Sales Cents	Average for 3 Stores $50,000 under $100,000 Sales Cents	Average for 2 Stores $100,000 Sales or More Cents
Purchases of Products	85.2	87.8	85.7	83.0
Labor Inside Store	5.3	3.0	4.5	7.2
Rent of Building	1.9	1.8	1.3	2.3
Merchandising Supplies	.6	.5	.7	.6
Bad Accounts	.06	.3	.08	.01
Delivery Expenses	2.3	2.2	2.5	2.2
Other Operating Expenses	2.14	2.2	1.22	1.69
Balance	2.5	2.2	4.0	3.0
Total income to retailer or the amount paid by consumer	100.0	100.0	100.0	100.0

DISTRIBUTION OF CONSUMER'S DOLLAR BY SIZES OF RETAIL STORES NOT MAKING DELIVERY

Item of Expenditure	*Average for all 20 Stores* Cents	*Average for 9 Stores under $20,000 Sales* Cents	*Average for 7 Stores $20,000 under $50,000 Sales* Cents	*Average for 2 Stores $50,000 under $100,000 Sales* Cents	*Average for 2 Stores $100,000 Sales or More* Cents
Purchase of Products	83.8	81.8	82.0	86.5	85.7
Labor Inside Store	5.5	3.9	4.0	5.7	5.9
Rent of Building	1.9	3.9	1.6	1.4	1.9
Other Operating Expenses*	4.3	6.7	6.2	1.7	2.9
Balance	4.5	3.7	6.2	4.7	3.6
Total income to retailer or the amount paid to consumer	100.0	100.0	100.0	100.0	100.0

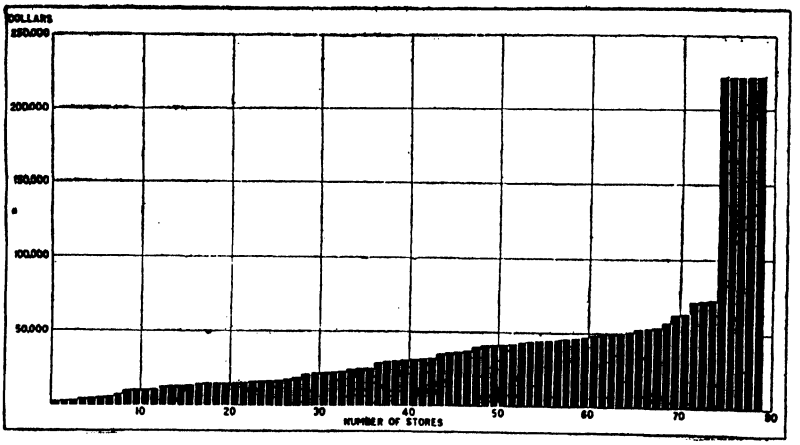
*Includes expenses corresponding to merchandizing supplies and bad accounts in preceding table.

Large stores have lower costs.—It is customary among small stores for members of the storekeeper's family to give their help at various times without pay. In the largest stores virtually all help is paid for in cash. In spite of this hiding of part of the real expenses of the smaller stores their costs were not found to be any lower than in large stores. In fact, there is a rather decided tendency for costs to decrease per dollar of sales in the largest stores. The figures in the above tables clearly indicate that the smallest stores have the highest operating expenses. Their margins, moreover, are also the highest. The facts seem to indicate, contrary to public belief, that the larger stores receive margins and meet operating expenses amounting to no more per dollar of sales than the margins and operating expenses of the smaller stores. The tendency is toward lower operating costs in larger stores. The importance of this fact will be explained later.

AVERAGE SALES, MARGINS, EXPENSES AND BALANCES OF 37 STORES—1919 AVERAGE

Size of Store	*Number Stores*	*Average Sales*	*Average Margin*	*Average operating Expense*	*Average Balance*	*Additional Income**	*Total Balance*
Under $20,000	9	$11,686	$2,133	$1,703	$430	$257	$687
$20,000, under $50,000	19	37,765	5,356	4,011	1,345	305	1,650
$50,000, under $100,000	5	64,008	8,974	6,238	2,736	190	2,926
$100,000 and over.	4	247,317	40,216	32,594	7,622	none	7,622
All stores	37	57,785	8,930	6,481	1,989	245	2,234

*Additional income refers to the estimated value of goods taken by the store keeper for family use, without having an account to cover these values. It, therefore, represents an addition to the storekeeper's calculated balance. It is a part of his actual income or total balance.



Effect of Competition on Sizes of Stores.

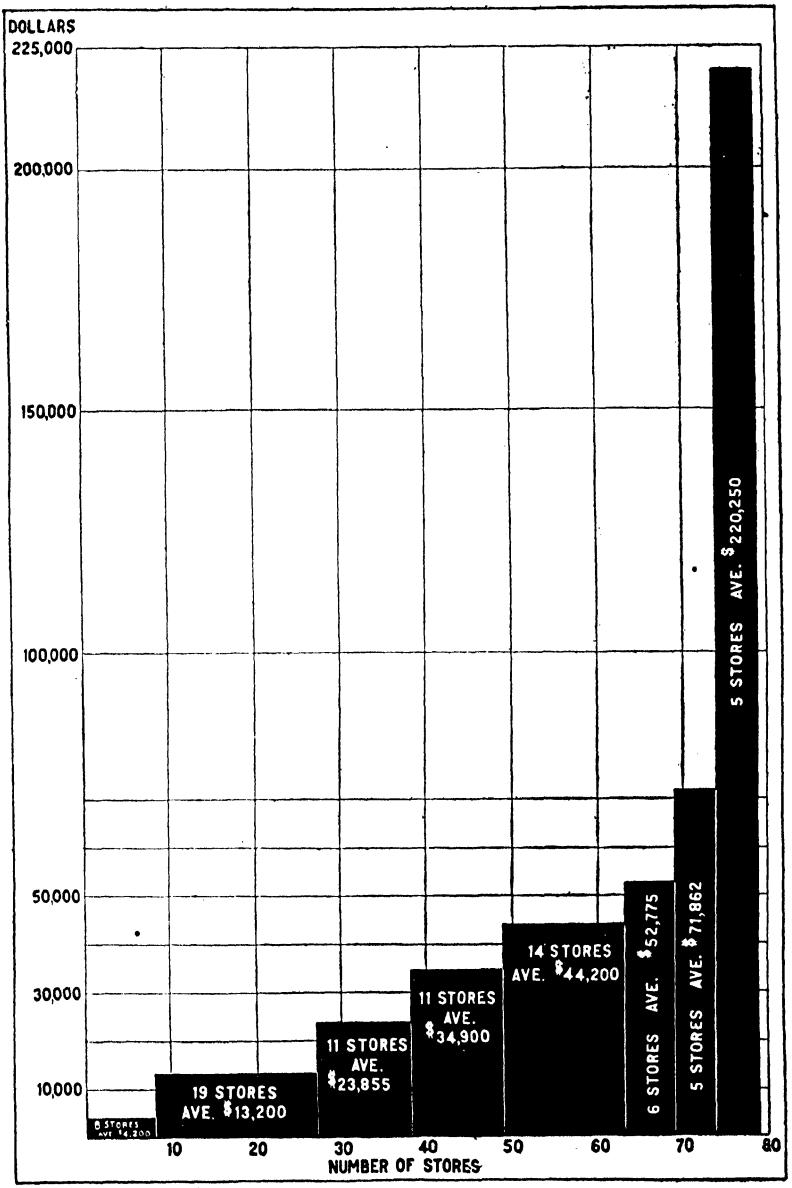
Food retail stores varied from pigmies to giants in their annual sales. The range in size and efficiency is altogether too great.

Each black bar in above figure represents the value of sales during 1919 for one store. The shortest bar indicates a store selling less than $2,000 worth of food. The longest five bars show that five stores, each selling more than $100,000 worth of food average more than $200,000 sales. Four-fifths of these seventy-nine stores (sixty-three) each sold less than $50,000 worth of food in 1919. Most of them are too small and inefficient to render the public the service that is desired at margins that would both please the public and give a profit to these storekeepers. Improvement in retailing requires that they be either consolidated or eliminated. This illustration emphasizes what free competition does in the middleman business. The weaknesses of competition apparently are not being overcome either by the initiative of middlemen or by the so-called solutions of legislative action. The probability is that these wasteful conditions will not cease until the public is better informed and buys with economic judgment.

The number of stores and their sales volume shown in the next figure is even more striking. While the eight pigmy stores had to have wide margins to meet their excessive expenses, and even then did not make profits, the giant stores receiving the same prices or lower ones made profits. It is futile to expect improvement in retailing so long as conditions remain which keep these inefficient stores in business.

AVERAGE SALES AND MARGINS, EXPENSES AND BALANCES IN PERCENTAGE OF SALES

Size of Store	*Number Stores*	*Average Sales*	*Margin in Per Cent of Sales*	*Operating Expense in Per Cent of Sales*	*Balance in Per Cent of Sales*
Under $20,000	9	$11,686	18.3	14.6	3.7
$20,000, under $50,000	19	37,765	14.2	10.6	3.6
$50,000, under $100,000	5	64,008	14.0	9.8	4.2
$100,000 and over	4	247,317	16.2	13.1	3.1
All stores	37	57,785	15.3	11.8	3.5



Relation of Number of Stores to Volume of Sales.

One-sixteenth of the stores did one-third of the business, while four-fifths did less than one-half.

Labor cost largest retail expense.—The cost of labor is the largest single item of expense in retail food stores. During the period covered by the study it represented from one-quarter to two-fifths of the total margin received by storekeepers, and took from 4.1 cents to 6.8 cents out of each dollar paid by consumers. In the following Table figures are presented which indicate that the larger stores have higher labor expense. This, however, is due to the fact that large stores pay for all their help, while most of the small stores exploit members of the storekeeper's family by utilizing their time without paying for it.

COMPARATIVE COST OF LABOR IN STORES

Size of Store	*Number Stores*	*Expenditure for Labor**	*Per cent of Sales*	*Per cent of Margin*
Under $20,000	7	$670	5.2	27.7
$20,000, under $50,000	19	1,390	4.2	25.9
$50,000, under $100,000	5	2,636	4.1	29.4
$100,000 and over	4	16,903	6.8	42.0

* Exclusive of labor involved in delivering.

Delivery cost heavy expense.—The second most important retail food store expense is that of a delivery system. It required from one-eighth to almost one-fifth of the margins obtained by retailers and represented from 2.2 cents, to 2.5 cents out of each dollar paid by consumers to stores operating delivery systems. The facts in the following table, however, indicate that it costs no more for large stores to deliver their products than it does for small stores. Delivery costs were about constant per dollar of sales for all sizes of stores. A large proportion of the small stores, however, do not maintain delivery systems because the expense cannot be met.

COMPARATIVE DELIVERY COSTS

Size of Store	*Number Stores*	*Expenditures for Delivery*	*Per Cent of Sales*	*Per Cent of Margin*
Under $20,000	....	..	....
$20,000, under $50,000	12	$871	2.2	18.2
$50,000, under $100,000	3	1,645	2.5	17.3
$100,000 and over	2	8.078	2.2	13.2

Rent third important expense.—Approximately one-eighth to one-fifth of the margin received by retailers was spent for the rent of the building and any additional warehouse facilities utilized by the retail enterprise. Rent took from 1.2 cents to 3.5 cents out of each dollar paid by consumers. Small stores, according to the figures in the next table had relatively much higher rent expense per dollar of sales than large stores.

COMPARATIVE RENT EXPENSE

Size of Store	*Number Stores*	*Expenditure for Rent*	*Per Cent of Sales*	*Per Cent of Margin*
Under $20,000	7	$439	3.5	19.4
$20,000, under $50,000	19	560	1.5	10.4
$50,000, under $100,000	5	737	1.2	8.2
$100,000, and over	4	3,918	1.6	9.7

All other expenses less than half of margin.—The three principal expenses—labor, delivery, and rent—consumed from one-half to three-fourths of the retailer's margin. The remaining large number of small expenses amounted to from 1.7 cents to 6.7 cents out of each dollar paid by consumers. Tables on pages 367 and 368 indicate to some extent the nature and importance of these costs. They cover such items as paper bags, wrapping paper, string, order books, stationery, depreciation, advertising, interest paid on borrowed money,[2] losses through bad accounts, and various other expenses. In the larger stores these expenses were kept lower than in small stores.

Grocery and meat retailers not profiteers.—The food retailers of Madison during 1919 received total margins which varied from 12.2 cents to 18.2 cents out of each dollar paid by consumers. Their operating expenses took from 8.8 cents to 14.5 cents, while balances ranged from 2.2 cents to 6.2 cents per dollar of sales. Since these balances averaged only $2,234 for the year and this was the only source of earnings with which to pay the storekeeper or manager his wages or salary and to provide profits, it cannot be said that Madison food retailers are profiteers. The figures in the following table indicate that storekeepers running the smaller establishments do not earn even wages for their own labor, let alone paying interest on their investment and making profits. They continue in business with the hope that conditions will improve. Stores with sales of $50,000 to $100,000 annually scarcely bring more than current wages to storekeepers. In all stores doing a business of $100,000 or more, there were several managers or partners so that even in these larger stores a balance of $7,600 is not more than $2,000 to $2,500 to each storekeeper or partner. Even in the larger stores, therefore, retailing cannot in any sense be considered a highly paid line of work. The retailer who is able to earn a salary of $2,500 is in a class so rare that he should feel fortunate indeed. The table below shows the balances received in meat and grocery retail stores of different sizes. Only the larger stores were able to make sufficient earnings to cover wages and make a profit.

[2] Interest on borrowed money is an expense contracted as payment for the use of other people's money just as wages are contracted as payment for the use of other people's time and energy.

BALANCES* EARNED BY 36 RETAILERS—1919

Size of Stores	*Number Stores*	*Total Balances*	*Average Balance*
Under $20,000	9	$4,056	$450
$20,000, under $50,000	18	28,763	1,600
$50,000, under $100,000	5	9,767	1,954
$100,000, and over	4	30,488	7,622
All stores	36	73,074	2,030

* See definitions on page 365.

BALANCES* MADE IN GROCERY AND MEAT STORES

	Meat Stores		*Grocery Stores*	
Size of Store	*Number Stores*	*Average Balance*	*Number*	*Average Balance*
Under $20,000	2	$51 loss	7	$594
$20,000, under $50,000	5	2,045	13	1,426
$50,000, under $100,000	1	313 loss	4	2,520
$100,000, and over	2	7,328	2	7,916
All stores	10	2,447	26	1,870

* See definitions on page 365.

Profit reward to efficient retailer only.— The size of the retailer's balance is in reality a reward for his efficiency. Competition is keen indeed. Among thirty stores studied, eight lost amounts ranging from $200 to $1,921 while some made balances around $3,000. Those who lost money and those who made the highest profits sold goods of the same quality for practically the same prices. The losses were directly the result of either small size of business causing excessive costs due to inefficiency, or to inability to purchase supplies or products in accordance with the needs of the business.

It is the economic duty of private middlemen to buy as cheaply as they can and to sell at the highest prices obtainable under fair competiton. This is true regardless of the price which retailers may have to pay for the products. The man who can buy cheaply is just as much entitled to sell at the current consumer price as are those who were obliged to pay excessive prices for their goods. That the prices which consumers pay retailers rise relatively high at times is proof of a shortage of supply so far as either the retailer or the consumer is concerned.

The middleman who pays more for supplies than competitive conditions require, or sells to consumers for less than the market situation justifies, is manipulating economic conditions to the detriment of both producers and consumers. On the consumer side, when prices are lower than can be obtained, the low prices artificially register a sufficient supply when in reality there is not. The result is that producers are paid lower prices. In turn lower prices reduce supply to the detriment of both consumers and producers. On the contrary, when more is paid

for products than is necessary, the high prices artificially register a shortage in supply while in reality there is no shortage. Moreover, high prices encourage production when it is not needed. This leads to oversupply, with falling prices to producers as a result. To avoid such manipulation it is necessary that all retailers buy at as low prices as competition permits and sell for as high prices as other competitors receive.

Monopolists the only profiteers.— The most effective way of regulating prices, or of overcoming shortage and of preventing oversupply, is for all competitive middlemen to practice this economic principle. According to this principle—buying at lowest prices and selling at highest prices consistent with volume of sales and efficient services—no competitive business can profiteer. Profiteering exists only when a monopoly artificially controls and limits supply to regulate price and exact wide margins. This study of Madison food retailers finds them strictly competitive. The evils which the public has imagined in regard to Madison retailers of food is not due to any form of profiteering. On the contrary, some of the evils attributed to profiteering are directly due to weaknesses of competition, rather than to supposed manipulations of monopoly.

Causes of inefficiency in retail system.—The distribution of Madison's food supply is now accomplished by so many retailers that the average ones do too small a business. Altogether too large a number are inexcusably small. The small retailer cannot buy efficiently. Because more than two-fifths of the food supply of Madison is purchased by exceedingly small concerns, competition is regulated by retailers who are inefficient buyers. The two chief weaknesses of the present retail system are that the operating costs of small stores are greater than those of large stores and that small size prevents efficient buying.

The public tends to assume that price cutting is the secret of doing business successfully. This is a practice, however, of small and inefficient storekeepers only. Yet, in spite of frequently selling special articles at cut prices, numerous stores which do this obtain no smaller annual margins than do large stores. The reductions of margin on some articles are usually balanced by higher margins on goods that are not advertised or sold as specialties. To buy at the lowest possible prices and to sell at the highest prices obtainable, consistent with efficient performance of retail services, leads every efficient store manager to solicit business, not by price cutting, but by proving to customers that they secure more for their money at one place than at another. Public welfare demands larger volume of products per store.

There are two current ideals of business: one is based on maximum sales at lowest margins to secure similar aggregate profits; the other is based on minimum sales at maximum margins. The former is more in

keeping with public interest. The large store can buy cheaply enough to make a profit when the small store is losing money. Moreover, the large store can study and find means of reducing costs which the small concern cannot do. This is so, because small stores make insufficient money to pay even proper wages, without hiring experts. To assume, therefore, that large stores will voluntarily reduce prices in order to drive smaller stores from the field is not generally in keeping with retail store customs and practice. Under present conditions, therefore, margins received by retailers are regulated generally by the width of margin required to keep the small, inefficient store in business. This is unfortunate because the small store, as such, has not the funds with which to pay for management which will take the initiative in improving retail conditions. It is powerless actively to stimulate conditions among the retailers of the city which will generally result in (1) creating greater efficiency in buying; (2) reducing operating expenses; and (3) reducing margins. Neither can these small stores bring about needed improvements of a strictly trade character, as, for example, standardized accounting, systematized and unified deliveries, uniform credit systems, and other desirable features.

Food by efficient stores only.—Improvement in the retail system requires above all else that the handling of food be done entirely by efficient stores. To have all stores in operation large enough to render retail services efficiently requires that their number be reduced either by consolidation or by elimination. This cannot be done easily or without opposition. That it should be done is certain.

Consolidation or elimination might be brought about in a number of ways. The retailers might face the problem squarely and initiate a plan of consolidation, but that is not likely. Competition is such that retailers seem to be unable to take action upon most of the solutions which would require mutual agreement and enforcement. It is exceedingly doubtful whether the causes of present retail inefficiency will ever be eliminated by retailers themselves.

Methods of promoting efficiency.—A more dependable means of promoting efficiency in all retail stores is to stimulate keener competition among efficient concerns. It may be done in two ways. A number of consumers might be organized into a coöperative society which, because of a steady large volume of business, could employ the highest grade of management. First-rate management could either force all of the small stores out of business or compel them to consolidate in order to survive. Consolidated stores would mean enlarged sales, more efficient buying of supplies, lower operating expenses, and reduced margins.

If coöperation does not seem feasible as a means of effecting consolidation, consumers might be led to concentrate their patronage on a

number of suitably situated, efficient stores. The enlarged volume of business would justify lower expenses and margins. Whether these stores were in competition or not could be ascertained when the problem became of practical importance. Suitable regulations could be imposed then to promote efficient service for the public.

As a last resort, some form of municipal commission working with state marketing officials might be developed to investigate and place before the public facts which indicate the conditions of retailing in respective localities. New enterprises could be required to show reasons why they should be licensed for entrance into retailing business. All concerns which were in business and failed to furnish efficient retail services to the public could be closed by revocation of licenses. This, however, represents a step which progressive retailers should attempt to avoid by seeing to it that other less radical measures are effectively applied to improve or remove present inefficiency in the retailing of food.

Retailers should recognize that as middlemen they are responsible for rendering services efficiently. They should, therefore, try to regulate the conditions of retailing to bring about betterment to themselves and to the public and not permit present weaknesses to continue.

Expenses, Sales, and Stock Turnover Contrasted—Some Operating Standards for Dealers Who Make Profit.[8]

Conditions in the trade.—The average cost of doing business for reporting stores in Chicago for the six four-week periods, February 26 to August 11, was 20 per cent of sales. For the period August-September, the corresponding figure was 19.2, and for the period September 8 to October 6, 18.2. Wages for the six periods averaged 13.0 per cent of sales.

In the last period, September-October, the ratio was 11.7. Rent took 2.3 per cent of sales during the six periods; in September-October the ratio was 1.9. Merchants turned their stock every 4.2 days during the six four-week periods; in September-October this fact was accomplished every 3.6 days.

While it cost Chicago merchants 20 per cent to do business, the corresponding cost for shops in Cleveland was 21.6; in New York, 21.5, and in outlying cities 18.1. Stock was turned every 3.9 days in Cleveland, every 4.4 days in New York, and every 5.9 days in the other cities.

These costs and ratios of stock turn fairly well describe the situation in the different cities during September-October. For a group of identical stores in Chicago, sales in September-October increased 5 per cent over those in the period August-September; expenses, however, in-

[8] Horace Secrist, Director of Business Research, Northwestern University.

creased at the same rate, leaving the merchants' positions in the two periods unchanged.

When all experience available is considered, the cost of doing business for Chicago merchants in the September-October period was 1.8 less than for the six four-week periods ending August 11. Much the same condition holds for the other cities. Expenses to sales seem to hold at approximately 20 per cent.

Individual experiences of retail meat dealers in Chicago.—Quite as interesting as the combined experiences of retail meat dealers as a class are those for individual dealers. Data for the trade as a whole do not reveal the operations of either the successful or the unsuccessful merchant. It is only when individual experiences are given that merchants are able to observe the standards of excellence which can be achieved and those of failure which must be avoided.

In order to show what has happened to fourteen retailers during the period February 26 to October 6, Table on page 379 is inserted. This little table is instructive. Opposite the letters, which are used to designate the firms, are shown the operating expenses for each firm for the different four-week periods during the past eight months.

It will be noticed that some have been able to keep their operating cost at essentially uniform levels. For others their costs have violently fluctuated from month to month. Moreover, some of their costs are low when the whole period is considered, while others are equally high. Eight months is too short a period to indicate the way in which merchants can adjust themselves to different economic conditions, but it is long enough at least to suggest if not definitely to show what changes obtain in the trade as it is carried on.

It is interesting to study those expense ratios in the light of the profits which the merchants make. The expenses of merchants who suffered losses in the different periods are marked with parentheses. While there are exceptions to the rule, it will be noticed that merchants with low operating expenses more frequently make a profit than do those with high operating expenses.

Competition in the trade makes it difficult for merchants to increase the margin under which they can do business. The effects of their management, however, are clearly shown in their operating expenses. If profits are to be made, it is the expense end of their business which must receive attention.

Progress of stores, types "A" and "B".—In another story, two shops in the retail meat field were taken as types—store "A," a constant loser; and store "B," a constant winner. Merchants will be interested in the "health" of both of these establishments since the last report.

Both are "progressing"—"A" further and further toward ultimate

failure; "B" just as surely further along on the road of conspicuous success.

"A" fails with a cost of operation of 29 per cent, while "B" succeeds with a cost of 17 per cent.

"A" with difficulty turns his stock once in 10 or 12 days; "B" accomplishes this in 2 or 3 days.

It will be interesting to watch the further development of these two stores which may be taken as typical of the successful and the unsuccessful store in this field.

Operating standards of successful meat dealers in Chicago.—Our study of the experiences of retail meat dealers point unmistakably to definite standards which merchants must equal or exceed if they are to continue to make a reasonable profit. Let us set those down in a brief form, indicating for each of five major conditions of operation those standards which are *most common;* those which are *very common;* and those which may be called *common.*

1. *Going ratios of purchases to sales.*—The *most common* ratio of purchases to sales is 76 to 78 per cent. *Very common* ratios occur at 72 to 74 per cent, those ratios appearing 95 per cent as frequently as the *very common* ones. Ratios of 68 to 72 per cent are also *common,* the number of stores having them being about 72 per cent as large as those which have ratios which are *most common.*

2. *Going ratios of gross margins to sales.*—The *most common* gross margins for stores making a profit are from 25 to 27 per cent of sales. On the other hand, ratios from 23 to 25 are *very common,* the same being found 85 per cent as frequently as the *most common* ones. Other *common* ratios are from 21 to 23 per cent. These appear 75 per cent as frequently as those which are *most common.*

3. *Going ratios of total operating expenses to sales.*—The *most common* cost of doing business for merchants who make a profit is 21 to 21½ per cent of sales. However 18½ to 20 per cent are *very common* costs, these occurring in about 65 per cent as many cases as those which are *most common.* However, ratios of 17 to 18½ are *common,* but less frequently encountered than those which are characterized as *most common* and *very common.*

4. *Going ratios of total wages to sales.*—The *most common* amount which total wages constitute of sales for successful merchants is between 11 and 13 per cent. A smaller per cent of concerns—83 per cent as large a number—have ratios of 13 to 15 per cent. These are *very common.* On the other hand, a still smaller percentage have ratios of 15 to 17 per cent of sales. These are *common,* but less frequently encountered than the other ratios which are named.

5. *Going ratios of rent to sales.*—Expenditures for rent in relation to sales obviously vary widely with store location and with volume of

business done. It is possible, however, for a group of stores who consistently make a profit to determine the *most common* amounts which are paid for this purpose. Such per cents vary from 1.4 to 2.0.

Very common ratios, however, are 2.6 to 3.2, and *common* ones 2.0 to 2.6. The frequency with which these different ratios are encountered in stores is as follows: The *very common* ones occur 89 per cent as frequently, and the *common* ones 67 per cent as frequently as those which are *most common.*

What can merchants conclude from these standards?

Simply this. If profits are to be made, merchants must have gross margins as large as those indicated, and keep their operating expenses within the limits found. The higher the gross margin with a given expense, the greater the profit. The lower the gross margin with a given expense, the smaller the profit. Gross margins are largely beyond the control of individual merchants. Operating expenses, however, are different. Successful merchandising is the key to their control.

EXPENSES AND OPERATING STANDARDS IN RETAIL MEAT DISTRIBUTION FOR DIFFERENT PERIODS, 1923

CHICAGO

	Average Expense Distribution, in Terms of Sales		
Details	*Average of 7 4-week Periods, Feb. 26 to Aug. 11*	*Aug. 12 to Sept. 8*	*Sept. 9 to Oct. 6*
No. of Reports	30	52	51
Total Sales	$98,435	$192,894	$201,259
Total Expenses	20.0	19.2	18.2
Wages	13.0	12.1	11.7
Rent	2.3	2.0	2.0
Ice and Refrigeration	1.2	1.2	1.3
Other Expenses	3.5	3.9	3.2
Stock Turnover*	5.7	6.4	6.7

CLEVELAND

	Average Expense Distribution, in Terms of Sales		
Details	*Average of 5 4-week Periods, Apr. 22 to Aug. 11*	*Aug. 12 to Sept. 8*	*Sept. 9 to Oct. 6*
No. of Reports	10	17	19
Total Sales	$25,165	$41,654	$57,938
Total Expenses	21.6	22.2	19.4
Wages	13.8	13.7	12.1
Rent	2.8	2.7	2.3
Ice and Refrigeration	1.6	1.6	1.2
Other Expenses	3.4	4.2	3.8
Stock Turnover*	6.1	5.3	7.6

* Stock turnover is computed by taking one-half of the sum of the stock on hand at the beginning of the period and the stock on hand at the end of the period, and dividing the result into the cost of the goods sold.

NEW YORK AND VICINITY

Average Expense Distribution, in Terms of Sales

Details	*Average of 4 Months, April to July*	*Month of Aug.*	*Month of Sept.*
No. of Reports	17	26	25
Total Sales	$57,213	$84,942	$94,234
Total Expenses	21.5	22.6	19.8
Wages	13.9	14.3	12.4
Rent	2.9	3.0	2.5
Ice and Refrigeration	1.1	1.4	1.1
Other Expenses	3.6	3.9	3.8
Stock Turnover*	5.4	6.4	8.7

OTHER CITIES

Average Expense Distribution, in Terms of Sales

Details	*Average of 3 Months, May to July*	*Month of Aug.*	*Month of Sept.*
No. of Reports	2	4	3
Total Sales	$11,951	$22,137	$15,162
Total Expenses	18.1	17.5	19.2
Wages	7.3	9.4	10.7
Rent	1.1	1.8	1.3
Ice and Refrigeration	1.2	1.3	1.7
Other Expenses	8.5	5.0	5.5
Stock Turnover*	4.1	3.3	3.6

COST OF RETAILING MEAT IN PER CENTS OF SALES FOR FOURTEEN RETAIL MEAT DEALERS IN CHICAGO

FOR PERIOD FEBRUARY 26 TO OCTOBER 6, 1923

Expenses of Stores Showing a Loss Are Put in Parentheses.

Ratio Operating Expenses to Sales for Four-Week Periods Ending:

	Mar. 24	*April 21*	*May 19*	*June 16*
A	15.11	11.61	12.39	14.52
B	15.58	17.17	16.01	16.86
C	16.51	(18.83)	(16.49)	(18.16)
D	16.52	18.87	17.30	17.33
E	17.98	19.74	18.76	14.80
F	(19.37)	22.90	20.77	(26.26)
G	19.43	19.85	20.54	20.15
H	19.66	20.67	18.61	22.49
I	(19.79)	20.49	20.41	18.35
J	21.00	21.25	22.76	21.66
K	23.41	(20.29)	23.10	20.42
L	23.47	20.95	20.23	20.68
M	24.48	23.79	22.28	22.23
N	(39.58)	(31.08)	(28.38)	(26.68)

* Stock turnover is computed by taking one-half of the sum of the stock on hand at the beginning of the period and the stock on hand at the end of the period, and dividing the result into the cost of the goods sold.

	Ratio Operating Expenses to Sales for Four-Week Periods Ending:			
	July 14.	*Aug. 11.*	*Sept. 8.*	*Oct. 6.*
A	11.91	10.91	11.48	10.19
B	17.34	20.18	16.34	18.72
C	(18.18)	16.14	(15.11)	(14.59)
D	(19.41)	19.82	18.26	16.99
E	22.45	22.60	(24.55)	26.18
F	(30.76)	(35.86)	(25.47)	24.02
G	(20.23)	(20.30)	18.14	18.90
H	20.22	21.35	17.47	18.43
I	(20.59)	18.73	(20.90)	20.20
J	21.39	21.47	18.88	19.87
K	22.41	(20.60)	18.88	20.34
L	20.52	(23.96)	21.29	(23.18)
M	26.05	26.08	22.50	20.25
N	(28.38)	24.52	(29.64)	(28.88)

CONDITIONS FOR SUCCESSFUL RETAILING

Why Some Dealers Succeed and Others Fail; Illustrations from Actual Experiences.[4]

COST SUMMARY IN RETAILING

	Periods				
	Feb. 20 to Aug. 11, 1923		*Aug. 12, 1923 to Jan. 26, 1924*		*Change (+) increase (—) decrease*
Details	*Amount*	*Per Cent*	*Amount*	*Per Cent*	
Sales	$17,569	100.0	$18,357	100.0	+$788
Cost of Merchandise Sold	13,172	75.0	14,088	76.7	+ 916
Gross Margin	$ 4,397	25.0	$ 4,269	23.3	—$128
Operating Expense	3,793	21.6	3,500	19.1	— 293
Net Trading Profit	$ 604	3.4	$ 769	4.2	+$165
Stock Turnover (Turns in the period)	44.5		47.6		+ 3.1

By taking the conditions shown in the above table let us briefly consider the changes which occurred during the period August 12, 1923, to January 26, 1924, when compared with the period from February 26 to August 11, 1923. This merchant increased his sales between the two periods by $788. In the first period his sales were $17,569. The merchandise which he sold cost him $13,172, or 75 per cent of his sales. This left him a gross margin of $4,397 or 25 per cent of his sales. His operating expenses, everything considered, were $3,793, or 21.6

[4] A Summary and a Current Analysis of the Records of Dealers in Chicago, Cleveland, and New York to Jan. 26, 1924. Horace Secrist, Director, Bureau of Business Research, Northwestern University, in coöperation with the U. S. Department of Agriculture, Bureau of Agricultural Economics.

per cent of his sales. Deducting his operating expenses from his gross margin gives him a profit of $604, or 3.4 per cent of his sales. During these 24 weeks he turned his stock 44.5 times, or once every 3.2 days.

In the second period he increased his sales as indicated above by $788. The cost of his goods, however, increased by $916. This left him with a gross margin of $4,269. This was 23.3 per cent of his sales, and $128 less than the corresponding figure in the first period. In spite of his larger sales, however, he was able to reduce his operating expenses in the second, as contrasted with the first period by $293. This gave him an operating expense of 19.1 per cent of his sales, and a profit of $769. This profit was $165 more than that realized in the first period and made up 4.12 per cent of sales. While he decreased his operating expenses and increased his cost of merchandise sold, he turned his stock 3.1 times more than in the first period. That is, his rate for the second period was once every 3.0 days.

In summary, how does the second period compare with the first, so far as his own, the packers', and the consumers' points of view are concerned?

First, as to the merchant's point of view. He sold more dollars worth of goods, he increased his profit by reducing his expenses more than his gross margin. He also increased his profit on his investment in merchandise by more rapidly turning his stock. Judged by his own standard, therefore, he is progressing.

What about the effects of his operation so far as the source of supply (the packers) are concerned? He purchased more goods and therefore, presumably, was instrumental in contributing to the success of those who supplied merchandise to him.

How did the consumers fare so far as this merchant's activities were concerned? Everything considered, it appears that they paid less for their meat in the second, than in the first period. That is, the activities

COST SUMMARY IN RETAILING

	Periods				
	Feb. 20 to Aug. 11, 1923		*Aug. 12, 1923 to Jan. 26, 1924*		*Change (+) increase (—) decrease*
Details	*Amount*	*Per Cent*	*Amount*	*Per Cent*	
Sales	$8,150	100.0	$7,270	100.0	—$880
Cost of Merchandise Sold	6,418	78.8	6,294	86.6	— 124
Gross Margin	$1,732	21.2	$ 976	13.4	—$756
Operating Expense	2,409	29.6	2,212	30.4	— 197
Net Trading Profit (Loss)	$667	8.4	(Loss) $1,236	17.0	— 569
Stock Turnover ... (Turns in the period)	10.0		14.7		+ 4.7

of this merchant seem to have contributed to the benefit of all parties concerned. The merchant himself realized a profit for his activities. He purchased in the second period more meat from the source of supply and satisfied his customers at a diminished price.

The operations of the second merchant as shown in table are quite different. His sales in the second period were $880 less than in the first. His cost of goods sold were $124 smaller, his gross margin had shrunk by $756, his expenses by $197, and his profits by $569. A study of this table will reveal some interesting facts. The merchant in the first period had a gross margin of 21.2 per cent of his sales. His expenses, however, were 29.6 per cent, which left him a loss of 8.4 per cent. Sensing this loss, he reduced his expenses as a total, but the reduction was not sufficient to compensate for the loss in sales, thus leaving him in the second period with an operating expense of 30.4 per cent. This figure, like that for the former period, is exceptionally high. It is intolerable, when compared with the gross margin within which he attempted to do business. While his margin was 21.2 per cent for the first period, it was but 13.4 per cent for the second. His loss of 8.4 per cent in the first, increased to 17.0 per cent in the second period. In round figures, this meant a loss of $1,200 in a period of 24 weeks.

In summary, how did the second period for this merchant compare with the first? From his own point of view his sales shrank. He purchased fewer dollars of goods and added to his loss in spite of the reduction in his expenses and the savings in his cost of merchandise sold. He attempted to do business on too narrow a margin. From the supply side (the packers), this merchant failed. The merchandise which he bought was less in the second, than in the first period. All in all, however, it seems that his customers benefited by his attempt to do business at a loss. Of the three parties to this business operation, one— his customer—gained, and two—the packers and the merchant—lost.

COST SUMMARY IN RETAILING

	Periods				
	Feb. 20 to Aug. 11, 1923		*Aug. 12, 1923 to Jan. 26, 1924*		*Change (+) increase (—) decrease*
Details	*Amount*	*Per Cent*	*Amount*	*Per Cent*	
Sales	$18,506	100.0	$19,825	100.0	+$1319
Cost of Merchandise Sold	14,315	77.4	15,636	78.9	+ 1321
Gross Margin	$ 4,191	22.6	$ 4,189	21.1	— 2
Operating Expense	3,644	19.7	4,402	22.2	+ 758
Net Trading Profit.	$ 547	2.9	(Loss) $213	1.1	—$ 760
Stock Turnover ... (Turns in the period)	52.0		63.6		+ 11.6

A somewhat different condition of operation obtained for the merchant whose operations are shown in table on page 383. In the space available, it is not possible to describe his operations in detail. It is sufficient to observe that the profit of the first period was followed by a loss in the second, due, primarily, to a failure to control operating expenses.

If retailers will study their own operations, they may follow the example set by the first merchant. If they do not, they will surely have the experience of the second and the third merchant.

Another month's experience for retail meat dealers in Chicago, New York, and Cleveland goes to confirm our earlier conclusions that it costs from 18 to 20 per cent on sales to retail meat. Slight deviations or differences from this figure occur in the different cities. Moreover, from month to month there is a seasonal development in the trade which affects sales. When sales are increasing, expenses in relation to sales tend to diminish. When they contract, the costs of operation increase.

Forty-four merchants in Chicago have reported for the ten four-week periods from February 26 to December 1. It costs these merchants on the average 19 per cent to do business. For the period December 2 to December 29, the corresponding rate was 18.2 per cent. Following this period of brisk sales, the rate increased to 18.8 per cent for the four weeks ending January 26, 1924.

Wages still continue to constitute approximately two-thirds of the total operating expense, while rent makes up 2 to 3 per cent of sales. These are the figures for Chicago.

In Cleveland, the costs of operation are slightly more, varying from period to period essentially as those do in Chicago. For the eight four-week periods from April 22 to December 1, 1923, it costs retailers in Cleveland 20.7 per cent of their sales to do business. For the period December 2 to December 29, 1923, the rate fell to 19.3 per cent, only to be followed in the next period by a rise to 21.3 per cent. Much the same story holds true for New York.

There is an interesting inverse relationship in the different cities between the amount which it cost to do business and the rapidity with which stock is turned. In Chicago, in Cleveland, and in New York, notwithstanding the fact that costs of doing business vary within narrow margins, and that the rates of stock turnover are different in all of them, as the cost of doing business decreases, the rates of stock turnover increase, and as the cost of doing business increases, the rates of stock turnover decrease.

Of course, these figures on the cost of doing business and the rapidity of stock turnover are averages. They do not necessarily characterize the experience of individual stores. Indeed, from time to time, in the reports which have preceded this one, the most common, very com-

mon, and common rates characterizing the trade have been given in detail. There is no reason for repeating them. Indeed, with the accumulation of new data and the operating conditions of new stores, those common tendencies tend to be substantiated.

The main benefits from reports such as those come from individual merchants being able to compare their operating expenses and conditions of merchandising from period to period with those of the group as a whole. If merchants make such comparisons, they are profitable. If they are uninterested—consider their own methods satisfactory and their obligations to the public fully met by their present standards of merchandising—they are useless. Our experience with merchants leads us to believe that these reports are having an educational and beneficial effect. Our only regret is that they probably do not have the same hold upon the entire trade as they do upon those who are working with us.

EXPENSE AND OPERATING STANDARDS IN RETAIL MEAT DISTRIBUTION FOR DIFFERENT PERIODS, 1923 AND 1924

CHICAGO

AVERAGE EXPENSE DISTRIBUTION, IN TERMS OF SALES

Details	*Average of Ten Four-week Periods, Feb. 26 to Dec. 1 1923*	*Dec. 2 to Dec. 29 1923*	*Dec. 30 1923 to Jan. 26 1924*	*Rates for Your Store Jan. 26 1924*
Number of Reports	44	58	61	
Total Sales $154,738		$249,490	$230,635	
Total Expenses	19.0	18.2	18.8	
Wages	12.3	11.6	12.1	
Rent	2.1	1.8	2.0	
Ice and Refrigeration	1.2	0.9	0.8	
Other Expense	3.4	3.9	3.9	
Stock Turnover*	6.2	7.6	6.1	

CLEVELAND

AVERAGE EXPENSE DISTRIBUTION, IN TERMS OF SALES

Details	*Average of Eight Four-week Periods, Apr. 22 to Dec. 1 1923*	*Dec. 2 to Dec. 29 1923*	*Dec. 30 1923 to Jan. 26 1924*	*Rates for Your Store Jan. 26 1924*
Number of Reports	16	27	29	
Total Sales .....$ 44,247		$87,140	$80,355	
Total Expenses	20.7	19,3	21.3	
Wages	13.0	12.0	13.0	
Rent	2.5	2.1	2.6	
Ice and Refrigeration	1.3	0.8	0.7	
Other Expense	3.9	4.4	4.8	
Stock Turnover*	6.1	7.1	5.7	

* Stock turnover is computed by taking one-half of the sum of the stock on hand at the beginning of the period and the stock on hand at the end of the period, and dividing the result into the cost of the goods sold.

NEW YORK AND VICINITY

AVERAGE EXPENSE DISTRIBUTION, IN TERMS OF SALES

Details	*Average of Eight Months, April to November, 1923*	*Month of December, 1923*	*Month of January, 1924*	*Rates for Your Store January, 1924*
Number of Reports	19	19	16	
Total Sales .....$	69,420	$71,943	$64,147	
Total Expenses	20.7	18.0	20.3	
Wages	13.5	12.2	14.3	
Rent	2.7	2.3	2.5	
Ice and Refrigeration	1.0	0.5	0.4	
Other Expense	3.5	3.0	3.1	
Stock Turnover*	6.1	8.4	..	

OTHER CITIES

AVERAGE EXPENSE DISTRIBUTION, IN TERMS OF SALES

Details	*Average of Seven Months, May to November, 1923*	*Month of December, 1923*	*Month of January, 1924*	*Rates for Your Store January, 1924*
Number of Reports	2	2	2	
Total Sales	$12,577	$5,107	$5,556	
Total Expenses	18.1	24.4	26.6	
Wages	9.6	12.1	13.0	
Rent	1.3	..	..	
Ice & Refrigeration..	1.3	1.6	..	
Other Expense	5.9	..	..	
Stock Turnover*	3.2	1.8	3.0	

* Stock turnover is computed by taking one-half of the sum of the stock on hand at the beginning of the period and the stock on hand at the end of the period, and dividing the result into the cost of the goods sold.

CHAPTER XVII

COSTS OF MARKETING—(*Continued*)

Margins of Profit.[1]

There is a never-ending discussion of profits, particularly of the profits of manufacturers, middlemen, and all who are engaged in converting crude materials into goods ready for use and in conveying these goods from where they are produced to where they are consumed. This discussion is revived and pressed continually by persons who believe that profits are unreasonably large and who, as a rule, have little practical knowledge of business conditions or of the irrepressible competitive forces which regulate profits. Undoubtedly there is a great amount of misinformation afloat upon the subject, and it is responsible for much irritation, honest indignation, and social friction.

In 1921-1922 a very extensive investigation was carried on under the auspices of the Joint Congressional Commission of Agricultural Inquiry, which was composed of six members of the Senate and six members of the House of Representatives. The membership was mainly from agricultural districts, and the inquiry was very broad in scope, from a close examination into the so-called "deflation policy" of the reserve banks to tracing the cost of moving and distributing farm products from producers to consumers. This investigation involved much labor on the part of several members of the Commission, and particularly by the Chairman, the Hon. Sydney Anderson, of Minnesota, and required a considerable expenditure of public funds. In the opinion of most persons who have examined the report of four volumes the work was capably and conscientiously done, and should carry some authority, but whether it does or not is hard to say. The people who read it and accept its findings generally say little about it, while those who like to think or talk otherwise go on doing so.

The report afforded no support to the idea that the Federal Reserve banks had adopted a policy of forced deflation or had discriminated against agriculture; consequently, its comments upon that subject have obtained little publicity. It found no exorbitant profits anywhere in the movement of farm products from producers to consumers, although it expressed the opinion that the organization might be simplified in some respects and costs reduced; but as it did not find anybody guilty of

[1] *Monthly Bulletin,* National City Bank of New York City, July, 1924.

heinous offense, the demands for congressional investigations upon the subject remain unabated.

"The bread tribute."—The latest outburst on the subject is from one Basil H. Manly, "Director of People's Legislative Service," which Service seems to be a self-chosen organization for supervising the activities of the regularly elected Congress of the United States. The character of the report may be judged from the following extract:

"If any government should levy taxes as oppressive as private industry now imposes on the bread of the American people, revolution would be inevitable.

"Only a few figures are necessary to present a clear picture of the general situation. The pre-war year 1913 may be taken as a standard. In that year wheat on the farm sold for an average price of 79.4 cents per bushel, while flour at retail brought 3.3 cents per pound, and bread, 5.6 cents per pound, retail. This year, in November, the last month for which complete figures are available, wheat sold for 92.3 cents per bushel on the farm, while flour at retail brought 4.6 cents, and bread 8.7 cents per pound retail. That is, in ten years, since 1913, wheat has advanced in price 16 per cent, flour 39 per cent, and bread 55 per cent. The price of flour has, therefore, increased more than twice as much as wheat and the price of bread more than three times as much."

The charge of profiteering is based upon the assumption that nothing entering into the cost of bread has increased more than the cost of wheat. The report makes two recommendations calling for action by the United States Senate, as follows:

"1. A Senate resolution directing the secretary of the treasury to report the profits of all baking and milling corporations, as disclosed by their tax returns from 1918 to date.

"2. A thorough and searching investigation by the appropriate Senate committee of the tribute levied by wheat speculators, grain elevators, railroads, millers, jobbers, bakers, and retailers from the time the wheat leaves the farm until it reaches the dinner table in the form of bread. The committee should be empowered to employ counsel and compel the production of books and papers so that all the unethical and illegal methods by which the price of bread is enhanced may be disclosed."

Investigations of this kind have been going on continuously for years. The Department of Agriculture has conducted several extensive inquiries into the movement of wheat from local to central and foreign markets, and last year investigated and analyzed the cost of bread as sold in seven cities, to wit: New York, Boston, Chicago, Minneapolis, Kansas City, New Orleans, and San Francisco. The Federal Trade Commission has investigated the milling business and the grain exchanges, issuing a lengthy report on the grain trade last year. The

monumental report of the Joint Commission of Agricultural Inquiry came out only last year. Nevertheless the Senate adopted a resolution offered by Senator La Follette, directing the Federal Trade Commission to proceed with another investigation, the scope being defined in almost the identical language of Director Manly's recommendation. The undertaking, however, seems to be blocked for the present by a response from the Federal Trade Commission that it already has more investigations cut out for the future than it has the force or funds to carry through.

Meanwhile, however, the public is not without information upon this subject from other sources.

The price of bread in seven cities.—The United States Department of Agriculture published in February last a preliminary report giving the main results of an investigation conducted under the direction of A. V. Swarthout, in charge of the Cost of Marketing Division of the Bureau of Economics of that Department, into the retail prices of a one-pound loaf of bread in seven cities, to wit: New York, Boston, Chicago, Minneapolis, Kansas City, New Orleans, and San Francisco. It shows a price range at the time of the inquiry, which was from October, 1922, to March, 1923, of from 7.68 cents in New Orleans to 9.73 in New York, and the shares of the retail price obtained by each agency contributing to the service. The introductory statement says that the primary purpose was to ascertain the portion of the retail price of bread which accrued to the grower who produced wheat during the 1922 crop season, and the first comment is upon the revelation that "the value of the flour in the producer's wheat is entirely submerged in the service cost of getting it to the ultimate consumer."

There are variations in all the factors in the different cities, explained by local differences in service and in quality, as well as in wages and other costs of doing business. The analysis of the New York retail price, moving backward from the retailer to the wheat-grower, shows the distribution as follows:

	Cents per Pound	*Percentage of Retail Price*
Retailer	1.49	15.39
Baker	5.62	57.74
Freight on Flour	.15	1.55
Miller	.53	5.47
Freight on Wheat from Local Station	.37	3.76
Elevator Charges	.07	.74
Farmer	1.50	15.35
Retail selling price	9.73	100.00

In view of the emphasis placed upon the relation between the price of wheat and the price of bread, it is interesting to note that the original cost of wheat is only 15.35 per cent of the cost of bread at retail in New York City. This percentage is lowest at New York, ranging up to 18.56 per cent at New Orleans, but how little this percentage really signifies appears from the fact that the actual cost of the wheat in a loaf is only 1.43 cents in New Orleans against 1.50 in New York. Baking and retailing get 5.23 cents in New Orleans against 7.11 in New York.

"Margin" is not the same as "profit."—The shares of the retail price going to the several recipients as shown above are their gross receipts, out of which they must pay their expenses. Thus in the case of the baker the report says that it covers operating expenses and cost of other baking ingredients than flour.

The report goes into an explanation of the retailer's share, at greater length, as follows:

"The publications of the Harvard Bureau of Business Research and other similar agencies indicate that the margin for retail groceries in 1922 averaged approximately 19 per cent. This margin, in as much as it is computed from the accounting records, would tend to be slightly smaller than the margin which we have computed on the basis of price differentials. In the cities under consideration in our study, therefore, the retail margin on bread was slightly less than the average margin (on all commodities sold) received by a large number of retail groceries.

"It might be argued that on account of the relatively high turnover, or for other reasons, the retailer might fairly reduce the margin on bread. There are, however, some very real and practical difficulties in the path of such plan. It is impracticable to sell single loaves at a price other than even cents. Were consumers generally willing to buy more than a single loaf at a time, this fractional cent price might be made effective by offering two loaves for, say, 17 cents. But this has rarely worked out satisfactorily in practice, consumer's preference being for fresh bread, probably baked daily, and purchased one loaf at a time. Hence, it would be necessary to reduce the selling price and consequently the margin, a full cent, if any material benefit were to be received by consumers.

"If the retailers in Minneapolis were to reduce their margin by one cent their present margin of 16.67 per cent would be reduced to one of 6.2 per cent. Whether this margin might cover the cost of services rendered is a question which cannot be discussed intelligently without a very careful study of the retailer's costs and turnover. Certainly this margin is much below the average cost of doing business (18 per cent), as given in the most reliable statistics available on the subject.

"This margin should not be confused with profit, as it includes an

allowance to cover the retailer's cost of doing business and any measure of profit which he may finally receive. His expenses are incurred in rendering services to the consumer and these entail the use of salesmen, labor, store building, and equipment, delivery equipment, the extension of credit, and other similar items. The expenditures occasioned by these services must be defrayed, if possible, out of the sum total of the retailer's margins on all commodities handled and he can realize a profit only after these disbursements have been made."

The report goes on to explain its method of calculation still further by saying of the farmer's share, or "margin":

"In producing wheat, the producer incurs certain expenses of production such as rent of land, interest on investment, taxes on land, hire of labor, maintenance of equipment, and all of the many other items which go into the farming operations. The margin realized must cover their proportionate share of this expense, if the farming operations are not to result in a loss. Any profit which may accrue must be secured through keeping the proportionate share of the expenses below the realized margin."

Milling profits.—In view of the fact that there are several thousand flouring mills over the country, and that milling capacity in the aggregate largely exceeds the production of flour, no person of business experience would be likely to require proof that prices for flour are made under competitive conditions. It is not too much to say that no combination giving effective control over the prices of flour would be possible with the existing multiplicity of ownership, even if there was no fear of government prosecution, which is a very real factor in the business situation.

As it happens, evidence which cannot possibly be questioned is available as to the small margins upon which the flour-milling business is operating. The state of North Dakota is in the milling business and the results of its operations have to be reported to the state officials and made known to the people of the state. They are public business. The adventure of North Dakota in the milling business is quite a long story, with the main features of which the country is familiar. The wheat crop has been the principal crop of the state, and the farmers came to believe that the profits of the Minneapolis elevator and milling companies upon North Dakota wheat were very large. That belief led to the organization and elevation to power of the Non-Partisan League, and under its administration the state was launched into the milling business. State bonds were issued in the sum of $3,000,000 for the construction of a mill and elevator at Grand Forks, and the enterprise was well under way when, as the result of general dissatisfaction with League domination, the people of the state turned out the League administration. The milling enterprise was so far advanced that the in-

coming administration, headed by Governor Nestos, considered that the only thing to do was to complete the structures and carry through the experiment, making a fair trial of what could be done with a state-owned property of this kind.

North Dakota state milling operations.—The mill and elevator with equipment and all appurtenances cost about $3,000,000, and there is agreement that it is a complete and modern plant, probably as efficient as the best in the country, with a now demonstrated capacity of more than 3,000 barrels of flour per day. . Bonds were issued for another $1,000,000 to supply operating capital, so that the state's investment is approximately $4,000,000, represented by interest-bearing indebtedness.

The mill began operations October 23, 1922. It was a new enterprise, with the task of establishing its product in the markets. Business men will not be disposed to judge the management harshly upon the results of the first year or two, but if the profits of the milling business were anything like as large as had been represented in North Dakota, or as represented by the People's League of Legislative Service, there was a good margin to go on.

Two audits of the mill accounts have been made since the commencement of operations, the first from October 23, 1922, to July 31, 1923, and the second from the latter date to December 31, 1923. During the first period the mill naturally was not run to capacity, as it was being "tuned up," and stoppages were necessary. The sales of product in this period aggregated $1,554,829.93, and there was a net operating loss of $128,058.53, equivalent to 48 cents per barrel. In the second period, the mill made a fine record for production, and succeeded in turning the operating loss into an apparent operating profit of $49,633.06, equivalent to 10½ cents per barrel, but neither interest on the investment nor the usual reserves for depreciation, etc., are included in these figures.

The condensed table on page 393 showing results of the two audits is taken from the latest report.

The following explanatory comments are made by the auditor:

"During the period covered by this report, the mill operated about 95 per cent time. On the basis of 3,000 barrels per day, it exceeded capacity output. On the basis of full time, however, the records show that for the month of December the mill turned out 100,841 barrels of flour and Semolina in 30 days, or an average of 3,360 barrels per day.

. . .

"A comparison of the two statements will show that the net operating loss of 48 cents per barrel prior to August 1st has been changed to a profit of 10 cents per barrel for the period after August 1st, or a gain in profits of 58 cents per barrel.

STATE MILL & ELEVATOR, GRAND FORKS, N. D.

COMPARATIVE CONDENSED FORM, OPERATING STATEMENT

	Oct. 23, 1922 to July 31, 1923		August 1, 1923 to Dec. 31, 1923	
	Cost per Barrel	*Amount*	*Cost per Barrel*	*Amount*
Sales		$1,554,829.93		$3,257,349.21
Less Delivery Expense		160,481.64		346,958.98
Net Sales		$1,394,348.29		$2,910,390.23
Plus Increase, Inventories		113,002.60		181,438.99
		$1,507,350.89		$3,091,829.22
Material Cost	$4.773	$1,273,818.28	$5,332	$2,508,413.46
Cost of Packages Used	.373	99,655.43	.388	181,411.41
Operating Expense	.524	139,631.33	.376	175,358.27
Total—Material, Packages and Operating	$5.670	$1,513,105.04	$6.096	$2,865,183.14
Milling Loss	.022	$5,754.15		
Milling Gain			.480	226,646.08
Selling Expense	.331	88,323.29	.378	130,883.09
General Expense	.127	33,981.09	.098	46,129.93
Net Operating Loss	.480	128,058.53		
Net Operating Gain			.105	49,633.06
Addition to Income		3,476.78		8,195.49
		124,581.75		57,828.55
Deductions from Income		105,764.82		153,480.58
Net Loss		230,346.57		95,652.03

"While the milling profits show a substantial gain during the five months covered by this examination, it has not been sufficient, to carry the reserves and interest charges on capital. After making all deductions for the period, a net loss of $95,652.03 is shown and carried to the Balance Sheet. Interest on funds borrowed for operating has been paid to December 31st and charged in operating expense. In checking the interest on mill and elevator bonds, I find the following condition on December 31, 1923:

Interest due State Treasurer on $3,000,000, Construction bonds to December 31, 1923		$233,152.07
Interest taken in by Bishop-Brissman report prior to August 1, 1923	$86,258.06	
Interest Aug. 1 to Dec. 31, 1923	71,666.66	
Interest not previously accounted for	75,227.35	
	$233,152.07	$233,152.07

"This indicates an interest liability to the state treasurer not shown by the records of the mill and elevator in the amount of $75,227.35."

These figures show a total loss, including interest on capital, of $311,577.54, to December 31, 1923, but as bearing on current profits from milling operations the figures of the second period are the more important, as they show the results of a fine, modern milling property, operating at capacity, under a management regarded in milling circles as competent. It may be said that the enterprise is new and has the reputation of its brands yet to establish, but the fact that it is owned and operated by the state of North Dakota should give something of a guaranty of the quality of the products and be of some value in introducing them to the public. Certainly if the milling business generally was making inordinate profits, this splendid property would be able to earn the ordinary bond interest on its cost.

A miller's statement of conditions.—In connection with the above, we give the following extract from a private letter by the president of a prominent milling company of the Middle West, written to —— bank, with which the company has regular business relations:

"The milling industry has especially suffered from the continued effects of the political conditions in Europe, just as wheat prices reflect this condition to the American farmer. In the milling industry, it may interest you to know, it is estimated that the daily capacity is in excess of 1,100,000 barrels of flour. In 1914 the daily capacity was about 800,000 barrels of flour. It is evident from the above that our yearly home requirements could be filled by American mills on full time operation in the short period of some one hundred and twenty days, so that domestically it is very much of a buyers' market, and until our export outlets are increased, we are frank in saying that the good wishes you extended to us is more than we expect for the next few years, and as long as we can keep our liquid condition intact, keep our plants up, and do what we have done during the past year, we ought to be more or less satisfied."

Profits of baking.—We have not at hand any analysis by an official authority of the baker's share in the cost of a pound of bread, but there are some good reasons for believing that competition is regulating prices and profits in this business with about the same results as in milling and business generally. According to the census of 1921 there were in the United States 23,625 establishments doing a commercial bakery business. The proprietors and firm members numbered 22,922 persons. It is safe to say without any other information that there is no baking trust controlling the business. And, finally, the sharpest competitor of the commercial baker is the family housekeeper, whom he is constantly trying to persuade to abandon the baking part of her activities.

The *Northwestern Miller,* of Minneapolis, in a recent article upon this subject, makes the point from census returns that in 1921 the item of wages alone aggregated $196,938,825, or an average of $1,326 for each employee, whereas in 1914 the average yearly wage for each employee was $620, or an increase in direct labor cost of over 100 per cent.

The American Institute of Baking, an organization maintained by the American Bakers' Association for research and educational purposes, has compiled figures recently showing that the cost of flour used by a large number of bakeries of different sizes constitutes only 39 per cent of the total cost of manufacturing and baking bread, with no allowance for profit. The Institute says that instead of making between 5 and 6 cents of average profit per pound, as some critics have stated, a correct subdivision of the baker's margin would show less than .6 of 1 cent profit and the remaining 5 cents divided between raw materials and cost of production.

The margin in wholesale groceries.—While the wholesale grocery business has little to do with the cost of bread, it is an important factor in the distribution of other foodstuffs, and an authentic statement of its costs and profits is of interest in this connection. The Harvard Bureau of Business Research, which is conducted in connection with the Harvard Graduate School of Business, has been for several years making a study of costs and profits in the wholesale and retail grocery trades. Its report for 1923 says, in part:

"The bureau received reports from a larger number of firms this year than in any year since this work was undertaken, and in the preparation of the final summary on the cost of doing business in 1923 we have been able to include reports from 501 firms. This compares with 442 usable reports for 1922 and 344 for 1921.

"The aggregate volume of sales of the firms whose figures were included in our tabulations amounted to $677,709,000. With this volume of business and 501 firms represented, it is certain that we have a fairly representative cross section picture of the cost of doing business in the wholesale grocery trade in the United States.

"The common figures for operating expenses in 1923 for the 501 firms whose reports were used in preparing this summary indicate the average cost of doing business in 1923 was 10.6 per cent of net sales, the average gross margin 11.3 per cent and the average net profit 0.7 per cent; the average rate of stock turn was 5.9 times in 1923."

The retail grocery business.—A report of the results of the inquiry of the Harvard Bureau into costs and profits in the retail grocery business in 1923 was given by Professor Charles D. La Follette, at the annual convention of the National Retail Grocers' Association last month. It was based on the operations of 471 retail stores, and was summarized by the speaker as follows:

"In the typical retail grocery store, each time a dollar's worth of merchandise was sold at retail the expenses of store operation claimed on the average 17.3c, and the proprietor realized a net profit of 1.8c. Such a typical retail grocery store had net sales amounting to $65,000, of which $52,585 was required to pay for the merchandise sold, $11,245 for salary, and $1,170 remained as net profit. During the year this typical retail grocery store turned its stock slightly over ten times, so that the average stock of merchandise on its shelves at any one time was approximately one-tenth of the total cost value of all merchandise sold during the year."

The following interesting statement concerning the retail grocery business in one large city appeared about a year ago in the *Northwestern Miller,* as a communication from a Los Angeles correspondent. The year's statistics given were for 1922:

"The city of Los Angeles is served with 1880 retail grocery stores, the largest number in its history, and an increase of 192 during the past year. 'Turnover' among grocery stores during the last year has been high. In fact, of the 1,688 grocers in the city a year ago, less than 950 are still in business. This means that about 750 groceries have discontinued or changed ownership during the year. From a flour miller's standpoint it is of special interest to note that many of the stores which were checked a year ago as having weathered the unsettled period prior to that time are prominent among those still in business. In other words, a substantial proportion of the trade seems to remain fairly stable, year after year, while others are making continual changes. There are seven large chain grocery stores in Los Angeles, the largest of which operates 60 stores in this city."

Meat distribution.—The Bureau of Economics, Department of Agriculture, has recently given out figures upon the margin and profits of retail meat dealers which are pertinent in connection with the discussion of retail profits generally.

The report is prepared from material collected jointly by the Bureau of Agricultural Economics and the Bureau of Business Research of Northwestern University. The preliminary statement says:

"This report is built on data collected from 143 stores located in Chicago, Cleveland and New York, covering the period of one year from the first of March, 1923, to the same date 1924. The figures presented here represent the expense of retailing meats in metropolitan districts. All figures were taken from periodic reports based on a standardized system of bookkeeping which was installed and supervised by accountants employed in the interests of this study. There were practically no differences in costs between the three cities except those due to differences in the sizes of the stores which were making reports. If any small differences in cost among cities existed they were concealed

by the greater influence of differences in volume of sales of the stores which reported."

The summarized result is that the average successful retail meat dealer in these cities out of each dollar received from sales pays 76 cents for the goods sold, 19 cents for the expenses of conducting his business and realizes 5 cents profit. The 19 cents representing costs of doing business include 13 cents for wages of employees and salary for proprietor based on what he would have to pay an outsider to do the same work and the remainder is for other expenses.

Some of the most significant paragraphs of the report are given below:

"The cost of goods sold and total sales determine the amount of money which the proprietor keeps to pay expenses and to give him a profit if there be one. This difference is referred to in this report as the 'margin.'

"The most common margins for retailing meat are from 22 to 27 per cent of sales. Margin varies somewhat with the size of store; the larger the sales, the lower the margin percentage.

"The largest stores reporting, which include stores grouped as having four men or more, had a margin averaging from 21 to 23 per cent of sales. This low figure was possible because these stores approach maximum labor efficiency and their rent expense percentage is low for it is distributed over a large volume of sales.

"Three-men stores had margins averaging about one per cent larger, ranging from 22 to 24 per cent of sales.

"Two-men stores, the most common size, had margins usually about 23 to 26 per cent of sales.

"One-man shops operated on margins from 24 to 26 per cent of sales. There were a few cases of shops too small for one man. These were trying to make money by forcing the margin up over 28 per cent, but in general, stores cannot secure trade in sufficient volume if prices are so high.

"Out of 143 stores which reported from the three cities, 42 showed a loss for the period reported and 101 made a profit. This means that two out of every seven stores were not successful. If the owners had sold their shops and gone to work for someone else as meat cutters, they would have increased their yearly income. That there is a large percentage of meat dealers operating at a loss has been shown in other studies of the retail trade when rather similar proportions have shown a loss.

"In a great number of these 42 cases the owners previously kept no records and did not know that their operations were not paying them.

"Profits among stores varied from practically nothing to over 10 per cent of sales for some of the most successful shops. Five per cent

was the average figure for profits. The fact that some dealers are able to make a profit of 10 cents on each dollar of sales while other dealers make nothing and even lose money shows clearly that the ability of dealers as well as competitive conditions varies greatly. This fact is enough to make anyone who is thinking about opening a shop, consider his chances very carefully. He stands almost one chance in three of losing money, but, on the other hand, judging by the experience of others, he has a chance to make a very nice profit. This amount may be even as high as 10 per cent if he is able to run his store economically and has the advantage of a desirable location."

This brief account of the conditions under which profits are made in the retail meat business, illustrates the conditions in all business. It shows the error of assuming that the profits of a prosperous business arise from unreasonable charges. On the contrary they are as a rule significant of good management by which the public is more economically and satisfactorily served than in the case of competing establishments which make smaller profits. The foregoing statement shows how the opportunity to gain profits induces efforts for the improvement of business methods, and tends gradually to eliminate incompetent managers, to the advantage of the public. This is the service of the competitive system. If this single fact as to the origin of profits, and this economic law regulating profits were generally comprehended, about nine-tenths of the loose criticism of the existing economic order would disappear.

An abundance of evidence is available as to the margin upon which the meat-packing business operates. The Bureau of the Census recently has published figures showing that the packer pays out for his raw material, principally live stock, about 85 per cent of the selling value of his products, leaving to him about 15 cents out of every dollar of his gross receipts to cover all operating expenses, including wages, taxes, interest charges, depreciation, etc., including manufacturer's profit.

The average profit realized by the four largest packing companies, to wit, Armour (including Morris), Swift, Wilson and Cudahy, in 1923, was 1.56 cents on each dollar of sales.

Relative importance of services.—No doubt it is natural to assume that the principal item in the cost of bread is the cost of wheat, and probably that was the case when the housewives made the bread and their services were not counted in the cost. In New York City, baking and distribution take 7.11 cents of the 9.73 cents which a loaf costs, the farmer gets 1.5 and all charges from the farmer's railroad station to New York, including the manufacture of flour and cost of containers, aggregate 1.2 cents. Considering the distance from the wheat-fields to New York, and the number of handlings, as well as the conversion into flour, this part of the service does not seem excessive,

although it has increased since 1914, owing to higher labor costs of operating railroads, elevators and mills.

It may be natural also to think that the service rendered in producing the wheat is more important and for this reason worth more than the other services rendered in finally producing a loaf of bread at the consumer's door, but the distinction is not a practical one. The consumer pays for a completed service, which many coöperate in rendering. Who is to say what is the relative amount of skill or labor or discomfort involved in the several services, or the relative value to the consumer?

In these days wherever routine production is largely by machinery, primary costs are low as compared with the cost of personal services, and this is the chief reason why retail distribution is a larger factor than formerly in the final prices of most commodities. Retail distribution is largely personal service.

These questions of relative compensation are not settled by mere argument among those who render the services. The consumer pays what he must for the services he requires and considers that there is no better criterion of their value than what they cost in a free market. The natural measure of value is the amount of human effort, human skill or human time required to render the service. It makes no difference to the consumer whether he is paying for the cultivation of potatoes, their transportation, storage, wastage, rents, delivery through crowded streets, or wages of the cook; the distribution is impersonal. In each case he is paying for a service which he does not want to perform for himself, or for his own freedom to do something else, which is worth the same to him in each case. He pays for the several services what the competition of the market says they are worth, that being the same basis upon which his own earnings are fixed.

Who pays for the services?—Why should it be assumed offhand that the services rendered in this city are overpaid, or that they are in any way charged back to the farmer, as is frequently implied? It is common to hear it said that of the retail price of a loaf of bread, or a pound of beef, or a bushel of potatoes, the farmer gets only a small percentage; but who pays the bill, and why does he pay so much to other people than the farmer? Evidently the consumer, not the farmer, pays it, and pays it as a condition of living in New York City.

It may be said that while the New York resident pays the bill, he charges it back upon the country for services rendered, but New York has no monopoly of any of the services which it renders to the country. Whatever business it does is done in competition with Boston, Montreal, Philadelphia, Baltimore, Norfolk, New Orleans, Galveston, and Houston, as ports, and with Chicago, and all the other live and aggressive cities of the interior.

Does the high cost of making and distributing bread in New York have the effect of reducing the price of wheat in North Dakota, or, in other words, of reducing the actual amount going to the farmer from the retail price of a loaf? To put it still differently, do the high rents on Manhattan island reduce the price of wheat in the Dakotas? The comparative figures for different cities show that baking and distributing costs are lower in New Orleans than in New York, and that the farmer gets a higher percentage of the retail price of bread in New Orleans than of the retail price in New York, but this does not signify that he gets a higher price for the wheat consumed in New Orleans than for the wheat consumed in New York. In fact, he does not.

The percentage argument fallacious.— The percentage calculation is misleading as an argument to prove that the farmer does not get his share. If the cost of baking and distributing bread in New York City was reduced one-half, it is not certain that the price of wheat would be affected at all. The law of supply and demand would still govern it, and it would be affected only as consumption might be affected. Moreover, if the consumption of wheat was thus increased the consumption of other food probably would be decreased, for there is no reason to think that any considerable number of the population of New York City are now underfed. In the case of fruit and other perishable products, no doubt a reduction of distribution costs would materially increase consumption.

As the result of an exhaustive market survey made by the Massachusetts Division of Markets into the distributive costs of Maine potatoes, it was learned that 48 per cent of the consumer's dollar spent for potatoes goes to the grower, 4 per cent to the country dealer or shipper, 17 per cent for freight charges, Maine to Boston, 5 per cent to the wholesaler or carlot receiver, 5 per cent to the jobber, and 21 per cent to the retailer. From this it would appear that the farmer gets a larger share of the retail price of potatoes than of the price of bread, but this alone would not prove that potatoes are a more profitable crop than wheat.

There is another feature of the situation, however, which undoubtedly is entitled to consideration. Wages in all cities have been maintained at approximately the war time levels while the compensation of the farmer has fallen. This situation is compelling the farmer to pay more than formerly for all service rendered to him, but this is not the situation at which the People's Legislative Service is directing its attack or at which agitation generally is directed. Nor does it have anything to do with the fundamental question of business organization and profits.

The division of costs.—A practical question is, Can any one suggest a better basis for the division of the cost of a loaf of bread than the present one? Anybody and everybody is free to engage in any of these services, from growing wheat to delivering bread where it is wanted. At least this is theoretically so, and if it is not actually so, certainly it should be, and the laws of the land are intended to make it so.

Moreover, we have in the government report above-mentioned, seven independent, unrelated demonstrations, in widely separated cities, each of which represents the average of competitive individual efforts, and they show results very much alike. What does any offhand presumption count for as against these results? It costs less to get the services rendered in New Orleans than in New York, but the people who live in New York want them rendered here. The differences between the seven cities show that there is an independent adjudication of compensation in each case, but the results are enough alike to support each other.

The test of doing it.—To this practical test the entire debate over the costs of distribution must come. A gentleman of eminence in the business world who is showing a commendable interest in this subject, has recently written an article in which he says that he has traced potatoes from the grower on Long Island, who received 60 cents per bushel for them, to retailers in New York who sold them at three pounds for 10 cents. These figures show the wide spread in prices, but what do they really signify unless we also know the cost of retailing potatoes on Manhattan island by the 10 cents worth?

Is there any better way of fixing the value of services than by learning what must be paid year after year to have them performed? There is no prejudice or favor in the ratings of the market-place. The field is open to everybody who wants to experiment in it. The individuals who write articles to prove that the charges are unduly high have a standing opportunity to demonstrate that they can be lowered. Moreover, experiments are being tried constantly.

Here is another quotation from the *Northwestern Miller,* this time from its Chicago correspondent, and indicative of the ceaseless and persistent character of competition:

"A common question heard in Chicago flour circles is 'What will the chain-store competition lead to?' Without a doubt these concerns are making inroads upon the business of flour handlers as well as bakers. One of them, in last Sunday's newspapers, ran large advertisements offering its private brand of flour at seventy-nine cents per twenty-four and a half-pound sack, a sixteen-ounce loaf of milk bread at five cents, and a twenty-four ounce loaf at eight cents. It also advertised that its annual flour sales exceed three hundred million pounds, and that

during the previous week its bread sales had passed all previous records, totalling over seven hundred thousand pounds.

"Flour dealers catering to the family trade in particular are feeling this competition, as they find it extremely difficult to meet the bargain prices being quoted by the chain-store companies. Retail bakers whose shops are in the same neighborhood as these stores also are noticing a falling off in their bread sales. The smaller bakers are not in a position to compete with these prices, and many of them are also feeling the effects of the bargain sales of flour, which have attracted the housewives and made home baking more popular."

The share of big business.—One thing is certain: the high cost of bread, meat, and other common necessaries in the cities is in only a very small degree due to the charges of what is called "big business"—in other words, aggregations of capital. They are not the leading factors in baking or retail distribution, and to the extent that they are engaged in these services their influence has been to lower prices and improve service.

The largest employment of capital in the above-named services is in milling, wholesaling, transportation, and meat-packing. The gross charge for each of these is seen to be relatively very small, and if the profits realized by capital in these services were isolated they would be found to be insignificant.

Milk distribution in England.—That the situation as to distribution costs is much the same in other countries is indicated by the following clipping of a letter in the *London Times*.

"The railway charges on milk, although usually paid by the farmer, are clearly a part of the cost of distribution. Accepting your Agricultural Correspondent's figures in the *Times* of May 12 as correct, the result would be that the average price to the farmer was 13¾d., the cost of distribution, 13¼d. I think that the public will agree that if this is the best distributing organizations can do, it is time the farmers themselves, or the Government, took the matter in hand in the interest of the public. Anomalies are numerous, but it is neither reasonable nor right that the man who gets up at 4 o'clock in the morning and usually does not finish till 6 in the evening, doing all the hard, dirty work in all weathers, should receive about 30s. a week, whereas the man who delivers milk on street pavements for a few hours should receive a Trade Board wage of 55s. and perquisites."—Mr. Lewis Hay, 165, Above Bar, Southampton.

Here is the same assumption that if the government, the farmers, or some other organization would take over distribution it would be done more cheaply. This writer makes a pertinent comparison of the pay of the farmer with the pay of a milk-driver, but there is slight reason for believing that the driver's pay would be reduced by govern-

mental authority. Whether the farmers themselves could manage delivery more cheaply would be best determined by trying. The great need is for somebody to come forward and demonstrate the better methods which are vaguely suggested.

The Interborough's experiment.—We described several years ago the effort of the Interborough Rapid Transit Company to supply its own employees with groceries at actual cost. It opened three large stores at convenient places on its lines, paid the rent and overhead charges out of the company's treasury and sold the merchandise to its employees at net cost. There was a rush of patronage for a few weeks, until the employees were able to measure the savings of this plan against the service and convenience of the local stores, and then sales at the company stores dwindled away until the company concluded that the experiment was a failure and dropped it. The report upon retail meat shops given above shows that certain economies are accomplished by increasing the volume of sales under given overhead charges, but are they large enough if divided with the public to induce a greater concentration of trading or pay for the consumer's extra trouble? Why doesn't the 4-man meat shop become an 8-man shop, or a 20-man shop, with corresponding economies? Simply because this involves drawing customers from a larger area and the possible economies are not sufficient to attract them. From the consumer's decision there is no appeal. If he wants personal service and is willing to pay for it, somebody will supply it.

Sound business policy.—It is a great mistake to suppose that the business community is especially interested in increasing prices. The truth is just the opposite. The main object of study in every line of industry and trade is how to improve the methods and cheapen the costs of production and of distribution. Every large industry now has a research laboratory, with a staff of technical experts devoted to the study of the branch of science to which the industry is related and every commercial business is studying the problems of distribution with a view to simplifying methods and cutting out unnecessary expenses. Furthermore, as soon as improved methods are demonstrated and generally adopted the benefits derived from them are passed on to the public. With all the improvements made in industry in the past twenty-five years it is safe to say that the average percentage of profit on the volume of business done is lower than at the beginning of that period.

Notwithstanding this obvious truth we have government commissions gravely reporting to the public that coal dealers are engaged in passing coal from one to another in order to pile up costs for consumers to pay. That coal dealers, sometimes sell to each other is true, but such sales are incidental to the competition among consumers in times of scarcity.

The emphasis is properly upon the condition of scarcity, rather than upon the machinations of dealers.

No part of this discussion is meant to convey the idea that there is no room for improvement in the methods of retail distribution. There is need for comprehensive study of terminal and wholesale market facilities in the cities, and it may be possible to develop methods of buying and selling by groups, which by enlisting the interest and active coöperation of members will accomplish economies. In such cases if the consumers organize to serve themselves they will expect to enjoy the benefits, and if the producers take over middlemen's services it will be for the same purpose. Meanwhile, among the middlemen thousands of bright minds, trained to the problem, are working on it all the time, prompted by the fact that every practical idea on the subject is worth a fortune to the possessor. The chain stores, mail-order houses, "producer to consumer" advertising, illustrate the efforts constantly being made to cut out unnecessary costs.

COMMON FIGURES FOR RETAIL GROCERY STORES IN 1924 IN COMPARISON WITH COMMON FIGURES FOR RETAIL TRADES REPORTING TO THE BUREAU FOR 1923*

NET SALES—100 PER CENT

	Retail Grocery 1924	*Retail Grocery 1923*	*Retail Tire 1923*	*Retail Jewelry 1923*	*Retail Shoe 1923*
Number of Firms Reporting..	545	471	83a	290	499
Total Salaries and Wages...	10.9%	10.6%	12.4%	17.1 %	14.7%
Advertising	0.35	0.3	1.5	2.8	2.2
Boxes and Wrappings	0.6	0.6	(b)	1.1	0.2
Delivery	1.2	1.2	1.0	0.25	0.25
Office Supply and Postage....	0.2	0.15	0.5	0.6	0.4
Telephone and Telegraph....	(b)	(b)	0.3	(b)	(b)
Rent	1.3	1.3	3.0	4.5	3.5
Heat, Light and Power.....	0.3	0.3	0.7	0.85	0.6
Taxes and Licenses	0.2	0.2	0.3	1.0	0.5
Insurance	0.2	0.15	0.6	0.6	0.5
Repairs of Store Equipment..	0.1	0.1	0.2	0.26	0.2
Depreciation of Store Equipm't	0.35	0.3	0.7	0.75	0.4
Total Interest	1.1	1.0	1.8	4.6	2.7
Miscellaneous Expense	0.8	0.7	1.7	1.5	1.0
Losses from Bad Debts.....	0.4	0.35	0.8	0.4	0.2
Total Expense	18.0%	17.3%	25.5%	36.4%	27.4%
Gross Margin	19.8	19.1	25.7	38.3	29.1
Net Profit	1.8	1.8	0.2	1.9	1.7
Stock-turn (times a year)...	10.0	10.1	4.5	0.9	1.9

* Bulletin No. 52, Harvard Bureau of Business Research.

(a) Merchandising and repairing figures separated.

(b) Included in Miscellaneous.

Common Figures for Department and Specialty Stories.[3]

The figures presented in this bulletin are considered by the Bureau to be fully representative of conditions in the department and specialty store business in 1924. There were 168 profit and loss statements obtained from department stores with net sales of $1,000,000 and over, located in thirty-four states, the District of Columbia, Hawaii, and two Canadian provinces. Three hundred ninety-nine profit and loss statements were received from department stores with net sales less than $1,000,000 located in forty-five states, the District of Columbia, Hawaii, and two Canadian provinces; and forty-six profit and loss statements were received from specialty stores located in seventeen states and the District of Columbia. Nineteen reports from the larger stores were received from Ohio, seventeen from New York, sixteen from Massachusetts, and eleven each from California and Pennsylvania. California and Ohio each submitted twenty-six reports from department stores with net sales of less than $1,000,000; New York and Wisconsin twenty-four each; Massachusetts, Michigan, and Pennsylvania twenty-three each; and Illinois twenty-one. Ten specialty store reports were received from Massachusetts, five from New York, and five from California.

COMMON FIGURES FOR ALL FIRMS REPORTING

613 DEPARTMENT STORES AND SPECIALTY STORES: REPORTING FOR 1924

NET SALES—100%

	Department Stores with Net Sales.		
Main Divisions	*$1,000,000 and over*	*Less than $1,000,000*	*Specialty Stores*
Number of Firms	168	399	46
Salaries and Wages	16.2%	15.3%	15.9%
Rentals	3.0	2.3	3.5
Advertising	3.2	2.2	4.1
Taxes	0.5	0.7	0.4
Interest	1.9	2.6	1.9
Supplies	1.3	0.75	1.1
Service Purchases	0.6	0.75	0.85
Unclassified	1.0	1.1	1.0
Traveling	0.5	0.4	0.7
Communication	0.25	0.25	0.35
Repairs	0.25	0.2	0.35
Insurance	0.3	0.55	0.55
Depreciation:			
Losses from Bad Debts	0.25	0.35	0.35
Other Depreciation	0.7	0.6	0.8
Professional Services	0.15	1.15	0.25
Total Expense	30.1%	28.2%	32.1%
Gross Margin	32.1	28.5	33.0
Net Profit	2.0	0.3	0.9
Stock-turn (times a year)	3.5	2.3	5.0

[3] Bulletin No. 53, Harvard Bureau of Business Research.

Chapter XVIII

PURCHASING AND TURNOVER

Merchandise Problems.[1]

Buying.—The average retail grocer, according to the Bureau's reports, buys his merchandise from not more than ten wholesalers. A few stated that they bought all their merchandise from one wholesaler, and there were also a few who bought from a larger number than the average. There was a marked tendency, however, to concentrate purchases. Over 80 per cent of the retailers from whom reports were received for the last year stated that they were seeking to buy from fewer rather than from a larger number of wholesalers. This tendency was stronger in 1918 than it was before the War. The grocer who concentrates his purchases believes that he receives better service and better terms. His business becomes more worth while to the wholesalers from whom he buys. From the wholesaler's standpoint, furthermore, the credit risk is generally lessened through concentration of purchases by a customer. A small number of creditors can more easily secure the adoption of plans for averting bankruptcy, in case of financial difficulty, than when there is a large number of small creditors.

One grocer submitted a report that showed a net worth of $1,136 with bills and accounts payable of $22,474. His cash on hand was $723, his merchandise inventory $15,005, and his accounts receivable $6,603. He was buying from ten wholesalers and aiming to buy from more. His stock-turn was 4.5 times a year. This retailer was plainly overbuying, and his efforts to purchase from a larger number of sources rendered his situation only more precarious. A comparatively small drop in prices would wipe out entirely his equity in the business and render him bankrupt, unless he were given temporary assistance by his creditors. The creditors would be much more likely to give him this assistance if his purchases, and hence his obligations, were concentrated.

Coöperative buying associations have been organized in increasing numbers during the last few years. The Bureau is not prepared to state any conclusion, however, regarding these until it has made further investigations.

[1] Bulletin No. 13, Harvard Bureau of Business Research.

Sources of supply.—In the course of its inquiries the Bureau obtained information regarding the sources from which merchandise was purchased. The replies to this inquiry, of course, were estimated; but these seem to furnish some conclusions that are worth stating. In general, the methods of buying appear to have been much the same in 1918 as in the preceding four years. Unless otherwise indicated, the statements in the following sections cover the entire five-year period.

In purchasing flour, over 35 per cent of the retail grocers bought all their flour direct from the manufacturers. One-third of the grocers did not purchase any flour direct from the manufacturers. Among those who made some purchases from the manufacturers, but not exclusively from that source, a large majority bought over one-half direct. Some of the flour that was not bought direct from the manufacturers was bought from flour jobbers. The proportion of grocers purchasing from flour jobbers, however, was small. A large part of the flour that was not bought direct from the manufacturers was purchased from wholesale grocers.

Sugar was purchased mainly from wholesale grocers. Four-fifths of the retailers reported that all their sugar was bought from that source. Less than 5 per cent purchased sugar exclusively from the manufacturers. Most of those who did purchase sugar from manufacturers were located in the eastern part of the country.

Salt, baking powder, and soda were purchased mainly from wholesale grocers. About four-fifths of the retailers reported that they bought these articles only from wholesale grocers, and many of those who did not buy exclusively from wholesalers made at least a part of their purchases from that source.

Two-thirds of the retail grocers purchased all their soap from wholesale grocers, and in addition 20 per cent purchased over one-half and 5 per cent purchased less than one-half from wholesale grocers. About 4 per cent bought their entire supply of soap direct from manufacturers.

Over four-fifths of the retailers bought breakfast foods exclusively from wholesale grocers, and less than 15 per cent of the retailers made any purchases of breakfast foods direct from the manufacturers.

The trade in crackers and bakery goods, in contrast to the trade in the articles mentioned above, was largely with the manufacturers. Eighty-five per cent purchased all their crackers from the manufacturers, and over 5 per cent of the others purchased a part of their supply direct. Only 8 per cent of the retailers purchased all their crackers from wholesale grocers. In the case of bakery goods, which are largely of local production and subject to rapid deterioration, 95 per cent of the grocers purchased solely from the bakers. These are products in the distribution of which the wholesale grocer has almost no place.

Coffee was purchased only from wholesale grocers by 29 per cent

of the retailers. In addition to those who purchased all their coffee from wholesale grocers, 10 per cent purchased over one-half of their coffee and 13 per cent purchased less than one-half from wholesale grocers. Forty-eight per cent, or almost one-half of the retailers, purchased coffee exclusively from coffee roasters and specialty wholesalers. Thirty-six per cent of the retailers purchased tea only from wholesale grocers. About 15 per cent purchased a part of their supply of tea from wholesale grocers, but did not buy entirely from that source. The others bought from tea importers and specialty wholesalers.

Four-fifths of the retail grocers purchased cocoa, dried fruits, and nuts exclusively from wholesale grocers. In addition, 10 per cent made part of their purchases of these articles from that source. Slightly over one-half of the retailers bought all their spices from wholesale grocers.

About one-third of the retailers purchased extracts and essences only from wholesale grocers. Fifteen per cent reported that part, but not all, of their purchases of these articles was made from wholesale grocers. Thirty per cent of the retailers bought their entire supply of extracts and essences direct from manufacturers. Ten per cent purchased condiments only from manufacturers, and another 10 per cent made part of their purchases from manufacturers. Two-thirds of the retailers placed all their orders for condiments with wholesale grocers. The proportion purchasing molasses direct from the manufacturers was small; 87 per cent bought it only from wholesale grocers.

The methods of buying such products as butter, cheese, eggs, fresh vegetables, and fresh fruit varied in different parts of the country. Retailers located in small towns in farming districts purchased much more of this produce direct from the farmers than was possible for the retailers in the larger cities. Forty-five per cent of the retailers purchased all their butter direct from the producers, and 20 per cent made part of their purchases direct. Many retail grocers purchased these products largely from commission merchants and jobbers.

Eleven per cent of the retailers purchased all their cheese direct from the producers, and, in addition, 15 per cent made some of their purchases direct. Over one-third of the retailers purchased all their cheese from commission merchants and jobbers. About 30 per cent bought their entire supply from wholesale grocers. The fact that cheese is less perishable than other dairy products makes it possible for the wholesale grocer to have a larger share in its distribution than in the case of butter, for example.

Eggs were purchased either direct from the farmers or from commission merchants, jobbers, and other distributors of perishable food products. Wholesale grocers take little or no part in the distribution of eggs. The source from which eggs are bought depends almost entirely upon the section of the country in which the store is located.

The same conclusions hold true for fresh fruit and vegetables. In general, however, the commission merchants and jobbers have a larger share of the trade in fresh fruit and vegetables than in the trade in eggs.

Fresh meat was bought from butchers, packing companies, or commission merchants. There seems to have been some tendency for retailers to increase their purchases of fresh meat from the butchers and packing companies. In the reports received prior to 1918 slightly over 50 per cent of the retailers purchased all their meat direct from the butchers and packing companies. In addition 5 per cent made some of their purchases there. About 40 per cent stated that they bought only from commission merchants and jobbers. The reports for 1918, while not fully comparable with those for the previous period, indicated that fewer retailers were buying entirely from commission merchants and jobbers and that a larger proportion were buying only from butchers and packing companies. A similar shift seems to be indicated in the trade in canned meat, the tendency being to purchase more than the packers and less from wholesale merchants.

In the distribution of canned fruit and vegetables, however, there seems to have been little change. Over two-thirds of the retailers purchased their supply of canned fruit and vegetables entirely from wholesale grocers, and over 20 per cent additional purchased at least a part of their supply of canned fruit and vegetables from wholesale grocers. The other purchases were chiefly direct from the canners.

Over 40 per cent of the retailers bought confectionery only from manufacturers. Numerous others purchased a part of their supply direct from manufacturers. The remainder was bought either from wholesale grocers or from specialty wholesalers.

The tobacco sold by retail grocers was purchased largely from wholesale grocers. Over 60 per cent of the retailers bought their entire supply of tobacco from that source, and 15 per cent bought their supplies solely from specialty wholesalers. Only 2 per cent or 3 per cent purchased exclusively from tobacco manufacturers.

Bulk and package goods.—An inquiry was also made regarding the relative quantities of certain articles sold in bulk and in packages. The answers to this inquiry were only estimates, of course; but, even allowing for numerous inaccuracies, they seem to have some significance.

In the stores from which reports were received prior to 1918, 80 per cent sold flour only in packages. In 1918, the proportion of stores selling flour only in packages was even higher.

Before the War, 38 per cent of the stores stated that they sold sugar only in bulk. In 1918, less than 6 per cent of the stores sold sugar only in bulk. In the earlier period, furthermore, only 15 per cent sold package sugar entirely, but in 1918 over one-half of the stores reported that they sold sugar only in packages. This difference is so striking

as to indicate a large increase in most parts of the country in the sale of sugar in packages during the last five years.

Breakfast foods were sold chiefly in packages. None of the retailers reporting sold breakfast foods entirely in bulk, and about 90 per cent handled only package goods in this line.

Before the War, 7 per cent of the retailers reported that they handled only bulk crackers. In 1918, there was not a single grocer who stated that he handled crackers only in bulk. The number of stores selling crackers only in packages, moreover, seems to have increased. Before the War, 12 per cent of the stores stated that they sold crackers only in packages, whereas, in 1918, over 40 per cent were carrying only package goods.

There has also been an apparent increase in the number of stores that carry dried fruit, coffee, and tea in packages. Before the War, about 6 per cent of the retailers sold dried fruit only in packages. In 1918, one-third of the stores stated that they did not handle dried fruit in bulk. There has been a similar increase in the sale of coffee and tea in packages.

In the earlier years, 15 per cent of the retailers carried butter only in bulk and 50 per cent only in packages. In 1918, some package butter was sold in every store that furnished a report, and over three-fourths of these stores sold butter only in packages.

Brands.—Along with the increase in the quantity of package goods sold, there has been an increase in the quantity of branded merchandise carried. Most of the retailers stated in reply to the Bureau's inquiry that there has been a growing tendency among their customers when ordering goods to specify the brands that they preferred.

One of the problems facing the retail grocer is the selection of the brands that he is to carry on his shelves. Over one-half of the grocers reported that they were making an attempt to restrict the number of brands that they carried in order to keep down their investment in merchandise, to avoid losses through deterioration, and to obtain a faster rate of stock turn. It is probable, however, that most of the stores still carry an unnecessary large number of brands in numerous lines.

Many retail grocers have private brands of their own in some lines of merchandise. The articles on which the retailer's private brand is most commonly found are coffee, tea, canned goods, and flour. Others also have private brands of such articles as ammonia, starch, soap, olives, cereals, cocoa, spices, and bottled goods.

The retailers who carry private brands believe that it is good advertising—attracting to their stores customers whose trade they are likely to retain. In some cases the retailer obtains a larger gross profit on the private brands and prefers them on that account. He also is not forced to mark down his own brands to meet the price-cutting policy of his

competitors. The reason most commonly given for the preference for retailer's private brands, however, is that it strengthens the hold of the retailer upon the trade of his customers. Yet in the stores that sell private brands there does not seem to be a higher gross profit, a higher net profit, or a lower figure for total expense than in the stores that do not carry private brands. The rate of stock turn, furthermore, is about the same in stores that sell private brands as in stores that do not sell them.

Quantity discounts.—Somewhat over one-half of all the stores reported that they were in favor of quantity discounts from wholesalers and manufacturers. A quantity discount is a special discount on the price that is given for a large order. Among the retailers that were opposed to quantity discounts, nearly one-half of the total, the chief reason given was that they felt it gave the large retailer an unfair advantage over his smaller competitor. Many others stated that they were opposed to quantity discounts, because these discounts tempted the small retailer to overbuy and incur loss through depreciation of his stock. As might be expected, the larger stores were the ones that were in favor of quantity discounts. The rate of stock turn was about the same in stores that favored quantity discounts as in those that were opposed to them.

Underlying Principles in Purchasing and Handling Materials and Supplies.[2]

One of the main factors that has a direct bearing on the cost of production is the method of purchasing, receiving, storing, and issuing of materials and supplies. It is only when inventories are handled in the proper manner and adequate reports made that the purchasing department of any company can intelligently place orders for the materials and supplies required.

Many a manufacturer has gone a long way towards having a dependable system for arriving at the true cost of his product and fails to realize the importance of following his inventories closely. Purchasing, receiving, storing, and issuing of materials and supplies are all very closely related to each other, and, in order to follow any one division correctly, one must follow all correctly. In manufacturing, there is no phase of operation that is more important or, when loosely handled, will add more to the cost of all goods produced than inefficient methods in this end of the business.

Every manufacturer knows that it is only when his men and machines are producing to full capacity that a minimum cost can be obtained.

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[2] Ellery A. Baker, Industrial Service Department, The National City Bank of New York, *The Americas*, National City Bank of New York, Vol. 6, No. 4.

Such a condition can only be realized when materials are handled so as to have an even flow to the machines. Very often, indeed, production is held up by a shortage of some one part that should have been in stock, and would have been had the proper system been in operation.

Occasionally the manufacturer is frightened by what he feels sure would be an extra clerical cost. It is true, if a concern is not following its inventories closely, that it will add to its clerical force to do so. But the extra cost of clerk hire will be offset many times in the savings made by the purchasing department and by increased production. Efficient purchasing, doing its part toward increased production, means decidedly lower costs.

There is no one hard-and-fast rule that can be laid down in regard to purchasing or any other phase of business operations which will apply to all businesses alike. There are, however, certain principles that should be kept in mind.

It is seldom, if ever, that the purchasing department is in sufficiently close touch with actual operations to originate the purchase orders. This department generally looks to the one in charge of the stock records for the origin of its orders on materials and supplies carried in stock. I do not want to be understood as suggesting that the record clerk, foreman, superintendent, or any one but the purchasing agent should place orders for requirements. A notification, however, of conditions of low stocks should go to the purchasing department daily from the clerk keeping the stock records. This would become automatic on his part, based on the minimum placed on the stock card, which will be taken up later.

From these requisitions a daily list of low stocks should be sent to the stock department and checked against actual inventories before orders are placed. In this manner there is little chance of making a mistake and ordering articles not required. This method also has the additional advantage of continually checking low stocks.

We all realize that there are certain materials and supplies, of which molding sand is a good example, that have to be pro-rated, and the actual consumption can only be checked up at certain periods of the year. The purchase of such items is generally based on the preceding period's consumption.

Notification for the purchase of special or repair materials generally comes from the foreman or superintendent. These notifications should always be made in writing rather than verbally, for by so doing there is no chance of the shifting of responsibility by those who make the requisitions, and it would not be difficult to fix the blame for mistakes or omissions.

In fact, the records of any system, to be of the greatest value, should not depend upon the memory or oral understanding of individuals.

The system should be laid out so as to leave a trail of all past performances, and the records should be in a shape such that any competent person could take charge at any time and meet the different problems intelligently with a full knowledge of what had gone before. As one principle, therefore, we may say that it is highly desirable, if not imperative, that orders for stock be given in some permanent, recordable form, and that the purchasing department should be kept in touch daily with condition as to low stocks.

Another very essential detail in the handling of any purchasing situation adequately is the following up closely of the delivery of all orders placed. This checking up of orders should be at least a bi-daily proposition.

In order to do this a purchase order could be used, made out in triplicate. The original would go to the vendor, the duplicate to the office (this to be used at a later date in checking receipt of goods and invoices), and the triplicate would be used in the follow-up system, either in a monthly tickler or made out on light cardboard, with a row of dates across the top running from 1 to 31, corresponding to the days of the month. In the latter event this copy would be filed under the head of "Article." A small metal tab could be affixed over the date of expected delivery or date on which it became desirable to take action toward securing delivery. Then, by a brief inspection each morning, all orders requiring attention would be automatically located.

While the question of correct and efficient records is, of course, important, the qualifications of the successful purchasing agent should not be limited solely to ability along these lines. In the past, however, the manufacturer has ofttimes looked upon the purchasing agent as occupying an advanced clerical position, and has accordingly endeavored to fill the place with a capable clerk. As a matter of fact, the demands are of such a nature that the services of one of the ablest men in the organization should be employed. He should have experience, a broad viewpoint, and be the type of man who gets what he goes after, realizing at all times what it costs his company in the event of his failure to meet his schedule. In other words, the purchasing agent should possess executive capacity rather than be simply a high-priced clerk.

Purchasing personnel very important.—There is no position in an organization where a pleasing personality is more essential than in the man in charge of the purchasing department. He must at all times recognize that the man interviewing him has an honest claim to a reasonable portion of his time. If this is forgotten, much harm can be done to the company's reputation for fostering that element of business dealing which goes so far toward making a big success—ordinary business courtesy. The personality of the purchasing agent can do

much toward securing the coöperation and the best services from the vendor.

The purchasing department, having placed the order and followed up delivery, we are next led to a consideration of the receiving methods. The lack of proper methods for receiving materials and supplies ofttimes is the cause of waste and much delay in the course of manufacture. In receiving goods, every company should use the greatest caution in order to safeguard its own interests to see that it gets what it pays for—that specifications both as to quantity and quality are satisfactorily fulfilled.

In a great many manufacturing plants to-day this feature of the business lacks system, the receiving of goods being done in a more or less haphazard manner and taken care of by many different people. In many instances, no report of receipt is even made to the purchasing department.

On account of the physical layout of many manufacturing plants, it is impractical to receive all goods in one place. Even the smaller materials and supplies have to be received at several different points throughout the factory. Again, there are other materials and supplies that have to be handled in a special manner as, for example, pig iron, lumber, coal, coke, etc.

Centralization of responsibility needed.—If the manufacturer could always have an up-to-date plant with stock rooms centrally located so as to be convenient for the delivery on requisition of goods to the departments, conditions would be ideal; but even though materials and supplies have to be received at different points and stored in different locations, this is no valid argument against having the accountability and responsibility for the receiving of all goods under one head.

The actual receiving of the materials might be delegated by one man to as many others as might be necessary to handle the work efficiently, this, of course, depending entirely upon the nature and size of the business. In the final analysis, however, I believe it is well to have one person responsible for the receiving of all goods and the keeping of all the necessary records in connection therewith

It is only in the correctness of the receiving department's files that any accuracy may be obtained in the keeping of raw material and supply records. Some simple, practical receiving record should be kept by the receiving clerk.

This receiving ticket is usually made up in book form, about six to a page, and made out either in duplicate or triplicate as desired, the original and duplicate being perforated so as to be readily detached. The slips are numbered serially and provide for a record of the date upon which the goods are received, the shipper's name, the number of packages or pieces, marks, freight, cartage and express, and also the

gross weight of the shipment. If made out in duplicate, the original stays with the goods until they reach the bin or final resting place, at which time a record of the count is made and the slip goes to the office as a notification and description of goods received.

Owing to conditions existing in many factories, it may be some little time before a final counting or checking can be made. In this case, I believe it would be better to issue the receiving ticket in triplicate. On receipt of goods all possible information would be filled in and the original and duplicate would be detached from the book, leaving the triplicate as a continuous and permanent record, showing valuable information concerning receipt of goods. The original would be sent to the main office, where it would perform two functions:

1. Act as a voucher for cash payment of freight, express or cartage when such is made.
2. Notification to the purchasing department of the receipt of the expected shipment.

The duplicate would remain with the goods and go to the storeroom, where the storekeeper, receiving both the slip and package, would weigh or count the articles contained in the package and record such weight or count upon the slip. This duplicate would then be returned to the office, where the amount would be debited against the proper classification of stock, attached to the invoice, where it would remain as a witness of the receipt of goods until check is drawn and signed for payment, and afterward filed as may be desired.

As a general rule, the receiving clerk should not be allowed to check the receipt of goods from a copy of the invoice. There is always a possibility of a tendency to make the verification of the quantities invoiced in more or less of a haphazard manner, and perhaps to assume without counting that the quantity is correct.

Storing and issuing need close attention.—With the purchasing department functioning in the proper ordering of material and supplies and following up of their receipt, and with the receiving centralized under a responsible head, we are led to the next point of interest, that of storing and issuing.

Owing to the physical layout of many manufacturing plants, the establishment of proper stock rooms is indeed difficult. In the newer and more modern factories a central stockroom is usually one of the first considerations. This, of course, simplifies the storing problem very decidedly, as all materials and supplies can be charged into stock and requisitioned out without any great additional cost.

The arrangement of the older plants ofttimes prohibits the establishment of one physical stockroom. There can be, however, central control through the supervision of one man in charge of the whole store situation, who will delegate certain sub-storekeepers in charge of stocks

wherever necessary, having all under the one supervision of a competent and trustworthy employee.

Where this is not the case, it is an undisputed fact that with raw materials and supplies scattered through the factory in many places and being subject to withdrawal and waste without proper accounting, the possibility of compiling accurate cost figures is precluded. The best possible method of handling raw material and supplies is through proper stockrooms, from which they can be accurately issued. When this ruling is enforced the company can rely on its stock records in securing accurate material costs, and such records give it complete control over the whole stock situation.

From experience I have learned that there is usually a larger amount of material used in manufacturing than theoretically should be. This means, of course, that there is a very considerable waste in its use and increased waste always means decreased profits. Without stock records, no concern can measure the use of various materials because of lack of the only adequate comparison which can be had, namely, their relation to production. In order to stop leaks before they have had an opportunity to do damage, it is necessary to have such control, and I believe that many small leaks in the matter of materials and supplies, as well as other expenses, are worse than one big-one, because the big leak is usually more or less obvious, while the small ones may continue from year to year without detection.

Whether the one physical stockroom or the several storerooms are employed, all materials and supplies should either be reported or requisitioned when used. On all storeroom articles, a perpetual inventory card should be kept.

This card shows the date on which the order was placed, date of promised delivery, price, date of receipt of goods, amount received, amount used, and the balance on hand. It would also show the names of the companies from whom the articles were purchased and the minimum and maximum quantities to be carried at all times. In fact, this would give a complete picture of the whole stock-purchasing situation.

A vital point in stock keeping, and one usually given too little consideration, is the careful determination of maximum and minimum figures. In arriving at these amounts, due consideration should be given to the production schedule, the length of time it takes to fashion the raw material into the finished article, and the probable time before goods can be received from the vendor after the order is placed. Great care should be taken in arriving at these figures for, when once determined, they are the basis for the efficient handling of the stock situation, in the one case to keep on hand no greater quantities than current output demands, thereby avoiding the tying up of too much money in

stock, and in the other to give proper warning before the material stock is exhausted so that time may be had to purchase economically and to obtain sure deliveries.

The advantage of this plan is apparent. It allows for deliberation and careful analysis of each article purchased in regard to its relation to manufacture. The decision is made by executives, not clerks, after consulting carefully in the matter with those in charge whose knowledge and experience would be useful. When the decision is made, the matter then becomes a permanent rule and at all times, until changed, is a standing instruction to those in charge of the records.

Naturally, from time to time, manufacturing conditions will change, and revision of the maximum and minimum figures becomes necessary. Such a plan not only provides for automatic ordering to a certain extent, thereby insuring the possibility of another taking up the work in emergency, but also removes a certain amount of unnecessary detail from the mind of the purchasing agent and thereby releases his effort for other and more profitable activities.

As the clerk making the records sees that the minimum on the stock card is reached, he would record the article and quantity on a daily shortage report showing the balance on hand. At the end of each day this report would be sent to the storeroom for verification and after the quantity had been checked it would then go to the purchasing department. Based on this verified count, the purchasing agent, after getting in touch with the commercial end, would place the order for the amount needed. This, it will be recalled, was mentioned in the outset in connection with keeping the purchasing agent in close touch with operations.

All reports and requisitions of materials and supplies used would be sent to the cost office, there entered and charged into costs month by month. The expense requisitions would give the cost of the different supplies used by the various departments monthly as well as the total amount with which to credit the supply account in the private ledger. The total cost of material used would be credited monthly to the material controlling account and at the same time debited to goods in process account.

The importance of the position of stock clerk is very often underrated, but if a careful analysis of the factors that go to make or mar the success of any manufacturing enterprise is made, it will be found that the store department is the pivotal point of the whole production plan. Methods of purchasing, receiving, storing, and issuing of materials and supplies effect the following economies:

1. Correct material cost of product.
2. Waste showing on material.

3. Keeping on hand the materials needed only in quantities commensurate with the output, thereby reducing investment.

4. Proper warning before materials are exhausted so that time may be had to purchase economically, obtain sure deliveries, and avoid interference in production.

5. Showing value of supplies used by each department monthly, thus enabling the foremen to reduce this expense to the minimum.

Of course, the main object to be attained is the securing of the above information in the simplest and most convenient way possible. While the particular forms that have been shown are based on practical experience, it does not necessarily follow that they may be bodily incorporated into a system of any particular factory. The chief thought in supplying the accompanying forms was to give concrete illustrations to the points under discussion and not to suggest their unaltered use in any given situation.

The Rate of Stock Turn.[3]

The average business man accepts as a truism the statement that, generally speaking, an increase in the rate of stock turnover increases business profits. Hence the credit man, in his analysis of a credit risk, pays a good deal of attention to the rate of turnover. And yet, in spite of the widespread interest of business men in the question of stock turnover, very few figures on the rate of turnover in the different lines are available to the business reading public. The specialists in each line are able to give estimates of the rate of stock turnover in those lines, but men in other lines frequently seek in vain for that information.

Investigations in the last ten years have added a considerable amount of exact information to the guesses and estimates. The Harvard Bureau of Business Research, the Northwestern Bureau of Business Research, the Robert Morris Associates, the Nebraska College of Business Administration, and the Pittsburgh Institute of Credit through A. D. Sallee have all contributed accurate information on this important subject. Before another ten years has elapsed, we are likely to have the average rates of stock turn available for all major and minor industries in the country.

In this article the results of these investigations will be set down with only brief introductory comments.

Stock turnover and the business cycle.—Though figures for the rate of stock turn for successive years are available in only a few instances, these figures seem to show that the rate of stock turn varies

[3] By John Whyte, Ph.D., Director of Research, National Association of Credit Men, *The Credit Monthly*, June, 1923.

in the different periods of the business cycle, increasing with business prosperity and decreasing during periods of business depression.

Differences in computation of stock turn.—The reader will also note in the tables that figures for stock turn as computed by different investigating organizations are not uniform for the same lines. One chief reason for this is that the methods of computation are different.

1. The most scientific method of determining stock turn is the one that is in closest agreement with the definition of the rate of stock turn (namely, the rate of stock turn shows the rate of frequency with which merchandise is sold or replaced). This method is as follows: *Divide the total amount of goods sold (expressed in a figure showing what those goods cost) by the average inventory at cost prices.* Expressed as a formula it is as follows:

$$\text{The rate of turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory at cost}}$$

2. The second common method of figuring the rate of stock turn is one that is very current among credit men. It is as follows: *Divide the total sales (at selling prices) by the inventory at cost.* The reason why this rate of stock turn computation is very current is, because it is available from financial statements to which credit men have access. The figure of stock turn derived by this method is, however, not an exact figure of stock turn, because we are not dividing like by like. In this case we use figures for inventory at cost prices and total sales at selling prices. (The credit men who know what the average mark-up is in certain lines frequently compromise between the two methods by adding to the inventory the proper selling value of the goods and then by deriving a figure of stock turn based on a division of total sales by sales prices of goods in the inventory.) In the figures for rate of stock turn that are given herewith both major types of computation have been used. In every case, however, just how the figures were computed is shown so that you will know what adjustments to make in comparing the figures.

It is obvious that the rates of stock turn as arrived at by these two methods will differ. If the rates of stock turn are low the figures will not differ greatly in points, but if the rates of stock turn are high they will, of course, differ considerably. The rate of stock turn measured by the second method, that of total sales at selling prices divided by average inventory of cost, is always a higher figure than the rate of stock turn as determined by the first method of cost of goods divided by average inventory at cost.

The rate of stock turn for different products in both wholesale and retail establishments is given in the tables on the following pages. It is also given for five Federal Reserve Districts scattered throughout the country.

RATE OF STOCK TURN IN WHOLESALE ESTABLISHMENTS

FIGURED FROM FINANCIAL STATEMENTS

(The figures are average figures.)

Source: Robert Morris Associates.

	1914	1915	1916	1917	1918
Boots and Shoes					3.6
Drugs					3.5
Dry Goods	4.1	4.8	4.5	4.2	4.2
Farm Implements					4.1
Groceries					5.6
Hardware					3.3
Lumber					3.7
Packers					8.3
Tanners					2.9

	1919	1920	1921	1922
Boots and Shoes		3.4	5.5	4.9
Dry Goods	5.0	5.9	4.2	
Groceries		4.8	6.2	7.3
Hardware		5.2	3.8	4.1

RATE OF STOCK TURN IN DEPARTMENT STORES

FIGURED FROM FINANCIAL STATEMENTS

Source: Robert Morris Associates.

January, 1920	5.3
January, 1921	7.4
January, 1922	6.5

Source: Harvard Bureau of Business Research.

Average Rate of Stock Turn for 1921 = 3.

(Figured on sales at cost prices and inventory at cost.)

RATE OF STOCK TURN FOR 1921 IN FIVE FEDERAL RESERVE DISTRICTS

(Figured on sales and inventory at cost prices.)

Boston	3.7
New York	3.0
Cleveland	3.5
Chicago	2.7
San Francisco	2.9

STOCK TURN IN DEPARTMENT STORES

(Figured on sales at cost prices divided by inventories at cost prices.)

Less than $250,000	2.2
$250,000 — $499,000	3.5
$250,000 — $499,000	2.9
$500,000 — $999,000	3.5
$1,000,000 — $2,499,000	3.3
$2,500,000 — and over	4.0

RATE OF STOCK TURN IN RETAIL STORES

Source: Harvard Bureau of Business Research

Number of Stock Turns per year 1915-1920.	Common Figures.	
Grocery	7.0	1915
Grocery and Meats	9.0	1915
Grocery	7.9	1918
General Mercandise	2.4	1918
Drug	2.3	1919
Hardware	1.8	1917-18
Hardware	2.1	1919
Jewelry	1.1	1919
Shoe	1.8	1919
Shoe	2.0	1920
		Average
Low-priced Shoes	1.6	1912-17
Medium-priced Shoes	1.7	1912-17
High-priced Shoes	1.5	1912-17
Shoe Dept. and Dept. Stores	1.5	1912-17
Chain Shoe Stores	1.7	1912-17

Figures given are *common* figures (common figures are figures most frequently realized).

STOCK TURN IN RETAIL CLOTHING STORES

(Figured on cost basis.)

Source: Northwestern Bureau of Business Research.

General Average for all stores	2.2
Average for stores under $40,000 yearly sales	1.5
Average for stores with yearly sales from $40,000 to $80,000	1.8
Average for stores with yearly sales from $80,000 to $180,000	1.9
Average for stores with yearly sales over $180,000	2.8

STOCK TURN IN GENERAL STORES AND COUNTRY GROCERS

Sources: College of Business Administration, University Nebraska and A. D. Sallee, Pittsburgh Institute of Credit.

Stock Turn for 55 Nebraska Stores Common figure (Figure on cost basis of sales and inventory.)	3.0
Average for Country Grocers (Southwestern Penn.) for 1920 figured on financial statements with a mark up of 30% on cost price of inventory. Common figure	7.0
General Stores Southwestern Pennsylvania (Figured as under B) 1920 Common Figure	7.0

How to Teach Proper Turnover Methods to the Dealer.[4]

A dealer doing a gross business of $28,000 in a certain department on an initial investment of $4,000 does not turn his stock seven times. Those who say otherwise reach the conclusion by dividing the stock at cost into the total sales at retail which is entirely wrong.

[4] *Printers Ink*, Vol. 122, March 15, 1923, p. 8.

It would be just as reasonable to say that if a man bought a thing for $1 and sold it for $1.50 he would be turning the item one and one-half times.

It is impossible accurately to compute the number of turns by dividing a dealer's inventory figures into the gross sales, because these represent two entirely different things. The inventory means the cost of the goods. The gross sale figures represent what a man gets for his goods.

In getting at the correct number of turns made by a store or department, it is necessary first to subtract the gross profit from the gross sales made during the period for which the turnover is to be computed. Into the resulting figure should be divided the average amount of stock that has been carried in the store or department during that period.

The gross sales in this case amounted to $28,000. Suppose the dealer's average gross profit in that department was 30 per cent. Thirty per cent of $28,000 is $8,400. This leaves $19,600 as the approximate cost of the stock sold during the year for $28,000.

The average investment during the year being $4,000 and the cost of the stock sold being $19,600, the number of times the stock turned is found by dividing $4,000 into $19,600—a little less than five times.

Sales expense must be known first of all.—Numerous manufacturers and others interested in setting the retailer right in such essential features as this have found that the average retailer does not figure his profits correctly, for the reason that he does not know accurately how much it costs him to sell his goods. This is as simple as the rule for computing turnover. All he has to do in this case is to divide his gross expenses by his gross sales. His sales during the year in a certain department, let us say, are $30,000, and his expenses for the same time are $5,870. The sales figures divided into $5,870 gives about 19½ per cent. His percentage of expenses during the year is 19½ per cent on sales.

It is encouraging to note the constructive methods used by various dealers' service departments in building up the retailer along these lines. It is something that is almost universally needed.

Branch-house Turnover and Expense as Bearing on Branch-house Economy.[5]

The most important part of the marketing organization of the big packers is the branch house. While extended investigation has not been made of the relative cost of selling foods through these agencies and the usual channels of trade, data are presented in the tables which

[5] Report of the Federal Trade Commission on the Meat Packing Industry, Part IV, pp. 44-54.

follow showing the chief features of branch-house economy for six Wilson branch houses of varying size, under one management. These houses are located in eastern territory. They may or may not be typical. The period covered is the six months ended with April, 1919.

The following table gives a summary statement of the operations of the six branch houses for the period, without audit or revision by the Commission:

OPERATIONS OF SIX BRANCH HOUSES

These comprise one eastern district of one of the big packers for the six months ended April 30, 1919.

(Figures not audited or revised by the Commission.)

	No. 1	*No 2*	*No. 3*	*No. 4*
Opening Inventory	$43,395	$38,347	$42,820	$143,700
Plant Purchases	913,775	967,532	1,186,569	724,270
Outside Purchases	86,218	59,440	44,121	105,732
Total	$1,043,388	$1,065,319	$1,273,510	$973,702
Closing Inventory	43,334	32,144	50,796	73,063
Cost of Sales	1,000,054	1,033,175	1,222,714	900,639
Sales	1,019,937	1,044,076	1,230,817	923,004
Gross Profit	19,883	10,901	8,103	22,365
Other Losses or Earnings	10,341	2,917	— 853	8,730
Total Gross Profit	30,224	13,818	7,250	31,095
Total Expense	34,132	30,435	40,190	55,440
Net Profit or Loss	—3,909	—16,617	— 32,940	—24,345
Expense per Dollar of Sales, Cents	3.3	2.9	3.2	6.0
Expense per 100 Pounds, Cents	78	67	79	152

	No. 5	*No. 6*	*Six branches*
Opening Inventory	$37,148	$22,209	$327,619
Plant Purchases	160,723	149,040	4,101,909
Outside Purchases	52,622	54,635	402,768
Total	$250,493	$225,884	$4,832,296
Closing Inventory	24,439	16,834	240,610
Cost of Sales	226,054	209,050	4,591,686
Sales	233,165	214,254	4,665,253
Gross Profit	7,111	5,204	73,567
Other Losses or Earnings	— 950	1,586	21,771
Total Gross Profit	6,161	6,790	95,338
Total Expense	12,829	12,908	185,934
Net Profit or Loss	—6,668	—6,118	—90,596
Expense per Dollar of Sales, Cents	5.5	6.0	3.9
Expense per 100 Pounds, Cents	138	146	96

Since "cost of sales" represents merely the arbitrary billing price from the plant to the branch house, the resultant "gross profit" and "net profit or loss" are not true indexes of the financial returns. Moreover, sales include, no doubt, some sales to subsidiaries. Unaudited and unrevised figures for all Armour & Company's branch houses for the year ended Nov. 2, 1918, indicate a net gain by its branch houses of 2.135 cents per dollar of sales and a net expense of 4.38 cents per dollar of sales.

Analysis of sales.—The following tables, giving analyses of the sales of these six houses, are presented for the light which these analyses will throw on the subsequent figures of expense and turnover.

SALES—WEIGHT AND AMOUNT

Six branch houses comprising one eastern district of one of the five large packers—Sales by classes of goods with ratio of each to total sales for the six months ended April 30, 1919.

(Figures not verified by the Commission.)

	Weight (pounds)	*Amount*	*Per Cent of Total*	
			Weight	*Amount*
Fresh Meat*	10,071,882	$2,031,549	52.19	43.64
Cured Meat†	3,529,022	1,049,713	18.28	22.55
Lard, Compound, and Butterine	865.076	220,214	4.48	4.74
Produce‡	2,617,077	986,747	13.56	21.20
Canned Goods and Groceries§	1,408,367	189,207	7.30	4.06
All other	809,045	177,459	4.19	3.81
Total	19,300,469	$4,654,889	100.00	100.00

* Includes carcass meats, beef cuts, fresh pork, and offal.
† Includes smoked, sweet pickled, dry salt, and barreled meats, and also boiled ham.
‡ Includes butter, poultry, eggs, and cheese.
§ Includes canned meats, fish, vegetables, fruit, and coffee and other grocery items.

The foregoing table shows that 52.19 per cent of the weight of sales and 43.64 per cent of the amount of sales were made up of fresh meats, and that butterine, lard, and lard compounds, produce, canned goods, and groceries, commodities generally handled by jobbers, constitute 30 per cent of the total amount of sales.

Some of the branches of this and other companies do not handle all these lines of goods. All the branches in this group, however, handle all the lines, but in varying proportions as shown in the following table.

SALES—AMOUNT AND PROPORTION

Six branch houses comprising one eastern district of one of the big packers—Sales by classes of goods and by branches for the six months ended April 30, 1919.

(Figures not verified by the Commission.)

Branch	*Fresh Meat* Amount	Per Cent	*Cured Meat* Amount	Per Cent	*Lard, Lard Compound and Butterine* Amount	Per Cent
No. 1	$596,037	58.44	$139,616	13.69	$36,929	3.62
No. 2	675,712	64.72	57,944	5.54	19,684	1.89
No. 3	517,254	42.38	449,682	36.85	42,223	3.46
No. 4	186,673	20.22	259,819	28.14	57,849	6.27
No. 5	17,867	7.66	76,183	32.67	22,770	9.77
No. 6	38,006	17.75	66,469	31.02	40,759	19.02
All branches	$2,031,549	43.64	$1,049,713	22.55	$220,214	4.74

Branch	*Produce* Amount	Per Cent	*Canned Goods and Groceries* Amount	Per Cent	*All other* Amount	Per Cent
No. 1	$194,185	19.04	$37,753	3.70	$15,420	1.51
No. 2	215,772	20.67	34,076	3.26	40,892	3.92
No. 3	169,443	13.88	25,299	2.07	16,543	1.36
No. 4	275,421	29.84	53,653	5.82	89,591	9.71
No. 5	86,482	37.09	26,553	11.39	3,310	1.42
No. 6	45,444	21.21	11,873	5.54	11,703	5.46
All branches	$986,747	21.20	$189,207	4.06	$177,459	3.81

Turnover.—The more frequent turnover of stock is pointed to by the packers as one of the causes of their efficiency as distributors of food, through the branch house. The figures for the six branch houses under consideration on their face would indicate a high degree of efficiency according to this test. In the tables which follow, dealing with turnover, the rate of money turn is computed by dividing the average inventory into the net sales rather than the cost of sales, for the reason that the "cost" is arbitrarily determined by the method of billing goods to the branch house. The margin between the "cost" and the sales is, however, smaller than it normally is in an independent marketing organization, and the resulting turnover figures are substantially what they would be if the "cost" had been used for a dividend.

The following table shows for the six houses taken together and for each house in the group the total sales by weight and amount, the average inventory by weight and amount, the turnover for six months, and the turnover for a year on the assumption of doubled sales and the same average inventory:

SALES, AVERAGE INVENTORY, AND TURNOVER

Weight and amount—Six branch houses comprising one eastern district of one of the five meat packers for the six months ended April 30, 1919—Yearly turnover estimated on basis of the six months' turnover.

(Figures not verified by the Commission.)

	Total Sales		*Average Inventory*	
Branch	*Weight (pounds)*	*Amount*	*Weight (pounds)*	*Amount*
Six houses	19,300,469	$4,654,889	1,572,515	$314.982
No. 1	4,337,562	$1,019,940	356,385	$54,163
No. 2	4,492,749	1,044,080	131,624	23,188
No. 3	5,030,451	1,220,444	320,555	63,739
No. 4	3,631,926	923,006	504,876	122,385
No. 5	926,421	233,165	151,997	29,319
No. 6	881,360	214,254	107,229	22,188

	Turnover (6 months)		*Turnover (1 year, estimated)*	
	Weight	*Amount*	*Weight*	*Amount*
Six houses	12.27	14.78	25.28	29.56
No. 1	12.17	18.83	27.90	37.66
No. 2	34.13	45.02	68.26	90.04
No. 3	15.69	19.14	31.38	38.28
No. 4	7.19	7.54	14.38	15.08
No. 5	6.09	7.95	12.18	15.90
No. 6	8.22	9.66	16.44	19.32

On their face these figures show so decisive an advantage in the important factor of turnover that, other things being equal, wholesale grocers could not hope to compete with the packers in handling foods; for no jobber in groceries can make such a rapid turn of his goods. A study of 108 wholesale grocers in 1916 showed the highest stock turn to be 11.6, the lowest, 2.8, and the common or typical number of turns, 5.7 per year.

But such figures cannot be accepted at their face value. They show too much. In this group of branches, under the same management and conducting the same kind of a business, the most striking variation in turnover occurs. Branch No. 2 has a turn three times the average for the group, more than twice that of the next highest, and six times as high as the lowest, in the group. The variation and in general the high rate of turn are largely accounted for by the proportion of fresh-meat sales to the total sales. The fresh meats move more rapidly than any other part of the stock. In fact, in the larger branches the amount of carcass meat carried over from day to day is less, often considerably

less, than the daily sales; that is, less than a day's supply would show in the inventory taken at the close of business.

Thus, it was found at Branch No. 2 that for six months the sales of carcass meats averaged 18,200 pounds daily, while the inventory showed an average of only 4,400 pounds.

In the case of the small houses in this group the fast-moving fresh meats constitute a smaller proportion of the total sales, and in consequence of this and less frequent arrivals, larger inventories have to be carried. At Branch No. 5, for example, the sales of fresh meats amounted to but 7.66 per cent of the total, as compared with 64.72 per cent at Branch No. 2; while the inventory figures showed an average of 654 pounds of carcass meats on hand with average daily sales of only 218 pounds.

The importance of a well-coördinated transportation system is seen in this connection. No business that was not connected with the source of its supplies by a thoroughly dependable means of transportation could carry on its business on so narrow margin of supply as is shown in Branch No. 2.

It may be stated in passing that of the six towns in which these houses are located, the one showing the next to the lowest average inventory and the highest turnover is the one which is most favorably situated from the transportation point of view.

The turnover is further affected by the storage conditions at the various branches. If space is ample, large stocks of less perishable foods may be carried at the branch as a matter of convenience to the company instead of at the plant, with the result of a reduced branch turnover and an apparent loss of branch efficiency.

These considerations suggest the inadequacy of the rate of branch-house turnover as a test of marketing efficiency, especially in view of the fact that the branch does not stand alone. While as to outside purchases made by the branch house the length of time stock is carried is significant, this factor is of little significance in connection with the much larger part of the purchases made at the plant. For this group of houses plant purchases constitute more than 90 per cent of the total. The packers' turnover and carrying cost are very different things from the turnover and carrying cost of the branch house. It is usually said that fresh meats are disposed of within about two weeks after killing, which would give a company turn of about twenty-six for the most rapidly moving part of its merchandise.

The turnover of other parts of the branch-house merchandise is much slower. The turn of canned goods and groceries in the six branch houses is shown in the table on page 428.

SALES, AVERAGE INVENTORY, AND TURNOVER

Canned goods and groceries—Six branch houses comprising one eastern district of one of the five large packers for the six months ended April 30, 1919—Yearly turnover estimated on basis of the six months' turnover.

(Figures not verified by the Commission.)

Branch	*Sales (6 months)*	*Average inventory*	*Turnover (6 months)*	*Turnover (1 year estimated)*
Six houses	$189,207	$90,394	2.09	4.18
No. 1	37,753	20,935	1.64	3.28
No. 2	34,076	8,647	3.94	7.88
No. 3	25,299	22,390	1.13	2.26
No. 4	53,653	20,858	2.57	5.14
No. 5	26,553	13,097	2.03	4.06
No. 6	11,873	4,467	2.66	5.32

These figures on their face do not indicate extraordinary packer efficiency from the point of view of turnover in handling groceries, competition in which is chiefly complained of. But again it must be said the figures cannot be taken at their face value, since they do not show how long the company carries these stocks before they reach the branch house. The wide difference in the turn of these goods at Branch No. 2 and Branch No. 3 seems to indicate more skillful merchandising at the former house; and so it would if the branch houses were independent concerns. Branch No. 2 sells 25 per cent more than No. 3 and carries an inventory 60 per cent less. But this may be explained by the fact that the company finds it convenient to carry large stocks at No. 3, while limited storage facilities may make such a policy at No. 2 impracticable. Moreover, the transportation advantages enjoyed by the packer under the mixing rules in official classification territory make it possible for him, because of the ease with which less-than-carload lots of groceries may be shipped at carload rates, to carry lighter stocks of such goods at his branch house than the independent wholesaler must carry.

There is no doubt, however, that the company turn of all commodities marketed through the branch houses is higher than that of wholesale grocers. The turnover of the total business of the big packers for the year ended November 1, 1918, based on total sales and an average of seven inventories (including supplies as well as merchandise) was as follows: For Armour & Company, 6.7; Swift & Company, 7.2; Morris & Company, 7.4; Wilson & Company, Inc., 7.8; The Cudahy Packing, 8.1; and the Big Five, 7.2. This is uniformly a better showing than that made by the grocers with their "common" or typical turn of 5.7, and that part of the merchandise passing through the branch house must have a rate of turn considerably above the average for the total business.

The value of the branch-house turnover figures as a test of efficiency is, however, largely vitiated by the fact that they are not fairly comparable with those of the grocer. The high rate is due to the rapid movement of the bulk of the merchandise, and, while it shows how a large profit may be made on such goods even when turned on a low margin, it throws no light on efficiency in handling the slower moving lines of goods like groceries, though the situation suggests a possibility of loading upon the swift moving goods the expense of carrying those which move at a normal rate.

Branch-house expense.—Just as the branch-house manager is more likely to speak of his "tonnage" than he is of his amount of sales, so he is more likely in estimating his marketing cost to express it in cents per hundredweight than in a percentage of his sales. In the table which follows the results of both methods of testing efficiency are brought together from the previous tables for the six branch houses under consideration.

SALES—AMOUNT AND WEIGHT

Expense per dollar and per 100 pounds—Six branch houses comprising one eastern district of one of the five great packers for the six months ended April 30, 1919.

(Figures not verified by the Commission.)

	Branch No. 1	*Branch No. 2*	*Branch No. 3*	*Branch No. 4.*
Total Sales, 6 Months, Dollars	1,019,937	1,044,076	1,230,817	923,004
Total Sales, 6 Months, Pounds	4,337,562	4,492,451	5,030,451	3,631,926
Expenses, 6 Months, Dollars	34,132	30,435	40,190	55,440
Expenses per Dollar of Sales, Cents	3.3	2.9	3.2	6.0
Expenses per 100 Pounds, Cents	78.7	67.7	79.7	152.6
Turnover, All Goods Yearly	37.66	90.04	38.28	15.08
Turnover, Canned Goods and Groceries, Yearly	3.28	788	2.26	5.14

	Branch No. 5	*Branch No. 6*	*Six Branches*
Total Sales, 6 Months, Dollars	233,165	214,254	4,665,253
Total Sales, 6 Months, Pounds	926,421	881,360	19,300,469
Expenses, 6 Months, Dollars	12,829	12,908	185,934
Expenses per Dollar of Sales, Cents	5.5	6.0	3.9
Expenses per 100 Pounds, Cents	138.4	146.4	96.3
Turnover, All Goods Yearly	15.90	19.32	29.56
Turnover, Canned Goods and Groceries Yearly	4.06	5.32	4.18

A comparison of the figures shows a wide difference in the expenses of handling at the branches within the group. The range is from 67.7 cents to 152.6 cents per hundred pounds and from 2.9 per cent to 6 per cent of sales. In general the lowest expenses are found, as might be expected, at those branches where the business is large and highest at

the smaller branches. At Branch No. 4, though the volume of business is large, the expense is high, owing to heavy expenses for repairs and for receiving and delivery. In general, also, the low expenses are found at those branches with the most frequent turnover.

In the table which follows an analysis of the expenses of a group of wholesale grocers is given as a means of comparison with the expenses of the six branch houses. The figures are not in all respects strictly comparable, but it is believed that they are essentially so with the exceptions noted. The expenses for the grocers are for 108 wholesale firms, large and small, for the year 1916; those for the branch houses for the six months ended with April, 1919. The figures for the various items of the wholesale grocers' expense are not the average for all firms, but the typical or most frequent figure in each case, the "common" figure about which the figures from all the wholesalers center; the figures for the branch houses are the average of the six branches. Other points at which the comparison fails to represent the relative marketing efficiency of the two methods of distribution will be pointed out below.

CLASSIFIED EXPENSES PER DOLLAR OF SALES

(Six branch houses comprising one eastern district of one of the five meat packers for the six months ended April 30, 1919, and a group of wholesale grocers for the year 1916.)

(Figures not verified by the Commission. Those for wholesale grocers are from Bulletin No. 9, Bureau of Research, Harvard School of Business Administration.)

	*"Common" figure, wholesale grocers (cents per dollar of sales),** *1916*	*Average figure, 6 branch houses (cents per dollar of sales),†* *6 months, 1919*
Selling Expense:		
Sales Force Expense	2.3	1.386
Advertising	.07	....
Other Selling Expense	.06	....
Total Selling Expense	2.5	1.386
Receiving and Delivery	1.59	.594
Buying Expense	.4	....
General Management and Office Expense:		
Salaries	1.2	.318
Postage and Office Supplies	.23	.139
Telephone and Telegraph	.05	.077
Credit and Collection	.06	.013
Other Management expense	.10	....
Total Management and Office Expense	1.65	.547

* The figures in this column are not the average of the 108 houses, but the common or typical figure returned for each item of expense and for the totals.

† The figures in this column show the average expense for the six branches considered.

Fixed Charges and Upkeep:		
Interest‡	1.5	.497
Rent	.4	.259
Heat, Light and Power	.05	.039
Storage	....	.074
Refrigeration	....	.139
Taxes	.2	.039
Insurance	.11	.010
Repairs of Equipment	.05	.064
Depreciation	.1	.009
Total Fixed Charges and Upkeep	2.5	1.130
Miscellaneous Expense	.11	.114
Losses from Bad Debts	.3	.157
Total Expense	9.5	3.928
Stock turnover	§5.7	§29.56

‡ Interest is included with expense for comparative purposes, though not in all cases to be regarded as an actual expense or cost.
§ Figure represents yearly turnover.

In attempting to consider these figures one is met by the difficulty encountered wherever an analysis of the packers' accounts is attempted. The branch houses are part of a great system of production and distribution, and their expenses do not represent the company's cost of marketing the goods which pass through them.

The expenses given above, for example, do not include the cost of maintaining the district superintendent's office, nor any part of the expense of the branch-house department at the main office. These six branches "purchase" three-quarters of a million of goods per month, but no buying expense is shown. This is due, in part, to the fact that nine-tenths of the purchases are plant purchases. And to the extent that these plant purchases are company products there is a clear merchandising advantage; neither the company nor the branch has the expense of seeking out and inspecting supplies. But a considerable portion of these purchases are outside products involving a buying expense not shown in the branch-house figures. In the same way the omission of advertising expense is noticeable. This is not usually a heavy item for wholesalers in foods; but, so far as the packers' advertising campaign of the last year or two is intended to attract purchasers, the expense is a merchandising cost, no part of which is shown in the branch-house figures.

Another item of more weight in the list of expenses is the so-called interest charge, which, though not in all cases to be regarded as a cost or actual expense, is included here for comparative purposes. This item for the six houses amounts to $23,150 for the six months and constitutes 0.497 of a cent per dollar of sales. The common figure for the wholesale grocers is three times as great (1.5 cents). This, for the

grocers, is the real imputed interest expense. The branch-house figure shows the branch-house but not the company expense. The branch is charged interest on the branch-house plant, when owned, on equipment and on working capital employed. The interest on working capital is the heavy part of this item, even when rent is interpreted as interest. At Branch No. 1, with average sales of $170,000 per month, the outstanding accounts average somewhat less than one-half that amount. But the branch is charged interest on the goods only while they are in its possession and during the period pending collection; the interest charge on goods while in possession of the company, frequently during the far greater part of the life of the commodity, does not appear anywhere as a merchandising cost. If the exact truth could be shown, however, it would doubtless appear that the grocers' interest charge for merchandising is greater than that of the packers, on account of the longer credit given by the grocers.

The practice of giving long credits results not only in a heavy interest charge but in a considerable expense in another direction. The grocers are at a disadvantage with the packers, if the figures in the table may be regarded as typical, in losses from bad debts. They lose 0.3 of a cent per dollar of their sales, while the branch houses lose but half that amount (0.157 of a cent per dollar). Wholesale grocers sometimes complain that the packers by reason of their position in the meat industry have been able to force upon retailers a promptness in settling accounts which they, owing to the traditional credit relations between jobber and retailer, cannot secure. But, it must be said, if the monopoly power of the packers is used in no more socially injurious way than to shorten the term of credit from a month, three months, or six months, to seven or eight days their power would not be a menace. It is one of the hopeful signs of merchandising everywhere that dealings are approaching more nearly a cash basis.

Other items are open to criticism similar to that passed upon the interest charge. The rent and storage charges of the branch houses combined (0.333 of a cent per dollar) almost equal the rent of the grocers (0.4 of a cent per dollar). If the cost of housing goods before they reach the branch was added, the cost to the packer would doubtless exceed that to the grocer. Refrigeration, already a heavy merchandising expense for the branch house, would be materially increased if the company expense properly chargeable to merchandising were added. A wide disparity in taxes between the grocers (0.2 of a cent per dollar) and the branch houses (0.039 of a cent per dollar) is to be noted; though it is possibly explained in part by the larger ownership of plant on the part of the grocers, an interpretation which might more readily be adopted but for the large item of rent in the grocers' expenses.

After all allowances are made, however, the facts if fully known might well show that on the average a given volume of sales can be made at less expense by the packer than by the wholesale grocer; but even so, the efficiency of the packers in handling non-meat products is not established. The packers do not keep cost figures for handling specific lines of goods in their branch houses. The cost of handling meats is doubtless lower than that for other lines. The prices at which they sell groceries have frequently caused the jobbers to raise the question whether the packers load their meat with much more than its proper proportion of expense. No statistical information has been secured on this point, but it is clearly implied in a recent statement by the president of Morris & Company that the jobbers are right in their surmise. He says:

"It is a fact, if that be an offense, that the packers have an efficient means of distribution, and as they already have a fixed carrying charge at their branch houses, additional lines of goods can be carried and sold very cheaply."

This and similar utterances from other packers seem to show that they do not rely upon their efficiency in handling groceries to win for them a footing in the marketing of these foods, but upon the organization built up for marketing products which naturally appeal for favorable treatment from the carriers and over which they exercise a more or less monopolistic control.

Low prices to the consumer made possible in such ways are not a social advantage, but may readily be made the instrument for securing a dominating control of successive lines of goods, after which it may be confidently expected that such lines will be made to bear at least their proper marketing expense and that prices will be raised accordingly. But aside from that no lowering of price has been found to result from the adventure of the packers, from time to time, into new lines of manufacturing and merchandising. The manufacturers of foods, and of food and other specialties and their purveyors are, generally speaking, determining price levels through competition. As their positions are undermined, monopoly looms.

Continued expansion to be expected.—The reason given by the packers for taking on the merchandising, and, more lately, the manufacture of new lines of goods is that it is done in the interest of efficiency —presumably greater social efficiency. As the number of lines a car-route salesman has to sell is increased his cost per unit of sales is lowered; when for seasonal or other reason there is a falling off in the main lines of business the way is open to keep down costs by pushing the sale of specialties.

It often happens that a packer salesman visiting a town having only one or two meat markets will, by including the groceries, drug stores,

and soda fountains in his calls, reach more dealers than any other class of traveling salesmen. The packers seek a better utilization of their branch houses. Having expensive refrigeration for fresh meats, it is in the interest of economy, it is said, to utilize it by keeping it as fully employed as possible.

It may be suggested at this point that it is easy to mistake what is economical for the individual firm for a social economy. For example, if a packer's taking over the cheese business simply means the transfer from a jobber's cold storage, owned or leased, to his own, there may be an increase of the packer's efficiency without any corresponding social economy. Again, it is said that new lines of goods make possible a better utilization of their refrigerator cars, both those in the car-route service and those serving the branch house. The same caution against mistaking an advantage to the firm for one to society, as is indicated above, should be observed at this point also. But upon this matter further discussion will be had in subsequent pages.

Quite aside from the question of social usefulness or benefit or harm to the general business world, it is fully appreciated by the packers that the side lines do perform a useful function in the packer economy by keeping up the tonnage and helping at weak spots. A circular sent out by Morris & Company in 1916 to branch-house managers says:

"Our business has ceased to be exclusively a Beef and Pork business. We are the natural distributors of many other products and a Manager or Salesman can't hope to be a real success, unless he sells the full line."

A member of the firm of Swift & Company wrote the president of the company that its branch-house at Spokane was not paying and suggested a means of improving conditions:

" . . . I suppose half his volume is smoked meats; lard, both pure and compound, coming second in volume; sausage, mostly summer sausage, coming third; soup [soap?], produce and Libby's goods making up the balance.

"It is costing him about 10 per cent to do business, which looks very high; soap and Libby goods being about the only things he is getting as much as 10 per cent on. Looks as if he will have to handle more specialties if he makes the house pay."

Armour & Company sent out a circular to branch-house managers and car-route salesmen on July 2, 1918, which indicates the advantage of having a varied line of goods in keeping up tonnage:

"Your business with hotels, clubs, restaurants, dining cars and like institutions is going to show up very badly in view of the recent ruling of the Food Administration in regard to the use of beef cuts, so it is up to you to increase your sales on offal products, also canned vegetables, rolled oats, and our other added lines. No doubt a great many of these institutions will use increased quantities of fresh pork cuts, also hams

and bacon and we are not going to accept the Beefless Days as an excuse for decreased volume on hotel business.

"Be initiative and go after all the accounts in your territory with added energy and see if you cannot keep up your volume."

An officer of Wilson & Company, Inc., recently explained to a canners' association the philosophy of expansion in the following way:

"For years these branch establishments have been operated without profit and some means to absorb these losses through increased volume necessarily had to be found; therefore, the packers first turned to the produce lines—butter, cheese, eggs, poultry—which could be handled to advantage on account of these houses being equipped with refrigerating facilities. Even with these added lines, it was found that the volume yet would not absorb their losses, so canned foods, preserves and condiments, etc., were added, thereby absorbing all the working time of each individual manager and each organization, lowering the cost to operate and largely absorbing the losses that had been going on through these houses."

These extracts seem to be notice that the limit of packer expansion into new fields has not been reached. The "losses" shown for the six branch-houses considered in this chapter show how far these establishments are from having "absorbed branch-house losses."

Chapter XIX

INTEGRATION IN MARKETING[1]

By "integration in marketing" is meant combination among the separate marketing stages (e.g., wholesaling and retailing), or any combination of marketing with manufacturing or extractive industry. There is no necessary relation between such integration and large-scale marketing, but in practice integration is so often combined with large-scale marketing that frequent reference will be made to the latter, and a section is devoted to a discussion of the advantages of large-scale marketing of groceries.

Economic Forces Tending to Integration in Marketing.

Distribution of commodity.—When a commodity is distributed among very large purchasers, either those who consume it as a raw material, or, those who distribute it at retail, there is a tendency both to large-scale and to integrated marketing. For example, the marketing organization for refined copper is highly centralized and integrated, and this is probably necessary and desirable. Much the same is true of steel. Also, the growth of department stores tends toward integration in marketing as they have the well-known tendency to purchase direct from the manufacturer or even to acquire their own manufacturing plants. Conversely, when the consumers or final distributors are small and scattered, there is less tendency to integration, and such integration as exists under these conditions is less likely to be based on sound economic grounds.

Concentrated manufacturing.—When the manufacturing is highly concentrated among a few large producers there is not only large-scale marketing but also there appears to be some tendency toward integration in marketing. When the manufacturers are few, there is less need of independent brokers and wholesalers to combine and handle their outputs; and when they are large and financially powerful, they are able to provide the capital and skill required for successful marketing. This tendency may be due to the possession of large surplus earnings which are available for use in extending the position held by the company in the industry, especially when this situation is accompanied by

[1] Lewis H. Haney, "Integration in Marketing," *American Economic Review*, Vol. 10, pp. 528-545.

a desire of the company to insure a stable outlet for its product or to maintain prices to the consumer. The tendency may also arise from, or be increased by, the need of introducing some new and expensive method of marketing which the established marketing agencies are slow to adopt. All of these conditions may be found in the expansion of the large meat packers and oil refiners into the marketing field.

An interesting phase of this same point lies in the fact that the tendency to produce proprietary goods, or trade-marked specialties, by individualizing products of manufacturers, brings about a type of centralization; for then only one manufacturer produces the one brand of corn flakes or toothpaste.

It is noted that the tendency to centralization of marketing, in so far as based upon centralized manufacturing, may increase the field of monopoly, since one or more manufacturers having monopoly power, by acquiring the wholesale distribution of this product may eliminate the competition which exists among independent wholesalers and increase the average spread between the f.o.b. factory price and the price to the retailer. Moreover, the acquisition may be accompanied by economic waste through the encouragement of overgrown manufacturing units and excessive advertising campaigns (e.g., meat packers).

Marketing heavily advertised goods.—The marketing of goods which are heavily, though not excessively, advertised tends to become integrated. Many advertising campaigns of the present day are highly expensive and mean a great overhead which must be compensated by a large volume of sales. The manufacturer who is sinking great sums in advertising insists that the commodity in question must be pushed by the distributor, as over against other commodities, and this he sometimes feels no one who is engaged in distributing numerous competing lines can do. He is therefore prone to take a hand himself, and even to "go direct" to the retailer or consumer. At least he puts his "specialty" salesmen, or "detail men" in the field and thus drives the entering wedge for direct marketing. He has expended hundreds of thousands or even millions in advertising, and he desires to secure all the profit that there may be on his goods as sold to the consumer. He desires to prevent price-cutting, and, in short, he seeks to keep his hands upon his goods until they are finally disposed of.

Multiplication of specialties.—Closely connected with the advertising factor is the multiplication of specialties. Numerous new trade-marked articles and branded goods are constantly being put upon the market, and as the new lines come out each requires a special advertising campaign and special pushing with the trade in order to get its place in the already long list of similar goods, which have a different colored label or a slight difference in the first syllable of the name. The jobber or retailer may not see the need for pushing the new brand of under-

wear, or canned peaches, and therefore the manufacturer goes "direct," and integration in marketing results.

Goods of high specific value.—Other things, being equal, goods which have a high specific value are more likely to be handled by an integrated marketing organization, for here the freight cuts little figure, and the economies which arise from distributing by carload to local jobbing centers are less important. Illustrations may be found in mail-order houses and "direct selling" by manufacturers.

Special service.—Some commodities in their marketing require special service to the consumer, as, for example, such machinery as typewriters and phonographs. These goods have to be demonstrated and kept in repair, and here the interest of the manufacturer is such that he will probably sooner or later take over the marketing of his product. This may result in a really better service to consumers, and if so is a public benefit.

Interrelated line of goods.—The development of aggregations of interrelated lines of goods has been a factor making for both large-scale and integrated marketing. This is illustrated by the larger meat packers, the International Harvester Company, sporting goods stores, department stores, and others. Either because of *(a)* conditions in production such as integration or utilization of by-products, or *(b)* a grouping of interrelated wants by consumers, a tendency exists in such cases toward unification in the marketing of groups of products. Often this gives rise to large-scale marketing, and if, as is sometimes the case, the various products have been separately marketed through independent wholesale and retail agencies, a centralization or integration also results. This may be because wholesalers are organized to handle the various products separately. Of course, such a movement may mean real economy or it may represent an application of mere acquisitive power and "full line forcing." The development of marketing by the large meat packers illustrates all these aspects. They have combined hundreds of products, both by-products and others, partly because of joint production, partly because of economies found in large volume of manufacture and transportation, and partly because of a desire among consumers to buy complementary or interrelated goods from a single source, e.g., groceries, butter, eggs, and meats. It is interesting to note that this has been an important matter in foreign trade, and one of the chief arguments for export combinations lies in their ability to supply a full line of goods and services.

Marketing economies.—Economies within the marketing process may sometimes be gained by large-scale, integrated methods, and the possibility of such economies constitutes a normal economic force making for the spread of such methods. These economies appear in the technique of accounting, salesmanship, credits, and collections, etc. They

have been partly responsible for the growth of "chain stores" and the recent formation of such marketing "trusts" as the United Retail Stores Corporation. This organization is a combination of "chains" of retail stores (candy, cigars, groceries, dry goods, etc.), a mail-order house, and factories, embracing the United Cigar Stores Company and Montgomery Ward & Company.

Most of the foregoing factors or forces are not socially harmful in their results. Some are economically good, as a general rule; others are dangerous at times; while others are a matter of indifference. There are, however, a number of practices in use in the marketing of food products which are of more doubtful desirability.

Unfair or Uneconomic Methods Tending to Integration in Marketing.

Some of the more important of such methods or practices now common in marketing which tend to integration are as follows.

Excessive advertising.—Surely in these days of paper shortage, a line can be drawn between reasonable advertising, which has an economic justification and is in the public interest, and such advertising as is excessive and uneconomic—in short, wasteful and unjust to the public. Surely, no good interest is served when a concern takes a double page in the *Saturday Evening Post,* and in two colors displays the picture of a plate of ham and eggs. It is hard for the thoughtful consumer to restrain himself when confronting such waste. Suffice it to say that this sort of advertising is purely acquisitive; and, as already indicated, it is one of the chief factors tending toward integrated marketing.

The discriminating quantity discount, and other "inside prices."—Aside from advertising, one of the strong factors tending toward integration and large-scale marketing is the practice of making various special reductions in price to favored buyers. This is perhaps the most disturbing element in the marketing structure, and—again aside from matters connected with advertising—is, in one form or another, the chief cause of friction among manufacturers, wholesalers, and retailers to-day. Retailers hear that some wholesaler or manufacturer has been making special prices to the large buyer, perhaps a chain-store system. They get together and form a coöperative buying "exchange." The jobber learns that the manufacturer is giving the jobber's discount to some large retail concern or perhaps a chain of stores, and endeavors to fight fire with fire. Of course the result is discrimination; lower prices are made to particular buyers, and the seller has to make his profit from other buyers who are not thus favored, which but increases the discrimination. Unreasonable "cash discounts" are given, commissions are "split," and "free deals" put on, with the

result that confusion and friction reign; and, out of it all, the big retail buyer tends to emerge along with the big and financially powerful manufacturer. The whole process looks toward monopoly.

Obviously, too, it is not one that can be generalized; for if quantity discounts are given to everyone they lose their "pulling power." A sound test of the desirability of such things lies in the question: "Can everybody do it?" The quantity-discount system, as at present used, fails to meet this test.

Of course, the quantity discount may be made on sound economic grounds when and to the extent that purchasing in large quantities means a service rendered and a saving to the seller. No harm comes from this, and what has just been said does not apply to it.

It will be noted that the large buyer ordinarily has to have larger storage, etc., to handle his larger purchases, thus increasing his capital or expense, and consequently he perhaps does not receive any larger net profit on investment than the smaller buyer. More than this, he generally depends considerably for apparent reduction in prices upon a reduction in service given, he cuts out the service rendered by the wholesaler's salesmen and the credit and delivery service of the retailer.

Particularly aggravating to the jobber, and destructive of system in marketing, is the practice among some manufacturers of giving the regular jobber's discount—say 10 per cent—to buying organizations which do not give the service that the jobber does.[2] This is virtually an "inside price." We find this a factor in the growth of chain stores and retailers' buying exchanges.

Specialty salesmen and "drop shipments."—The use of "specialty men" by manufacturers, especially if accompanied by the practice of making so-called "drop shipments," i.e., shipments made by manufacturers direct to retailers, but billed through wholesalers, probably is to be regarded as a factor tending toward integration in marketing. The manufacturer who sends out his own salesmen, if they take orders, is on the way to "direct marketing" even though the goods may more or less nominally pass through the hands of the jobber.

Full-line forcing.—As already observed the production of numerous more or less related lines of products tends toward integration in marketing. It may lead to the practice of "full-line forcing." The manufacturer who produces and advertises a list of commodities naturally desires to have the distributor handle his whole line of products. He is not satisfied with a distributive mechanism which perhaps pushes his canned fruit but not his package coffee. Regardless of economy, he

[2] The jobber maintains a force of salesmen who render a service especially valuable to the manufacturer, and assume important credit functions.

therefore tends toward the establishment of a more or less centralized marketing organization which will handle his whole line.

The manufacturer's guaranty against decline in price.—It is the practice of manufacturers of some grocery products, such as canned milk and soap, to guarantee compensation to the wholesaler for any decline in price during a period following a purchase. In the first place, only the larger and financially powerful manufacturers can afford to take this risk, and the guaranty has been used as a sort of bribe to get trade away from weaker competitors. In the second place, the guaranty amounts to an assumption by the manufacturer of a part of the wholesaler's proper risk, with the result that the latter's independence is decreased. It amounts to taking away one of the normal functions of the wholesaler, and tends to reduce him to the status of manufacturer's agent. To be sure, many jobbers desire this guaranty, but it is doubtful if they realize the dangerous tendency of the practice.[3] Finally, the manufacturers who guarantee prices commonly exercise a control over the price of their products which may increase monopoly if such power exists.

Maintenance of resale price.—The practice of manufacturers refusing to sell to wholesalers who do not maintain a resale price fixed by them is to be condemned on grounds of public policy; but here we are concerned only with its effect upon concentration in marketing. Like the guaranty against decline, it causes some tendency toward integration by diminishing the wholesaler's independence, as it virtually makes him a mere manufacturer's agent for the commodity concerned. The practice also works indirectly by encouraging excessive advertising and the multiplication of specialties.[4]

Inequality in margins, and "leaders."—In closing this list, perhaps I should mention one factor which may or may not be unfair and uneconomic. This is the inequality in margins of profit which exists in the various items handled by any wholesaler or retailer. For instance, take the well-known case of sugar, which is, as a rule, handled without net profit by the grocery trade. In most branches of distribution some products show a wide margin of profit, while others show small margins, and still others a loss. This is on the whole not a healthful condition, and its connection with the movement toward integration or large-scale marketing is shown by the fact that this inequality appears to be increased by the operation of chain stores, department stores, mail-order houses, etc. Such distributive agencies depend largely upon "leaders." They depend to a considerable extent upon inside prices, on quantity discounts, and the price-cutting tactics

[3] I believe they are generally the smaller or weaker concerns.

[4] See discussion in Proceedings of the American Economic Association (1915) where the writer enlarges upon these points.

which usually accompany these things. Thus we see that the inequality in margins referred to is closely connected with unfair or uneconomic methods. In the long run, the public is not benefited.

Summary Criticism.

The whole list of unfair or uneconomic methods which tend toward integration may all be summed up under the head of discrimination. Special favors are extended or special services required, and one group of purchasers is benefited at the expense of another, with the result that the favored ones survive. The methods cannot be generalized. They are acquisitive. They are not methods which result in public benefit.

More than this, of the entire list of forces, tendencies, or methods thus far referred to, few seem to show any net advantage *to the public.* This is true, both from the point of view of economy in marketing, and from the point of view of the general desirability of the tendencies themselves. The integrated handling of such products as copper appears to be economical, and the large retail organizations like the department stores have found a permanent place in the normal marketing system. Integration, as a means of securing the introduction of expensive but economical marketing methods, may be beneficial. Also the large manufacturing establishment and centralized production in manufacturing are desirable up to a certain extent, depending upon the location of the point beyond which large scale becomes monopoly, or the wastes of oversize begin to counter-balance the advantages of large-scale methods. It is doubtful if the largeness of the demand of consumers or of the output of manufacturers goes any great way toward explaining such tendencies to integrated or large-scale marketing as are now under discussion. Indeed, it was with the growth of manufacturing economy after the industrial revolution that the regular chain of distributors, including wholesalers and retailers, developed, and most manufacturers, especially of staple commodities, find it profitable to market their products in the regular way. Probably over 90 per cent of the volume of distribution of food products goes through the "regular" channel.

As to the advertising factor, enough has been said already to indicate the reasons why we must conclude that advertising is sometimes overdone, and that it and the tendency toward integrated marketing which it causes represent economic waste. The economies in marketing which are attributed to excessive advertising, mostly simmer down to the argument that volume of sales is increased, thus reducing the unit cost of distribution. When it is remembered, however, that this increase in volume is ordinarily at the expense of greatly increased waste of competition, it would seem that the alleged economy in marketing is

not one which results in benefit to the public. It may be doubted if there is any tendency to pass along to the consumer a saving in marketing expense which might come from advertising, even if one existed.

Certainly the multiplication of new lines which is so potent in causing manufacturers to go "direct," is overdone from the point of view of the public, and instead of leading to economy in marketing, the result is a multiplication of marketing agencies which is wasteful and increases the total expense of getting the total supply of a given kind of commodity on the market.

The specialties of high specific value which are sold over wide territories by centralized marketing methods are not put in the consumers' hands any more economically thereby, since the reason for centralization in their marketing lies in their relatively high price and the wide margin of profit that is made on them. This is not a matter of economy but a matter of profit for the distributor.

It is probably true that integrated marketing of certain products which require special demonstration and service is necessary and desirable. It will be observed, however, that this does not necessarily mean large-scale marketing.

The use of specialty salesmen by manufacturers is, from an economic point of view, partly good and partly bad. Such salesmen sometimes render a real service in demonstrating goods; but often they represent a duplication of effort which is accentuated when the product concerned already has "100 per cent distribution," that is, one which every retailer knows and has to carry to meet consumers' demands. In large measure the expense of such salesmen is to be regarded from the public standpoint as excessive advertising and is purely acquisitive.

Whether the great marketing "chains" mean a real permanent economy is still an open question. The competition which they have brought to bear upon the regular marketing agencies is having an important effect in forcing the adoption of more efficient methods by those agencies, as, for example, in causing retail grocery stores to offer a 5 per cent discount to customers who buy on a "cash and carry" basis, and in making the wholesaler more attentive to the interests of the regular retailer. Also the new organizations are to some extent educating consumers to use more economical buying methods. But when these results are accomplished, there will remain such questions as: Can remote corporate management be as efficient as close individual initiative in marketing? Are the wastes of competition not increased by duplication of stores and advertising? Is there not danger of monopoly? It remains to be seen how much of the progress of the new organizations is due to merely acquisitive power.

Analysis of Certain Concrete Cases of Integrated Marketing.

What has been said thus far concerns conditions associated with integrated marketing, rather than the economy within the marketing process. Let us pass to the more direct argument which will take up economy within the marketing operation itself, aside from any question of the character of the commodity and manufacturing technique, etc. Let us take things as they are, without regard to cause, tendencies, or the question of what things ought to be.

Certain types of direct selling by manufacturers or growers may be briefly considered. For example, there are certain manufacturers who differ from the majority in not using the services of the broker and the wholesaler, and in going direct to the retailer or even to the consumer in some cases. In the food distributing industry, one thinks of Heinz and the National Biscuit Company. Such concerns produce commodities of high specific value; they handle many lines, more or less related; and are heavy advertisers. Their motives are threefold: (1) They feel that they can push their particular trade-marked specialties better than middlemen who handle competing goods, and can do better work in the way of creating a demand. (2) They feel that the jobber or the retailer is too unwilling to handle, or at least to push, a complete line of their products. (3) They desire to prevent price-cutting. Closely related to all three of these points, and to the whole situation, is their desire to reap the full benefit of advertising. Quantity discounts and full-line-forcing tactics have been used. None of these motives or factors in the situation represents a benefit to the public. It is not probable that this class of direct distributors feel that they do their distributing any more cheaply than they could through the so-called regular channel. However that may be, the fact remains that they have to do the same work that the regular middleman would do for them, and I am informed that all the products of the Heinz Company are handled through branch houses before getting to the retailer. Above all, their goods reach the consumer no cheaper than similar goods which flow through the regular channels.

A similar instance of direct marketing, but which has other elements, is illustrated by the larger meat packers in their distribution of grocery products—now abandoned under the terms of a consent decree. Here, in addition to the usual methods of the specialty manufacturer, there was an exaggeration of the advertising element, and a large use of the discriminatory, "inside-price" methods, and of "full-line forcing." The "free deal" was abused and the appeal to the housewife to keep an "Oval Label Shelf," etc., was backed by pressure to induce the retailer to carry not only canned meats and lard, but also corn flakes and pancake flour of the same brand. Discriminations in transportation also entered into the situation; and there has been what may be called "unfair costing."

Whenever a large line of goods is put out by a single concern, especially when there is an element of joint costs, there is likely to be a tendency to cut prices on some particular product which it may be desired to push, and to justify the cut by charging a larger proportion of the total cost to some other product.

An examination of the packers' marketing organization will show that they duplicate, step by step, exactly the links in the chain which characterize the "regular" distributive system. The goods are shipped in carloads to branch houses, which correspond to the wholesalers' warehouses, and from there are distributed in less than carload lots to retailers in the same way that the wholesaler operates. In the place of the wholesaler himself, we have the branch-house manager, who directs the operation of a force of salesmen in the same way that the independent jobber does. It would seem, therefore, that, so far as the actual cost of distribution is concerned, the two would be similar. It will be observed, however, that there are several points at which the packers' method tends to be less economical than the regular method. In the first place, there is the dependence upon the hired man, as over against the vital, personal interest of the owner. In the second place, there is the enormous overhead attendant upon the attempt to supervise efficiently a worldwide organization, not merely of selling, but of manufacturing as well. A part of this overhead consists of inflated advertising expenditure which is largely "institutional" in character and cannot be defended either on the ground of economy or of educating the public to the use of new products. It may be argued that the large scale on which the packer does business enables him to reduce his overhead expenses per unit, but this is getting the cart before the horse. The packer's overhead expense has to be justified first. It seems clear that the losses attending such integration in marketing must offset much of the undoubted economy in manufacturing, and it seems that the real reason for the integration lies in the lust for power and prestige coupled with larger *total* profits. That the public could get its meat as cheaply or cheaper with less integration is indicated by the fact that a number of smaller packers (including Cudahy), who do not practice much if any integration in marketing, thrive, and the further fact that the big packers have to maintain an elaborate system of branch-house distribution.

This leads finally to the point that such organizations as the packers' illustrate the danger of monopoly which arises in connection with the tendency to centralized marketing.

Certain fruitgrowers' associations illustrate another type of integrated marketing, notably the California Fruit Growers' Exchange. It will be noted that these organizations are admitted to be chiefly and primarily for the benefit of the growers, and a study of the reasons for their existence indicates this to be true. Of course this does not mean that such

organizations are undesirable; the only point is that they aim to secure for the growers a part of the profits which commission men and others had formerly secured. Moreover, it will be remembered that the California Fruit Growers' Exchange sells through the regular channel of jobber and retailer. The advantages claimed for the exchange are a better grading of the product, better information as to markets, and a lower freight charge obtained through the pooling of their product. These things are all desirable and beneficial to the grower; they are not harmful to the public. Indeed, there is probably a balance in favor of such organizations, although their net effect upon the price of the product may be questioned, and more than questioned in the case of such concerns as the "pools" of raisins, lima beans, and nuts which have shown monopolistic tendencies.

As to the mail-order house, I would simply call attention to the fact that it sells chiefly in small towns where the stores do not carry varied and up-to-date stocks. Here the mystery of the thing makes its strongest appeal and the methods of the local retailers are unsatisfactory. The transportation cost is such that the regular channel is not threatened seriously from this direction. In any case, these houses are forced to operate branch houses and break and reassemble orders, thus performing the wholesaler's and retailer's functions. According to the best information I have, the expenses of the mail-order house are approximately 22 per cent of the sales, which is very similar to the combined expenses of the wholesale and retail grocer (6.5 per cent plus 16 per cent, based on retail sales).

Direct buying by retailers' exchanges and chain stores is an important factor in the existing tendency toward integrated marketing of groceries. In this type of marketing organization, the functions of at least the wholesaler and the retailer are combined. The chief motive back of such organizations is either the desire to secure inside prices on quantity purchases or to push some advertised branded commodity. Both motives are connected with acquisitive gain for some particular business concern, rather than with a public benefit. Other factors in the situation are economy in advertising and in credits and collections, and the adoption of better selling methods. It is undoubtedly true that the chain-store systems, directed from above by able organizations, are highly efficient in handling particular business problems, notably those of credits and salesmanship. Nevertheless, it must be remembered that such organizations merely take over the jobber's job: they do not get rid of it. They combine the retailer's troubles with the costs and risks of the wholesaler. Furthermore, they have to place dependence upon numerous hired managers, and it may be doubted if they can overcome this disadvantage, no matter how cleverly systems of profit-sharing, bonuses, etc., are utilized. Again, regarded as retailers, they generally have no

choice in the line of commodities sold, and in confining themselves to pushing any given lines, they lost the advantage of bargaining among a wide range of producers. They are likely to get into a rut. Finally, as wholesalers their field may be so limited as to prevent important economies, this being especially true of coöperative buying organizations among retailers. The greatest success among chain-store systems may be anticipated in the case of those which deal in branded, advertised goods, as shoes, cigars, etc. They will undoubtedly force retailers to adopt more economical methods, and perhaps bring about an extension of the so-called "four-square plan" with its differentiation in prices between cash and credit business.

No Normal Tendency to Large Scale Marketing.

The forces thus far described indicate that in large part the various phases of integrated marketing and direct selling of food products, are not of benefit to the public, and lead to waste and disorganization in marketing machinery. Incidentally the analysis has indicated that many of the forces making for integration and large scale in marketing are not beneficial. The question, however, remains: Is there any positive force in the economics of marketing which makes for large-scale organization? We know that, in many lines of manufacturing, there are economies to be gained by producing on a larger scale, and if integration is a means of attaining large-scale production it is, therefore, to that extent desirable. In so far as most food products are concerned, such does not appear to be the case. The food products referred to are such as are handled by wholesale grocers, namely, those that are not highly perishable and that can be transported and stored. With such products the merely mercantile problems of buying, carrying, and selling are decisive. When, however, the technique of the physical problems of handling, reworking, or delivery become decisive, a different answer may be made. For example, in the case of milk it appears that processing, manufacture, and delivery are so important that the large-scale operations are more economical, and perhaps the same may be said of the wholesaling of fresh meats.

In the first place, in marketing most food products, only a small amount of fixed capital is required. The wholesale grocer, or any other distributor who does the work of a wholesale grocer, requires only a warehouse, office furniture and fixtures, and a few trucks, to perform his function. Not only is the expense of these items of investment relatively small as compared with sales but they do not remain "fixed." They vary with the volume of business done. The little wholesale grocer requires only a little warehouse and a single truck. If he grows bigger, he rents a larger warehouse and buys additional trucks.

It follows that the item of "fixed charges" is relatively small in the marketing of food products. Bonds are rarely, if ever, issued; the chief item of interest is that paid on loans from banks, which vary with the amount of business done. Much the same may be said of taxes. Advertising is almost negligible.

Management is the dominating factor in the wholesaler's economy. Close attention to numerous details is required. There is little buying of large quantities to be held for speculative gains. The volume of business which will take the entire attention of an ordinary manager is accordingly not one which can be compared with the large-scale operations of a railway system or a steel company. To be sure, an efficient man can handle a bigger wholesale grocery business than can an inefficient one; but the limits are much more narrow than in manufacturing and transportation, and the more efficient man demands a higher salary, *which is a very important percentage of the total expenses.*

It seems that the small dealer has all the advantages as to securing the same rate of profit that the large one has. Ordinarily, in buying by the carload, the jobbers secure as low a price as can be obtained, barring discrimination. In other words, the carload is the unit, and the little jobber who buys one carload, can buy as cheaply as the big one who buys ten. One chief factor to be considered is the salesman. The operations of the salesman in any given marketing territory appear to be entirely independent of the size of the firm for which he works, or the total volume of sales of that firm. The only doubt here lies in the question as to how many salesmen can be most economically utilized by the given manager. It would seem theoretically that a house which employed a skilled manager, whose time would be entirely taken up with more general questions of policy, and who directed the operations of a group of salesmen, would be more efficient in the sense of having a higher rate of profit, than a very small one, whose manager had to give a part of his time to calling on the trade. Such a house would be very small—probably with annual sales of $500,000 or less. It is true that such extremely small houses thrive, and sometimes grow larger, but this appears to be due generally to the expenditure of an extraordinary amount of effort by the proprietor.

The conclusion is that, in the grocery business, within a very wide range, a similar rate of expense and a similar rate of profit are secured by both big and little concerns. It is to be emphasized that what is referred to here is the *rate* of profit. Of course, up to a certain point, the total profit increases with the size of the concern; but, while that may make the little concern desire to become big, it does not have anything to do with the question of efficiency or with the question of prices to the public.

If one wants concrete evidence of the truth of the foregoing reason-

ing, one only has to look around to see it on all sides. Perhaps 50 per cent of the meat packers' business is marketing, and here we find that the relatively small and simple organization appears to make as good profits as the large and complex one. Also, within the grocery business, it may easily be proved that the relatively small establishments make as high a rate of profit as the larger ones.

Here again, therefore, we arrive at the conclusion that such tendency toward centralized and large-scale marketing as now exists, must be based upon forces and conditions which arise out of a struggle for increased volume of sales among manufacturers, and does not represent increased economy or profit to the public.

General Conclusion.

The present disturbed condition of the marketing world is the result of a challenge to the old established methods, issued by new methods born of recent and to some extent temporary conditions. These conditions are the growth of integration and combinations among manufacturers, and the large profits accruing to marketing agencies on account of the rise in prices caused by inflation and scarcity. Easy credit has played a part. The result is a struggle for survival among numerous agencies.

It may be concluded from the foregoing analysis (1) that no prima facie case for integration in marketing exists, and (2) that the marketing of such products as groceries is not subject to the law of increasing returns.

In the foregoing discussion, the aim has been so to analyze the forces now tending toward integration in marketing food products that a fundamental appraisal may be made. Perhaps as fundamental as any is the conclusion that most of the economic arguments in favor of integration in this field cannot be generalized. For example, the advantages claimed by those manufacturers who go direct to the retail trade, if logically carried out, would require going to the consumer; but for every manufacturer to go direct to consumers would be extremely wasteful, if not impossible (unless we assume monopoly and division of territory). From the social point of view, the various alleged advantages cancel out. Advertising, if excessive, is like the matter of armaments among nations: if every one were to engage in the mad struggle to cover a greater area of paper with pictures and eulogiums of his product we would be left just about where we were when the struggle began, except that the consumer would have paid the bill. If every one gets an "inside price," no one has an advantage in getting it.

While most of the benefits claimed for it are acquisitive, it seems fair to conclude that within limits integration in the marketing of cer-

tain commodities may also be socially desirable. Such commodities appear to be those which have one or more of these characteristics: (1) heavy, but not excessive, advertising expense, (2) concentrated production or consumption, (3) requiring special "service," (4) aggregated in interrelated groups, (5) subject to highly standardized marketing technique. When a product is a "specialty," and advertising is the controlling factor, the normal tendency is toward integrated marketing, though not necessarily on a large scale. The question of public benefit is here closely connected with the question whether the advertising is excessive. If its expense is in excess of the utility added to the product, it is to be condemned, along with the centralization in marketing which results. When these or similar characteristics are not found, it is doubtful if such integration in marketing as exists is socially desirable.

A considerable part of the present trend toward integration in marketing food products from manufacturer to consumer is caused by the use of unfair or uneconomic methods, which have the immediate effect of increasing the wastes of competition and of tending to build up monopoly.

As none of the important economies which have caused the development of large-scale production in manufacturing appear to apply with any considerable force to wholesale marketing of such products as groceries, it may be concluded that in this case there is no normal tendency toward large-scale marketing, so far as economic forces are concerned. An obvious corollary is that those cases of large-scale dealing at wholesale in groceries which now exist are not based upon economic efficiency.

Chapter XX

FUNDAMENTALS OF COÖPERATIVE MARKETING IN AGRICULTURE

Coöperative Marketing Organization.[1]

There is no fixed plan of coöperative marketing. First, you want to study the commodity; you have to consider whether it is perishable, semiperishable, or non-perishable. If the product is perishable, you must use the agency method, or, if it is semiperishable or non-perishable, you have a transfer of the title so as to permit of financing it through the resale method. If it is something that grows on trees, coming along year after year, you have to organize for it differently than if it were a thing that is of annual cultivation and growth, or something that you have to plant year after year. Then, you have to divide crops according to their harvest. For instance, you have annual crops, like wheat, and you have seasonal crops, like alfalfa; you have crops of constant production, like milk and eggs; and, as I have said, each commodity has to be studied by itself. You have certain world crops, like wheat, corn, and cotton, and you have localized crops, like raisins. Then, you have national crops, like tobacco.

In addition to that, you must study the type of persons who grow the crops, or the human element. In one industry, we have 83 per cent of the product grown under crop liens, as in the Carolinas, whereas, in California, we have a great industry in which less than 4 per cent is grown under crop liens. You must consider whether the people engaged in the production are black or white, or whether they will sit together in a local meeting. You must consider what their relationship to the production is, whether as landlords or tenants; you must consider whether they have had failures with local coöperatives, and whether the product is adapted to coöperative marketing. You have to figure on the kind of farm organization they have there, whether it is a farmers' union organization experience they have had, or whether it is the farm bureau experience, or such as the Illinois Agricultural Association in the state of Illinois.

You have to figure on the type of leadership among the farmers, and you have to figure on the type of opposition to be met from any one of those factors.

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[1] Statement of A. Sapiro on Agricultural Relief before the House Committee on Agriculture, 68th Cong. 2nd Sess.

All of that has to be studied before you can intelligently work out a plan of how to organize any commodity in any state of the Union. Now, I tell you that that cannot be done out of Washington. It can be done only by men or groups of men who are close to the problem, right at home, and who know the local situation. They must know the local reaction, and know the local advantages and disadvantages.

It is not easy to organize a coöperative marketing association. It is a hard job at best. They must meet the local economic standards, and the local personal standards, and recommendations touching those things cannot be made from a long distance. I know that from my own experience when they have sent for me, and I have never gone except where they have sent for me. I have gone to places and studied all of the conditions that I have mentioned. I know how difficult it is, and I am absolutely of the opinion that any attempt to make that study by a marketing board, centralized here at Washington, and which will make recommendations touching these organizations throughout the United States, will be absolutely futile, and will result in more failures than have resulted from all of the things heretofore undertaken in the United States put together.

Coöperation and the Nature of the Product.[2]

Now, in order successfully to operate coöperative marketing agencies, the way we have analyzed the situation, they must be purely farmer coöperative agencies, beginning at the farm, assembling their product, and having control of that product until it reaches the packer, the miller, the processer, or the exporter. We have many agricultural products that are produced that are more or less perishable that go to the consumer without going through the processer, the miller, or the packer. Coöperative marketing agencies can more or less successfully operate on those products if they get the advantage of getting more nearly to the consumer; but the producers of products that must go through these essential business agencies that I have just mentioned must have a different type of coöperative marketing organization.

A part of our products is produced in quantities more than domestic requirements. A somewhat different type of coöperative organization must be operated to handle that product than one that is not producing beyond domestic requirements. In thinking of coöperative marketing, too many people just think of it in one term; but there are so many different conditions existing, so many different avenues, that it has got to be approached from many different angles. One thing that the President's commission, in my opinion, agreed upon, was that we must

[2] Statement of J. D. Brown on Agricultural Relief before the House Committee on Agriculture, 68th Cong., 2nd Sess.

have a more united agriculture with the farmers' minds running together as a foundation; in other words, as a permanent movement toward coöperative marketing. In my experience I find many farm organizations, nearly all of whom have been trying to develop some line of coöperative marketing, and there is a certain amount of jealousy existing between them. We find in the country two shipping associations, from one loading station, operated by two different farm organizations, when there should be but one. We find two marketing agencies operated in the terminal, being promoted and operated under the control or influence of different farm organizations, with competition between them greater than it would be between them and the old-line agencies.

The thing we need first to improve our marketing system is coördination of those efforts in getting the farmers together. Their interests are identical, but the farm organization leaders, and I will say lawyers that have been employed by farm organizations and coöperative marketing organizations, are trying to inject their own opinions too far in adopting policies. They are competing with each other, and one is trying to destroy the marketing project of the other.

With regard to the midwest agriculture, it is entirely different. We are producing all kinds of grain and all kinds of live stock on the same farm. The farm is very sacred to the farmer out there, because it is his home. With regard to developing coöperative marketing on the strictly commodity basis, it is going to be very difficult for us to organize coöperative marketing on the strictly commodity basis to handle all the products that are produced on the midwest farm. If you take one thing and put it into a commodity market system and make it more profitable, then the farmer will divert next year; in other words, if grain is more profitable than live stock, I can plow up all of my pastures and put them in grain next year, and vice versa. That is the danger in operating coöperative marketing. It must be viewed from that angle from the midwest standpoint. From the midwest standpoint coöperative marketing is not going to solve this problem, especially as it applies to a product that is produced beyond domestic requirements.

The Necessary Conditions of Coöperation.[3]

Economic cause of coöperative enterprise developing.— The citrus industry of California is undoubtedly the most highly organized of all agricultural pursuits. Not less than four-fifths of all the citrus fruit of California is sold through coöperative as distinguished from individual effort, and the influence of coöperation on the production of the crop is far from insignificant. What, then, has led to the

[3] Cumberland, W. W., "Coöperative Marketing," pp. 23-25, and 41-55.

development of these coöperative enterprises? From what were they trying to escape? How are they organized? And what have they accomplished?

But citrus fruits were then an agricultural specialty; methods of refrigeration were so ineffective that immediate consumption was imperative; prices fluctuated enormously from day to day and from market to market according to weather conditions and the supply of fruit available. When a car was billed to a certain market, there was no machinery for knowing how many other shippers had taken the notion to ship to the same market at about the same time. After the car arrived there was no means for withdrawing it if the market was found to be demoralized. Therefore, as soon as the citrus crop had increased to such an extent that gluts were possible in the large markets to which the cars were ordinarily billed, buying oranges on the trees became not merchandizing but speculation, and speculation of the most dangerous kind. Owing to the high fixed charges, such as packing and freight, losses through low prices in the eastern cities were sometimes heavy, hence a speculative buyer could offer but little to the grower for his fruit. In fact, there were times when no buyer appeared for part of the fruit at any price.

Evils of speculative buying.—But the worst evils of speculative buying were due to what the growers almost unanimously believe to have been an agreement among buyers to fix maximum prices and to apportion the producing area among themselves in a manner similar to that which was employed by the famous pipe pool. So far as is known, no written agreements have come to light, but the facts are undoubted that for practical purposes the territory was assigned among the various firms of buyers and that firms would refrain from invading one another's territory. That is, a grower would receive a bid for his crop from a certain buyer, and he would receive no other bids. Then, too, the prices offered were strangely uniform in comparison with the wide fluctuations which the eastern market was constantly exhibiting.

Selling on commission was hardly more satisfactory. According to this plan the grower raised his fruit, had it packed, and then either sold it through a California shipper or consigned it to some commission firm in the East. At that time selling on order had not become highly developed, so if sold through a California shipper the fruit was usually started rolling toward the market which seemed to offer the greatest possibilities. But the journey was a long one, delays were frequent, rough handling and poor ventilation or refrigeration were the rule. When the fruit finally reached its destination decay might have developed until the product was practically unsalable, the weather might be adverse, or the market might be oversupplied. In any of these contingencies an individual grower might incur a loss which favorable prices

for the rest of his crop might not more than recoup. In other words, by this method risks were undistributed.

Commission merchants in the East.—If his fruit was consigned to a commission merchant in the East, the grower was subject in a peculiar degree to all the possibilities of exploitation involved in that system. The owner and agent were at the opposite sides of the continent, and the likelihood of detection in betrayal of trust was small. Decay was frequently heavy, so a grower was not likely to become suspicious over a report that the shipment was in poor condition on arrival and, consequently, at receiving a low price, even though the shipment might in fact be perfectly sound. Besides, with the wide changes in price from day to day it was comparatively easy to manipulate the ostensible date of sale forward or backward by a day or two in order to indicate a poor price to the owner, even if the consignment had actually been sold on a strong market. In short, the grower was absolutely dependent on the integrity of his agent.

The transportation situation.—Another cause of confusion was the transportation situation. If citrus fruits are to reach the market in the best condition ordinary freight service is out of the question. Their susceptibility to heat and cold necessitates special precautions throughout the year. About half of the orange crop goes forward under ventilation and half under refrigeration, and it is highly important in either case that the cars receive constant attention en route: for ventilation, to see that the vents are in the proper position; for refrigeration, to see that the ice bunkers are kept reasonably full and that the drains are in order. As the boxes are loaded in the cars with air spaces between the several rows, rough handling may result in a shifted load which, unless it is remedied, may cause havoc before the car reaches its destination. Though mechanically sound oranges and lemons are far from highly perishable products, decay develops rapidly in any abrasion of the skin and will spread to uninjured fruit. Since there is sure to be some damaged fruit in every shipment, an expedited railway service is required if the percentage of decay is to be kept low. Cars must not be shunted to a side-track and await the railway's convenience for moving them. Under the old plan of individual shipments the shipper was compelled to take the railroad's word for the kind of attention the car received en route and for the condition of the fruit on arrival. What could a grower do when the railroad reported that his car arrived in good condition, and the commission merchant reported for the same car that the fruit could hardly be sold at any price because of its poor condition?

Oranges and lemons are specialties.—The key to the whole explanation of both the cause and the effectiveness of coöperation in the citrus industry is found in the fact that oranges and lemons were formerly, and are even yet to a large extent, an agricultural specialty.

Professor Carver well says that success in growing a staple product, or one which will always sell at some quotable price, is primarily attained by lowering the cost of production, by producing a unit at a cost lower than the general average. But with an agricultural specialty success depends not primarily on being a good producer but on being a good seller. A consumer is rarely induced to buy more flour or more soap by skillful advertising or attractive displays; he merely is induced to buy one kind rather than another. With a specialty there is no universal year-in-and-year-out demand. Consumers must be persuaded to take it at a remunerative price. If the price of a staple falls a few points there are buyers for practically unlimited amounts, but the demand for a specialty is not nearly so responsive. New increments added to an already supplied market often mean a more than proportional decline in price, and continued supplies may soon result in no price being offered at all. It is cold comfort to the producer of a specialty to know that because his methods of production were efficient he did not lose so much as some of his less efficient competitors lost.

In the early days of the orange business, when but a few carloads were available for sale, consumers were sufficiently eager to take all the fruit offered at prices which were always attractive and sometimes highly gratifying to the growers. This very profitableness of the industry was the chief cause of that rapid expansion which would inevitably take away the opportunity for scarcity profits. As soon as citrus growing began to be looked upon as an industry instead of a bonanza scheme, thoughtful orchardists began to wonder where buyers were going to be found who would be willing to pay enough for the fruit to cover expenses and leave a profit, for it cannot be overemphasized that the fixed charges in putting citrus fruits on the market are higher than in almost any other agricultural industry, and the chances for loss correspondingly greater.

Necessity brought coöperation.—It would be gratuitous to assume that the California orange rancher was a philosophical type of individual who reasoned out on abstract grounds the benefits inherent in coöperation. *Necessity drove him to it.* If buyers and commission men had shown themselves able and willing to dispose of the crop in a reasonably satisfactory manner, the old system would probably have flourished to this day, even if it could be shown that certain economies might be effected through coöperation. So far as buyers and commission men by chicanery and attempted exploitation cut their own throats through forcing the growers to organize they deserve scant sympathy. However, they have incurred more obloquy and invective than the facts warrant. There were certain difficulties inherent in the marketing of citrus fruits against which the buyers and packers were almost as helpless as the growers. No individual or firm could possibly afford to de-

velop an information service that would give reports of the condition of each market every day, tell how much fruit had been sold and at what prices, how many cars were on track, how many were rolling toward each market, and the time they would arrive. All of this information was necessary if the crop was to be scientifically distributed geographically or in relation to time. Without such information all a shipper could do was to send his cars to a few of the largest markets, where an additional car would cause the least fall in price, and trust to fate that these markets would not be overcrowded when his shipments arrived. There are a large number of cities in the United States and Canada which can absorb, say, a carload of oranges a week, provided the consumption capacity of the place for oranges is properly worked up by advertising, including the actual display of the fruit. No one buyer in such a town would be able to handle a whole car at one time, and obviously it would be bad business for a shipper to keep an agent in a town in order to sell one car a week. Nor could a shipper in California risk billing a car to such a town on the chance that it would be profitable, for, if another car happened to be there, it is almost certain that neither car would pay the charges for packing and freight.

Oranges, then, had to be sent regularly to every market that could use them; new markets had to be developed and the shipping season prolonged, and shipments had to be controlled so that gluts and consequent losses would not occur if the constantly increasing crop was to be sold at a profit. It should be reasonably clear that buyers and commission men could not meet these conditions, even if they were far-sighted and honest.

Large-scale enterprise necessary.—Of less significance than a wide and prolonged distribution of fruit, but by no means unimportant in impelling the growers to mutual effort, were the problems connected with large scale as contrasted with small scale enterprise. The fact that buyers and packers seemed to be consistently prosperous convinced the growers that there was money in citrus fruits even if they themselves had been losing. There seemed to be a good margin of profit both in packing and in selling oranges, and the growers concluded that if these profits could be transferred to themselves the result would be the same as if they had made their profits on the agricultural rather than on the commercial end of the business. It would also be apparent to any thoughtful grower that, since the fixed charges for equipment and agents for packing and marketing, respectively, are extremely heavy, a large increase in the amount of fruit handled in one packing house or consigned to one agent would greatly reduce the unit costs for these necessary stages. A corollary from this conclusion would be that, if buyers and packers were making satisfactory profits when employing inefficient

methods, a scientific system which had a few centrally located, well-equipped packing houses which could be run to capacity and which had one agent to represent the associated producers in each market rather than an agent for each packer, might easily contain within itself the possibility of achieving marked financial success. The cost of collecting the information prerequisite to intelligent marketing would also be trifling when apportioned among a large number of shippers, but nothing less than prohibitive if attempted single-handed.

Standardization of, and responsibility for, product.—On these two points agriculture in general has lagged far behind manufacturing. So long as the packing of oranges was performed by numerous independent firms or individuals, there was the greatest diversity in the manner of packing and the care with which the labor was performed. The chief objection, however, to the individualistic system had its basis in the impossibility of establishing definite grades. Two packing houses might handle the same quality of fruit and each put out a "fancy" grade; but that fact would not at all prove that a fancy orange from one house was approximately identical with a fancy orange from the other. Of all the fruit delivered, one house might segregate as fancy only 5 per cent, while the other might use the same term for 25 per cent of its output. Similar conditions obtained for the other grades. So a prospective buyer of oranges in the eastern market was not able to order by grade, as is done in the case of wheat and cotton, unless he happened to know the particular system of grading employed in the packing house from which he was buying, and it was obviously impossible for each one of the numerous California packing houses to be known personally to any large group of eastern buyers. Therefore, buyers were not likely to have as much confidence in the orange market as they would have had if quality had been more certain and uniform; they would be particularly diffident about sending orders to California for cars; they would buy only on inspection. Responsibility of many packers for the quality of their output existed only in imagination. A few packers had reputations which they tried to maintain; but too often green, frosted, or mechanically injured oranges would be sent forward on the complacent, if short-sighted, theory of caveat emptor, and, indeed, a deceived jobber or consumer had scant recourse. This policy again made the trade timid about handling oranges and precluded that expansion of consumption which was essential if the citrus industry was to live.

Persons familiar with the chaos in grading and packing methods and with the lack of responsibility for the quality of the product were finally persuaded that the only remedy for these conditions was through combining a large fraction of the industry in our organization which would enforce standards of uniformity, would be so widely known to all buy-

ers as to inspire confidence, and would stand behind its goods after the manner of any reputable business. In other words, salvation was seen to lie in sound commercial methods rather than in policies of strategy and charlatanism. Only a comprehensive organization for packing, shipping, and marketing, one which had a real stake in the business and depended for its success on building up a permanent clientele, could hope to effect these reforms.

It has already been suggested that oranges must be forwarded in a prompt and careful manner in order to obtain satisfactory results. But what redress did a single shipper have when he had suffered injury from the railroads? The carriers, however, were certain to be much more particular in their treatment of a powerful organization which had the machinery for detecting dereliction on the part of the railroads and the financial strength to prosecute damage claims. This became more and more apparent to the growers, and was impressed on their minds whenever shortage of cars or the wrecking of a fruit train occurred. Then there were troubles over the types of refrigerator cars furnished, over the transportation and refrigeration charges, and over the privilege of diversion. All in all, the transportation problems showed a wide field of endeavor for concerted as opposed to the old dissociated action.

Orange and lemon market highly sensitive.— A shortage of a few cars will make the price soar; a slight oversupply will cause a serious drop. An amount of fruit for each market rigidly fixed within narrow limits is the condition on which shippers must base their marketing policy. *This inelasticity of demand makes the risks of loss from a glutted market great, risks which were accentuated by the necessity for heavy outlays before the favor of fortune could be tested by putting the fruit on the market.* That is, losses to the individual might be great or gains large. For shippers, as a whole, there was the probability of obtaining only reasonable profits. In such a situation, the remedy against loss is obviously the distribution of risk. For a grower to pick a large part of his crop and intrust it to the vicissitudes of one market at any given time was to court disaster, if the market happened to be unfavorable. But what else could he do? As soon as buyers were unable to purchase all the crop and thus assume the marketing risks, there was nothing left but to ship through a California packer or a commission merchant, or consign to an eastern commission firm. What the grower wanted was to obtain the average price of fruit for the entire season. Both the justice and the advisability of this procedure appealed to him. He saw that if the fruit of all growers could be pooled the total amount received would certainly not be less than that from shipping by individual account, and would probably be more, because of more even distribution. He also saw that with the risks

distributed he could devote himself to producing good crops rather than trying to forecast an advantageous time for having his fruit reach the market.

Classification of Coöperative Associations.[4]

Local associations.—A local coöperative association may be incorporated or unincorporated, and may be organized with or without capital stock. It is an accepted principle that only producers shall be members, that all members shall be patrons of the organization, and that all patrons shall be members. There are many exceptions to this rule in actual practice. However, an organization is not looked upon as truly coöperative unless it is under the control of bona fide producers, and unless its purpose is to increase the farm income of its members rather than to make a profit on invested capital.

In local associations the voting rights of members are often established on the principle that each man shall have one vote and only one. There are, however, many exceptions to this rule. Another common practice is to make the number of votes a member may cast dependent upon the amount of business he transacts through the association. The members of associations formed with capital stock are frequently allowed one vote for each share, and at the same time the number of shares each man holds is kept approximately proportional to his shipments or purchases through the association.

It is estimated that there are now not less than ten thousand local coöperative organizations in the United States.

Federated coöperatives.—The form of organization known as the federation appeared in 1893, when the local orange growers' associations in each of seven producing districts of South California were federated to form "exchanges." Two years later the exchanges were federated to form the Southern California Fruit Exchange, which later became the California Fruit Growers Exchange.

In a federation, the associations are the members of the central agency thus formed. The associations govern the federation through elected directors. Frequently, each association has one vote in the federation and elects one director, or the voting rights of each association may be proportional to its shipments through the federation, or the percentage of the total cost of operating the federation which it pays. Federations are now generally incorporated without capital stock. It is not uncommon to find commercial corporations, or individual producers, holding membership in a federation along with coöperative associations.

As a general rule, a federation is formed to act as a sales agent for

[4] From Coöperation in the United States During the Present Decade, U. S. Department of Agriculture.

the associations making up the organization. Local marketing activities —assembling, manufacturing, grading, etc.—are generally controlled by the associations. The product, however, is turned over to the federation for sale, although the associations may impose limits as to price, place and time of sale. From a sales standpoint, of course, the federation is in a much stronger position than the separate associations could be.

Federations of local associations are sometimes formed for purposes other than marketing. They may be formed for special service to their members, to inspect shipments and adjust disputes with the trade, or for legislative purposes, or to furnish their members with market information.

State and regional commodity associations.—A development of recent years is the state or regional commodity association. This type includes in a single association the machinery for performing the functions of the local and the federation.

Coöperative national sales agencies.—Coöperative national sales agencies are a development of the last few years and aim at still further consolidation in the coöperative marketing of farm products. The American Cotton Exchange is a national sales agency, an unincorporated organization formed under an agreement between the twelve state cotton associations, and governed by a board of trustees. The Federated Fruit and Vegetable Growers, Inc., is a national coöperative sales agency for fruit and vegetable coöperative associations and federations. Its members are the organizations making use of its services, and its board of directors are representatives of these organizations. This national agency is represented in the car-lot markets by its own agents, or by brokers with whom it has contracts. It maintains also a corps of sales managers.

Terminal market organizations.—Under terminal market organizations may be grouped coöperative live-stock commission companies, and terminal grain-marketing organizations. A number of coöperative milk distributing associations, although differing from live-stock and grain organizations in structure and operating methods, may be included among terminal market organizations for the sake of convenience. Some grain marketing associations, operating in the terminal markets and the milk-distributing associations, assume more or less direction of the shipment of the commodities which they handle, and the manner in which they are packed, processed, and graded. When the primary purpose of the organization is to receive and sell in a market, or in the surrounding market territory, products received on consignment, it has been included in this classification.

Bargaining associations.—Bargaining associations are a feature of the dairy industry that do not fall within the groups already described.

These organizations are usually non-stock coöperative associations whose members are producers in the territory over which each association operates. Bargaining associations do not engage in marketing and for that reason require little working capital and can be easily set up and put in operation. The organization is usually managed by the secretary with a small clerical staff, and in some instances a few technical assistants. The duty of the secretary is to collect data with regard to the cost of producing and distributing milk, and other factors which will affect the price paid to dairymen. Monthly the milk-marketing committee of the association meets with a committee of dealers for the purpose of determining the price that will be paid to the producers. Frequently officials of the State Agricultural College are asked to consult with this committee. If the dealers and the committee of the producers are unable to agree on a price, the matter is, as a rule, referred to an arbitrator.

The dairymen deliver milk to their regular dealers and the dealers make returns direct to the producers at the price agreed upon, after deducting a small amount to be remitted to the association for its maintenance.

THE COMMODITY COÖPERATIVE ASSOCIATION—ITS WEAKNESS AND STRENGTH[5]

Elements of Weakness.

Overemphasis on price.—What has seemed to me to be the biggest point of weakness in such an organization is the fact that, once it acquires a considerable degree of control of a commodity, pressure is brought by members to induce the association to attempt arbitrary price fixing. In fact there are numerous instances where price control has been so strong a motive for organization, and has been so generally presented as a main goal, that for these it constitutes an element of real weakness for the future. It is undoubtedly true that one of the outstanding services of this type of organization is its influence on prices, either by raising prices, or by stabilizing them. However, the emphasis placed on price increases the already too strong tendency of the individual farmer constantly to compare the price obtained through his organization with the price obtained by the man who is selling through some competing agency.

Comparisons of prices of different years when price levels are widely different are dangerous and misleading if proper adjustments are not made. They are quite sure to lead to erroneous conclusions on the part

[5] By H. E. Erdman, Read at Fourteenth Annual Meeting of the American Farm Economics Association.

of farmers and others who do not realize that prices are relative and not absolute. At the same time such comparisons destroy the confidence of discerning people in other statements issued by those issuing such misleading price comparisons.

Another point of importance in this same connection is the fact that attempts to control price frequently antagonize the trade through which such products must reach the consumer, and in fact antagonize the consumer who always has been most bitterly opposed to any sort of price control. The raisin growers know only too well what such antagonisms may mean.

The result of this emphasis on price may, therefore, result in disaffection within the ranks of a given organization, hamper the movement of the product through the trade channels, and lead to deliberate attempts to stimulate production outside of the organization; it may also result in unfavorable legislation.

Eagerness to attempt new and untried methods.—A second point of weakness in this type of organization is the eagerness on the part of members, or of officers recently come to power, to attempt new and untried methods of organization or marketing. The management of practically every such organization finds itself besieged by those who urge short cuts in the marketing of its products. The California Fruit Growers Exchange, for example, particularly in its early days, was constantly urged to sell direct to consumers or at least to sell direct to retailers. Various fruit growers organizations in California have within the past year been urged to cut out the broker. Various dairy organizations have attempted uneconomical manufacture of by-products in order to rid their organization of the burdensome surplus, adopting policies which private business men would hardly have considered.

Tendency toward extravagance and inefficiency.—Extravagance and inefficiency are very likely to creep in, once an organization becomes powerful and has in its control vast funds, with the possibility of deducting from each of a large number of producers' returns a relatively small amount to finance expanded activities.

It is a well recognized principle of business that success depends in a large measure upon an adequate volume of business. But this is a relative matter. Many of the commodity coöperative associations have started with a volume of business never dreamed of by even the most successful of private dealers or local coöperatives. They can have no complaint on the score of lack of business. But the tendency to let expenses climb upwards to an unnecessary degree is just as serious a menace as is the small volume of business done by many of the local organizations.

Ways will undoubtedly be found to reduce many of the expenses apparently inherent in the commodity type of organization. The erec-

tion and operation of local receiving plants, for example, have in some instances been unduly expensive in outlying districts. To remedy this difficulty several California organizations are now coöperating in the use of common receiving plants at points where one or another has not enough business to operate alone. Similar coöperative relations have been worked out by the Burley Tobacco Growers Association and the Dark Tobacco Association in the areas where the two types overlap.

Too rapid growth.—Many of the commodity organizations of the present day have been built too hastily for real solidarity. They have been, so to speak, superimposed upon a highly expectant group of producers, most of whom had very little real understanding of marketing problems or of the obligations which follow their simple act of affixing a signature on the dotted line. A carefully planned campaign on the order of a series of revival meetings has built up enthusiasm to a high pitch during a period when price or other conditions have been unusually bad, in some cases so bad that things could hardly be worse. Naturally, with reasonably efficient management, such organizations show gratifying results. A real strain, however, is certain to come as soon as another price decline comes, particularly if the organization is not so formed and so managed as to educate its members, to keep them functioning as such, and to keep their attention focused on other benefits than the benefits of increased prices.

It should be recognized, of course, that a slower organization might make progress more difficult and certainly more tedious, as well as, we might add, less profitable to the professional organizer. The farmers' elevators, live-stock shipping associations, and coöperative creameries may ultimately come within the class of organization here under discussion. When they do, they will probably be in a much stronger position than they would have been had giant commodity associations been formed in the first place—granting that such herculean tasks could have been accomplished in the first instance. However, if the commodity organization is based upon reasonable expectations, is preceded by a careful analysis of the problems to be met, and is organized and managed along right lines, such rapid growth may not be a serious handicap, and should indeed, be an element of strength. But I have used a lot of "ifs."

Difficulty in meeting competition.—A fifth weakness arises out of the difficulty met by the commodity coöperative association in meeting the competition offered by independent dealers with what we may call a more logical combination of enterprises. I have in mind such a situation as that obtaining in the case of a group of California dried fruit associations. It is logical for an independent dealer to handle practically all dried fruits, and perhaps even canned goods, since this whole group of commodities moves through practically identical trade

channels, so far as wholesalers, jobbers, and retailers are concerned, and all are purchased in varying amounts, by the same consumers. Such an independent dealer, moreover, handling a group of closely related commodities, offers the keenest kind of competition for the coöperative association, for he may sacrifice profits temporarily on one commodity while using it as a weapon, hoping to recoup on others. This sort of competition may be dangerous even when an association controls a large percentage of a given commodity. Under such conditions a coöperative association can counteract such competition only by education and by "sitting tight" until the cheaper goods have been absorbed by the market. One typical association, the California Prune and Apricot Association, has an element of weakness in the very fact that it has even two commodities combined. In this case there has been a distinct, though not dangerously prevalent, feeling of dissatisfaction on the part of growers of apricots, that their association is pushing prunes at the expense of apricots, and that the apricot men might do better if they withdrew and formed an organization of their own. Here, however, so many men grow both prunes and apricots that trouble over this can hardly become serious. Most of the members also realize that the two commodities should logically be combined, since they are both sold in dried form through the same trade channels and to the same class of housewives. The possibility of combining three or four California dried fruit associations has frequently been discussed with the idea of effecting distribution more economically. However, even though it is generally recognized that strict adherence to the commodity idea is to some extent uneconomical, the human factor makes it desirable to adhere pretty generally to that idea for the present, at least.

Remoteness from members.—A most serious weakness in many of the newer commodity marketing associations is the failure to keep the members functioning as such. Too often the individual member speaks of the association as a remote agency of which he knows relatively little and whose affairs he does not comprehend. This is particularly true of those associations which have a central membership and does not usually apply to those made up of federated locals. Strenuous attempts are being made to overcome this weakness. The California Peach and Fig Growers Association has developed a plan of educating its members through Farm Bureau centers. The Sun-Maid Raisin Growers are working on the same problem through an advisory council so organized as to enable the association management quickly to reach most of its members or to permit members quickly and forcibly to reach the management. At least two large associations have formed women's auxiliaries. Practically every large organization now has a house organ. It may be doubted whether some of the latter are really accomplishing results, because poorly edited, and because they so obvi-

ously give only one side of the story and, therefore, may give the impression of trying to hide something.

Overdependence on contract.—Most organizations of the type here under discussion are based on contracts with the growers. These contracts, sometimes running for a period of years, are often cited as one of the elements of strength of such organizations. I quite agree that a binding contract is essential. It would seem, however, that too much emphasis is sometimes placed on the efficacy of the contract and not enough on the holding power of superior service. A long time contract in a coöperative association is of no avail if a large proportion of the members decide they do not want to coöperate. Instances might be cited where, even though a contract was in force, coöperative associations have not functioned, or have ceased to function, because the directors were convinced that the members did not wish to coöperate. The situation is much like that of the man who resolves to give up smoking. He may change his mind and resume smoking without so much as a formal notice to anyone. Coöperation is a matter of desire, not of coercion. A contract will hold in line a relatively small proportion of the members should they be tempted by high prices offered at opportune times, and may even prevent a stampede by dealing severely with the first few deserters. But the dependence placed upon legal coercion by some of these organizations constitutes an element of weakness. After all is said and done, superior service must be the basis of success.

Elements of Strength.

Singleness of purpose.—The first element of strength I should mention is that of singleness of purpose. It is a very noticeable fact in organizations interested in too wide a range of commodities that the members can seldom be kept interested. In an organization combining, for example, grain and live stock, the director who is particularly interested in live stock may literally fall asleep in a directors' meeting at which certain technical grain marketing matters are under discussion. Similarly, the grain man is likely to fall asleep during a discussion dealing wholly with live stock marketing matters. Moreover, he can scarcely be expected to take intelligent action relative to something outside his own vital interests on the basis of the meager knowledge he is likely to acquire during a brief directorship.

The commodity organization, on the other hand, is made up of men who are vitally interested in the specific commodity under discussion. There is, of course, a possibility that even a commodity organization may be made up of people with whom the particular product handled is not a vital matter. One of our large egg marketing organizations, for example, was originally made up of very large producers to whom

the marketing of eggs was vitally important. Once it had attained success, however, there was an influx of members with whom egg production was distinctly a side line. This condition became so noticeable that, in a recent reorganization, provision was made whereby the voting should be done on the basis of eggs contributed. This was done in order that the control might not pass into the hands of those who were only casually interested and who for that reason had not made a careful study of the business.

Opportunity for development of experts.—A second element of strength is that the concentration on a single commodity offers better opportunities for directors and other leading members to become experts in the problems affecting the successful handling and marketing of the product. In most cases really efficient marketing involves an intimate knowledge not only of production and handling, but of the keeping qualities, methods of storage, and methods of distribution, and of the peculiarities of consumers' demands for a product. It is too much to expect that a farmers' organization can so organize as to maintain an institution which has in it really expert knowledge on a wide range of commodities. I have in mind not the hiring of management but the development of a degree of expertness within the membership.

Risks borne by the commodity.—A third element of strength is the fact that in the case of the commodity organization, market risks are borne directly by the commodity concerned. In the business of a private dealer it is very desirable that he have a number of lines, in order that he may distribute market risks more widely. A loss on a season's bean crop may be offset by unusual profits in the grain business, and vice versa. Similarly, a loss on peaches may be offset by unusual profits due to a favorable season in grapes or cantaloupes. This sort of combination, however, would be a decided weakness for a coöperative organization, and hence the fact that under the commodity plan these risks are reflected back to the producers of the particular commodity on which the loss occurred is a real element of strength. It is well known, indeed, that price fluctuations seldom take place uniformly for different products. The cattle market may be very good during a time when the lamb market is very bad. Recently the lamb and wool market has been away ahead of the cattle market. We have not yet reached the stage of development where one group of farmers will willingly and unselfishly permit profits made out of an unusually favorable market for their own particular commodity to be shared by other producers whose market was unusually bad.

Ability to bargain.—A commodity organization, especially one with binding contracts, is usually in a much stronger bargaining position than is an organization handling a greater number of products, and having but a small proportion of each of a number of commodities

under its control. The commodity organization can deal with greater certainty, since it is quite sure to have more complete knowledge of the activities of its competitors and of conditions of supply, demand, and movement. In other words, it can "merchandise," to use a current term. Moreover, a commodity organization which has reached the stage where it controls through contracts a large proportion of the product can "lay all its cards on the table" with regard to conditions of supply and movement and thus ultimately establish a high degree of confidence on the part of the trade.

Influence on quality.—Another element of strength is a fact that the commodity organization is in an unusually favorable position to influence quality. Through the establishment of uniform grades and the use of standard containers, it can materially improve the marketable quality of its products. This is particularly true as the organization develops and uses a pooling system which reflects the proceeds of sales back to the producers in such a way as forcibly to call their attention to the returns for the various grades of product supplied. Many of these organizations maintain extensive production departments in order to educate their producers on methods of improving quality.

Ability to develop markets.—The ability to develop new markets is another element of strength in the commodity organization. If it has in its control a sufficiently large share of the product it can afford to do advertising, and rest assured that it will get the major share of any benefits accruing therefrom. It can afford to establish new agencies in markets previously untouched, and to build up weaker markets in a way that would be impossible for a smaller organization, or one dealing with a wider range of commodities. The Sun-Maid Raisin Growers, for example, are this year spending several hundred thousand dollars to develop European markets. The Tillamook Creameries Association has accomplished much along this line, even though it controls a very small percentage of the country's cheese.

Can secure more efficient management.—Finally, a large commodity organization can afford to hire more efficient management than can a smaller organization. It can afford to pay salaries which will attract men who have already become experts in dealing with the problems affecting the particular commodity in question. This point is of great importance, because in the last analysis practically all failures of coöperatives have been due to inefficient management. This is particularly true if we accept, as a fact, that one feature of management consists in clearly pointing out difficulties or possibilities in such a way as to convince a board of directors that given policies are dangerous, or desirable, as the case may be.

It may be well in closing to strike a balance, so to speak, of the relative weights of the elements of weakness and strength. On the

whole, it seems to me that the greater weight is on the side of the elements of strength. I do not mean to convey the impression that all coöperation should be placed on this basis. I recognize what I believe to be a fact that some of the elements of strength are present also in some of the organizations I have ruled out by definition. Such, for example, are the farmers' elevators and live-stock shipping associations. There probably would be less coöperative marketing of grain and live stock than there is to-day had early attempts been centered on the formation of giant commodity coöperatives, instead of on the formation of many locals. Moreover, much good has doubtless come from these locals. Their next step should probably be toward a more definite affiliation with central selling organizations. It is important, however, that some of the above elements of weakness and strength be borne in mind in considering the plan of organization and operation to follow, in order that the points of weakness may be fortified and the points of strength made stronger.

The commodity type of organization is probably here to stay. It has found popular favor and a place has been created for it in our legal structure. It is a new thing, however, boldly conceived and daringly executed. The pitfalls ahead are very real, the elements of strength largely potential. Failures there will certainly be, because of the ever-present element of human frailty. Whether the percentage of failures is to be large or small will depend largely upon the wisdom and skill with which the leaders of the coöperative movement administer the trust that has been given into their keeping.

DISCUSSION

By CARL WILLIAMS[6]

Let us clarify our definition of commodity marketing to harmonize with the thought of the national coöperatives themselves. In their minds, commodity marketing means organization by a single farm commodity wherever that commodity is grown within the practical limits of successful organization. Applied to cotton, as an extreme example, it means the organization of cotton from a completely national viewpoint, necessarily accommodated, of course, to the legal limitations of state lines for operating purposes, but with state organizations completely united on policies and methods of practice. Here we have a quite different situation from that of the Sun-Maid Raisin Growers, for example, which is by comparison organization both by locality and by commodity. The conclusion, therefore, is that each commodity has

[6] Editor, *Oklahoma Farmer-Stockman,* Fourteenth Annual Meeting of the American Farm Economics Association.

its own problems of organization and operation and that one cannot be completely solved by the experience of another although the basic principles remain the same.

Every commodity coöperative is a business institution with four departments—buying, accounting, processing or grading, and selling. Fundamentally there are but two departments—buying and selling. On the intelligence displayed in the management of these departments the institution succeeds or fails.

The buying department includes, of course, the securing of membership, the delivery of the product, and the loyalty of the members to their own organization. Here lies the greatest strength and the greatest weakness of practically all the commodity coöperatives. It is the greatest strength, because the fundamental purpose of the organization is to accomplish exactly what the farmers themselves want, which is a better price for the product. It is the greatest weakness, because of the difficulty of educating the membership to the business principles involved in the attainment of the object.

The member is prone to think of price in terms either of arbitrary fixation or of comparison with the receipts of the non-member. Prices may be fixed, it is true; but only with full consideration of the statistical and commercial positions of the product. Sufficient degree of control will permit a price to be named which will move all of the product within a given time. That might be termed "price stabilization." Sufficient degree of control may also permit the coöperative to obtain free play of the law of supply and demand, thus raising the price level which the grower receives. In either process the price to the non-member is also affected and all farmers benefit by the activity of the coöperative. It is hard for the member to understand these economic limitations of the marketing movement.

One reason for the relative lack of understanding of these things on the part of the member is the fact that in original organization campaigns more attention has been paid in many cases to getting signatures on the dotted line than to making coöperators. Here is a recognized mistake which is in process of correction. One cotton association, for example, will now receive new members only when the applicant is vouched for by three old delivering members; and the voucher must certify that in their opinion the applicant is good coöperative material and is not hampered by mortgage or otherwise to the extent that he will be unable to deliver his crop.

The member now on the books of a commodity coöperative still needs education. He is getting it through his house organ, through field service contacts, and, most of all, through informal local organizations in which the women and children of the farm family play a most important part. Practically all of the commodity coöperatives now recog-

nize the absolute necessity of a right understanding of the business problem on the part of their members. The fact that they have recognized this necessity *before they had to give it recognition* may be taken as evidence that the greatest known weakness of commodity coöperative marketing is being turned gradually into the greatest element of strength.

In the selling department of the organization the problem again varies with each product. Some products justify the farmers' association in carrying it direct to the manufacturer or the ultimate consumer. Others are of such a character that receiving, processing, grading, and selling to the old-line wholesale or distributing private agencies are alone justified. Again, here is a process of education for the grower. He must be made to see that, while his organization has the right to engage in any step of distribution it desires, it should not so engage unless it can do the work more efficiently, or more economically, or both, than the private dealers and distributors now do. This point is fairly well understood by the members of the newer national coöperatives, and is coming to be better understood as education proceeds.

In matters of extravagance and inefficiency Professor Erdman is a better judge than I of the experiences of the California associations as they progress in power and degree of control. The experience to date of the newer coöperatives, which it must be admitted do not have the age of some of those in the Far West, is that extravagance and inefficiency are more likely to show themselves during the earliest years of experience rather than later. In the beginning, more mistakes are made, and these mistakes are often costly ones for which the members pay. In the beginning, there are sometimes job hunters who ask, and occasionally get, fat salaries. In the beginning, experts are hired who do not always prove to be experts worth the money they are paid. My own experience in coöperative marketing to date indicates definitely that in most cases these things are corrected as discovered, and that each successive year of operation results in greater relative economy and in greater relative efficiency of the organization. That is, a steadily increasing share of the gross price received by the association goes into the pockets of the farmer-member as net proceeds for his crop.

Professor Erdman does well to call attention to the dangers of too rapid growth. The present job of many coöperatives is to consolidate their gains. The fact that they recognize this need is an indication that it will be met. Incidentally, the "professional organizer," so called, is in bad odor among coöperative leaders, not only because of his high-power methods, but because it has been found that farmers can be led to organize themselves and their neighbors much more cheaply and efficiently, and with a greater educational foundation for the organization itself.

Professor Erdman's fifth point, that of difficulty in meeting competition, is not universal in its application to commodity coöperative marketing. The trade channel is the determining factor. Dried fruits meet the problem. Cotton, tobacco, and wheat do not. In any case it can and, perhaps, should, be solved by working agreements between allied commodity coöperatives without any actual union of the membership thereof.

To all the elements of strength mentioned by Professor Erdman I heartily subscribe, and I would add one other. I think it is fundamental to all.

It is that the plan of commodity marketing itself is, in essence, exactly the same as that on which every successful city business has been built. Our great corporations have grown because of their adherence to certain business principles. These principles are: Organization by commodity, otherwise called specialization; centralization of control of volume; the pooling of earnings in proportion to investment; and the employment of experts in technical management.

Coöperative Marketing in 1926.[7]

Development of coöperative marketing in the past ten years has made it an important factor in the economic life of the world. More than 285,000 organizations in the various nations are now engaged in work of this kind, and their efforts are directed chiefly towards the distribution and marketing of agricultural products.

In the United States the business transacted by coöperative buying and selling organizations in agriculture amounted in 1925 to the enormous sum of $2,500,000,000, which represents approximately one-fifth of the total agricultural production of this country. In some of the larger countries of Europe, such as the United Kingdom, Germany, and France, these organizations are among the largest producers and distributors of the more important articles of commerce, and nearly half the population is affiliated with them.

In the United States the coöperative movement began as early as 1851 with the formation of local agricultural groups with small membership. These local associations gradually combined into large regional federations, although the trend in this direction was not marked until 1920. In the three years immediately thereafter, six big tobacco associations with a combined membership of nearly 250,000 were formed; thirteen cotton associations with 220,000 members; twelve wheat marketing associations with 38,000 members; and a milk marketing association with a membership of over 60,000.

[7] Anonymous.

The Department of Agriculture is now receiving reports from sixty-one of these centralized associations, with a combined membership of 784,000. The associations are well distributed throughout the various sections of the country.

. . .

In general the coöperative movement can be classified in the following three divisions:

1. Consumers' coöperative societies.
2. Agricultural coöperative societies.
3. Credit coöperative societies.

1. The consumers' coöperative society is a distributive organization with the purpose of supplying goods from the producer to the consumer without intervention on the part of the middleman. Retail stores are operated where members purchase their household supplies direct from the producer. The total number of societies of this kind throughout the world is in excess of 90,000 with about 40,000,000 individual members. Of this number the United States has some 3,000 with a membership of about 775,000.

2. The coöperative agricultural society has the purpose of securing for the individual small farmer the benefits of large scale organization, either through collective buying of farm supplies or through joint disposal of farm products. There are more than 80,000 coöperative farmers' societies in the world including 15,000 in this country.

3. In the United States the third expression of the coöperative movement—the coöperative credit society—has not made much headway. Its purpose is to accumulate the savings of its members as a basis of making loans to them in time of need. But the Farm Loan Banks in this country have taken its place in furnishing easy and adequate credit to the farmers; loans at moderate rates have been granted to more than 350,000 farmers. There are only 536 coöperative credit societies in the United States out of a world total of 105,000.

Chapter XXI

COÖPERATIVE MARKETING BY COMMODITIES

The Principles and Practices of Coöperation Applied to Citrus Production and Distribution.[1]

The coöperation of the citrus fruit growers in California in working out the problems of production and distribution has resulted in the development of 200,000 acres of orange and lemon groves from a semi-arid desert. In a normal crop year the growers ship 20,000,000 boxes of fruit, or 50,000 carloads.

Twenty years ago the growers produced 5,000 carloads and each grower tried to handle the problem of production and distribution alone. The markets on the average were 2,500 miles distant. The facilities for distribution were undeveloped, the freight rates high, the crop perishable. The growers sold the fruit to local buyers, or distant buyers, or consigned it. But the buyers would only buy when there was a chance to make money; at other times the grower had to assume the risks of distribution, or would have to sell at a sacrifice. Later on the buyers divided the territory and did not compete with each other, or they fixed a maximum price to be paid for the fruit. Under these conditions the grower, of course, became helpless. He was too small a unit to cope with the larger interest with which he came in contact. The crop was increasing rapidly, the returns to the grower were diminishing, and he was forced to coöperate with his neighbors in handling their common problems jointly, if his property interests and theirs were to be safeguarded. *Economic necessity, which is the foundation stone on which successful coöperation among farmers must be founded, forced the growers to form associations, build packing houses, develop organizations, assemble the fruit of the members, standardize the grades, and sell the fruit as a large business transaction.* Finally, the associations were obliged to federate in order to develop a uniform system of distribution that would place the fruit regularly in the markets of the United States and Canada. Without a system of uniform distribution under the control of the producer, and the regulation of the handling of the fruit, chaotic marketing conditions existed. The associations finally formed a central agency now known as the California Fruit Growers' Exchange, which includes 17 district

[1] Powell, G. H., Proceedings of 2d Pan-American Scientific Congress, pp. 665-671.

exchanges, composed of 140 local associations of from 40 to 300 members each, and acts as a clearing house in furnishing facilities through which 8,000 growers, representing 70 per cent of the industry, distribute and sell their fruits on a cash basis at the cost of operation to the jobbers in the markets of the United States, Canada, the United Kingdom, and other countries. There are also a number of smaller coöperative associations among the citrus growers which operate somewhat as the exchange does.

The citrus fruit growers coöperate in the production of the fruit, in its distribution and sale, and in the development of a greater consumer demand through national advertising.

In production they coöperate in the purchase of orchard supplies, such as fertilizer, cover-crop seed, and other materials. They coöperate in the manufacture of box shook, in the purchase of paper and packing-house materials, in the manufacture of by-products, in the protection of the fruit against frost injury, and in every way in building up better educational or investigational facilities by the State or Federal government, which place the industry on a better basis and lead to a better rural life.

A growers' supply company.—For the purchase or manufacture of supplies for the groves and packing-houses, the exchange growers have formed a corporation with a capital stock of $1,500,000, most of which is paid in, and is invested in timberlands and mills for the manufacture of boxes. Though organized as a stock corporation with the exchange associations as stockholders the Fruit Growers' Supply Company conducts its business primarily for the benefit of the individual grower, who shares its benefits in proportion to the business he transacts. The boxes which it manufactures are furnished the growers at the cost of the material and of manufacture, which includes charges for depreciation and maintenance, plus 6 per cent on the capital invested. The supplies used in the orchards or packing-houses are furnished the growers through their associations at wholesale cost or at prevailing retail prices with a refund of the difference at the end of the year. The cost of operation also includes an interest rate of 6 per cent on the capital invested.

During the year ended August 31, 1915, the value of materials handled by the supply company was $4,061,556, including $2,500,000 packing-house supplies, $840,000 in orchard supplies, and $770,000 of lumber and lumber products sold at the mill.

The cost of operating the supply company is approximately two-thirds of 1 per cent of the value of the materials handled. In 1914-1915 it furnished the members 12,000,000 boxes, $49,675 worth of labels and box embellishments, $515,700 worth of fruit wrappers, $39,500 worth of nails, $374,000 worth of sodium cyanide, $25,600 worth of

sulphuric acid for fumigation, and $233,000 worth of fertilizers. The supply company returns $140,000 in refunds to its members at the end of the year in addition to 6 per cent on the capital investment. The supply company has saved its members $500,000 a year in the cost of box materials since its organization. It has saved not less than $150,000 a year in the purchase of fruit wraps, labels, nails, orchard supplies, and miscellaneous purchases, making a total saving of not less than $5,250,000 in eight years; and in addition it has been the most powerful factor in standardizing materials and in eliminating fraud and dishonesty in the materials handled. The funds for the supply company have been provided by levying an assessment of a definite amount per box against each shipper, the full amount to be paid in five years at a rate not to exceed 3 cents per box in any one year. Certificates of stock are issued to the associations representing the amount of an assessment paid.

A growers' by-product association.—The lemon growers of the exchange have organized a corporation with a capital stock of $1,000,000 for the manufacture of by-products, such as citric acid and lemon oil, from the lower grades of fruit. This organization, though incorporated as a stock corporation with the lemon shippers as stockholders, will pay 6 per cent annually on the money invested, and, after deducting operating expenses, will return the proceeds to each member pro-rated on the amount of lemons contributed. There are $1,500,000 worth of these products imported annually from Italy, and these will hereafter be manufactured in part or in whole by the California lemon growers. This organization is financed on the same principle as the supply company.

Mutual insurance association.—The growers of the exchange have also organized an association through which the insurance on all packing-houses and the supplies is carried on a mutual basis. The rules and regulations which govern the mutual indemnity compact are in force in determining the risks and rates to be charged each member. The losses are pro-rated on each association on the amount of the risk carried by each.

Frost protection association.—In some communities all of the growers have formed an association to assist in protecting the groves against injurious frosts. A frost district is formed, thermometers are installed throughout it, the district is thoroughly patroled at night, and when the conditions warrant it the patrolmen notify the individual growers, who have already equipped their groves with frost-fighting devices, that firing must begin or, in some cases, the association itself may handle the firing operations for the growers.

The Citrus Protective League.—The California citrus industry has also formed a voluntary organization, without capital, known as

the Citrus Protective League, to handle the public policy questions that affect the industry as a whole. It represents 90 per cent of the growers in all parts of the state in handling railroad rates and general transportation problems, customs tariffs and other governmental relations, State and Federal legislation that affects the citrus industry, and all other questions of a general nature that affect the upbuilding of the industry. It avoids all questions that lie within the province of the established marketing agencies. It develops a constructive policy for the improvement of cultural practices and of fruit-handling methods, and then secures the coöperation of the State and Federal agencies best adapted to the upbuilding of these lines.

The work of the league has had a far-reaching influence on the industry. It has saved the growers nearly $1,000,000 a year in reductions in freight and refrigeration rates. It took a leading part in securing larger appropriations from the state for the building up of the college of agriculture, and it helped in securing the appropriation for the establishment of a citrus experiment station. The league is supported by funds raised by general assessment based on the number of cars of fruit shipped by each member during the preceding year.

The California Fruit Growers' Exchange.—The most important of the coöperative movements in California is the California Fruit Growers' Exchange, from which all of the movements described have sprung, and which is the pattern on which every important coöperative movement in America is more or less shaped. The exchange is a growers' organization, formed and managed by them for their own benefit. The operations are conducted at cost.

There are three units in the exchange system: First, the local associations of growers who build packing-houses, assemble the fruit, grade and pack it under rules and regulations, and load it on the cars for shipment. The local association may be a stock corporation or a non-stock corporation. If a stock corporation, the stock is owned by the members who usually receive no dividends except the usual rate of interest for the use of the money.

The association has a board of directors who serve gratis, a manager who is a paid officer, and other needed employees. The investment in a packing-house may vary from $10,000 to $150,000, and the value of the product shipped from $50,000 to $1,000,000. The funds for building and packing-house are furnished by the sale of stock to growers, usually pro-rated on the acreage of each. In addition, the corporation may secure funds from a bank by giving a corporation note as security, and repay the bank through a period of years by withholding certain percentages from the sale of fruit. The organizations, though stock associations, are not organized for pecuniary profit and no dividends are paid on the stock. When the association is formed as a non-profit

corporation, the money needed to build and equip the packing-house is secured on a corporation note and is paid by withholding a certain percentage of the proceeds of the sale of fruit, or by assessing each package sold a definite amount.

The association usually picks the fruit for the grower in order to standardize the physical handling and prevent the decay that follows improper handling. Each association packs the fruit under brands that are the exclusive property of the association, thus preserving the individuality of the local unit. The trade-mark brand of the central exchange also appears on the wrappers and boxes, thus giving the association the double value of its own brand in selling to the jobber, and the pulling power of a nationally advertised brand with the consumer.

The influence of the local brand is strongest with the jobber, less so with the retailer, and practically unknown to the consumer. The nationally advertised brand is most powerful with the consumer, and it is utilized by the jobber and retailer in promoting the sales of the association brand.

In practical operation the fruit of similar grades of the different members of the association is mingled and sold in common, a pool extending through a month, more or less.

When a carload is ready for shipment it is marketed by the district exchange, with the advice of the association, through the agents and facilities provided by the California Fruit Growers' Exchange, and the proceeds of the sales are divided among the members of the association pro-rata on the number of pounds of each grade shipped in the pool.

The strength of the coöperative movement depends primarily on the efficient management of the local association. The basis of a successful marketing organization is the loyalty and steadfastness of the man on the land. His interest may be sustained or killed by the local association, because that is the organization with which he comes in direct contact. If the local association is weak the grower suffers, and he judges the entire movement by the standard of his local. Therefore, it is essential in a large coöperative organization that practical steps be taken by the central organization to maintain the highest possible efficiency in the handling of the fruit and in the business management of the locals.

The district exchange—its organization and function.—The district exchanges, of which there are seventeen, are composed of the local associations, and, like the associations, are non-profit corporations, operating for them at actual cost, or pecuniary stock corporations, operating on coöperative principles. Each exchange acts as a medium between the association and the California Fruit Growers' Exchange. It orders cars for the associations and sees that they are placed for

loading, keeps records of the cars shipped by its associations, informs itself through the California Fruit Growers' Exchange of every phase of the distributing and marketing business, and places this information before the associations. It also receives from the agents the proceeds from the fruit and turns them over to the associations for pro-rata payment to the growers, as above explained, after deducting the actual cost of operation, which usually amounts to one cent or less per box.

The central exchange—organization and functions.—The California Fruit Growers' Exchange is the central body formed by the seventeen district exchanges, with a directorate consisting of one representative from each of these exchanges who serves without pay, and a general manager who is a salaried officer. Like the associations and the district exchanges, it also is a non-profit corporation, conducting its business at the actual cost of operation and declaring no dividends. It has no assets except a paid-in capital of $1,700, office fixtures, and supplies, although it distributes $21,000,000 to $25,000,000 worth of fruit.

The exchange has a legal department, which looks after any litigation that may arise; a traffic department, which looks after the routing of the cars and handles all shipping claims; an advertising department, through which an extensive advertising campaign is conducted to increase the demand for fruit and establish a closer working basis with the jobber and the retailer.

The central exchange furnishes facilities for the distribution and marketing of the fruit by the district exchanges. To do this it has placed bonded agents in the principal markets of the United States and Canada. These men are exclusive salaried agents, except in territories where only a small quantity of agents work constantly to increase the trade, and in the sale of a carload directly under the order of the shipper. When a buyer wants a carload of fruit he takes the matter up with the agent in his city or district. The agent wires the details to the central exchange; this exchange takes it up with the local district exchange handling the brand of fruit desired; the district exchange takes it up with the association which owns such brand, ascertains the price it is willing to accept, and communicates the reply to the central exchange; then the latter wires it to the agent, who negotiates with the buyer. Any further communication necessary until the sale is effected or rejected is carried on in the same way between the agent and the shipper. When a sale is made the agent collects the money in the form of a check made payable to the California Fruit Growers' Exchange. This check is deposited in a national bank, and at the same time a check is made payable to the shipper of the fruit, covering the full amount. This, with a duplicate deposit slip showing that the money was deposited, passes through the office of the California Fruit Growers' Ex-

change to the shipper, and at the end of each month the central exchange levies an assessment against each district exchange for its approximate pro-rata share of the cost, based on the number of boxes shipped. The final adjustment is made with each district exchange at the end of each year.

In 1914-19 the exchange growers shipped 11,889,836 boxes of citrus fruits. It cost the grower approximately 4¼ *cents per packed box to distribute and sell the crop to* 2,500 *jobbers in the United States, Canada, and other foreign countries, or* 1⅔ *per cent of the delivered value of the fruit.* They paid approximately 2 cents per box, or less than eight-tenths of 1 per cent additional for national advertising to increase the consumption of citrus fruits and to bring the shippers into closer working relations with the jobbers and retail dealers. The average cost of the district exchange is .91 of 1 per cent per box, making the total average cost of the exchange and district-exchange service, including the cost of advertising, 7.16 cents per box.

Under this system the growers and shippers, through their associations and district exchanges, regulate and control their shipments; that is, they determine the conditions under which their fruit shall be sold outside of the auction markets, ship when and in any amount they please, determine to what markets the fruit shall be consigned and where it shall be sold outside of the auction markets, and designate the price they are willing to accept.

Through the agents the central exchange gathers daily information regarding the conditions of the market, secures detailed reports on the sale of every car of exchange fruit and on weather conditions, and sends this information in the form of daily bulletins to the district exchanges. These bulletins also include a catalogue of the details of exchange cars leaving California, all telegrams passing between the shipper and the agent regarding each car, several special reports from auction or private sale markets, and, at the end of each week and month, summaries of the different business operations of the system.

With this information at hand, and the advice he may secure from the central office, each shipper can intelligently decide the various marketing problems for himself and thereby avoid chaotic distribution and demoralized sales.

The national advertising of citrus fruits.—The orange and lemon crops of California have increased from 5 to 20 per cent or more annually for many years. Population increased on the average 2 per cent annually, but production increased without reference to demand and without relation to the increase in population. In addition to 20,000 acres of lemons there are 21,000 acres of Valencia oranges and 42,500 acres of the Washington navel variety, 4 years old or under, which, in

the next few years, will double the lemon and Valencia crops and increase the Washington navel shipments.

The problem in California is to create a larger consumer demand and then to increase the efficiency of the sales efforts with the jobbers and retailers, so that oranges and lemons may be widely distributed and placed in the consumer's hands at reasonable prices. Production cannot be curtailed. Whatever the groves bring forth must be sold. Sales efforts must be broad enough to move the crop under adverse as well as normal conditions. Through a national campaign of education the growers are endeavoring to increase the consumer demand rapidly enough to keep pace with production. If the consumer demand can be increased, the problems of wholesale and retail distribution are solvable; if consumer demand is not increased commensurate with increased production, no sales efforts on the part of the jobber or the retailer can move a crop at satisfactory prices, because sales efforts do not materially increase consumption. They meet the demand which the consumer makes upon them.

The exchange is therefore gradually extending consumer advertising as the basis of its sales plans. It uses national magazines, newspapers, and trade papers, in its appeal to the consumers in developing the uses of citrus fruits. It emphasizes the delicious qualities of oranges and lemons, their healthfulness, the various ways of using them, and endeavors through persistent education to develop the latent capacity of 100,000,000 people to consume citrus fruits. Primarily the function of the advertising is to increase the consumption of citrus fruits. It is not competitive advertising. To make it effective the exchange shippers pack the higher grades under trade-marked brands, because a brand is the consumer's guaranty of quality and furnishes something around which an effective educational campaign can be built up.

The exchange growers are expending $100,000 on lemon and $250,000 on orange advertising, in order to create a larger public consciousness of the food value and healthfulness of citrus fruits. It has recently organized a field department to coöperate with the associations in improving the handling of the fruit, in standardizing the grading and packing, and to assist in other ways in putting the industry on a sounder basis.

Coöperative Marketing of Wool.[2]

To give you an idea of the need of improved methods in marketing wool, it might be in order to give first the results of an investigation by the writer in the state of Colorado in 1918-1919. As some of you may know, the U. S. Government in 1918 took over the American wool clip, fixing the price at that of July, 1917, naming

[2] By Chas. I. Bray, College of Agriculture, Ft. Collins, Colo.

accredited wool buyers and warehouses, and fixing schedules of commissions and profits. After this plan had been in operation some time it was noticed that, while returns were slow under the Government plan, the net proceeds from wool were considerably higher in 1918 than they had been in 1917, though nominally on the basis of the 1917 prices. To find out the extent of the difference, a questionnaire post-card was sent out to over 800 sheep men running sheep on the Colorado National Forests, asking for prices received for wool in both years and information as to method of sale. As usual, replies were received from only about 10 per cent of those addressed, but the returns were sufficient to indicate a great variation in 1917 prices as compared to 1918.

To go back a little in point of time. There had been dissatisfaction with our system of wool selling for a number of years. The National Wool Warehouse in Chicago had been organized by western sheep men for the handling of western wools. The so-called Australian system of shearing and grading wool had been introduced in the West in 1914 and 1915 by Mr. J. E. Cosgriff of the Continental National Bank of Salt Lake City, and W. T. Ritch, an internationally known wool expert of Australia and London. Results on this system will follow later, but had not been up to expectations. The smaller commission houses were strongly suspected of being merely buyers of wool to hold for their own profit. Traveling buyers were absolutely unreliable and bought for the lowest figure regardless of grade. A Colorado county agent reported as much as 25 per cent difference in price offered for wool of the same grade in his county. Wool for which 45 cents per lb. had been offered in another county sold for 67 cents on the Boston market. The author, however, was not prepared for some of the differences shown as a result of the questionnaire.

The range of prices for the two years was more striking than the average difference. Even allowing for the fact that undoubtedly Boston prices rather than net prices were sometimes given for 1918 as compared with local prices for 1917, the average difference of 10 cents per lb. in favor of 1918 showed where the farmer had been losing money by slipshod methods of selling. Studying the answers in detail showed that the losses had fallen almost entirely on the small wool-grower, selling through local merchants or traveling buyers. The few growers who reported selling through reliable commission houses in 1917 had received practically the same then as in 1918, in some cases more (1 or 2 cents per lb.). This showed the reliability of the larger houses, including the National Wool Warehouse at Chicago. On the other hand, the prices received locally varied all the way from 6 to 33 cents per lb. less in 1917 compared to 1918, under fixed commission charges and government supervised grading. One man actually got 61 cents in 1918 for the same kind of wool that he was given 28 cents for in 1917, and

other growers got all the way from 33 to 45 cents in 1917 for wool of the same grade. The result of the government grading system in 1918, though not in itself satisfactory, pointed the way to a better system of selling in such an emphatic manner that there was little likelihood of any widespread return to the old methods if new methods could be inaugurated. Before discussing the various methods of selling wool, I wish to quote from a report on wool marketing by Homer B. Vanderblue of Northwestern University, to the Denver Chamber of Commerce early in 1921.

"Between the time the fleece is shorn and the time it passes into the mill, four important functions are performed: storing, financing, grading or standardizing, and selling. The eastern wool merchant performs all four of these functions:

1. He owns large and well-equipped warehouses in Boston.
2. He may pay cash, or at least make substantial advances, sometimes before shearing.
3. He provides expert graders and enforces rigid adherence to standards, for which his clients are willing to pay.
4. He sells upon sample, even to permitting scouring of small lots, sometimes giving credit to the mill.

"Any marketing organization proposing to substitute for this system must provide in advance for performing adequately these same services."

The comments we want to make here are as follows: There are enough warehouses now in existence to handle all America's wool clip. There are several ways by which these may be used. In regard to financing the aim of those in charge of coöperative wool shipping is to have the wool grower finance himself if possible; if not, to have him get warehouse receipts, under the U. S. Warehouse Act, and use these receipts as collateral rather than accept a lower cash price for his wool. It is evident that the mills cannot use all the wool produced in America during the months of May and June after shearing. Some wool will not be marketed until at least a year after shearing. Either the grower must wait for his money, get money at interest, or sell for cash for a low price. There is no objection to a reasonable discount for cash, considering also the possibility of a drop in values. This drop, however, rarely occurs, except in time of depression like 1920. What has always happened, with these exceptions, has been a marked rise, after the wool has left the grower's hands.

Grading before selling is the key to successful coöperative marketing, and is the only way in which the grower has a chance to get a fair price for his wool. The traveling buyer not only takes advantage of the small producer on account of his desire for immediate payment, but on his lack of knowledge of grades. Grades of wool vary in value

this past year from 28 cents to 12 cents per lb., yet to the man who does not know grades the market reports are unintelligible. I will give an illustration of a typical western buyer's methods. In 1919, I think it was, a buyer insisted that he wanted to make a bid on the college wool (Fort Collins, Colo.). I did not care to sell to him, as I did not want to set that kind of an example to the farmers. I knew fairly well what grades I had and what the wool was worth. (The college has four breeds of sheep and had eight different grades of wool that year.) He cut a hole about two inches long in the side of one sack, pulled out a lock of wool, looked at it, remarked that it was a little dirty, and offered 41 cents a lb. for the clip. He did not know whether there was wool or dog hair in the other sacks but bid low enough to be sure of coming out ahead. I told him I did not care to sell, as the wool was worth more, and I wanted to ship it east. He bid up to 43 cents and then offered to bet a derby hat that I could not make any more by shipping east. As I still refused, he bid up to 47 cents. When I left the building, he sent a bid after me of 49 cents. Inside of two hours I had called up two commission firms in Denver and got a bid from one party who knew our wool, of 55 cents, freight paid. If I had not known my grades, we might have lost from 12 to 13 cents a lb. The great advantage of coöperative marketing is not getting round the Boston wool merchant or the other legitimate dealers, but in cutting out that type of catch-as-catch-can buyer. Wool must always be graded before it is bought by the mills, and only brings its right price when sold by grade.

Grading at a central point in a state.— In sections like the Corn Belt, where there are large numbers of small flock owners scattered over a wide area, a system like the above is not practicable. The plan of pooling the wool and collecting it at a central point for grading and selling was started in Canada in 1914 and proved highly satisfactory. This method has been adopted in many of the fleece-wool states since 1918, especially in Ohio, Illinois, Iowa, and Kentucky. The flock owner sacks his clip and sends it to a central point for grading. It is graded as soon as possible and a warehouse receipt for so many lbs. of wool of certain grades is sent him. From this time on his wool loses its identity, as all wools of a certain grade are piled together till sold, when the price for each grade is sent to the owner, less charges and commissions.

The following from the pen of Mr. Robert Hammond, in the form of extracts from a letter written to the speaker in February, 1920, will give you an idea of the working of a state association:

"The Ohio Sheep and Wool Growers' Association was organized early in the Spring of 1918. The organization started with about ten men who organized and elected a secretary, Mr. J. F. Walker, of

Gambier, Ohio, voted him a salary, and told him to go out and earn it by organizing the wool growers of the state and securing memberships for the association. Whatever success the association has had is at least 90 per cent the work of Mr. Walker."

As the government took over the wool clip in 1918, the association did not do as much as it had planned. They sold about 200,000 lbs. of wool, however, at an estimated saving to the grower of 10 cents a lb. as compared to other prices received in the state. To quote again:

"Several facts were revealed: (1) that buyers were taking a handsome profit, a large part of which the grower might have saved for himself; (2) that combing wool (i. e., long and strong fibers) was worth at least 10 cents a lb. more than short wools of the same grade; (3) that burry and unsound wools were worth much less than sound wools.

"In 1919 the association incorporated under the Ohio laws. Care was taken to make the charter as near proof against our anti-trust laws as possible, being patterned after the charter of other coöperative organizations that had been through the anti-trust law fire. It was well that this precaution was taken, as it is an established fact that our association was being considered for prosecution because it had raised the price of wool 20 cents a pound in the state.

"The method of handling the wool for the 1919 season was as follows: the wool was gathered into a central warehouse where it could be stored, graded, and sold direct to the manufacturer. It was decided that this service could best be rendered by a reliable wool house which was acquainted with the methods of marketing wools. (Coöperation does not mean working against the established marketing agencies.) For this work we were fortunate in securing the services of Herkheimer Bros. of Wheeling, W. Va., who established a Columbus warehouse and handled the wools on a 5 cent or 5 per cent commission basis. (Commissions have gone down since then.)

"The Association charged ½ cent for overseeing the work. The commission granted the commission company covered all expenses—the storage, insurance, labor, financing, sales, and guaranteed sales accounts. The consignor had to pay freight charges."

To promote this work, meetings were held in all the counties, a membership fee of $1 was charged. Over 12,000 men joined the association, and over 2,090,000 lbs. of wool were handled for 4,000 consignors. There was strong and bitter opposition. To quote Mr. Hammond again:

"A small history might be written relative to offers of higher prices, lower commissions, false reports, etc., all of which strengthened us in the belief that we were on the right track. One eastern house stated last spring that they had $1,000,000 to break up the Ohio Association.

There is no question, however, that if there had been no association, the producer would have had to take at least 10 cents less for his wool."

As a matter of fact the Iowa association reported 15 cents difference in that state between counties where there were associations and counties where there were no associations.

The consignors were told that the wool would not be held till they gave orders to sell. The association was not speculating in wool. It was shipped direct from the warehouse to the mills.

This will give you an idea of the way wool is handled on the coöperative basis. This system seems to be the best for a state or community, where there is a large number of small flock owners sufficiently well united to form a strong association. One of the advantages of this system is the saving in freight. All the woolen mills are not in the East, and if a western mill buys the wool there is no need to ship the wool to the East and back again. Graded wool can be sold on sample just the same as cloth or jackknives. Graded wool also sells faster than ungraded wool, the latter being very slow moving at present.

Grading at the eastern warehouse.—For those who are not located where either of the previous methods of coöperation can be put in operation, the coöperative car-lot shipment seems to be the best solution. The Colorado Agricultural College has shipped this way twice with good results. This season, about seven parties went together, shipping about 28,000 lbs. of wool, the individual shipments ranging from 11,000 lbs. to 180 lbs. The shipment was made in August and the college got returns on its wool in October. The best bid that had been made locally was 15 cents a lb., while the college wool, containing some very coarse wools, averaged 17 cents on the Boston market. Saving in freight was over 1 cent per lb. by shipping together in that way.

A new type of wool dealer has developed in the last year or two. Mr. Alex. Livingston, Jr., a son of the principal buyer for the American Woolen Company, who has been in the wool commission business all his life and was one of the principal graders for the Canadian Coöperative Company, has organized a company of expert graders which can be contracted for in the spring to grade wool at shearing time, or it will grade wool at its eastern warehouse. Its rates this last summer were ¼ cent per lb. for grading at the shearing shed; ½ cent per lb. if graded at its own convenience at its warehouse; or 1 cent per lb. if graded within three weeks after arrival at the warehouse. This wool is then sold in the usual commission way. One of the graders whom I met had been in the business eighteen years. He had spent seven years as an apprentice, and three years at sorting for the American Woolen Company before his grades would be taken as standard. Now, when he grades a certain pile of wool, calls it half-blood, and puts the stencil of the association on the sack it will pass in any mill without

the sack being opened. Such wool, if graded at the ranch, does not even need to be shipped to the East for sale, but can be sold on sample and shipped direct to the mill.

Summary.

The main thing is to get a closer connection between the original producer and the final consumer. That is how the big corporations make their money. A lecturer last winter made the remark to a body of cattlemen that "if Swift wanted to get 10,000 cattle for feeding purposes he would not send 500 men to buy a car of 20 steers each, but would send one man to contract for the lot. Coöperation gives the little fellow the same chance as the big man now has. Grading does not make wool any better, but it will not sell unless it is graded. The big warehouses are now full to the roof with ungraded wool. The National Wool Warehouse in Chicago was said to have had 39,000,000 lbs. of ungraded wool on hand last summer. Wool sold through the pools has never gone over into the next season without a buyer. In addition, there is the saving in freight and profits, and the labor of rehandling.

Another advantage is the impetus that is given to the production of better and cleaner wool. When a flat price is put on all the wool in a community, the man with the good wool loses and the only man who wins is the one with the poorest goods. Information is the main thing needed to smooth out a lot of irregularities that attend the transportation of goods between producer and consumer. Coöperation generally means information.

COÖPERATIVE MARKETING OF COTTON[3]

Growth of the cotton coöperative marketing movement.— The cotton coöperative marketing associations of the present day are not the result of a growth covering a long period. Practically all, if not all such associations now in existence, have been organized since 1921.[4]

There were, however, a number of earlier attempts made by cotton growers to market their crop coöperatively. According to the Federal Reserve Bulletin,[5] the "earliest attempt to market cotton coöperatively in the United States was made in 1872, when the Mississippi Grange placed a sales agency in Liverpool that operated for several years. About the same time the Alabama Grange established an agent in New York, the Georgia Grange in Atlanta, and the Louisiana Grange in

[3] Report of the Federal Trade Commission on the Cotton Trade, pp. 56-58, 91-95.

[4] Carson, "Financing the Production and Distribution of Cotton," p. 58; reprinted from the Federal Reserve Bulletin.

[5] Ibid., p. 57.

New Orleans. These operated for several years, but were discontinued with the decline in the grange movement." According to this same publication, other attempts to establish coöperative cotton marketing associations were unsuccessful until very recently.

Reasons for recent development.—Probably the most important reason for the renewed activity in organizing cotton coöperative marketing associations was the depression of 1920-1921, when cotton fell from considerably over 40 cents per pound to the neighborhood of 10 cents per pound. Closely allied to this price decline was a general dissatisfaction with the system of cotton marketing, the producers, in short, believing that the middleman's profit was too large as compared with the services performed.

A plan of organization was evolved for the Oklahoma association in 1920, and in April, 1921, the organization was completed and steps were taken to handle the 1921 crop. The Arizona, Mississippi,[6] and Texas associations followed soon after Oklahoma. In 1922, five more cotton coöperative marketing associations were organized and four in 1923.[7]

Typical organization.—Most of the important cotton coöperative marketing associations are state organizations under the local laws governing coöperative associations. They are nonprofit organizations and do not have capital stock. The officers and directors are usually elected from the membership and consequently are growers, since it is required that only growers of cotton may be members of the association. Under the laws of several states at least one member of the board of directors must be a representative of the general public and is appointed by the governor of the state in question.

These associations handle cotton and no other commodities. Each member agrees to turn over to the association all cotton raised by him.

These agreements are usually for five years and are designed to protect the association. In this connection it is of interest to note that the associations have had comparatively little trouble with members refusing to deliver, or, in other words, to live up to their contracts. It seems to be the policy, at least of most of the associations, to obtain compliance with these marketing agreements by persuasion where possible, and to avoid legal process. No fears are apparently entertained that the agreements would be held illegal, since they are practically identical in form with those of the tobacco growers' marketing associations which have been upheld by numerous state courts.

The cotton coöperatives have endeavored to employ competent cotton men to conduct the affairs of the several organizations. Rather elab-

[6] Staple cotton association.

[7] Carson, op. cit., p. 58.

orate systems are in use also to maintain the interest of the memberships in their organizations and to obtain new members.

There are also other associations of producers which handle cotton, but these are usually small local organizations and, furthermore, are organized for other purposes as well as that of marketing cotton.

It is claimed that at least 1,000,000 bales of cotton were marketed through associations of growers in 1923. Returns of the nine principal coöperative associations to the commission show for the crop of 1922-1923 sales of 691,000 bales. The movement has grown steadily since the organization of the Oklahoma association in 1921, and practically every association reports an increase each year in both membership and bales handled. The cotton coöperative associations are financed in a large measure by loans from commercial banks secured by warehouse receipts. Large advances have also been made by the War Finance Corporation. Another source of funds has been the members of the associations. The South Carolina Association has borrowed over $1,125,000 at one time from its members. In this connection it is interesting to note that it has been the association and not the members that reduced this amount, the latter being anxious for renewals.

This borrowing from members suggests that steps in the direction of coöperative credit organizations by the cotton coöperatives might place them in a stronger financial position, render them largely independent of the banks, and result in a considerable saving in their cost of distribution.

General Sales Methods.

State associations.—The various state coöperative cotton associations have their own sales organizations. While the ultimate desire is to build up a "direct to the mill" business, the officers of several of the associations stated that they realized that this could come only with time. At present the coöperatives sell to any one paying the desired price and their customers include the general cotton trade, as well as spinners. There is one important obstacle preventing the coöperatives from doing a much larger direct-to-mill business. This is the inability of many of the associations to sell on buyer's call, which is, of course, a method of purchasing followed by many spinners. The cotton coöperatives do not hedge as a rule. Such associations are composed of farmers who are interested in developing the so-called system of "orderly marketing"; that is, comparatively even distribution of sales through the crop year, which is believed by them to result in better average prices for spot cotton. To hedge under such circumstances would defeat the ends sought, since any increase in average spot prices would, according to the theory of hedging, be offset by losses in closing out the hedges. It is stated that since sales on buyer's call would neces-

sitate such dealings, this method of selling cotton is not open to the associations. The coöperatives, however, hope to overcome this disadvantage and claim that when mills become acquainted with the superior service which the coöperatives offer they will gladly forego the advantages of buyer's call.

American Cotton Growers' Exchange.—The twelve state coöperative cotton associations are organized into a central body known as the American Cotton Growers' Exchange. This latter organization is in effect a sales agency for all the state associations and has branches throughout the southern cotton manufacturing sections, in New England, and abroad. It should not be understood that the local state associations do not sell cotton. As previously stated, each organization has its sales department and the decision as to all sales rests with the individual organization. The American Cotton Growers' Exchange, according to C. B. Howard, its general sales manager, is "a clearing-house office for sales for all of these states, you might say, and having salaried men in Liverpool, Bremen, Havre, Boston, and Carolina centers, and connections with merchants or brokers in practically all other cotton markets of the world—all great cotton buying centers.

"If any cotton for Texas or Georgia which is sold in New England, or across the water, goes through my office, it is to coördinate the selling activities of these twelve states, in order that the twelve states will, so far as it possible to avoid it, not compete with each other in the sale of the cotton that is delivered them by their membership.[8]"

Attitude of trade toward coöperative cotton marketing associations.—The cotton trade as a whole is not antagonistic toward the coöperative marketing movement. The general impression in the trade seems to be that everything should be done to help the grower of cotton, and, if coöperative marketing will have this result, then it is to be encouraged.

There are, of course, many cotton dealers who oppose the coöperatives. The usual complaint against these organizations is that they are too inefficient and expensive, and that their overhead is far too large as compared with that of the regular merchants. Another ground for opposition of some dealers is that the coöperatives are trusts and consequently to be condemned. Some merchants base their opposition on the allegation that the member of the coöperative loses all initiative in the sale of his cotton, since he must turn it over to the association as soon as possible and be satisfied with an average price.

These arguments against the associations are answered by them as follows:

[8] Hearings, Pt. II, p. 368.

"The newer associations admit that their overhead is higher than it should be, but hold that it is not necessarily more per bale than that of the regular trade. Furthermore, they contend that the merchant exacts a larger toll per bale than do the coöperatives, and when the organization has been entirely completed and the expense of establishing the business is at an end, the overhead will be much less than at present and decidedly lower than that of the regular trade."

Operating results of coöperative marketing associations.— The commission procured financial statements of six of the coöperative marketing associations for the marketing of the crop of 1922. As the fiscal years of these organizations ended during the period from June 30 to September 30, 1923, their results are closely comparable, so far as the period covered is concerned, with the results of those merchants in the year 1923 who closed their books in the period March 31 to August 31, 1923.

The associations, whose figures were procured, were the North Carolina Cotton Growers, the Texas Farm Bureau Cotton Association, the South Carolina Cotton Growers' Coöperative Association, the Arizona Pima Cotton Growers, the Arkansas Cotton Growers, and the Staple Cotton Coöperative Association. Two of the associations in this group, however, the Arizona Pima and the Staple Cotton Coöperative, are definitely staple cotton associations.

The Arkansas Cotton Association, moreover, contains a large number of producers located in eastern Arkansas who raise cotton of a staple of $1\frac{1}{16}$ inches and above, so that the figures for this association are also very largely affected by the factor of staple.[9] According to the commission's information, staple cotton is not so important an item in the case of the Texas and the two Carolina[10] associations, as in those of the three associations previously mentioned. In presenting the results, therefore, the figures of the Arizona, Arkansas, and Staple Cotton Associations have been grouped together as those of staple associations, while the figures of the Texas and the two Carolina associations are presented as those of non-staple associations. The results for all six coöperatives combined are also given. The following table shows the 1922-1923 results per bale for each of these three groups of coöperatives in comparison with those of the 35 cotton merchants reporting to the commission for the year.

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[9] Data furnished by the association show that nearly one-half of its sales for the year in question were of cotton 1 1/16 inches and above.

[10] About 32 per cent of the cotton received by the South Carolina Association in 1922-23 was 1 1/16 inches and above, but scarcely any of this cotton was sold during the year and, therefore, is not included in the results presented.

PRICES, EXPENSES, AND GROSS PROFITS OF COTTON MERCHANTS COMPARED WITH THOSE OF COÖPERATIVE ASSOCIATIONS FOR THE CROP YEAR 1922-1923

	35 Cotton Merchants	*3 Nonstaple Cotton Coöperative Associations*	*3 Staple Cotton Coöperative Associations*	*6 Coöperative Cotton Associations*
Bales Sold	1,796,610	286,728	227,683	514,511
Cost of Cotton to Merchants and growers' Realization from Coöperatives*	$122.09	$124.98	$136.14	$129.92
General Expense	5.26	5.57	6.17	5.83
Interest Paid	1.01	1.55	2.24	1.86
Loss on Futures	5.47	.....	.....	.....
Net Income	.32	.....	.....	.....
Total Gross Margin..	12.06	7.12	8.41	7.69
Selling Price	134.15	†132.10	144.55	†137.61

* So far as the coöperatives are concerned, the realization shown for the grower does not represent the amount paid him, as certain reserves are set up by the associations. Equitably, however, these reserves belong to him, and it is contemplated that they ultimately will be returned to him.

† This is a net figure after deducting certain future losses of one of the associations.

In considering these results, the figures for the merchants should not be compared with those of the staple associations because, doubtless, the proportion of staple cotton handled by these staple associations greatly exceeded that handled by the merchants. The case is different in a comparison between the merchants and all cooperatives combined. A few of the merchants included are large handlers of staple cotton and many of them sell some staple, so that such a comparison might not be an unfair one. On the whole, however, it may be that the proportion of staple cotton included in the sales of all six of the coöperatives is considerably greater than that found in the sales of the merchants. Taking the basis most unfavorable to the cooperatives, that is, the results of the nonstaple associations, the comparison with the merchants is favorable to the coöperatives in several respects. The average selling price of the coöperatives was $2.05 a bale lower than that of the 35 merchants whose figures are presented. Despite this comparative handicap, however, the growers' equity on the sale made through the coöperative was $2.89 higher, on the average, than the price paid by the merchant for his cotton. Moreover, in this connection it is well to bear in mind that the cost of cotton to the merchant is far from being the price paid the grower, as the bulk of the cotton of the average cotton merchant reporting is obtained not from the producer directly but from local or other dealers.

The average general expense of the nonstaple coöperatives of $5.57 per bale was approximately 31 cents a bale higher than that of the

merchants and their interest paid was 54 cents a bale greater. These advantages of the cotton merchants in respect to lower interest charges and handling expense were more than offset by their heavy losses on futures, averaging $5.47, to say nothing of the profit retained, averaging 32 cents a bale. The loss of the merchants on futures in 1923 was by far the largest loss sustained in any year for any group of companies. But it is also true that the net income per bale of 32 cents was only one-fifth to one-tenth of the net income obtained by merchants in other years.

With one exception the associations whose figures are presented show no future operations. In the case of one of the associations there were losses on futures which were deducted from the sales since they applied to only one of the six associations. It should also be noted that a few of the merchants did not show any future operations.

The results for the staple associations, which as stated cannot properly be compared with those of the merchants, show an equity for the grower between $11 and $12 a bale higher than that of the nonstaple associations. Such a result might well be expected in view of the greater value of the cotton sold. The general expense of the staple associations was 60 cents per bale higher than that of the nonstaple associations, and the interest charge was 69 cents higher, so that the staple associations showed a total cost of handling of $8.41 per bale as compared with $7.12 for the nonstaple organizations.

Because of the fact that the commission has no adequate data for coöperatives except for 1922-23 the comparisons made of the results of merchants and coöperatives cannot be regarded as conclusive except for this year. The crop year 1922-23 witnessed a considerable advance in cotton prices, from which it is likely that the coöperatives obtained some benefit, especially as they did not generally hedge. Whether these associations would be able to show as advantageous results in a year of declining prices can be determined only by actual experience.

The following table presents certain important figures for each of the six coöperative associations:

SELLING PRICE, EXPENSE, AND INTEREST PER BALE FOR SIX COÖPERATIVE MARKETING ASSOCIATIONS

Number of Associations	*Net Selling Price**	*General Expense*	*Interest*	*Total Expense and Interest*	*Producer's Equity*
No. 1	$161.20	$6.39	$1.55	$7.94	$153.26
No. 2	141.74	6.57	3.19	9.76	131.98
No. 3	144.60	6.02	1.97	7.99	136.61
No. 4	128.96	6.19	1.95	8.14	120.82
No. 5	138.36	5.36	1.01	6.37	131.99
No. 6	131.04	4.83	1.46	6.29	124.75
Average	137.61	5.83	1.86	7.69	129.92

* A loss on futures was deducted in the case of one association before arriving at this price.

Coöperative Grain Marketing.[12]

Local farmers' elevators.—By far the most of the farmers' elevators in the United States are of the single unit type. The growers surrounding a shipping point will raise the necessary capital to build or to buy an elevator. A corporation will be formed, a manager hired, and the business of buying and selling grain will be conducted independently of any other farmers' elevator or marketing organization. A farmers' elevator at one point may be a tremendous success, while at the next station one will fail miserably. In some cases, it is true, several elevators have been combined under one management, and not infrequently a farmers' elevator company located at one point will operate elevators at one or more neighboring points. In Kansas and possibly several other states organizations have been established on what is called the county-unit plan, the idea being to place all the farmers' elevators within a county under one management. The advantages claimed for this plan are that all elevators within the county may have the benefit of a highly skilled manager which the individual companies could not afford to employ singly, and that there is a decreased general and overhead expense by reason of standardization and centralization of accounting work. In addition, of course, there is a greatly increased purchase power when it comes to buying supplies and side lines usually handled by farmers' elevators. In the main, however, farmers' elevators in this country, and especially in the Middle West, have grown out of local effort, and up to the present time little has been done in the way of federating the individual companies into central organizations for marketing purposes.

The existence of such a large number of the single-unit type of farmers' elevators, the great majority of which have been in successful operation long enough to justify a belief in their permanence as an economic thing, has naturally raised the question whether coöperative grain marketing should end with these local elevators, or whether it should be extended to the terminal markets. No great movement like the farmers' elevator movement can proceed suddenly and rapidly to a certain point of perfection and as suddenly stop and remain stationary. It is true that much remains to be done in the matter of securing a firm footing upon the ground already covered and that stability should be secured there before proceeding farther. However, it is also true that if perfection is to be attained in the operation of the country elevators before looking toward the next step, there probably will be no next step, unless, indeed, it be a step backward. That complete success in the operation of local farmers' elevators will be aided by greater unity

[12] Mehl, J. M., Coöperative Grain Marketing Bulletin, No. 937, U. S. Department of Agriculture.

and community of action is readily apparent, and unity naturally centers around terminal marketing. It may, or may not, be to the financial advantage of the grain growers of the Middle West to follow the marketing of their grain beyond the local railroad station. Certainly the advantage will not be so great as it is commonly expected to be by those who view terminal marketing from a distance. But the conviction is general among the grain growers that some advantage is to be had, and it is doubtful whether anything but actual experience can affect that conviction. The problem, therefore, is not to discourage what is a legitimate and proper activity on the part of the grain growers, if they wish to engage in it, but rather to aid in the discovery of means and methods which will make intelligent and constructive effort possible.

Terminal activities.—To persons who have been inclined to view the Canadian methods of coöperative grain marketing as something which should be adopted immediately by the grain growers of this country, it may be interesting to know that within our own borders at the present time are at least three organizations which resemble in character the organizations of western Canada. It is true that none has yet approached in size either of the two large Canadian companies, but the idea of centralized management and the operation of local farmers' elevators as a line-house system in connection with terminal activities is not new in this country.

The Equity Coöperative Exchange of St. Paul, Minn., reports about eighty country elevators in operation as part of a line-house system. This company was first organized as a department of the American Society of Equity in 1908, and was incorporated under the laws of North Dakota in 1911. The local elevators of the Equity Coöperative Exchange are controlled absolutely by the general exchange directors, but, like Canadian companies, provision is made for a local advisory board. In addition to country elevators owned and operated as a part of the exchange system, there are a number of the locally owned and operated type of farmers' elevators which own shares of the capital stock of the exchange. These, of course, are operated as free agencies and may, or may not, favor the exchange with their grain shipments. The exchange operates a terminal elevator at St. Paul, Minn., but, instead of operating on the Minneapolis grain exchange (the Minneapolis Chamber of Commerce), it has established a market place in St. Paul.

The Montana Grain Growers of Great Falls, Mont., organized in 1918 under the laws of Montana, is another organization which in many ways has sought to emulate the Canadian companies. It has now about twenty country elevators under its control with approximately 3,000 members.

In the Pacific Northwest the Tri-State Terminal Company of Seattle,

Wash., furnishes another example of line-house operation of farmers' elevators. This company was formed in 1911. The annual statement of the company for the year ended May 31, 1919, shows a paid-up capital stock of $271,920 and a surplus of $34,302.75. It has a membership of about 2,500, in addition to a number of local farmers' elevator companies owning shares of its capital stock. Over twenty country elevators are operated by it as a part of the line-house system.

Among other organizations which serve, or are preparing to serve, the interests of farmers' elevators in the terminal markets are the Farmers' Commission Company of Hutchinson, Kan.; the Farmers' Elevators Commission of Minneapolis, Minn.; the Farmers' Terminal Elevator Company of Sioux City, Iowa; the National Coöperative Company of Omaha, Nebr.; the Equity Union Grain Company of Kansas City, Mo.; and the Michigan State Farm Bureau Elevator Exchange of Lansing, Mich.

Functions of coöperative grain marketing organizations.—In the case of farmers' elevators of all types in this country and in Canada there has been no material difference in their methods of operation as distinguished from the methods of private interests, except, of course, with respect to policies growing out of ownership of the marketing facilities by a large number of actual grain growers. No attempt has been made to secure control over crops of members, but each grower member has been left free to dispose of his crop when and to whom he chose. The whole effort in regard to coöperative marketing has been directed toward having the grower perform for himself certain functions of marketing which previously had been performed by others, but using exactly the same kind of marketing machinery. The only change is the substitution of coöperative ownership of middleman facilities for private ownership. If the idea of capital stock ownership by growers who are also patrons of the elevator company and the plan of distributing earnings among the members on the basis of patronage furnished were eliminated, there would be nothing to distinguish the present-day farmers' elevator company from any other corporation engaged in the grain business.

Grain is bought from members and non-members alike on the basis of prevailing market prices. Sometimes profits are made much in excess of the margins which were expected at the time of the purchase, and again large losses are similarly suffered. No attempt has been made to market grain by means of pools extending over certain periods and returns made to growers on the basis of average prices received for grain of like variety and grade of a given pool, as has been so successfully done in the marketing of certain perishable and semiperishable products. An exception to this statement may have to be made if an experiment now under way in the Pacific Northwest is successful. The

Pacific Northwest Wheat Growers' Associations have recently been organized there. The purpose of these associations is collective bargaining in the sale of wheat under much the same plan that certain California products are now marketed.

Each grower upon becoming a member of the association will sign a contract by which he agrees to surrender control over the marketing of his crop for a period of years. His wheat must be delivered to certain warehouses or shipping points, as ordered by the association. The price to be paid for the wheat will not be known definitely until all of the wheat of a particular kind and grade pooled during the season has been sold. It is expected that by means of a comprehensive warehousing scheme money may be borrowed upon warehouse receipts in liberal amounts and that advances may be made to the grower at the time of delivering his wheat. Also, as wheat in certain pools is being sold and returns received, further advances will be made to growers having wheat in that pool. The principle upon which rests the entire plan, of course, is that an expert in the marketing of wheat will, over a period of years, be able to market the wheat of the grower at a price averaging higher than the individual could obtain for himself with his comparatively little knowledge of world conditions affecting wheat prices. It is also expected that if a considerable proportion of the wheat production in the Pacific Northwest area is secured under contracts of this kind, the manager or selling agent will become an important factor in that market.

At this time it is impossible to judge the ultimate success of pooling as applied to grain. No doubt if there is merit in the plan no better field for demonstrating it is to be found than in the Pacific Northwest, where country warehousing is still the principal function of many farmers' elevators, whereas in the Middle West states the tendency has been away from the practice of storing grain for farmers. In the states of Oregon, Washington, and Idaho considerable grain is still handled in sacks, piled in flat warehouses, from which it is sold by growers to mills and brokers direct by indorsement of warehouse receipts.

Comparisons and Conclusions.

One cannot carry his investigations of coöperative grain marketing far without realizing that what may be an excellent method for some sections and for some conditions will not always work out successfully in other sections or when applied to other conditions. One hears altogether too much of plans and systems and not enough of analysis of existing conditions. The farmers' elevators of the Middle West are endeavoring to coördinate their activities and to extend their operations to terminal marketing, but it is doubtful if there will be adopted either

a Canadian plan or a plan which has been discovered in some other section. The extension of their activities will necessarily be a development along lines that have a special fitness for their own peculiar needs and requirements.

The Canadian system of line-house operation of farmers' elevators would seem to offer greatest advantage in those states where crops are somewhat uncertain, or where the crop year is of short duration, some elevators being closed for certain periods each year. Under such conditions it is difficult to secure the type of manager that is necessary if the local company markets on its own initiative and responsibility. Most managers who are competent to fill an executive position do not care to take a position in a section of the country where short crops may require that they seek other employment during the periods when it is necessary to close the elevator. On the other hand, the type of man who is capable of assuming responsibility and who has the ability to manage a business in all its details will not be satisfied to hold a position where all of the executive and administrative matters are handled from a central office. Of course, there are exceptions.

On the whole, the local agents of the line-house type of farmers' elevators are of exceptionally high grade; but they are necessarily of a different type from the men who are managing the more successful single-unit type of farmers' elevators in Illinois, Iowa, Nebraska, and other Middle West states.

Another point of difference that needs to be considered is that in Canada the city of Winnipeg is the natural gateway through which passes each year a very large proportion of all the marketed grain of western Canada. It is quite natural for terminal marketing activities to center there. In the United States, on the other hand, are several large terminal markets, among which there is a constant shift of the grain movement from several states.

A central control over the farmers' elevators located in western Iowa, for example, might, during a single year, logically be situated in several different markets. While this condition might be overcome to some extent by the establishment of agencies in each of the more important markets, it can readily be seen that conditions in this section of the United States may not yield to the same kind of marketing methods that are found desirable in other sections of the United States and Canada.

The line-house method of operating country elevators has a number of economical advantages over the single-unit type of farmers' elevator which may not be overlooked. For example, it allows standardized construction and machinery. Thus certain repair parts may be kept in stock at a central point, from which they may be shipped quickly where needed. In case of crop failure in restricted areas because of

hail or drought which has not affected other sections, it is possible to close the elevators in the affected area during the emergency. Also, elevators may be closed during the dull periods without the losses which are attendant to the signle-unit elevator under similar conditions. The advantage of centralized accounting and the opportunity for departmentalization and specialization is apparent.

Favoring the local single-unit form of coöperative elevators is a degree of community pride which usually centers around these organizations, quite independent of the services rendered. Local government carries a special appeal to the average American citizen. This must be lessened to some extent, if not entirely lost, where control is vested in a body of directors and a management distantly situated. In many sections there is a prejudice against centralized authority which is not easily overcome.

In coöperative marketing it is more essential that the system be suited to local conditions and practical needs than it is that the system itself shall have been successfully applied in other fields. The local farmers' elevators, typical of the Middle West section of the United States, were established primarily to solve marketing problems of local character. That they have not extended their activities to the terminal markets does not in any way reflect upon their success as marketing institutions. Rather it indicates a conservativeness too often lacking in movements of this kind.

Coöperatives in the Burley Tobacco Industry.[13]

The burley tobacco industry stretches from Illinois to Virginia, but centers in the plains region of Kentucky, in the area between the mountains and the Ohio River, locally known as the "Blue-Grass." The chief money crop of the Blue-Grass is Burley tobacco.[14] In the coöperative association on June 1, 1924, the membership was 103,017.[15] The enterprise, therefore, includes a sizable number of growers and affects the crop which is most important from a financial point of view. According to figures of the association, the membership includes at least 75 per cent of the producers.[16] From these figures it may be concluded that the preponderant majority of the farmers in the district are associated for better conditions in their most significant industry.

The Burley Tobacco Growers' Coöperative Association, as the organization is officially titled, developed as the result of sheer necessity.

[13] Harry A. Barth, *The Journal of Political Economy*, Vol. 33, pp. 455-465.

[14] Kentucky Agricultural Experiment Station, Bulletin No. 229, p. 138.

[15] Figures supplied by the association.

[16] See contract of the association, also based on statements made by the officers of the association.

According to statements current in Kentucky at the present time, and to numerous statements made in the press of the period of organization, the Blue-Grass faced bankruptcy.[17] While it is very difficult to ascertain whether the condition was actually so serious as is pictured, this much is certain: The average price per pound was 40 cents in 1919, and in 1920 it tumbled to 12 cents. The cost to produce the 1919 varied from 15 to 81 cents per pound on the farms where the cost of production was recorded by agents of the Kentucky Agricultural Experiment Station.[18] The average cost per pound in 1919 was 25.8 cents. The average cost per pound in 1920 was 32 cents.[19] Assuming that these figures are representative and that there was no great change in costs from 1919 to 1920, as is, of course, certain, then tobacco which averaged 32 cents to grow sold in 1920 for an average price of 12 cents.[20] Certainly conditions were not prosperous—the press reports are sufficient proof—and the association grew out of this period of depression.

The association is controlled by a board of directors of twenty-five members. Twenty-two are elected from single-member districts and these in turn choose three who are to represent the public and need not be growers. The districts from which the directors are chosen are designed to comprise areas producing substantially the same number of pounds of tobacco. The directors are not, however, chosen by a direct vote of all growers, but first a primary is held in each county. In the county, a democratic principle operates, for each member has one vote. But here the democratic idea begins and ends, for each county chooses one delegate for each million pounds of tobacco produced there. The delegates then meet in the district and select one member as nominee for the directorship. At a general meeting of all the members of the district, the nomination is formally confirmed.

The board of directors was given authority to create an executive committee of five men. This committee now controls the association, subject to the consent of the board.

On entering the association, each member signs an agreement to sell

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[17] See reprint of address made by President James Stone before the convention of the Ohio Bankers Association, June 21, 1923; also the files of the *Lexington Herald* and the *Louisville Courier-Journal*, April 26, 27, May 5, 25, 30, 1921, and for the entire months of January to August of the same year.

[18] See Bulletin No. 229, p. 172.

[19] Bulletin No. 229, p. 190, for 1919. Costs for 1920 supplied in letter dated November 25, 1924, from Mr. W. O. Nichols, of the Kentucky Experiment Station.

[20] The prices per pound noted above are based on the Lexington market reports furnished by the coöperative association. These may be depressed. The Agricultural Yearbook for 1921, p. 622, gives the price of Kentucky tobacco as 15 cents in 1920. This includes the dark tobacco as well as Burley, which sells for a somewhat higher price.

all his tobacco to the association and agrees to be liable in case he should sell it anywhere else. He agrees further to permit the grading of all tobacco and to permit all of each grade to be pooled. Each member is guaranteed the same amount for tobacco of a given grade as other members receive. The association is permitted to borrow on the tobacco in order to make a first payment. It is also permitted to establish warehouses and offices, and to cure or redry plants where needed. But no member is under obligation to produce tobacco. He is only obliged to market it through the association in case he should produce any.

This sketch, which is taken from the contract and the explanatory addenda, gives the broad outline of the plan. It met with the approval of thousands of growers, who signed rapidly.

The methods used to secure signatures have been criticized, on the grounds that the plan was not properly explained to prospects, and that too much was promised. This is given as one reason for the grave discontent which now exists in the membership. It was stated that the price would be maintained well above existing levels; that the elimination of the profits of the middlemen would react to increase the farmer's price greatly; that only by union would the farmers receive their just dues. These arguments were presented to the growers in mass meetings. Crowd psychology—if there is such a thing—at any rate, the emotional behavior of individuals in groups is credited with having secured sufficient signatures to make the agreement effective for the 1921 crop as well as for the five crops beginning in 1922. With fifty-five thousand signatures, asserted by the organization to include three-fourths of the producers, the association embarked on the six years' experiment.[21]

One further point requires treatment before the operations of the organization may be described. Before the association could operate successfully, a place to keep the tobacco was necessary. Throughout the Burley area warehouses had been built by private entrepreneurs. Many of these were growers who operated the warehouses chiefly for their own tobacco. In these warehouses, the tobacco was auctioned off to agents of the large tobacco companies. Here it was also stored until needed by the purchasers. Possession of the warehouses was absolutely essential for success. It is stated by officials[22] that without the warehouses the association would have been crippled, if not prevented from starting at all. This is probably correct, as duplication

[21] Contracts provided for a five-year agreement to sell through the association unless three-fourths of the growers signed by November 15, 1921, in which event the experiment was to begin with the 1921 crop and to run for six years.

[22] In conversations with several at the principal offices in Lexington, Kentucky.

of the present warehouse system would have required much more immediate capital than it did to obtain the use of the one already built.

There was little difficulty encountered. The reason ascribed for this is that the warehouses were owned by growers interested in the success of the new organization. At any rate, the warehouses were secured. The method was quite efficient. First, six subsidiary warehouse corporations were created. These were under cross agreement with the association to receive, grade, redry, and store all tobacco turned over to the organization at the cost of operation. These corporations, in turn, made agreements to purchase the warehouses, somewhere around a hundred in all. For the first six months, they were leased at 8 per cent. At the end of that time, they were purchased. The owners were given the option of having the new corporation take over all indebtedness and of receiving two-thirds of the investment in 8 per cent preferred stock and one-third in 6 per cent bonds; of paying all debts and receiving non-interest-bearing notes; or of paying all debts and receiving one-fourth in cash, and two-thirds of the balance in 6 per cent bonds, and one-third in 8 per cent stock.

In order to take care of the stock, bonds, and notes, the association was authorized to deduct from the payments to the members a suitable sum. The members were to receive common stock to equal the amount deducted from the tobacco payments. The whole amount of stock, bonds, and notes was to be retired by the end of the agreement period, six years hence. At that time, if present progress continues, the warehouses will be owned by the growers, each of whom will have common stock proportionate to the amount of tobacco he has turned in the association. It is a clever plan and is working well. Even though the association should fail, the growers as a body will be warehouse owners from now on.

The association began operation in the fall and winter of 1921-1922, and the success which met the first efforts was great. Just as the promoters predicted, the price of tobacco went upward. Where the 1920 crop brought only 12 cents, that of 1921 averaged 21 cents, a clear gain of 9 cents, for which the association claimed credit. Enthusiasm ran high, as is indicated by the increase in membership. Seventy-seven thousand growers instead of 55,000 shipped their tobacco to the association warehouses in the fall of 1922. Apparently the association had justified its existence. To be specific, in 1921, 55,617 growers delivered 119,914,613 pounds of tobacco, for which, in the year of delivery, they received 21 cents per pound. This last point was tangible evidence that in coöperative marketing was the solution for the tobacco-growers' problems. Had there been someone inclined to cynicism and with the adequate information, he might have pointed out that, although in 1920 the crop had totaled 315,000,000 pounds, in 1921 the crop totaled

over 30 per cent less—220,000,000 pounds, to be exact.[23] This decrease is sufficient to warrant the assumption that, even without organized selling, a substantial rise in price would have occurred in 1921.

It is not fair, however, to say that the association had no influence in the rise in price, or that its efforts were wasted. For one thing, the association permitted all growers to secure an advance loan on their tobacco as soon as it was brought to market. This averaged 8 cents a pound, according to association figures. Prior to the organization days, it had been difficult to borrow on the tobacco crops. By the united efforts of the growers, loans approximating 40 per cent of the value of the crop were made by the banks of the districts. The War Finance Corporation also made loans on warehouse receipts for redried tobacco. These loans permitted the Association to make a payment on the tobacco before any of it was sold, and eased the financial situation. Similar loans have been made on the 1922 and 1923 crops.

One of the difficulties constantly encountered in pre-association days was that of grading. Grading was never on a scientific basis. The grower graded his tobacco and brought it to the auction floor, and there buyers purchased it on the basis of a snap judgment. A variation in grade meant appreciable difference in price. In 1921 the prices of various grades of tobacco ranged from 53 cents for the best to 5 cents for the least usable. There are many gradations in between. One of the first acts of the association was to train ninety-five graders in a school held for that purpose. A uniform system of grades with fifty-two types was created, and the graders were instructed so that they should apply the system in a uniform manner. The result is that a grower received full value for all his tobacco, and the manufacturer knows what to expect when he buys tobacco of a specified type.

Another benefit is the saving through the establishment of redriers. Before tobacco can be stored for any length of time, it has to be cured, or redried, as it is called. Before the organization of the association, the standard price for redrying tobacco was $2 per hundred. The association has not gotten this price reduced to $1.25 per hundred. Figuring from this basis, the association would have saved $1,250,000 in the cost of redrying the 1923 crop alone. But the association had established eleven redriers of its own, and the operation of these plants has shown a saving of approximately $900,000 as compared even with the reduced rate.[24]

Up to the summer of 1924, scraps and sweepings saved have been sold by the association for a total of $300,000. An association report

[23] United States Department of Agriculture, Yearbook, 1922, p. 726.

[24] From a typewritten Association report, June, 1924.

states that by moving buildings, building fire walls, etc., the association has saved hundreds of thousands of dollars in insurance.

The most encouraging feature of the system, however, is probably the low cost of handling the tobacco, and the efficiency with which the organization functions. The net cost of marketing through the pool was 1.2 cents a pound the first year. It is difficult to get figures giving the cost in the pre-association period, but this amount is looked upon as being below that cost. Of course, no profit is taken on operation. The warehouse obligations are being retired in accordance with the schedule at $\frac{1}{3}$ cent a pound.[25]

Though the association fixed the price well above the cost of production the first year, it sold its tobacco. The figures for the years 1922 and 1923 are self-explanatory. The price was maintained at a level above the cost of production, the production increased, and the tobacco did not sell. The decrease in production in 1924 is the natural result of failure to sell the 1922 and 1923 crops.

Further figures in cost of production follow: In 1921, 99.3 per cent of the crop was produced below the association's selling price; in 1922, 93.2 per cent; in 1923, at least 70 per cent.[26]

PRODUCTON FIGURES*

Year	*Total Pounds Produced*	*Aver. Cost of Prod. Cents*	*Pounds Delivered to Assn.*	*Amount Still Unused*	*Aver. Price Fixed by Assn. Cents*
1920	315,000,000	32.	.....	.....	21
1921	220,000,000	15.8	119,914,613	.....	21
1922	275,601,000	15.7	197,009,763	16,611,345	21
1923	326,116,000	17.	244,994,291	158,608,380	21
1924	240,000,000	Unavailable (near 17c)	160,000,000 (estimated)	.....	21

* This table is taken from a variety of sources. The 1920 and 1921 production figures are from the Department of Agriculture Yearbook, 1922, p. 726. The production figures for 1922 and 1923 are from the Department of Commerce Bulletin No. 155, "Stocks of Leaf Tobacco, 1923," 1924, p. 26. The 1924 production estimate is from the Agricultural Experiment Station of the University of Kentucky, letter of Mr. W. O. Nichols, head of department, dated November 25, 1924. The cost of production per pound is from the same source. The figures on the amount turned in to the Association, on the amounts still unsold, and on the average price are from the association's reports and statements.

The experience of the Burley Coöperation Association so far shows: (1) that an attempt to keep the price of the product above the cost of production while disregarding the necessity for curtailing supply or increasing the demand will fail; (2) that there are certain economies in joint sellings; (3) that it is possible to organize farmers into selling agreements.

It does not prove that an association which aimed at curtailment of supply would either succeed or fail. It does not prove that an

[25] From a typewritten Association report, June, 1924.

[26] Supplies in Mr. Nichols' letter noted above.

association which merely aimed at securing a price covering the cost of production or which merely aimed at stabilizing prices by holding over surpluses from good crop years to bad would either succeed or fail. This has really not been tried. It does not prove that actual economies in operation would be either secured for the farmers, or passed on to the manufacturer or the producer. The question is still open.

The first point seems indisputable: a policy leading to a rise in price is hazardous. The greater the success of the effort, the greater the failure. Success breeds failure. Success is measured by the extent to which prices are raised. But with a rise in price comes increased production, which necessarily results in a fall in price or failure to sell the bulk of the crop. Literally, the officers of an association striving for this end are like the medieval monk pursued by a squadron of devils. The faster they run, the greater is the necessity for speed.

Coöperative Marketing of Eggs and Poultry.[27]

Coincident with the widespread interest in coöperative marketing of other farm products in the last few years, there has developed a marked activity in the coöperative marketing of poultry and eggs, particularly the latter. Associations of producers have been formed in many sections of the United States for the purpose of concentrating, grading, and marketing the eggs of their members. The underlying reason for effort of this kind is dissatisfaction on the part of producers with the existing marketing agencies, either because prices are considered unsatisfactory or because no adequate recognition is given to good quality and superior market value. On the Pacific coast production greater than the market requirements of that section, coupled with a distance from eastern markets too great to allow individual shipments by express, has been a fatcor of great importance in bringing about coöperative shipments in car lots by refrigerated freight in order to provide an outlet for the surplus production.

The earliest efforts at coöperative marketing of eggs were the formation of local egg circles. A number of producers in a locality band together in such a circle either informally or under specific contract, pool their eggs, and locate a suitable market to which the eggs are shipped. A member of the circle acts as the collecting, grading, and packing agent and receives and disburses to the members the payments for eggs. The member so acting either performs this service gratuitously or receives a specified sum for each dozen eggs handled. Many of these circles require the members to stamp each egg or carton of eggs marketed with the number or name of the circle and with a

[27] Jull, M. A., et al., "The Poultry Industry" Yearbook, U. S. Department of Agriculture, 1924, p. 444.

number representing the individual member. In this way responsibility for any eggs furnished which are not of proper quality and which might therefore be the cause of complaint can be traced to the member furnishing the eggs and steps taken to prevent a recurrence. Many of these egg circles have succeeded in securing prices which are materially better than the local prices otherwise obtainable by members.

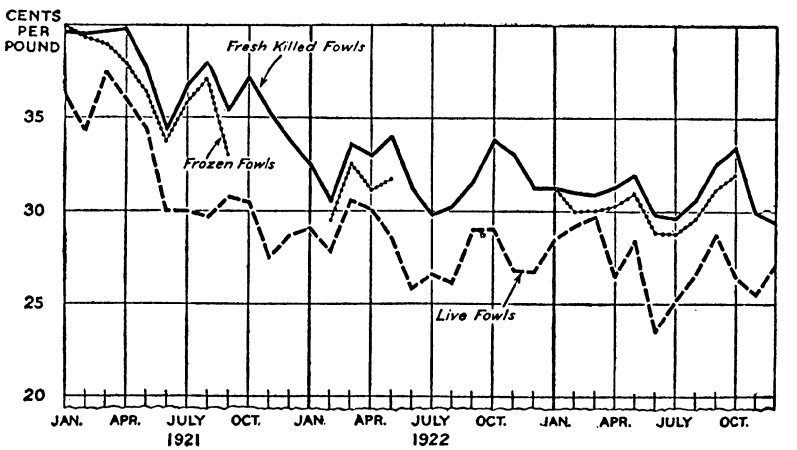
Another form of coöperative effort in egg marketing is the utilization of the coöperative creamery as the collection and marketing agency. Eggs are collected from the creamery patrons along the established cream routes or are delivered to the creamery when milk or cream is brought in. Because the milk or cream must be delivered at frequent and regular intervals and delivery of the eggs can be made at the same time without extra effort, the creamery is in a good position to receive the eggs while they are fresh and of excellent quality. The creamery is also often in position to provide the necessary collection, grading, and holding facilities at a small overhead cost, and, since eggs and butter are usually closely associated throughout the process of market distribution, is also often in position to provide outlets with a minimum of effort.

Coöperative marketing through the egg circle or through the creamery is usually local in character. Coöperative effort on a scale covering a larger producing territory is undertaken through the organization of the egg producers into an association formed specifically for that purpose. Some of these associations have failed, but others have succeeded, and the movement continues to grow rapidly and the chances of success improve as conditions desirable for the formation of such associations are better understood and as the form of organization and method of operation becomes more nearly perfected.

The chances for success for a coöperative egg-marketing association depend upon a number of conditions. Chief among these may be mentioned the following: A plainly evident need for coöperative marketing; a sufficient number of coöperators and a sufficient volume of eggs to carry the necessary overhead without its being burdensome and to enable advantageous marketing contracts of outlets to be arranged; production sufficiently concentrated to allow economical handling; the coöperative spirit on the part of the producers; a sufficient spread between local prices and the prices available in the terminal markets to make the effort worth while; suitable market outlets; a definite and practical plan of marketing; capable management and a suitable form or organization. The attempt should not be made to organize such an association until a thorough survey has been made of the situation and a definite plan of action outlined and agreed upon.

One of the most important features of successful coöperative egg-marketing associations is the marketing contract. By the terms of this

the association agrees to market to the best possible advantage all eggs delivered to it. The producer agrees to deliver all his eggs, except such as he uses at home or for hatching purposes, to the association for a term of years. He may be given the right by the association to market his eggs or a part of them elsewhere, but must then pay to the association the same amount per dozen as is deducted by the association when making the sale for the member. Contracts of this character have been declared by the courts to be legal and binding upon the association and the individual members. Such a contract with each member is very necessary in order that the association may hold its members and may know within reasonable limits the volume of eggs at its disposal throughout the year with which to make sales contracts and fill orders.



Wholesale Prices of Live, Fresh-Killed, and Frozen Fowl, New York Markets, 1921-1923.

The wholesale price of frozen fowl follows that of fresh-killed fowl consistently, but is usually slightly lower. The wholesale price of live fowl is usually considerably below that of fresh killed fowl, but does not follow it so consistently. The price of live fowl tends to increase in the spring and fall, at the time of the Jewish holidays.

The eggs received at the grading station of the association are graded, the shipper being given credit on the books of the association for the number of dozens of eggs of each grade delivered. The eggs of the same grade from the different producers are then packed together and forwarded to market, where they are disposed of through the regular channels which the association has established. All eggs of like quality received during a certain length of time, usually a week, are pooled together, and payment is made on the basis of the average price received

for each grade in the pool minus the regular deduction for operation. A conservative partial payment or advance may be made on receipt of the eggs at the grading station, the balance realized being returned as a deferred payment upon final settlement of each pool. At the end of the year if a surplus has accumulated as a result of the regular deductions which is in excess of the amount needed for use in the association's business, this excess is returned to the members in proportion to the quantity of eggs marketed for each by the association.

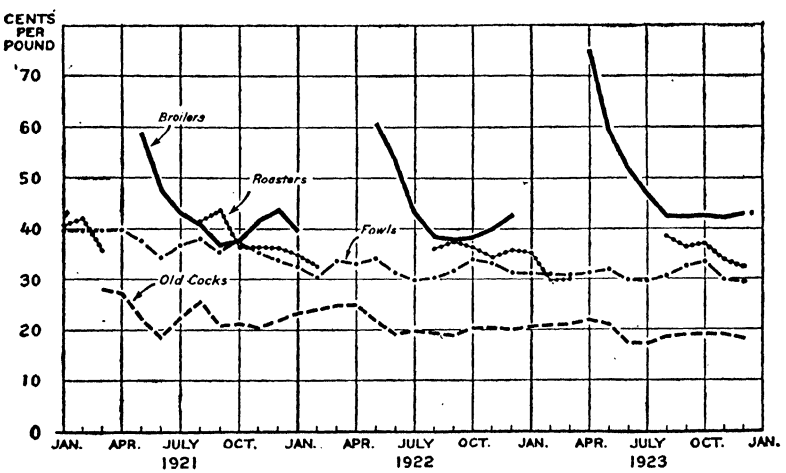
The services performed by a coöperative egg-marketing association for its members are identical, so far as they go, with the services performed by the private agency or succession of such agencies concerned with the movement of eggs through the ordinary channels of trade from the producer to the consumer. To be successful, therefore, it is essential that the association perform these services just as efficiently or more efficiently than these private agencies. Ordinarily the association confines its activities to concentrating, grading, packing, and shipping the eggs to the final market, utilizing the already existing distribution agencies after the eggs reach that point. In some cases, however, associations maintain salesrooms in one or more of the terminal markets and assume the functions of the wholesale dealer and to some extent that of the jobber. Not much has been done as yet in the way of assuming the functions of the retailers, but this is a possible development of the future. Associations sometimes process and place in cold storage or place in storage without processing a part of the surplus production of the spring season. This is done either to strengthen their market position under unusually heavy receipts or to help in supplying their regular outlets during the period of scarcity in the fall and winter. Sometimes the holding of eggs in cold storage is undertaken by an association as a speculation. This is generally inadvisable and may cause a serious setback in the affairs of the association, especially during its early existence.

The most common causes of failure of coöperative egg-marketing associations have been unfavorable conditions of production, inefficient management, lack of a definite and practical plan of marketing, lack of the coöperative spirit on the part of the members, and competition on the part of dealers which the association is unable to meet successfully.

Among the coöperative egg-marketing associations which are at present operating, perhaps the best known are the various Pacific coast associations. These operate in the territory around San Francisco, Los Angeles, Portland, Seattle, and other points. To handle their business in the East these coöperatives are federated under the name "Pacific Egg Producers" and maintain an office and salesroom in New York City, where their eggs are sold in the usual wholesale manner and also by daily auction. In the East the best-known coöperative egg-

marketing association is the Atlantic Coast Poultry Producers' Association, which has members in New Jersey, New York, Pennsylvania, Delaware, Maryland, and some of the other near-by states. This association also maintains its headquarters and salesroom in New York City.

The coöperative marketing of poultry is much less common than with eggs. Some of the associations operating mainly in eggs also handle poultry for their members, but the quantity is usually comparatively small. Much of the poultry marketed coöperatively is shipped alive, few of the coöperatives being as yet equipped to dress poultry and handle it properly in that condition. In certain of the Southern States coöperative selling of live poultry in car lots has been undertaken without the formation of an association. In these cases arrangements are made to have a live-poultry car at a certain point or several at successive points on previously advertised dates. Bids are secured from



Wholesale Prices of Dressed Fowls, Roasters, Broilers, and Old Cocks, New York, 1921-1923.

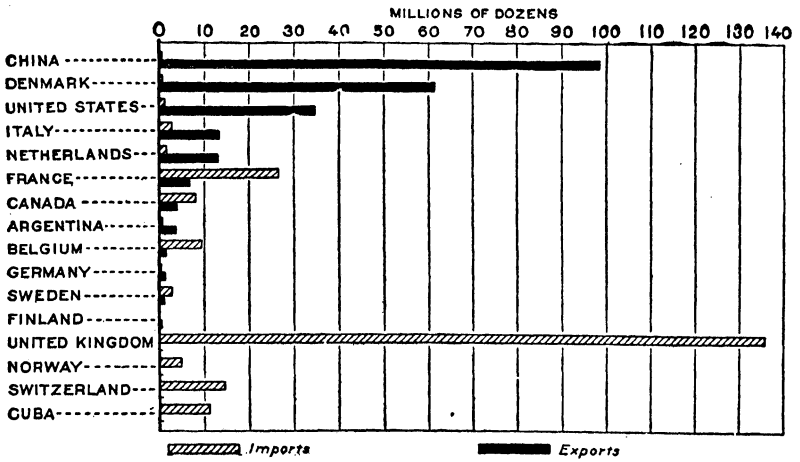
The wholesale price of dressed fowl remains fairly uniform throughout the year. The price of broilers is the highest of any class and varies widely, being highest in the spring when these chickens first become available, and declining rapidly as greater supplies reach the market. The prices of this class increase again to a limited extent toward the end of the year when supplies become scarce. The wholesale price of roasters is lower than that of broilers. The first roasters to appear usually bring the best prices, which are well above the prices of dressed fowl at that time. From this point they gradually decline below the price of fowl, reaching their lowest prices at the end of their season, about April, when many become "staggy" or hard meated. Old cocks are the lowest grade of dressed poultry. The wholesale price fluctuation of this class is relatively slight and ranges well below that of other classes.

poultry buyers several days in advance for the poultry to be delivered on that date. The successful bidder is notified to be on hand, and the poultry is brought in by the farmers, graded, and weighed up by the county agent or some other designated person, paid for, and turned over to the buyer. The necessity of securing bids some time in advance of the actual delivery of the poultry undoubtedly often results in somewhat lower prices than could be obtained if the carload were shipped for sale to a dealer in a large market. Such a procedure, however, involves the sending of an experienced caretaker and feeder, often not available, with the car, and it also means that the owners of the poultry must wait a week or two for their money. As a result the present method, which has usually resulted in advances over the local prices, is more popular.

Prices.—Prices received by producers for poultry and eggs vary widely in the different sections of the country, and may at times vary decidedly within comparatively narrow areas. The prices received for poultry products in sections close to the large consuming markets, such as New Jersey, are consistently higher than prices in more remote sections, such as Kansas. The variation in price in a section is, as a rule, greater with eggs than with poultry, owing to the less uniform quality of the former. Prices paid to producers are based in the final analysis upon the wholesale price in the larger consuming markets, but are affected by a multitude of other factors. Aside from seasonal fluctuations in price, these factors may be mentioned as affecting producers' prices: Distance from market, quality of the product, reputation of a section with respect to the quality of its poultry product, outlets available, competition of buyers, available supplies, and special market demands.

Wholesale prices of poultry products are affected by the supply of the fresh product, by the consumptive and speculative demand, by the quantity in storage, by temporary shortages or unusually heavy receipts, and by reports or generally held opinions as to probable production. Wholesale price quotations as published for the larger markets represent the judgment of trained market reporters in summing up the actual market value of poultry products of the different grades after a careful study of trade transactions.

Retail prices, of course, bear a fairly close relationship to wholesale prices, although the actual advances charged by retailers vary with the retailer, the grade of the product, and the level of wholesale prices at different seasons. Minor fluctuations in the wholesale price may not always be reflected in corresponding changes in the retail price. According to the report of the Joint Congressional Commission of Agricultural Inquiry made in 1921, the retailer's margin on a dozen strictly fresh eggs in January and July from the years 1916 to 1921,



International Trade in Eggs in the Shell for the Year 1922.

China is the leading exporter of eggs in the shell, but Denmark has also built up a remarkable export trade. The United States exports a considerable number of eggs, but her imports are negligible. The United Kingdom imports more eggs than all the other countries combined.

inclusive, varied from 5.5 to 8.5 cents and constituted from 11.3 to 18.4 per cent of the retailer's selling price. Although the absolute margin was greater when the retailer's selling price was at the higher levels, the percentage which the retailer's margin constituted of the total selling price was higher in nearly every year when this price was at the lower levels.

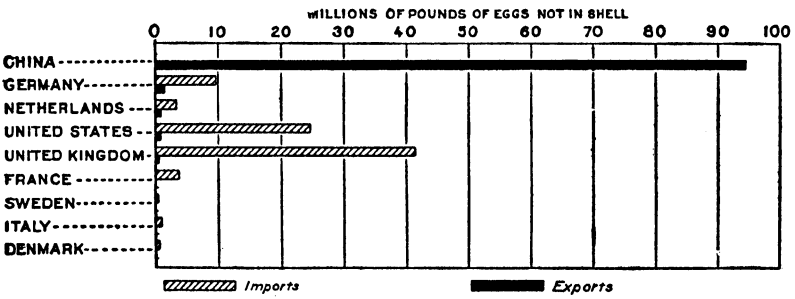
In the case of eggs the spread which exists between the price received by the producer and the wholesale price in the terminal market represents the losses in spoiled and low-grade eggs, the cost of numerous marketing services, cost of packages, transportation, etc., and profits. In attempting to estimate the different costs involved in marketing, it must be remembered that any figures arrived at here, are, at best, only approximations for average conditions, since the different factors involved vary considerably in different localities, at different seasons, and under different conditions.

For the sake of illustration, assume that a case of eggs has been purchased, case count, by shipper from a producer at a point in Missouri in July and is to be shipped by refrigerated freight to New York City. Let us say that the price paid was 17 cents per dozen, or $5.10 per case. Under average conditions at this time of year, this case will contain some eggs which, by reason of being held by the producer too long or under poor conditions, by being gathered from stolen nests, or by reason of fertility, are unfit for food and must be discarded.

Assuming that this amounts to 1 dozen eggs in the case, the loss on these eggs, which must be covered in the selling price if a profit is to be made, would be 17 cents.

The actual labor cost of handling, candling, and grading a case of eggs would probably run from 15 to 30 cents, depending upon the uniformity or lack of it in the quality of the eggs, the care with which the grading is done, and the expertness and wages of the candler.

In the process of grading some of the eggs would be found to be of low grade, due to small size, dirtiness, or to deterioration in quality, and therefore of lower market value or usable only as breaking stock. Assume this proportion to be 25 per cent of 7½ dozen, a conservative estimate for the season of the year, and that the difference in grade will result in a lowered market value of 2½ cents per dozen, the loss from this source would amount to 18¾ cents per case.



International Trade in Dried and Frozen Eggs for the Year 1922.

Eggs are produced at low cost in China and sold to the United Kingdom, United States, and Germany as frozen and dried eggs. These eggs are used by bakers, and very little of this product is sold directly to the consumers.

As a result of handling by the producer and during grading and packing, some of the eggs are cracked. Assuming that one-half dozen eggs are injured in this manner and that their value is cut 2½ cents per dozen, the loss from this source would be 1¼ cents.

The cost of packing the eggs in new cases and with new fillers and other packing material will be about 45 cents per case. The freight rate in car lots from Missouri to New York, including icing charges, would be about 90 cents to $1 per case.

On arrival at the market usually there would be a drayage charge amounting to about 5 cents per case. Finally, there would be a commission charge made by the receiver for selling the eggs, which at that season would probably amount to from 35 to 50 cents per case.

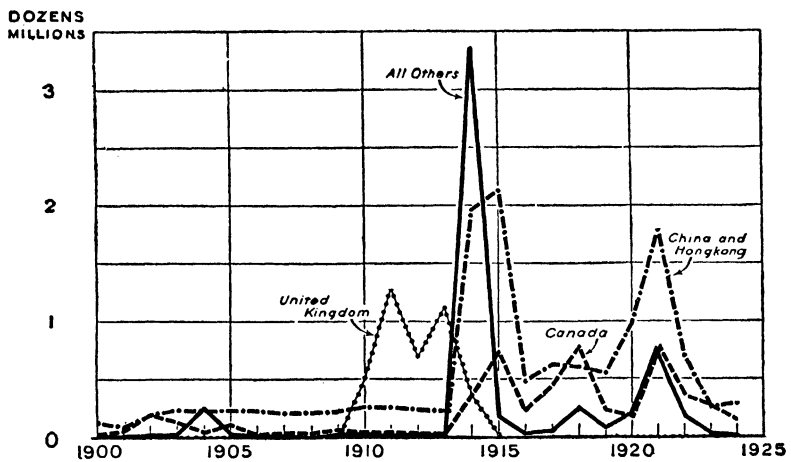
The various ordinary costs which would be incurred from the time the eggs were bought from the producer until they were sold for the

shipper's account by the wholesale receiver in the market would, therefore, be approximately as follows per case:

Loss in bad eggs	cents	17
Cost of candling and grading	do.	15–30
Loss on low-grade eggs	do.	18¾
Loss on cracked eggs	do.	1¼
Cost of new case and packing	do.	45
Freight and icing charges	do.	90–100
Drayage	do.	5
Wholesale's commission	do.	35–50

Total: $2.27 to $2.67 per case, or 7½ to 9 cents per dozen.

If the eggs were placed in cold storage and held for a period of seven or eight months before they were sold, there would be an additional charge for storage space, insurance, interest on advances, possible rehandling, losses, and additional cartage amounting to from 3 to 5 cents per dozen.



Imports of Eggs in the Shell Into the United States by Countries, 1900-1924.

The imports of eggs in the shell into the United States have been of very minor importance except during the war period of 1913 to 1916. China has furnished most of these eggs. The fiscal year ended June 30 is used in this figure.

In this estimate of costs involved in marketing no allowance has been made for the overhead costs or for the profit of the shipper, both of which must be covered by the spread in price if the shipper is to continue in business. Other miscellaneous costs may occur, but ordinarily these would be small. Where eggs are marketed through the agency of the local egg buyer, the country storekeeper, or the huckster,

as a great majority of them are, the cost of the service which they render usually will range from ½ to 1½ cents per dozen.

Summaries of similar costs involved in the marketing of live and dressed poultry in car lots from Missouri points to New York City would be approximately as follows where the poultry was purchased directly from the producer by the shipper:

LIVE POULTRY

		Per Pound
Cost of receiving, handling, feeding, and loading at shipping point	cents	1 to 1½
Freight, including live-car rental	do.	2 to 2¼
Receiver's commission	do.	1 to 2
Total	do.	4 to 5¾

DRESSED POULTRY

Cost of handling poultry through the feeding station and dressing plant from the time it is received alive until it is loaded into the refrigerator car, ready to ship	cents	4 to 8
(This includes cost of handling, feeding [allowance being made for gains secured], killing and dressing [including dressing shrink], grading, packing [including cost of packages and supplies] and chilling.)		
Freight, including icing charges	do.	1¾ to 2
Receiver's commission	do.	1 to 1½
Total	do.	6¾ to 11½

Most poultry is bought by hucksters or local buyers and delivered by them to the shipper. The cost of this service is from 1 to 2 cents per pound additional. Certain incidental costs, such as cartage, may also be incurred. In the estimate given no allowance has been made for overhead and profit. The spread between the price paid the producer and the wholesale price received in the terminal market must be sufficient to absorb the costs given above and to leave a margin over overhead costs if a profit is to be realized.

Chapter XXII

TRADE ASSOCIATIONS

The Effect of Open-price Association Activities on Competition and Prices.[1]

For the benefit of those who may have no acquaintance with open-price associations and their functions, it may be observed that they are in the nature of trade associations which place special emphasis on putting at the disposal of members business information, chiefly of a statistical character, calculated to give the membership an intimate acquaintance with competitive conditions as they exist among themselves and in the industry as a whole. The business facts most commonly exchanged are those relating to prices actually quoted or charged, terms of payment, manufacturing and selling costs, purchases, stocks on hand, volume of production, orders, shipments, inquiries, bids, contracts, cancellations, advertising, and credits. In most cases secretaries elected by the membership do the work of assembling, compiling, and disseminating this information. Meetings are held at frequent intervals to give members an opportunity to discuss all matters of interest bearing on the problems of their industry. Particular attention is likely to be given in these meetings to such factors as affect the supply and demand situation, chief among these being the prices actually quoted or charged, amount of stocks on hand, volume of production and shipments, trend of orders, and the like. In properly conducted open-price organizations, each member acts independently of every other member in the determination of his price and production policy. Of course he is influenced by the written reports that he receives as well as by the discussions that he hears in meetings; but these reports are carefully limited to statements of fact throwing light on actual conditions existing in the industry and no attempt is made either directly or indirectly to get members to react to this information in such a way that uniform results in the matter of production and price policy will be brought about in the industry. In other words, members are left entirely free to place any interpretation they please upon information received.

In his book entitled "New Competition," Mr. Eddy, the founder of the open-price plan, advances the thesis that truly competitive conditions can exist only when competitors are in possession of all facts

[1] Nelson, M. N., *American Economic Review*, Vol. 13, pp. 258-275.

having a bearing on the competitive situation, including such matters, for instance, as accurate knowledge of the volume and character of production, stocks, orders, the nature and trend of costs, prices, and the like. His contention is that the possession of adequate knowledge of all facts bearing upon the competitive situation is the very essence of competition. Competition, conducted as it is to-day in most industries by relatively ignorant competitors, is, according to Mr. Eddy, properly speaking, not competition at all. He adds: "Ignorance among competitors is largely responsible for the animosity, fierceness, brutality, ruthlessness, destructiveness, and wastefulness characteristic of industrial enterprise as it is conducted to-day."[2]

Mr. Eddy does not make clear why he thinks that knowledge is the very essence of competition. The statement is undoubtedly very significant when proper interpretation is put upon it. Its importance (as the writer sees it) lies in the fact that a knowledge on the part of sellers and buyers of their own interest, implying, as it does, a knowledge of all conditions that have bearing on the supply of, and the demand for, a given commodity, together with the ability and willingness to act intelligently thereon, will result, according to the law of supply and demand, in similar exchanges taking place on similar terms; or to state it in terms of price, it will result in the naming of an equilibrium price "for the same unit of the same quality of the same commodity in the same market.[3] This stability of market conditions which finds expression in a single price will ensue only under the conditions named. It is attainable only in theory. But such stability can presumably be approximated by putting forth systematic efforts looking toward the eradication of sources of friction. Undoubtedly one of the most serious sources of friction is due to sellers and buyers lacking adequate knowledge—that is, knowledge so systematized as to make clear just what business policies the competitive situation demands.

The nearest approximation in actual life to a stability of conditions such as is attainable theoretically seems to have been achieved in the case of those commodities which have their market made on the exchanges. The reason undoubtedly is that the machinery of these exchanges, be they stock, bond, wheat, coffee, cotton, or any other kind of exchanges, puts at the disposal of buyers and sellers an unusual amount of systematized information having a bearing on competitive conditions. The higgling between buyers and sellers, based as it is on a general knowledge of substantially all facts that have a bearing on competitive conditions, results in prices being named which vary very little from each other for given units of a given commodity of a

[2] A. J. Eddy, "New Competition," p. 92.

[3] Palgrave, "Competition," "Dictionary of Political Economy."

given quality on a given exchange at a given moment of time. One only has to note the general confusion among buyers and sellers, manifesting itself in wide "spreads" of prices, that occurs in consequence of a temporary cessation of this exchange machinery, to know the importance of putting buyers and sellers in a position where they can know substantially all the facts of competition as well as act thereon.[4] The open-price plan is designed to accomplish for manufacturers what the exchanges achieve for their members.

It is a matter of common observation that there is considerable variation in the price prevailing for commodities in those cases where their market is not made on an organized exchange. This seems to be particularly true of manufactured commodities. It is a fair assumption that the "spread" in prices apparent in many if not most lines of manufactured commodities is to a considerable degree the result of buyers and sellers possessing an inadequate knowledge of market conditions. Unquestionably there are many conditions which tend to make similar commodities sell at different prices, even though buyers and sellers are thoroughly acquainted with all essential facts pertaining to market conditions. This is undeniable, but doubtless the "spread" in prices will be less (whereby a closer approximation to ideal conditions of competition is achieved) when buyers and sellers are well informed than when they are not.

The open-price movement has developed in response to the desire of business men to provide themselves with machinery for ascertaining the character of the forces of competition active in their respective fields of industry. Mr. Eddy asserts that his open-price plan will tend to bring about a condition of true competition in the industries adopting it.[5] What are the merits of this contention? Theoretically, at least, it would seem essential that any system devised for the purpose of securing more intelligence in competition should be sufficiently comprehensive to take in buyers as well as sellers. The ideal kind of competition contemplates a situation wherein all parties are intelligent enough respecting the character of competitive forces to be able to act in their own interests. However, if one group of bargainers is in possession of the salient facts of competition, but the other is not, it is safe to assume that the one will have an undue advantage over the other. In other words, true competition will not prevail. Both the plan of organization of open-price associations and Mr. Eddy's own statements point to the conclusion that open-price work is intended to

[4] At the outset of the Great War, when the New York Stock Exchange was temporarily closed, the very best of securities fluctuated violently in price. As soon as the Stock Exchange opened, these violent fluctuations disappeared, and "spreads" in prices became less pronounced.

[5] "New Competition," p. 82.

benefit the seller (particularly the manufacturer) primarily. The plan itself is devised entirely from the point of view of the seller. In fact one of the principal inducements for trying out the plan, as Mr. Eddy states, is to prevent buyers from misrepresenting prices that are being currently quoted.[6] He also suggests that the plan will put buyer and seller more nearly "on a footing of equality".[7] The buyer has no part to play in the organization. Buyers, to be sure, are to be permitted to attend meetings, but nothing is said about permitting them to have a part in the reporting system.

It is plain that the machinery of the open-price plan does not put all the facts of competition before both buyer and seller in the impartial way in which it is done, for example, on the various commodity exchanges. So long as all parties concerned are not in possession of all facts relating to the competitive market, exchanges cannot be made on the terms contemplated by the law of supply and demand.

Influences at work tending to minimize the effect of open-price work on prices can be traced to the following sources: (1) defects in the operation of the reporting system; (2) failure of members to utilize the information conveyed to them through the reporting system; (3) the limited sphere of control exercised by open-price associations.

Defects in the operation of the reporting system manifest themselves chiefly in the following ways: (1) by incomplete standardization of the articles about which price information is exchanged, making price comparisons more or less worthless; (2) by the unreliable character of information collected and disseminated. Obviously, price comparisons are to a considerable degree futile if articles about which price information is exchanged are not comparable in every respect. Differences in size, shape, quality, workmanship, and the like are bound to express themselves in differences in price. Where these differences persist, there is lacking the common basis for comparison that is needed if interchange of information is to have any effect on the course of prices. Standardization sufficiently adequate to make prices comparable is difficult of achievement.

Conversation with open-price association officials and members reveals that interchange of information is frequently seriously impaired, because members turn in inaccurate or misleading reports, or because the compiled reports issued from the central office reach the membership too late to be of much use as a guide to the trend of market conditions. If for any of these reasons members become distrustful of the reliability of the sources of information which they receive, they

[6] *Ibid.*, p. 145.
[7] *Ibid.*

are likely to act independently of that information and in consequence prices are influenced less than would otherwise be the case.

Failure of members to utilize the information conveyed to them through the operation of the open-price system may be due either to a deliberate disregard of such information, to inability to interpret it, or to inability to act upon it even though understood.

There is reason to believe that because of the serious obstacles operating to prevent the spread of open-price activity, particularly in the larger industries where competitors are likely to be numerous, open-price associations do not find themselves in positions of control in their respective industries. The lumber industry, perhaps, offers the most conspicuous example of the attempt to secure coöperation among a large body of competitors under an open-price plan. Even in the most successful association of the many in the lumber industry doing open-price work, the American Hardwood Manufacturers' Association, it was found well-nigh impossible to secure sufficient coöperation among competitors to make the plan reasonably successful. Early in the year 1919, after an existence of about two years as a consideration of two associations that had existed for several years previous, the membership had nearly reached the four hundred mark. This membership controlled but 28 per cent of the total hardwood production of the industry.[8] Distrustful and suspicious of the motives of competitors as many of them are, they are not easily induced to take membership in associations of this character. The expense of membership may deter some from joining. Others may be deterred by a fear of arousing the hostility of customers who may view their open-price activities with suspicion. Still others demur, because they fear government prosecution, or because they believe the open-price system to be an unlawful price-fixing scheme.

If the sphere of control is limited by inadequate membership, the influence exerted on price movements would seem to be of little effect. In addition to the power exerted over prices by those who are not association members, there is also the presence of indirect and potential competition to contend with. By reason of the danger of competition from substitutes and new capital, prices are likely to be confined to narrower limits of variation than would otherwise be the case.

If the sphere of control is insufficient to permit the educating influence of the association to be felt by competitors in whom are represented a substantial proportion of the total productive capacity of the industry, it appears more than probable that the competitors outside the sphere

[8] U. S. v. American Column and Lumber Co., Argument of L. S. Boyle before the Supreme Court, p. 6.

of this influence will be as instrumental in determining the price situation as association members—or even more so, perhaps.

It may be assumed that the end and aim of all open-price associations is to achieve control over as large a percentage of the industry in which interest is centered as conditions will permit, if for no other reason than that adequate forecasting of business conditions hinges on the possibility of accumulating data from a sufficient number of competitors to be representative of the industry as a whole. If this is the logical end of the open-price movement, what may be said respecting the proper destiny of open-price work? One consideration seems paramount: irrespective of whether it is or is not found feasible to permit associations of business men to engage in open-price work, the work itself must not be abandoned. The information side of business is rapidly becoming an exact science. The trend of the times is in the direction of greater insistence upon the accumulation of precise and accurate business information of a statistical character. A mere statement that business is good or business is dull will not for long be accepted as a sufficient criterion of the trend of business conditions. Manufacturers as a class will not be long in insisting on having at their finger tips actual figures for their industry, showing, for instance, the increase or decrease in production from a known standard; the increase or decrease in unfilled orders, and the increase or decrease in raw materials and finished product on hand—all this in order that they may have an index to the volume of trade. Among other things manufacturers are coming to learn that in order to avoid to the greatest practicable extent the periodic disturbances to production that come from unrestrained overexpansion, now recognized to be largely due to a general lack of broad insight into business conditions, they must possess themselves of information of this statistical character.

It behooves government officials to come to a full realization of the fact that it is a mistaken public policy, and is also utterly futile, for them to attempt the task of forcing business men to compete in ignorance and secrecy. Our hope for improving competitive conditions lies, not in forcing business men to conduct their businesses like moles, but in giving them all the enlightenment possible as to the factors that influence the competitive situation. The open-price movement has no doubt sprung into existence in response to the growing desire of business men to govern their business operations intelligently in the light of existing business conditions. They have tried to do for themselves what the government does in a small way for the farmers. At great expense to itself, the government issues crop reports to the farmers for the express purpose of enabling them to market their products more intelligently. Since it is clear that an approach to more wholesome competitive conditions must come through the wider dissemi-

nation of more exact knowledge of the factors influencing business conditions, it seems ill advised to force associations whose efforts are dedicated to these purposes to cease their activity on the ground that prices happen to be increased thereby[9] unless the government is prepared to assume the responsibility for seeing that open-price work of equally efficient character is carried on by some less objectionable agency, either private or public. To put a ban upon open-price activities without offering something in their stead would tend to discourage a valuable incentive directed toward the achievement of greater efficiency in bargaining. The greater the development of efficiency in bargaining, the nearer the approach of actual competitive conditions to ideal competitive conditions.

If future observation and experience point to the conclusion that members of open-price associations are securing too liberal returns on their investment in business education, at the expense of the ignorance of buyers, the proper solution would seem to lie, not necessarily in prohibting them from engaging in open-price activity, but in widening the sphere of open-price influence so that not only members of open-price associations may receive the benefit of it, but also all others who have a direct interest in the competitive situation. With all bargainers equally well equipped with scientific business information, no group of men associated for the purpose of disseminating information of this character among its membership would be in a position of dominance in any industry, for they no longer would possess a monopoly of such information. If the necessary machinery could be constructed for putting both buyers and sellers in every industry in possession of all information necessary to make them intelligent bargainers, one of the many most serious causes of friction that now prevent actual competitive conditions from approaching ideal competitive conditions would tend to be eliminated. Whether the function of collecting, compiling, and disseminating business statistics should be left in the hands of associations of business men in each of the industries, without, however, confining membership to one bargaining group as is now the case in the manufacturing field, but extending it to include the group of buyers, or whether this function should be turned over to the government to administer, is a question that will not be discussed here. The perplexing and complex character of the issues here involved are such as to call for independent treatment.

[9] This conclusion is based on the assumption that there is no violation of the principles of practice as laid down in Mr. Eddy's open-price plan (the original open-price plan). This countenances none other than an independent use, on the part of each member, of the business information imparted to him through the channels of the association.

Concerted Action among Manufacturers of Farm Machinery.[10]

Practically all important manufacturers of farm implements are members of the National Implement and Vehicle Association, which was formed in 1911 by the union of several existing farm-implement associations. The present association has thirteen departments covering the more important lines of farm implements.

Under cover of bringing about uniform cost accounting, uniform terms of sale, and standardization of product, the manufacturers who are members of these associations repeatedly advanced prices of farm implements by concerted action during the period 1916 to 1918, inclusive.

The associations received assistance in maintaining prices after the armistice from the implement trade journals and from the Agricultural Publishers' Association, an organization of farm papers.

Methods of advancing prices.—The methods used by officers and members of the manufacturers' associations in bringing about concerted price advances and in maintaining prices were as follows:

Price comparison meetings at which advances in prices recently made or intended to be made were discussed.

Cost comparison meetings at which inflated costs were compared with the tacit understanding that prices would be advanced the same percentage shown by the inflated costs.

Terms meetings at which agreements were made respecting uniform terms, thus making the prices of the different members more comparable.

Standardization meetings at which agreements were made respecting the standardization of implements and the equipment to be furnished, thus making the costs and prices of the different members more comparable.

Frequent exchange of price lists by mail, so that members could check up each other's prices, terms, and equipment furnished.

Frequent exchange by letters of what advances had been made recently and asking for other members recent price advances.

Exchange of letters stating what advances were contemplated in the future and when effective and asking for similar data.

Letters urging low-price members to increase their prices.

Price tabulation showing in parallel columns the prices of various members, a copy being sent to each member furnishing information for the tabulation.

Complaints of price-cutting, the complaints frequently showing that

[10] Report of the Federal Trade Commission on the Causes of High Prices of Farm Implements, pp. 31, 584-587, 633-636.

the price-cutting member was held as not keeping faith in maintaining the prices agreed upon.

When a branch house or a salesman sold under prices shown in the company's price list, other members frequently wrote the company's main office advising them of the facts.

By these methods, beginning with meetings held in February, 1916, and continuing through 1918, the manufacturers often arrived at uniform percentages of increase to be applied first to one and then to another line of implements.

That the officers and members of the manufacturers' associations realized that they were engaged in illegal activities is indicated by the attempted secrecy they sought to throw over all price activities.

Concerted action among dealers.—The farm implement dealers of the United States are united into about twenty-five state and sectional associations, most of which in turn are united under two federations, the National Federation of Implement and Vehicle Dealers' Associations with offices at Abilene, Kan., and the Eastern Federation of Farm Machinery Dealers, with offices at Philadelphia, Pa. There are also a large number of local clubs which have been organized by the larger associations.

The federations and their constituent associations have attempted to increase the profits of members and protect them from competition in many ways, the following being the more important:

They have fostered local price agreements between dealers of the same town.

They have induced manufacturers not to sell to dealers who do not maintain prices locally agreed upon.

They have induced manufacturers not to sell to concerns considered as irregular by the dealers, especially coöperative stores and small mail-order concerns.

By means of so-called cost education they have urged dealers to maintain a high and uniform percentage of gross profit.

Manufacturers' associations.—The permanence and growth of a trade association such as the National Implement and Vehicle Association is dependent upon its ability to return to its members, either directly or indirectly, financial benefits commensurate with the money and time spent by its membership in financing and carrying on the activities of the association. That the National Implement and Vehicle Association has been quite successful in fulfilling these functions is evidenced by the permanence and steady growth of its membership since its organization in 1911.

Profits of members may be increased through association activities in any one of three ways: By decreasing factory and distribution costs; by increasing the total volume of sales; or by controlling price com-

petition. Each of these methods has received attention by the National Implement and Vehicle Association.

Efforts of the association to bring about a general reduction of factory costs include efforts so to standardize construction as to reduce variety in the number of sizes, types, and styles of complete implements manufactured, thereby reducing the variety of kinds and sizes of raw materials used. Such standardization entails the elimination of little used sizes and types of implements and is desirable, provided it is not carried to the point of eliminating sizes and types of implements necessary to the efficient conduct of agricultural operations under the diverse conditions as to soil, climate, and method to be found in different sections of the country.

Another form of activity carried on as a part of the standardization program has been the detailed formulation of schedules of equipment to be furnished with complete implements, together with lists of other equipment to be furnished only as extras for which extra charge is made. The general adoption of such schedules of equipment has the effect, in a broad way, of reducing competition among manufacturers, based on completeness of equipment. If such elimination covers items of equipment used only under special conditions, or that are seldom or never used at all by the majority of farmers, there is an actual saving both to manufacturers and farmers, as the burden of paying for such equipment is borne only by those farmers who need it. But if essential features of equipment necessary to the operation of implements are classed as extras such standardization may be made the means of exacting a higher price for the complete implement.

The coöperative handling of traffic problems and freight-rate matters pertaining to raw materials carried on by the association has a bearing on reduction of factory costs by checking any possibly undue increase in freight rates, as well as in securing prompt movement and delivery of needed materials. Other traffic problems connected with the shipment and distribution of complete implements, such as securing stopover in transit rules for carloads of implements consigned to two or more delivery points, absorption of switching charges, interpretations of freight classifications and packing rules, reimbursement for articles lost or damaged in shipment, etc., have been handled by the National Association in such a manner as to tend to reduce and hold at the lowest point expenses connected with the distribution of farm implements.

The industry presents many other subjects for coöperative action from time to time, such as basing point for the pricing of steel and grading and inspection rules for wood stock and other materials, in the handling of which factory costs may be lowered or prevented from increasing.

Efforts carried on for the reduction of distribution costs include the elimination of unnecessary service on the part of manufacturers, the adoption of shorter and more uniform terms of sale, elimination of unnecessary carrying of implements in the hands of dealers, and coöperation with dealers to prevent duplication of efforts of dealers and manufacturers in the sale and distribution of implements to the farmer. These activities generally are commendable, provided they are not carried to such a point as to place upon the dealer and the consumer the burden of providing necessary credit, repair, or expert service that can be more cheaply and advantageously furnished by the manufacturer than by any one else. In general, the reduction of repair and expert service appears to be a movement toward such readjustment of the conditions under which manufacturers will give service as will place the burden of the expense upon the consumer desiring the service, thereby eliminating expense and unnecessary granting of service to make trivial adjustments and repairs that the farmer can make himself.

Coöperation with dealers for the protection of the retailer as an established channel of trade is desirable only so far at it does not result in undue protection to the established channel to the exclusion of the development of equally satisfactory and cheaper methods of distribution.

Broad coöperative activities for increasing the volume of domestic sales for the industry are carried on by groups of manufacturers of the same or related lines. The extensive advertising campaign carried on by the wagon manufacturers to maintain their position in the sale of wagons in competition with motor trucks, as well as to bring about the adoption of the standard 56-inch automobile track for wagons, is an example of the possibilities of such coöperation. Likewise, the coöperation of manufacturers of silos and ensilage machinery to bring about increased use of ensilage as a means of increasing sales of their products is another excellent example of broad coöperative advertising supplementary to the efforts of individual manufacturers.

A general decrease in factory and distribution costs, as well as the adoption of definitely specified standard equipment for complete implements, is of general advantage to all manufacturers only if prices are not reduced to the basis of the lessened costs. Parallel with the association's efforts to reduce factory and distribution costs, other efforts having for their object the control of prices and price competition have been carried on. Direct price control by agreement is not only illegal, but, it is claimed, unsatisfactory; hence the association has adopted the less direct methods of cost education and exchange of price information. According to statements of officials of the association, these methods are more elastic, and, therefore, more effective, than direct agreements.

Two distinct phases of cost education are carried on. The first of these has for its object the elimination of unintelligent competition based on lack of adequate cost systems and accurate knowledge of production and distribution costs. Many manufacturers lack adequate cost systems. Accurate knowledge of his own factory costs and selling expenses per unit of product on the part of each manufacturer is necessary to fair and intelligent competition. Educational activities intended to convince every manufacturer of the need of a system of accounting that will meet the needs of his business, and to bring about the installation of such a system in each plant, are conducive to fair competition based on manufacturing and selling efficiency.

The second phase of cost education carried on by the association is that of cost study. It is claimed that cost study is carried on as a part of cost education proper to bring about the adoption of adequate cost systems on the part of those lacking them. There has, however, been obvious use of cost study as a means of price control. Under the stimulus of rapidly advancing costs the association directed its efforts to bring about the adoption of uniform systems of accounting in various departments and introduced the use of schedules of material prices for the purpose of securing more uniform costs which would be comparable in detail for study at association meetings. At such meetings percentage advances in costs were formulated as a basis for price control. The inclusion of such activities under the program of cost education ignores the distinction between an adequate cost system and uniformity of costs, and opens the way to price control through coöperative understandings. Price control should be recognized as such, whether it is accomplished by direct agreement upon the final selling price or by the less direct methods used by the association of developing harmonious opinion and tacit understanding as to the percentages of advances before they are made. In this way new price levels were determined by coöperative action before the prices were issued rather than by normal competitive selling.

Taken by itself, the exchange of information regarding selling prices, as carried on by members of the association, is nothing more than an open exchange of information that becomes public property as soon as the prices are published or as salesmen begin to use them. Considered in connection with cost-study meetings, such exchanges become a means of checking up indirectly, but none the less effectively, the activities of members to see whether they are following the course indicated by cost study. This activity has added significance in view of the fact that the manufacturers who were most active in price exchanges were also, in most cases, those most active in cost-study and other association activities. Through cost study and price exchanges, new price levels were determined prior to the issuance of prices and subsequently manu-

facturers maintained customary price differentials, thereby keeping their prices, according to their terminology, "competitive." Such price control is subject to criticism whether used in times of stable or of rapidly increasing values.

Progressive growth of coöperative organization and effort, coupled with unrestricted use of cost study and other methods of control of price competition, places in the hands of the National Implement and Vehicle Association or any other trade association increasingly effective price control. The effectiveness of this control is conditioned upon the active coöperation of all important competitors within the organization, and the unanimity of coöperative attitude developed throughout the group. The trend of development is toward more complete organization of this and other industries for the accomplishment, through coöperation, of economic objects desired by manufacturers. Although a large part of the activities of trade associations are for the accomplishment of legitimate economic objects, it should also be recognized that not all fields of effort to bring about economic benefits to members are legitimate. In the attainment of maximum economic benefits to members, activities, such as certain of those pointed out in this chapter, are carried on, which tend to limit competition and enhance prices.

Retail dealers' associations.—Associations of retail implement dealers affiliated with both the National Federation and the Eastern Federation carry on various activities along lines of coöperative exchange of goods among dealers, mutual insurance, collection of accounts, and the adoption of better business practices in the granting of credits and terms of settlement to farmers, which result in safer methods of business and more continuous and efficient service to the consumer. Activities which result in increased efficiency of retailing and the betterment of trade conditions without tending to restrict the freedom of fair competition among dealers, or that do not promote the use of unfair methods to prevent the free development of efficient new channels of distribution, are commendable.

Certain activities carried on by retail implement dealers' organizations are susceptible of use in ways that more or less directly restrict the operation of free competition based on efficiency of service. Cost education is often so used. Every retail dealer should have a system of accounts which will enable him to know his own expenses and make it possible for him to draw the line between conducting his business at a profit and conducting it at a loss. Cost educational activities for the purpose of inducing members to adopt adequate systems of accounts are conducive to sound business methods and fair competition among dealers and make for permanence of dealers in business. Permanence of dealers in business based on correct knowledge of the location of

the line between profit and loss is necessary to continuity of service to the consumer. Both the National Federation and the Eastern Federation, however, have expanded their activities under the name of "cost education" to include the determination of average percentage margins, including a minimum profit to the dealers as a group. The margin between the cost of an implement to the dealer and the retail selling price to the consumer is the only element of retail price within the control of retail dealers, but the agreement upon a percentage margin by any group of dealers may be tantamount to an agreement setting minimum retail prices. This expansion of cost education to include the determination of percentage margins and their use in lieu of definite price agreements by local clubs in an attempt to accomplish the same economic result that would be attained by the illegal price agreement, but to accomplish it by a means that has perhaps not been specifically declared illegal. Price control by collusive agreement should be recognized as the same, whether it takes the form of formal or tacit agreement upon the final price figure, or whether, as in the case of the use of percentage margins, it takes the form of agreement upon the individual elements going to make up the price. The falseness of the distinction should be recognized, and the cost educational activities of retail trade associations restricted in such a manner as to eliminate the use of indirect, but none the less effective methods of controlling price competition, which, from the viewpoint of intent and results accomplished, apparently are contrary to the antitrust laws.

The fact that the secretary of the Eastern Federation was unable to submit any documentary evidence indicating that the margin of 25 per cent on the selling price advocated by the federation is necessary to yield the dealer a fair profit indicates that the 25 per cent figure was arbitrarily adopted as a means of increasing prices and profits.

Interest on the dealers' own investment is not an item of expense, but is a part of profits. Its inclusion by both the National Federation and the Eastern Federation in the dealers' expense figures, upon which percentage margins are formulated, determines not a margin necessary to cover the dealers' actual expenses, but a margin which yields him a minimum profit equivalent to the interest on his investment had the money been loaned instead of being used in the business.

The use of suggested price lists is discountenanced by the National Federation and favored by the Eastern Federation. Cases of the use of suggested price lists as a means of controlling local price competition by local clubs affiliated with both federations were found. Suggested price list is only another name for agreed prices if the list is generally conformed to by club members as the result of unity of opinion created at club meetings.

Failure of the secretary of the Eastern Federation of Farm Machinery Dealers to keep complete files of official correspondence and complete and accurate minutes of meetings and conferences is to be regarded as very poor business practice that may or may not be merely an attempt to conceal activities known to be illegal. Again, the use of the Eastern Dealer as the mouthpiece of the Eastern Federation has been such as to give widespread publicity to any practice on the part of dealers or manufacturers which does not meet the approval of the secretary of the federation. In some cases the tone of articles published has been threatening toward manufacturers, suggesting the possibility of refusal of the organized dealers to buy from manufacturers who showed an inclination to sell to dealers classed as irregular by the federation.

Coöperation between organized retailers and organized manufacturers for the adjustment of difficulties of mutual interest to the manufacturers and dealers is commendable so long as it does not protect particular channels of distribution to the exclusion of channels which may be or may become more efficient than existing channels. Free competition among dealers assumes unhindered development of any method of distribution subject only to its ability to maintain its position on the basis of its own efficiency in fair competition with prevailing forms.

As the result of the coöperation between the dealers' organizations and the manufacturers, farmers' coöperative organizations find it difficult to secure a source of supply with the best full-line companies. This restricts and even renders impossible the development of farmers' coöperative buying organizations and prevents those interested in such organizations realizing any benefits that might accrue from the organization and proper conduct of financially responsible farmers' companies. Protection of the established retail dealer is accomplished by refusal of manufacturers to sell to coöperative companies, even though the coöperative companies may be financially responsible and may be able to buy in larger volume than individual retail dealers normally purchase. The result is that farmers' coöperative buying organizations are condemned as distribution agencies and condemned in the interest of the existing system, thereby preventing a fair test of their efficiency. Each system should have an opportunity to demonstrate its ability to render the service required by the consumer and should stand or fall upon its ability to deliver satisfactory service at a less price to the consumer.

Manufacturers of farm implements do not generally publish resale prices for their goods at retail, except on repair parts. Such resale prices are frequently determined and maintained by dealers' local organizations, in some cases with the assistance of manufacturers. This

extension of the interest and effort of manufacturers, whether at their own instance or at the request of organized dealers, to include the maintenance of prices determined by local clubs is an unwarranted activity on the part of manufacturers respecting retail prices, which, in some cases at least, undoubtedly is forced upon the manufacturer by the possibility that organized retail dealers will by collective agreement refuse to buy from any manufacturer who fails to coöperate with the dealers' organization in the elimination of firms classed as irregular dealers or price cutters. During the period of advancing production costs covered by this report another consideration influenced the manufacturer to take steps to eliminate dealers who sold at low prices. This was the fact that advancement and maintenance of retail prices by dealers on goods purchased prior to price advances in effect at any given time made easier further price advances desired by manufacturers.

The general scope of cost education among dealers and the general nature of the coöperative attitude between the organized dealers and manufacturers respecting restriction of trade to established channels are quite similar for both the National Federation and the Eastern Federation. In actual practice, however, so far as indicated by the commission's inquiry, the Eastern Federation has pursued more direct methods of controlling prices and has more openly taken steps to eliminate dealers classed as undesirable. Throughout the territory covered by both federations the activities of dealers' associations supplemented by the coöperation of manufacturers has tended to restriction of competition and enhancement of dealers' prices and profits.

Trade Statistics and Public Policy.[11]

Business competition, laws of.—Decisions of the United States Supreme Court handed down on June 1, 1926, in the Maple Flooring Manufacturers' Association and the Cement Manufacturers' Association cases, declaring lawful the interchange of trade statistics by members of a trade association, are among the most important cases ever decided involving the law of business competition. The Supreme Court holds that "trade associations or combinations of persons or corporations which openly and fairly gather and disseminate information as to the cost of their product, the volume of production, the actual price which the product has brought in past transactions, stocks of merchandise on hand, approximate cost of transportation from the principal point of shipment to the points of consumption . . . and who . . . meet and discuss such information and statistics without, however, reaching or attempting to reach any agreement or any concerted

[11] By Franklin D. Jones, *Harvard Business Review*, 1925, Vol. 3, pp. 394-403.

action with respect to prices or production or restraining competition, do not thereby engage in unlawful restraint of commerce." The cases are unique in that the Supreme Court, in applying the rule of reason, recognizes the value of testimony of expert economists, cites economic textbooks, and evinces an intention to determine great economic questions arising under the anti-trust acts on the basis of facts rather than by the application of artificial technical legal rules. The cases involve a great question of public policy as to which Secretary Hoover, on the one hand, and the Department of Justice and Federal Trade Commission, on the other, have been divided. The decisions sustain Secretary Hoover's viewpoint; in fact, they go beyond his published statements as to what might be done with a due regard to the public interest. It is possible that the court has too loosely prescribed the limits on this form of coöperative action, but basically the decisions are sound from an economic standpoint and will ultimately have a profound effect upon American industries.

Evolution of industry.—The evolution of industry is making the collection and dissemination of facts by each industry more and more important. Most manufacturers before the Civil War, broadly speaking, had a local distribution. Business conditions in the territory surrounding a plant were the subject of personal knowledge. The production available, retailers' stocks, crop conditions, building conditions, and all of the local factors which would affect his business could be ascertained with approximate accuracy at least. The manufacturer served a limited market the needs of which he knew, and he could plan his production and fix his prices accordingly.

But as his goods moved to distant markets and as distant competitors brought their goods to his markets, the situation confronting the manufacturer wholly changed. As an individual he has little knowledge as to current or future production in the enlarged market in which he sells. The volume of the commodity in process of distribution in the hands of thousands of wholesalers and retailers cannot even be approximated. The large manufacturer, producing in quantity with a heavy overhead and narrow margin of profit, is always faced with the menace of a heavy overproduction in his industry and a violent fluctuation in price forcing heavy losses. The smaller manufacturer, often forced to seek distant markets, is well-nigh helpless. Trade journals furnish him very valuable but incomplete data, and talks with other business men, together with the reports of his salesmen based upon interviews with shrewd purchasing agents, usually complete his fund of information. If there are numerous manufacturers in the industry all working in more or less ignorance of the facts, the almost inevitable results are alternating periods of overproduction and scarcity with great fluctuations in price. Violent fluctuations in price not only

attract speculators but also require their services to assume the risks, thus increasing the burden of uncertainty upon the industry. Shifting conditions have thus placed the business man in a position where, although he may have a vastly greater fund of general information, he does not have as exact information as to actual conditions of supply and demand in his own widened market as he had a half century ago.

The issue presented is whether we want a competitive system functioning with buyers and sellers possessing the fullest possible information as to conditions in their markets, or a competitive system based upon enforced ignorance of facts in so far as the government can compel the continuance of such a situation. The Supreme Court, while carefully guarding against the use of trade statistics to effect undue restraints of competition, recognizes the economic value of united action to collect and broadcast the business information relative to market conditions which expedites and stimulates trade by furnishing reliable facts of value to the business man in formulating his own individual policy.

Competitive system, functioning of.—The functioning of the competitive system would be greatly improved were every buyer and seller accurately apprised of conditions affecting supply and demand. Such a result cannot even be hoped for, but there are various classes of information the wide dissemination of which, now legalized by these decisions, would operate to the benefit of the business man and the public.

We should have accurate data showing the productive capacity of every important industry. It is surely to the interests of the nation to utilize its fund of capital for the most productive uses. It is admittedly an unwise policy for an individual manufacturer to increase the capacity of his plant far beyond the capacity of his markets. Is it not likewise unwise, as a national policy, to encourage conditions which will result in an industry developing its physical capacity beyond the needs of consuming demand?

If information as to the productive capacity of our different industries, combined with the annual consumption of the products they produce, is widely disseminated, it ought to result in substantial public benefit. In the first place, it would tend to retard overconstruction and the waste of capital. If men with capital available for investment knew that the coal industry, for example, was continuously faced with overproduction, they would hesitate to enter the mining business. Bankers supplied with such information would hesitate to finance such ventures. The Federal Trade Commission, shortly after its organization, contemplated the compiling of such information in some industries, but for some reason decided not to do so. While unwise investments of capital will always be made, a widespread knowledge of the

productive capacity of our various industries ought, at least in a measure, automatically to direct the capital of the nation to the most productive and profitable uses.

In the second place, such information, to the extent it discouraged the development of plant production to a point far beyond the real needs of trade and commerce, would tend to prevent monopoly. Whenever conditions of overproduction are created in an industry, the incentive of necessity forces efforts to control competition. Men do not willingly lose money for protracted periods. The great development of plant equipment during the War has created conditions of overproduction in many industries and, as a result, there is at the present time a movement for the merger of properties which threatens far to exceed the great merger period of the nineties which brought about the anti-trust agitation of the Roosevelt administration. Such mergers involving promoters' and underwriters' costs, and the purchase of essential properties at highly inflated values, often not only result in a temporary control of production and price, but also force their owners to exact high prices in order to secure the customary rate of return on the inflated capitalization. A governmental policy which does absolutely nothing to supply or permit of the compilation of the facts which might tend to prevent the diversion of capital into crowded industries, where it will inevitably be dissipated, creates a condition which inevitably leads to efforts artificially to control conditions by monopolistic devices.

Finally, the existence of such information would be invaluable in time of war. Had such facts been available to the government at the time of the World War, months of confusion in the organization of industries, planning of schedules, placement of contracts, and so on would have been avoided. The War Department, for some months, has been endeavoring to organize information of this character; but such data should not rest in its dusty archives. It should not only be available to industry and to the public, but should receive the widest publicity.

Cost figures, collection and dissemination of.—There is need for the collection and dissemination of cost figures. Viewed from a public standpoint a wide and exact knowledge of costs is beneficial. Its effect would very probably be to stabilize price. On the one hand, it would tend to result in an increase in prices by some of those concerns which ignorantly sell below their own costs, failing to take into account such items as depreciation, depletion, and the like, until too late. On the other hand, it would tend to decrease the prices of other concerns by revealing to them the items in which their costs were high, thus enabling them to make reduction. Costs are the accurate measure of the efficiency of labor, of machines, of every factor in a

business. Is not the business man entitled to learn from the experience of others, by comparing what their machines, their labor, their selling forces are doing with his own, or must he isolate himself because the widespread adoption of the best business practice tends toward less variation in costs and therefore in price? A stabilization of prices which results from greater efficiency in business methods rather than price-fixing agreements is obviously beneficial in steadying demand, in reducing the risks of doing business, and thus lessening the need for speculators who assume such risks.

Moreover, the development of adequate cost figures in industries would supply a means of gauging, in a measure, at least, the relative efficiency of different-sized business units. There has been a great deal of discussion founded upon very few facts as to the relative efficiency of large and small business units. In America the efficiency of quantity production and the success of some large concerns with a highly integrated organization have brought about a widespread belief that the larger the concern is the greater the efficiency secured, and that monopoly is therefore the most efficient form of business organization. Theoretically, a strong case may be made for this contention. But facts rather than theory must determine the proposition. There is a belief among a number of business men employed both in manufacture and distribution, with whom I have talked during the past several years, that in their industries there is a point of maximum efficiency, so far as the size of the business and its profitableness are concerned. With the great uncertainties of the market resulting from the tremendous volume of production under our factory system, great economic forces are at work, and the huge concern with a large overhead faces graver problems than the smaller concern. A study of the costs of the different-sized units in an industry, of the relation of overhead to total costs, of earning ratio to the capital invested for a period of years, might develop most valuable information as to the relative efficiency of different-sized units in industries. In each industry the differing conditions would no doubt produce different results. But if from a comprehensive study of facts it could be even approximately determined in each industry what sized unit was most efficient, the publication of the facts within the industry would no doubt in time place the industry on a more productive and a sounder economic basis. Facts such as these would at least be more helpful than the glittering generalities we now hear as to the relative efficiency of the monopolistic and competitive systems. And if by chance it were conclusively demonstrated that very large units were inefficient and costly in a particular industry, the merger movement and monopolies would be more effectively checked through the natural actions of business men in seeking

the most productive form for their investments than would be accomplished by a host of laws on the statute books.

Again, if our protective tariffs are ever to be put on a scientific basis, a knowledge of the costs of manufacture in the different industries is essential. Moreover, the last six centuries of Anglo-Saxon history repeatedly disclose that the almost inevitable result of war is the fixing of prices of many commodities. It is of vital importance to an industry; it is of equal importance to the government, that ill-advised action be avoided when any attempt is made artificially to control the delicate mechanism of the competitive system in this way. During the last war many of our industries and branches of industries were threatened with catastrophe because of the lack of such data. They found that government officials, pressed to the limit to secure supplies for war needs, were sometimes inclined arbitrarily to fix prices instead of awaiting the results of lengthy cost investigations. The decision of the Supreme Court in the Maple Flooring Manufacturers Association case, while not discussing these many phases of this form of activity, clearly holds that costs of production are "legitimate subjects of inquiry and knowledge in any industry."

But it must be admitted that there are abuses which may arise, particularly in association uniform cost accounting systems, which hold possibilities of great harm to the public. Few people will defend the use of a uniform cost system for the purpose of indirectly fixing or enhancing prices, and the court points out that such a misuse of such data is a violation of the laws. Experience has already shown that it is possible for members of an industry to agree on fixed items of cost such as depreciation, or depletion, or to fix an alleged uniform cost of raw materials purchased at widely varying prices, thus subverting the cost system from its legitimate purpose and making it a device for enhancing the general level of prices.

The Supreme Court, in the Maple Flooring Association case, holds that the computation and distribution of average costs, when such computations are made with *all practicable accuracy, based upon actual costs fairly ascertained from the actual experience of members, is lawful.* This particular ruling may easily be misconstrued by business organizations, and it should be pointed out that it does not legalize arbitrary averages arrived at to enhance prices. It is possible to compute alleged average costs for an industry, and bring about the general adoption of such costs as a mechanical means for computing prices when such costs have no substantial relation to the actual costs of the individual concern and the real purpose of their use is to increase prices. These are abuses which can and have been reached through prosecution by the government, and the decisions just handed down by the Supreme Court not only do not legalize them but guard against them. But the abuses

do not negate the great value of widespread knowledge of costs nor the value of uniform methods for accurately determining individual costs for comparative purposes.

Supply and demand, current conditions of.—The third group of business statistics, the widespread knowledge of which is of real value to the business man and to the public, are those dealing with current conditions of supply and demand. The collection and distribution of such data is now declared lawful by the Supreme Court. Such data can be procured only by the government or through collective action. The cost of compilation and distribution by the government is excessive. The Department of Commerce has done some valuable work in this line in its monthly *Survey of Business,* but obviously the government cannot collect and distribute such data for our many industries. The alternative is for each industry to gather and disseminate such information itself either directly or indirectly. Some government officials can see in such an activity only a conspiracy to enhance prices. They witness the operation of such activities and their stabilizing effect upon prices, and draw the conclusion that such an effect can be procured only by a combination or a conspiracy in restraint of trade. A tendency toward uniformity of price is in their minds conclusive evidence that competition is being artificially restricted. It must be frankly admitted that the widespread dissemination of accurate information as to market conditions tends in a measure to stabilize prices. If such information discloses to a manufacturer of tires, for example, that the dealers are heavily overstocked on one particular type of tire, ordinary business sense would suggest that he divert his production to other types. In taking such action he does not combine, conspire, or even talk with a competitor. As a business man he exercises his independent judgment as to the wise policy for him to pursue in a competitive market upon known facts. And while his lessened production may tend to hold up prices on the one type of tire, the shift of his production to other types increases their supply and in turn tends to lessen their prices. There is thus a stabilization of price without any public injury. Similarly, if the shipper of transit cars of vegetables or lumber has accurate information that certain large consuming centers are oversupplied, with cars standing on demurrage, while in others prices are firm and supplies short, where will he as an intelligent business man send his shipment? Or if a lumber manufacturer finds that the reports of the stock on hand of his competitors show a heavy accumulation of stocks of particular grades and sizes at the mills, what will he as a prudent business man do—blindly continue the manufacture of those grades and sizes, foolishly fighting against the inexorable law of supply and demand, or reshape his production to the demands of the market? Why should the business man be denied this information except as he can secure

it partially from salesmen, trade journals, or private agencies? Is it not to the interest of the public thus to bring about the greatest possible fluidity of the supply, so that consumers will not be paying excessive prices for one product and low prices for another, or paying excessive prices in one market and buying considerably below cost in another? By thus increasing the fluidity of the supply through the possession of accurate information as to market conditions by all buyers and sellers, there would result a tendency toward a uniform price without the slightest lessening of competition. Eliminate fraud, eliminate ignorance of facts from the bartering of the market, thus protecting both buyer and seller, and, inevitably, under the unrestricted operation of competition, the margin of daily fluctuation in price would be substantially lessened. Excessive prices and unduly low prices springing from such causes would be eliminated; but competition, based upon an intelligent knowledge of conditions, would be as intense as ever.

Not only would accurate knowledge of the markets tend to increase the fluidity of the supply, it would also tend to bring about a closer adjustment of the supply to the demands of the market, stabilizing production so as to avoid in a measure alternate periods of overproduction and underproduction, thus lessening the more basic fluctuations in price. It is gravely to be doubted whether there is any public interest served by manufacturers producing a heavy overproduction forcing prices below cost, compelling the shutdown of plants, and unemployment, with their resultant hardships and economic losses. Yet in one industry after another, manufacturers are compelled to project their production schedules on insufficient facts, and have no accurate gauge for comparing their position with the general conditions in the industry. If the volume of trade of an industry is falling off while the individual's business is increasing, why should he not be entitled to know that fact? If, on the other hand, the volume of trade is increasing while his business is standing still, would not accurate information showing that fact stimulate greater competition on his part to get the business? If reports of a number of concerns in the industry show a general trend toward smaller orders, why should the business man be deprived of that knowledge? The collection and dissemination of such facts might, it is true, tend to lessen the recurrent periods of overproduction which demoralize industry, create unemployment, and foster speculation; but only as the result of the intelligent reaction of many individual concerns to established facts rather than because of any agreement or combination to restrict production or restrain trade. The difference is a vital one, for, where such result comes from publication of facts, every business man is free to do as he pleases without any restriction whatsoever and is as strong a competitive factor as ever, except that he is better informed; while, under any agreement in restraint of trade,

production is artificially controlled without regard to the constantly shifting conditions. A more steady production would certainly seem in the public interest. And certainly wide fluctuations in prices do not encourage normal, healthy trade. In one country after another it has been shown that when they become too violent they paralyze business and force in the speculator to assume the risks, at a heavy cost to the public.

Give to the individual manufacturer information as to current production, stocks on hand, current orders, unfilled orders, and current shipments; and, acting individually, he would curtail his production when there was obviously an oversupply in the industry threatening to force prices below cost of production or increase his production when stocks are becoming scanty. In the absence of any agreement in restraint of trade, so long as prices remain above costs, competitors will zealously strive to get the business. Under a quantity system of production, there will always be competitors eager to get business which gives them even a small profit. The operation of competition, if the laws against restraint of trade are rigorously enforced, will prevent the exaction of high prices. Indeed, widespread knowledge of prices would make such competition more effective by revealing the markets, or the type of commodity which held forth the greatest opportunity for profit. We must recognize that the fundamental change in our form of industrial organization, the vastly expanded areas of competition already discussed, makes the collection and publication of such facts well-nigh essential to the business man. The proper operation of the competitive system demands it in fairness to him.

The Supreme Court, in its decisions, recognizes these facts. In the Maple Flooring case it says:

"It is not, we think, open to question that the dissemination of pertinent information concerning any trade or business tends to stabilize that trade or business and to produce uniformity of price and trade practice. Exchange of price quotations of market commodities tends to produce uniformity of prices in the markets of the world. Knowledge of the supplies of available merchandise tends to prevent overproduction and to avoid the economic disturbances produced by business crises resulting from overproduction. But the natural effect of the acquisition of wider and more scientific knowledge of business conditions, on the minds of the individuals engaged in commerce, and its consequent effect in stabilizing production and price can hardly be deemed a restraint of commerce or if so it cannot, we think, be said to be an unreasonable restraint, or in any respect unlawful."

There is not only no unreasonable restraint of trade in the mere collection and dissemination of such facts; there are substantial benefits to the public flowing from such an activity. The benefits resulting

from a more stabilized production, with the consequent tendency to eliminate speculation, to steady employment, to stimulate trade, and to assure to the public a true competitive price based upon the operation of the law of supply and demand, free from the interference of fraud and ignorance on the part of buyer and seller, have already been discussed. Such information, is, moreover, especially valuable to the small business man who has not the far-flung organization which enables his larger competitors to keep more fully advised as to market conditions. To the extent such data help the smaller manufacturer and distributor to become more effective in competition, to just that extent it tends to prevent monopoly. Again, is it not self-evident that as we amass a great fund of continuous information in our many industries, we will acquire the basic economic data on which a scientific study of business trends and cycles can be made? Such a fund of facts will also furnish the groundwork upon which any system of Federal regulation should be based if circumstances show the need for it in any industry. And in times of war it is obvious that it would be of the utmost value to the government to be able immediately to secure from any industry the facts showing stocks on hand, current production, and similar data accurately portraying the ability of the industry and its individual members to supply forthwith the urgent needs of the government.

Interchange of business data, abuses of.—While the fullest possible knowledge of market conditions by all buyers and sellers is essential to the proper operation of the competitive system under our modern organization of industrial society and is of real value to the public, it cannot be gainsaid that the collection and dissemination of such data by business men offers opportunities for abuses, and it should be carefully noted that the Supreme Court uses well-guarded language as to the legal limits of such an activity. If we agree as to the value of statistical information of the character discussed to the business man and to the public, a sound policy ought to be directed, as the Supreme Court now directs it, not at destroying the great statistical system which has been evolved by our many industries, but rather at eliminating these abuses.

The Supreme Court has wisely pointed out the abuses involved in the interchange of business data. The Supreme Court, up to this time, has laid down four features of a coöperative interchange of statistics which taint any such action with illegality.

1. The court condemns secrecy in the use of such information. In all its previous decisions the court has stressed this point; and, in the Maple Flooring case, is careful to state that it decides only that it is not unlawful to gather "openly" and disseminate such information. The court evidently deems it against the public interest to permit sell-

ers to combine to secure secretly the information giving them the most intimate knowledge of what their competitors are doing in order to "deal with widely separated and unorganized customers necessarily ignorant of the true condition."[12] While our form of government is based upon the fullest possible protection of individual rights, the courts look upon combined action with the closest scrutiny, and the Supreme Court reiterates its statement in the Linseed Oil case where it said that, while the individual may exercise great freedom, "concerted action through combination presents a wholly different problem and is forbidden when the necessary tendency is to destroy the kind of competition to which the public has long looked for protection." If the privilege of combining to compile and disseminate such statistics is to be granted, so that the basic facts of the markets are to be known, it seems obvious that buyers as well as sellers should be informed, otherwise the exercise of the privilege may prevent rather than protect the natural operation of the law of supply and demand. Full publicity of such facts, so that both sellers and buyers may be as fully informed as possible, seems, therefore, essential.

2. Fraud in the compilation of such data is unquestionably unlawful. Here, again, the court is careful to limit this activity by requiring that such data are being "fairly" gathered and disseminated. There might at times be a temptation to the official compiling such data to omit some portion of his information, as, for example, sales at very low prices, with the intention of bolstering up the market by giving a false impression as to the fair level of prices. Such action could not be defended, although such a practice would soon correct itself by destroying confidence in the information. For centuries it has been unlawful at the common law to disseminate false information for the purpose of enhancing or curtailing prices.[13]

3. Any concerted action, based upon such data, the necessary tendency of which is to restrict competition, is likewise condemned. It is improper for an association official to comment on the data, indicating his belief as to market trends, or making recommendations as to production or prices. Such action on his part, if he has the confidence of his members in any degree, tends strongly to bring about concerted action along the lines of his recommendations, thus restricting competition. Such action was condemned in the Hardwood case. This decision is reaffirmed in these decisions. It is likewise doubtful whether the courts will ever approve of the distribution of identified information—that is, identifying the figures of each competitor. Identified figures go much further than giving a business man full information

[12] U. S. v. Linseed Oil Company, 262 U. S. 371-390.

[13] Illingworth, "Inquiry into the Laws Respecting Forestalling, etc.," 1800, p. 14; Burns, "Justice," 1769 (11th ed.), p. 195.

as to basic conditions in his industry, by furnishing him intimate facts as to the individual business policies and judgment of all his competitors. The circulation of identified information could very easily lead to business men substituting the judgment of some leading concern in the industry for their own or entering into an understanding to follow a leader whose prices and other policies could be easily followed under such a plan. Such information likewise identifies the price-cutter or the concern producing in heavy volume, and gives opportunity for the exertion of social and other pressure upon him to change his tactics. In such action there is usually present a tendency to restrict competition.

4. The court carefully limits the right to circulate prices, to the "actual" price which the product has brought in *past* transactions." The court does not legalize the interchange of quotations and other information leading up to the sale which would give the combined sellers an advantage over the buyer. This was condemned in the Linseed Oil case, which case is cited with approval in the present decisions.

In one respect the decisions are apt to create a great deal of confusion and misunderstanding. The court expressly holds that members of a combination may "meet and discuss such information and statistics." It cannot be too strongly emphasized that the court states they may do this only provided they do not reach or attempt to reach "any agreement or any concerted action with respect to prices or production, or restricting competition." It is unfortunate that the right to meet and discuss such statistics was granted, for it is extremely difficult to avoid implied understandings, or gentlemen's agreements, or concerted action within the prohibitions of the anti-trust acts. Unless each meeting is attended by a lawyer, there will be constant understandings reached without a realization, possibly, that the law has been violated. While there is every reason to allow every business man to secure the fullest possible facts regarding his industry, it is quite a different thing to permit of an exchange of judgment on these facts within an organization. The line of demarcation between such action and the actual formation of very effective implied understandings, the existence of which is very difficult to prove, is very shadowy. A meeting at which matters of this kind are discussed and debated by leaders of the industry can bring about a situation which, so far as actual results on competition are concerned, is practically the same as an agreement. It is very probable that many business organizations acting in reliance on this decision giving them the right to discuss such data, will, in fact, enter into understandings which violate the law. It cannot, therefore, be too strongly emphasized that these decisions, while recognizing the right of the business man to complete information, emphatically declare that the misuse of the information to effectuate contracts, agreements, or understandings, or any concerted action through combinations which

has the necessary tendency to destroy competition, through price-fixing, restriction of production, or other similar results, is unlawful.

So far as the interchange of statistics is concerned, these decisions decide only that trade associations or other combinations of persons or corporations which openly and fairly gather and disseminate information as to the cost of their product, the volume of production, the actual price which the product has brought in past transactions, stocks of merchandise on hand, approximate cost of transportation from the principal point of shipment to points of consumption, and credit information, and who meet to discuss such statistics without reaching or attempting to reach any agreement or concerted action with respect to price or production, or restricting competition, do not violate the law. These decisions will become a landmark in the history of the anti-trust laws. They greatly clarify the law, but by reason of features already discussed there is grave danger that the business community will interpret them more broadly than their language warrants. Should this happen, the results would be unfortunate to the public and ultimately to American business, because the demand for restrictive legislation which would inevitably arise might be far-reaching in its economic consequences.

Chapter XXIII

BUSINESS ETHICS

Principles of Business Conduct.[1]

The business platform.— Business has formed and is forming habits of straight thinking and right acting, because in the last analysis they are economically sound habits. Its standards are reflected in the growth and development of the enlightened civilization which, to a very large extent, has contributed toward producing. These standards are in no sense experimental. They are not new. But it will serve a useful purpose to collate, interpret, and codify the habits and rules and standards which already exist in the minds of American business men and to construct therefrom a practical, ethical, business platform. A code, or a creed, or a statement of principles of business conduct—call it what you will—is essential to securing approximate uniformity in thought and action amongst groups composed of numerous units. These considerations have influenced the Committee on Business Ethics of this chamber to present a unanimous report in the form of a single statement of fifteen fundamental "Principles of Business Conduct."

In considering them it is important at the outset to have clearly in mind the function of business. It is essentially creative and constructive in its nature. Its function is to produce, to distribute, and provide for all the material requirements of man, and to increase the wealth of the world and the value and happiness of life.

The successful performance of this function is a high order of public service.

Individual profit is its direct reward. But it is important that the function of business should not be confused with the motives which may prompt an individual to engage in it, just as the functions of the legal, the medical, the educational, the political or the engineering professions should not be confused with the motives which prompt individuals to engage in them.

Where an individual engages in business or enters and pursues the professions of law, medicine, or engineering, if he has ability and employs it unremittingly and efficiently, he may make money; but that is not the reason for, or the measure of, his success.

[1] By Judge Edwin B. Parker, Umpire, Mixed Claims Commission, and Chairman, Committee on Business Ethics, Chamber of Commerce of the United States.

Business in the abstract, as distinguished from the individual enterprise, must have a basic purpose, which is to provide for the material needs of mankind. The immediate end may be profit to the individual engaged in serving the public. But whenever a business institution ceases to perform the basic function of business, then it is no longer entitled to exist.

Every man owes to himself and to those dependent upon him the duty to earn a livelihood and, where practicable, to acquire a competency. Business owes to no man a living simply because he elects to engage in it, but only an opportunity equal with every other man to make one—and something more, a surplus, which is wealth.

On the other hand, every man as a member of society whose protection he enjoys, owes to civilization a debt which can be discharged only by increasing the wealth of the world, by putting into life more than he takes out of it, by creating or producing more than he consumes.

It is meet to-day, as it was 1,900 years ago, that the slothful, who use not their talents but bury them, should, through the operation of economic law, have taken from them even that which they have, further to enrich those who have most and who have demonstrated their capacity and willingness to exercise the godlike power of creating and producing, adding through physical, mental, and spiritual effort to the wealth of the world. Wealth, so produced, is property, the title to which inheres in the producer, increasing his capacity further to produce and his corresponding responsibilities to his fellowman.

When individual gain is a measure of the extent of service rendered, then the greater his gain the greater the value of the individual to the world. Then the term "big business" no longer conveys a sinister meaning, and a great fortune becomes a badge of honor rather than a reproach.

In the early periods of the evolutionary growth of civilization, when commerce was in its infancy, business consisted of personal barter and trade—in the matching of wits in an effort to overreach and secure an advantage. The extent of the activities of an individual was limited to a comparatively small area and as a rule all business intercourse was personally conducted.

It was the exception rather than the rule when two men had numerous transactions with each other. The individual was not prompted, therefore, to establish for himself a reputation for fair dealing and for superiority of his wares.

The rule of *caveat emptor* (let the buyer beware) was the law of business of the Romans. While such a rule may suffice in a primitive civilization, certain it is that no great business enterprise dependent for success on the continued patronage of a vast number of individuals, frequently located in remote quarters of the earth, can permanently

be maintained on any such basis. "Goodwill" has become an indispensable asset in permanent business. Implicit confidence between producers, distributors, and consumers is the bulwark of modern commerce. This requires honest effort and scrupulous accuracy in the representation of the product. The greater the business, the greater its need for confidence in order to endure. Hence the first principle:

The Foundation of business is confidence, which springs from integrity, fair dealing, efficient service, and mutual benefit.

Rewards of business.—The policy of charging the public "all the traffic will bear," if in excess of a reasonable profit, is unsound in principle; and while in isolated and unusual cases it may bring temporary prosperity, it cannot last, for sooner or later an outraged public will take measures to prevent it. The effort should rather be to sell at as low a price as possible to enable the producers to realize cost, plus a safe reserve, and a fair profit, taking into consideration all elements of foresight exercised and risk involved.

Efficient management and foresight are entitled to reasonable rewards. The risks in business enterprises are diverse for investors, managers, and employees. Losses following from such risks must be borne, not by the public, but by the business taking them, which in turn is entitled to be compensated for the risks taken.

It is in the public interest that a business enterprise should accumulate a reserve sufficient to enable it to continue successfully to perform a service notwithstanding adverse conditions, of depression or otherwise, over which it has no control. Therefore, in measuring the reasonableness of returns, all of the enumerated factors must be taken into account. Hence the second principle:

The Reward of business for service rendered is a fair profit plus a safe reserve commensurate with risks involved and foresight exercised.

Obligations of business.—Every business enterprise necessarily utilizes capital, management, the services of employees, and deals with the public. It, therefore, has obligations to capital, management, employees, and the public. No business enterprise is entitled to survive, much less to prosper, without discharging its obligations to each of these classes, and enlightened self-interest should prompt each class to deal fairly with all others, because to do so ultimately pays. But when to the gain motive there is added an earnest desire to be of service each to all others, there is begotten a spirit of harmony and coöperation which makes for increased success. From this is deduced the third principle:

Equitable Consideration is due in business alike to capital, management, employees, and the public.

Accurate information, need of.—No business enterprise can be safely conducted, in its own or the public interest, on guesses or inaccurate information. It will fall short in the duty which it owes to itself and to the public if it does not constantly improve the service it renders in quantity, quality, and costs. While it should be prepared to take advantage of every opportunity to reduce the costs of its service without sacrifice to those interested in the industry, it must, on the other hand, have such accurate knowledge of its costs that it can know whether it is receiving a proper return for its service. Operation at less than cost, if persisted in, not only means ultimate failure with loss to investors and employees, but the public suffers through being deprived of a service and through the demoralization resulting from an operation economically unsound. Hence the fourth principle:

Knowledge—thorough and specific—and increasing study of the facts and forces affecting a business enterprise, are essential to a lasting individual success and to efficient service to the public.

Service, permanency of.—It is possible for a business enterprise to earn and also to serve only if its purpose is permanency and continuity of service, which in turn requires experienced planning and skilled oversight. To such an enterprise the establishment of confidence, goodwill, and a reputation for excellence in service and fair dealing is essential to permanent success. Hence the fifth principle:

Permanency and Continuity of service are basic aims of business, that knowledge gained may be fully utilized, confidence established, and efficiency increased.

Employees, obligations to.—The obligation to employees is not discharged merely through the payment of wages as they become due. Whether in office or in plant, labor of every class—inventive—managerial, and manual—should be so employed that each individual has every opportunity that the business and his position make possible to increase his ability to serve and the value of the service he renders, to himself, to the business, and to the public through the business.

The employer is not only interested in problems of employment; but, whether he so will or not, he is interested in problems of unemployment. Not only in the public interest, but in his own interest, he must, in order to create and preserve a permanent organization and avoid the blighting effects of labor turnovers, provide in some form as continuous employment as the needs of the economic field will permit. These are problems which call for the largest and most far-sighted and forward-looking exercise of individual initiative on the part of business men. Hence the sixth principle:

Obligations to itself and society prompt business unceasingly to strive toward continuity of operation, bettering conditions of employment, and increasing the efficiency and opportunities of individual employees.

Obligations, performance of.—Business enterprises are so closely interwoven and interdependent that the ignoring of the obligations of one frequently has far-reaching effect on others. This fact, amongst others, has established confidence as the foundation of business prosperity, and contracts as sacred. Therefore, no obligations should be undertaken without careful consideration, and when undertaken should be faithfully and fully performed regardless of the immediate consequence due to changed conditions or otherwise. While it is a sound rule that no contract is a good one unless good for both parties to it, still the only time to consider its desirability is before it is made. Hence the seventh principle:

Contracts and Undertakings, written or oral, are to be performed in letter and in spirit. Changed conditions do not justify their cancellation without mutual consent.

Representations.—Flowing as a corollary from what has already been said is the eighth principle, that every

Representation of goods and services should be truthfully made and scrupulously fulfilled.

Waste, elimination of.—The interest of a business enterprise is necessarily that of the community of which it is a part. Enlightened self-interest as well as consideration of public service, will, therefore, prompt it to exercise economy in all that contributes toward the creation of wealth. To the extent that such economy in capital, labor, or materials is lacking, the fundamental function of business is lacking. The resultant loss is suffered not only by the particular business enterprise but also by the general public. Hence follows the ninth principle:

Waste in any form—of capital, labor, services, materials, or natural resources—is intolerable, and constant effort will be made toward its elimination.

Business enterprises, relations of each to others.—In the last analysis, every business enterprise is directly or remotely related to all others, each being an integral part of a vast and complex economic structure of essential importance to the public. It follows that each has a responsibility and a duty to perform toward all others and that all are to some extent affected with a public interest. Hence the tenth principle:

Excesses of every nature—inflation of credit, overexpansion, overbuying, overstimulation of sales—which create artificial conditions and produce crises and depressions, are condemned.

Unfair competition.—Every business enterprise should deserve and command success because of the excellence of its own products and service rather than because of the shortcomings or misfortunes of its competitors. Competition in service is always in the public interest.

But the seeking of a business advantage through efforts directed to harm a competitor is unethical and wasteful and will receive the unqualified condemnation of all right-thinking men. Whatever form such efforts may take entails economic waste and is repugnant to the public interest. Hence the eleventh principle:

Unfair Competition, embracing all acts characterized by bad faith, deception, fraud, or oppression, including commercial bribery, is wasteful, despicable, and a public wrong. Business will rely for its success on the excellence of its own service.

Controversies, settlement of.—War is in its nature essentially destructive. Peace is constructive. The weapon of war is force. The instrument of peace is agreement. The issue of discord and strife in business is economic waste. Therefore, sound business policy requires the speedy and amicable settlement of all controversies between employer and employee, between buyer and seller, between producer and consumer, and among all persons whomsoever. Hence the twelfth principle:

Controversies will, where possible, be adjusted by voluntary agreement or impartial arbitration.

Corporations, moral obligations of.—It has been abundantly demonstrated that the corporate form of organization makes for efficiency, elimination of waste, increase in production, and reduction of unit costs. An established corporation has a personality all its own. It has character and individuality. It is a composite of the individuals, whatever their rank or station, who control, direct, and manage it. The character which they stamp upon it, the color and form which they give to it, the life, the force—the spirit they breathe into it—these constitute its soul.

Individual responsibility is not lost through corporate action; but, on the contrary, is increased in exactly the ratio that the influence exerted through corporate action exceeds that of independent individual action. The primary obligation of those who direct and manage a corporation is to its stockholders. Notwithstanding this they act in a representative capacity, and in such capacity owe obligations to others—to employees, to the public which they serve, and even to their competitors—which obligations neither they nor the stockholders can escape through the creation of the legal fiction of an artificial person. From the foregoing is deduced the thirteenth principle:

Corporate Forms do not absolve from or alter the moral obligations of individuals. Responsibilities will be as courageously discharged by those acting in representative capacities as when acting for themselves.

Coöperation.—Coöperation among business men in promulgating and maintaining sound standards of business conduct, and acquiring and disseminating knowledge essential to the intelligent conduct of business under such restrictions as will prevent abuses, is in the public as well as private interest. Such coöperation has in it no element of external restraint of trade or commerce, which is both economically unsound and unlawful. It may suggest self-restraint based on knowledge, which, when exercised to enable business effectively to discharge its true function, is both lawful and laudable.

No creed or code can or should be static. The complexion of an act changes when its application to changing conditions brings a changed result. Therefore, what is ethically and economically sound and legal to-day may be unethical and illegal a generation hence. While the principles of business conduct which have been put forward for consideration by this chamber are designed in the main to lay down general principles which theoretically should be static, business men everywhere must keep in sympathetic touch with changing conditions, economic and otherwise, and be ever ready to enlarge or modify these principles if and when required. Coöperation among industrial, commercial, professional, and trade associations generally with this end in view is constructive and in the interest of both business and the general public. Therefore,

Lawful Coöperation among business men and in useful business organizations in support of these principles of business conduct is commended.

Business and restrictive legislation.—The growth and development of business and the progress and well-being of society as a whole demand unhampered opportunity for individual effort and initiative, which is rendered increasingly difficult in proportion to the increase in government regulation of business. On the other hand, methods and practices designed to secure immediate gains, without reference to their effect on the general public or their ultimate effect on the business itself, sometimes render imperative restrictive and regulatory legislation in the public interest. Business impatiently resents such legislation. The remedy lies in its own hands. It can, if it will, be governed and regulated by its own rules and principles of business conduct enforced by the most effective of all sanctions—a wholesome public opinion—created and fostered by business itself. Therefore,

Business should render restrictive legislation unnecessary through so conducting itself as to deserve and inspire public confidence.

Conclusions.

It will be noted that all of these principles of business conduct have their source in motive of ultimate enlightened self-interest. They do not spring, in whole or in part, from the emotionalism or the altruism of the social dreamer who dimly glimpses a distant vision but points us to no road whereby to reach it. Yet when the objective sought is closely examined, it bears a striking likeness to the vision of the dreamer. By different routes the same end is reached.

It is the aim of this statement of principles of business conduct to reduce the ideal to practical terms. In this statement the trails are clearly blazed. Practical men can follow them. Let these principles be the creed of American business. Let them be an expression of our ideals to be constantly striven for in a practical way every day in the year. Let them be printed and conspicuously displayed in every business office, counting-room and shop throughout the length and breadth of the land, that every man and woman in business may absorb and live them; that they may form the warp and the woof of the great fabric of our nation's business and extend their influence to other lands.

The fact that the final objective may never be reached is no reason why each of us should not keep constantly striving toward it. The fact that some stragglers may drop out of the ranks only emphasizes the necessity for renewed effort on the part of the rest of us. Business has accepted the imperious challenge to correlate and harmonize the conflicting forces in commerce, trade, and industry. That challenge is to the business man, not to the politician, the schoolmaster, the preacher, the lawyer, or the engineer.

These principles simply express the practical idealism implanted in the minds and hearts of successful American business men, and remove the conventional screen which hides it from the general view.

Methods of Competition Condemned.[2]

Among the unfair methods of competition and Clayton law violations condemned by the commission and prohibited by orders to cease and desist may be mentioned the following:

Misbranding of fabrics and other commodities respecting the materials or ingredients of which they are composed, their quality, origin, or source.

Adulteration of commodities, misrepresenting them as pure or selling them under such names and circumstances that the purchaser would be misled into believing them to be pure.

Bribery of buyers or other employees of customers and prospective

[2] Annual Report of the Federal Trade Commission, 1924, pp. 15-20.

customers to secure new customers or to induce continuation of patronage.

Making unduly large contributions of money to associations of customers.

Procuring the business or trade secrets of competitors by espionage, by bribing their employees, or by similar means.

Procuring breach of competitors' contracts for the sale of products by misrepresentation or by other means.

Inducing employees of competitors to violate their contracts or enticing away employees of competitors in such numbers or under such circumstances as to hamper or embarrass them in business.

Making false or disparaging statements respecting competitors' products, their business, financial credit, etc.

The use of false or misleading advertisements.

Making vague and indefinite threats of patent-infringement suits against the trade generally, the threats being couched in such general language as not to convey a clear idea of the rights alleged to be infringed, but, nevertheless, causing uneasiness and fear in the trade.

Widespread threats to the trade of suits for patent infringement arising from the sale of alleged infringing products of competitors, such threats not being made in good faith for the purpose of intimidating the trade.

False claims to patent, trade-mark, or other rights or misrepresenting the scope thereof.

Intimidation for the purpose of accomplishing enforced dealing by falsely charging disloyalty to the government.

Tampering with and misadjusting the machines sold by competitors for the purpose of discrediting them with purchaser.

Trade boycotts or combinations of traders to prevent certain wholesale or retail dealers or certain classes of such dealers from procuring goods, or procuring them at the same terms accorded to the boycotters or conspirators, or to coerce the trade policy of their competitors or of manufacturers from whom they buy.

Passing off products, facilities, or business of one manufacturer or dealer for those of another by imitation of product or dress of goods, or by simulation or appropriation of advertising, of corporate or trade names, of places of business, or the passing off by a manufacturer of an inferior product for a superior product theretofore made, advertised, and sold by him.

Unauthorized appropriation of the results of a competitor's ingenuity, labor, and expense, thereby avoiding costs otherwise necessarily involved in production.

Preventing competitors from procuring advertising space in news-

papers or periodicals by misrepresenting their standing or other misrepresentation calculated to prejudice advertising mediums against them.

Misrepresentation in the sale of stock of corporations.

Selling rebuilt machines of various descriptions, rebuilt automobile tires, and old motion-picture films slightly changed and renamed as and for new products.

Harassing competitors by requests not in good faith, for estimates on bills of goods, for catalogues, etc.

Giving away of goods in large quantities to hamper and embarrass small competitors, and selling goods at cost to accomplish the same purpose.

Sales of goods at cost, coupled with statements misleading the public into the belief that they are sold at a profit.

Bidding up the prices of raw materials to a point where the business is unprofitable, for the purpose of driving out financially weaker competitors.

The use by monopolistic concerns of concealed subsidiaries for carrying on their business, such concerns being held out as not connected with the controlling company.

Intentional appropriation or converting to one's own use of raw materials of competitors by diverting shipments.

Giving and offering to give premiums of unequal value, the particular premiums received to be determined by lot or chance, thus in effect setting up a lottery.

Any and all schemes for compelling wholesalers and retailers to maintain resale prices on products fixed by the manufacturer.

Combinations of competitors to enhance prices, maintain prices, bring about substantial uniformity in prices, divide territory or business, or put a competitor out of business.

Acquiring stock of another corporation or corporations where the effect may be substantially to lessen competition, restrain commerce, or tend to create a monopoly.

Various schemes to create the impression in the mind of the prospective customer that he is being offered an opportunity to make a purchase under unusually favorable conditions, when such is not the case, such as—

1. Sales plans in which the seller's usual price is falsely represented as a special reduced price made available on some pretext, for a limited time or to a limited class only.

2. The use of the "free" goods or service device to create the false impression that something is actually being thrown in without charge when as a matter of fact fully covered by the amount exacted in the transaction taken as a whole.

3. Sales of goods in combination lots only with abnormally low

figures assigned to staples the prices of which are well known, and correspondingly highly compensating prices assigned to staples the cost of which is not well known.

4. Sale of ordinary commercial merchandise at usual prices and profits, as pretended government war surplus offered at a bargain.

5. Use of misleading trade names calculated to create the impression that a dealer is a manufacturer, selling directly to the consumer, with corresponding savings.

6. Plans ostensibly based on chance, or services to be rendered by the prospective customer, whereby he may be able to secure goods contracted for at particularly low prices, or without completing all the payments undertaken by him, when, as a matter of fact, such plans are not carried out as represented and are a mere lure to secure his business.

7. Use of pretended exaggerated retail prices in connection with, or upon the containers of, commodities intended to be sold as bargains at lower figures.

8. Falsely claiming a forced sale of stock, with resulting forced price concessions, when, as a matter of fact, there is mingled with the customary stock inferior goods, and other methods are employed so that no such concessions are in fact accorded.

Seeking to cut off and hamper competitors in marketing their products through destroying or removing their sales display and advertising mediums.

Discriminating in price.

Subsidizing public officials or employees through employing them or their relatives under such circumstances as to enlist their interests in situations in which they will be called upon, by virtue of their official position, to act officially.

Suggesting to prospective customers the use of specific, unfair, and dishonorable practices directed at competitors of the seller.

Imitating standard containers customarily associated in the mind of the general purchasing public with standard weights of the product therein contained, to sell to said public such commodity in weights less than the aforementioned standard units.

Concealing business identity in connection with the marketing of one's product.

Misrepresenting in various ways the advantages to the prospective customer of dealing with the seller; such as:

1. Seller's alleged advantages of location or size.

2. False claims of being the authorized distributor of some concern.

3. Alleged indorsement of the concern or product by the government or by nationally known businesses.

4. False claim by a dealer in domestic products of being an importer.

or by a dealer of being a manufacturer, or by a manufacturer of some product of being also the manufacturer of the raw material entering into said product.

5. False claim of "no extra charge for credit."

6. Of being manufacturers' representative and outlet for surplus stock sold at a sacrifice, etc.

Tying or exclusive contracts, leases, or dealings, in which, in consideration of the granting of certain rebates or refunds to the customer, or the right to use certain patented equipment, etc., the customer binds himself to deal only in the products of the seller or lessor.

Showing and selling prospective customers articles not conforming to those advertised, in response to inquiries, without so stating.

Direct misrepresentation of the composition, nature, or qualities of the product offered and sold.

Use by business concerns associated as trade organizations or otherwise, of methods which result in the observance of uniform prices for the products dealt in by them, with consequent restraint or elimination of competition, such as use of various kinds of so-called standard cost systems, price lists or guides, etc.

Securing business through undertakings not carried out and through dishonest and oppressive devices calculated to entrap and coerce the customer or prospective customer, such as:

1. Securing prospective customer's signature by deceit to a contract and promissory note represented as simply an order on approval, securing agents to distribute the seller's products through promising to refund the money paid by them should the product prove unsatisfactory, and through other undertakings not carried out.

2. Securing business by advertising a "free-trial" offer proposition, when as a matter of fact only a "money-back" opportunity is offered the prospective customer, etc.

Giving products misleading names so as to give them a value to the purchasing public or to a part thereof which they would not otherwise possess, such as:

1. Names implying falsely that the particular products so named were made for the government, or in accordance with its specifications, and of corresponding quality, or are connected with it in some way, or in some way have been passed upon, inspected, underwritten, or indorsed by it.

2. That they are composed in whole or in part of ingredients or materials, respectively contained only to a limited extent or not at all.

3. That they were made in, or came from, some locality famous for the quality of such products.

4. That they were made by some well and favorably known process,

when as a matter of fact they were made in imitation of, and by a substitute for, such process.

5. That they have been inspected, passed, or approved after meeting the tests of some official organization charged with the duty of making such tests expertly and disinterestedly or giving such approval.

6. That they were made under conditions or circumstances considered of importance by a substantial fraction of the general purchasing public, etc.

Interfering with established methods of securing supplies in different businesses in order to hamper or obstruct competitors in securing their supplies.

Chapter XXIV

PRICE-DETERMINING FACTORS

Growers' Local Prices.[1]

The prices received by the growers of farm products sold in local markets are based directly upon the ruling wholesale prices of the central markets to which they are shipped by the local buyers. Consequently they are subject to all the price influences which determine the central market prices, with the exception that they fluctuate less frequently. They do not follow the central market prices with absolute precision, they are not subject to all the myriad of fluctuations which occur in the central markets throughout each business day; but every long extended advance or decline and every daily price change is reflected in the local markets, and, in case of substantial price changes at the central markets, local buyers may readjust their prices several times in a single day. This relationship between local and central market prices is particularly close in the grain and cotton trades, because the purchasing and distributing organization in these trades has been developed to a high point of efficiency. It is somewhat less close in the local live stock, wool, leaf tobacco, fruit, produce, and other agricultural trades; but the local prices of these commodities are nevertheless based primarily upon the wholesale prices prevailing in the great central markets.

In basing local prices upon central market prices, various deductions are made, the most important being: (1) freight charges incurred in shipping the products to the central markets; (2) operating costs of the local buyers including wages, insurance, weighing, inspection, and cartage; (3) interest, rents, and any other local capital costs; and (4) an additional amount to yield a profit.

Central market prices, local influence on.—The amounts deducted from the central market prices are not absolutely inflexible, for they are to some extent subject to *local influences.* In the local grain trade, for example, the number of cents per bushel deducted in addition to freight charges at a given local market is influenced in part by the amount of competition between local buyers, the presence of a coöperative farmers' elevator, the ability of farmers to sell in near-by rival market, the extent to which certain farmers are holding their

[1] Huebner, G. G., "Agricultural Commerce," pp. 362-364.

grain in storage, and the intelligence of the farming community. Local buyers desire the maximum profit, but local influences affect the allowance for profit which they are able to include in the amount subtracted from the central market price.

Production, cost of.—The growers' *cost of production* does not directly determine the prices of the great farm staples, because the farmers do not determine the prices which they receive. Their position is radically different from that of the huge industrial concerns, some of which possess sufficient monopoly-power to control in a large measure the prices which they receive for their wares. Agricultural prices are competitive, and therefore are influenced by the growers' costs of production only *indirectly,* in that the failure to pay the farmers' profitable prices will affect the amount of given products produced by them. Prices may fall below the cost-basis temporarily and even for a succession of seasons, but low prices in the long run affect production or supply by causing reduced acreage or a shift from one crop to another.

What Makes Wholesale Market Prices.[2]

The wholesale market price is primarily determined by the relation of the visible supply to the consuming capacity of the community, country, or countries concerned.

Market price in the wholesale trade varies with the time and place, quantity and quality. It is the business of buyers and sellers in any market to know just what is the price at any particular time at which consumers will relieve the market of that quantity before additional supplies are received. That price we may define as the price which suffices to distribute the existing supply most advantageously to the seller, among consumers whose demands are most urgent, pending the arrival of fresh supplies from the source of production. Hence, this price is determined largely by the state of the visible supply. Now, the wholesale market tends to evolve this particular price proper to the time and place with conditions then and there prevailing. On the basis of this price the producer plans his outlay of labor and capital; and on this basis the retailer handles goods or holds off from the market. When the price is too low for any length of time to pay the producer, he simply diverts his enterprise to other channels, at much loss, however; when it is too high the retailer handles little or none, and so lets his capital lie idle for the time being. Lastly, consumers withdraw from the market until the proper price is reached at which the wholesale market can meet the measure of demand which the mass of consumers at a proper place are prepared to make.

[2] Report of the Industrial Commission, 1900, Vol. VI, "Distribution and Marketing of Farm Products," pp. 32, 33.

The speculator and the wholesale market.—The function of the speculator in the wholesale market is often misrepresented; but the determination of this particular price, which serves as a basis for production and retail distribution, and thus for consumptive demand, is not the least of the economic services he renders to producers and consumers. This "proper" price, as it has been called, is, however, primarily made in the interest of the consumer rather than of the producer. The consumer's demand is the primary factor in determining the speculator's course of action. Ten carloads of strawberries from the South arrive in a northern market on a given evening. They are sold at auction at midnight to a speculator. The upper limit of what he can afford to pay is measured by the price at which consumers will take them from the retail trade before fresh supplies arrive. Suppose that is ten cents a quart. The lower limit of his price is measured by the desire to attract more berries to the market from producers. Too low a price will not call forth a supply at that market. But the main thing is to get the consumer to relieve the market of these berries. The producer must market his crop, but the consumer is free to refuse to buy. Hence, it is the consumer's interest that is most nearly identical with that of the speculator.

Market price, how determined.—This is the way market price is arrived at day by day. It is the price that just succeeds in distributing the visible supply among consumers. If the price rises beyond this point consumption is checked, stocks accumulate, and a fall of price is necessitated, to the loss of all dealers who have purchased above the depressed rate; while, on the other hand, if the price falls below it the result is an advance at a future time, to the loss of all who had sold while the low price prevailed. It is evident, therefore, that dealers are interested in knowing the "proper price" of the market; and, further, it is evident that it is toward this point that the combined efforts of the buyer and the seller, in proportion as they are well informed respecting the conditions of supply and demand, really converge.

The Trend of Prices.[3]

For the purpose of analysis, we may assume that the price of an article at any time is subject to three distinct influences, resulting in three different kinds of trends.

These three price trends are, briefly, first the seasonal trend or cycle of prices. Prices are usually lowest at harvest time, when marketings are heavy, and then they advance, to decline again when the next harvest comes on the market.

The second trend is the upward and downward of the yearly aver-

[3] Nat. C. Murray, *Journal of Farm Economics*, Vol. 3, pp. 73-80.

age price, under the influence of supply and demand of the specific product considered, the average tending upward when the year's production is short and downward when production is large. Production is influenced largely by climatic and other conditions beyond the control or forecast of man. We may, therefore, always expect yearly ups and downs.

The third trend or price movement is that which extends over a number of years. It is due to general financial and industrial conditions, to change in the general purchasing power of money, the medium of exchange, rather than to the supply and demand of a particular product. This movement is shown most clearly by index numbers of yearly prices of a group of commodities. When the purchasing power of the dollar increases, prices of commodities in general tend to decline; when its purchasing power decreases prices of commodities in general tend upward.

Let us consider these three tendencies separately in a little more detail; and first, the seasonal trend or variation.

Seasonal trend.—If we should chart, say, the five- or ten-year average price, by months, of some agricultural commodity we would very likely have, not an irregular or jagged line but a more or less gracefully curved line, steadily advancing from a minimum to a maximum and then declining rather sharply to the minimum. If we should also chart, in the same way, the average monthly marketing of the same product we might also expect to see a regular curved line, but inverse to the price line.

A tabulation is here given, showing, by months, the index number of prices to farmers of the United States of ten crops combined, and, the monthly average receipts by farmers from the sale of crops.

	Price Index, 100 = *December*	*Total Sales*, 100 = *Value Year's Total*
January	103	7.4
February	105	5.2
March	107	5.3
April	109	4.6
May	112	3.9
June	113	3.1
July	112+	6.5
August	111	7.8
September	108	12.4
October	04	15.5
November	100+	15.7
December	100	12.6

The prices here given are based upon the average farm price for the seven years 1908-1914, inclusive. This period was taken because the collection of monthly farm prices was begun in 1908, and 1914 was

the last year before the abnormal war influences. Conditions were fairly normal during these seven years. It will be observed that the price movement when averaged is very regular, as is also the variation in the rate of marketing. Prices are lowest, considering all crops, early in December. They advance steadily, reaching the maximum in June, thence decline again. Marketing of crops is heaviest in November, then decreases steadily until June, and then increases, forming a regular cycle.

Similar trends will be shown, if we confine our observation to specific products. For example, I give below, for wheat, corn, and oats separately, the relative monthly price paid to farmers of the United States, and the percentage of the crop marketed by months.

PRICES PAID AND PERCENTAGE SOLD EACH MONTH

	Wheat		*Corn*		*Oats*	
	Relative Price	*Per Cent Marketed*	*Relative Price*	*Per Cent Marketed*	*Relative Price*	*Per Cent M'keted*
January	102	5.9	101	14.0	103	7.2
February	103	4.8	104	10.4	105	6.7
March	104	3.7	107	7.4	108	5.0
April	106	3.4	112	5.7	110	4.0
May	108	3.5	118	6.6	112	5.2
June	109	3.2	120	6.1	113	5.5
July	105	12.5	123	5.3	109	8.1
August	102	14.5	127	5.8	104	17.2
September	100	16.3	125	5.7	101	13.7
October	101	14.2	116	6.1	100	11.6
November	100	10.2	106	11.7	100	8.0
December	100	7.8	100	15.2	101	7.8

The seasonal cycle is much wider in the case of some crops than of others; thus taking the United States farm price average, the range from monthly low to high is only about 9 per cent for wheat, 13 per cent for oats, 27 for corn, 30 for potatoes, and 75 per cent for eggs. In general, the variation is least with crops which are non-perishable and easily kept, and widest with perishables, those which shrink in weight and are kept with more or less difficulty.

A fairly close relation is seen between the seasonal cycle of prices, and the seasonal cycle of marketing. The marketing cycle is not the same in different parts of the country, but is influenced by the time of harvest, the low point coming earlier in the southern states than in the northern states. Therefore prices do not advance or decline uniformly throughout the country.

Consider wheat, for example, in the tier of states from North to South, including the Dakotas, Nebraska, Kansas, Oklahoma, and Texas. The maximum price in each state is reached in May, but the minimum price occurs in July and August in Texas and Oklahoma, in August

and September in Kansas and Nebraska, and in October and November in the Dakotas.

We thus see that the seasonal trend or cycle of prices has a geographical variation, its minimum generally moving from south to north, with the progress of harvest. When we see wheat normally advancing 2 per cent in Texas between August and September and at the same time declining 7 per cent in the Dakotas, we can not say, without qualification, that Chicago or some foreign market makes the price in the local markets of this country.

RELATIVE FARM PRICE OF WHEAT, 1908-1914

100 = FOR EACH STATE MINIMUM PRICE IN MONTH

	Tex.	*Okla.*	*Kan.*	*Nebr.*	*S. D.*	*N. D.*
March	112	113	111	109	109	109
April	113	114	113	111	111	111
May	113	116	114	113	114	113
June	107	108	110	109	112	112
July	100	100	103	102	111	112
August	100	100	100	100	108	109
September	102	103	101	100	101	102
October	104	105	103	101	100	100
November	106	105	103	101	101	100
December	107	105	103	102	102	102

Oats affords a striking example of the influence of latitude upon the seasonal price cycle:

RELATIVE FARM PRICE OF OATS, 1908-1914,

100 = FOR EACH STATE, LOWEST PRICE IN MONTH

	Tex.	*Okla.*	*Nebr.*	*S. D.*	*N. D.*
January 1	119	114	107	106	112
February 1	...	...	...	...	...
March 1	130	129	113	113	117
April 1	128	126	115	117	120
May 1	128	130	118	118	123
June 1	127	129	118	121	125
July 1	107	113	117	122	126
August 1	100	100	108	116	128
September 1	106	102	104	102	108
October 1	109	105	103	101	101
November 1	111	105	100	100	100
December 1	113	105	103	101	102

Observe that in Texas the price is lowest when in North Dakota it is highest.

This one cycle seasonal trend is characteristic I believe of all crops. It may be observed, however, that there is frequently a dip, or temporary check, in the upward trend in March with the opening of spring, and a temporary increase in marketings. Hogs afford an interesting

example of two-price cycles in a year, the two maximums occurring in April and September and the two minimums occurring in June and December. This double cycle is coincident with the double (spring and fall) farrowing seasons.

The extent of the seasonal variation of prices has an important bearing upon the question as to whether it pays a farmer to hold or to sell his crop at harvest time. If the normal range from low to high in the price cycle exceeds the cost of holding, it would seem profitable to hold; on the other hand, if the cost of holding exceeds the seasonal advance in holding, there would be a loss by such holding.

The yearly average price.—It has been estimated that the cost of holding wheat for one month is 1½ per cent, four months 6 per cent, eight months 10 per cent and 10 months 11 per cent, that is, the price must advance 11 per cent in ten months before any profit can be secured. I believe that these estimates are high, if applied to farmers who have reasonable facilities for holding their grain. But we will assume that these estimates are about correct. Now an examination of the average farm price of wheat on the first of each month by states for the seven years 1908-1914 shows in most states a slightly wider range than the estimated cost of holding, for example, the average increase during ten months, from August 1 to June 1, in Ohio is 17 per cent, Indiana 18, Illinois and Michigan 15, Missouri 19, Nebraska 14, and Kansas 15. In eight months, from October 1 to June 1, the average increase is 16 per cent in North Dakota and 15 in South Dakota. In the six months from December 1 to June 1, the increase is 9 per cent in Wisconsin, 13 in Minnesota, and 10 in Iowa. These comparisons would seem to indicate that in the long run it will pay the farmer to hold, if he has the facilities to do so. It is interesting to observe that, although the low price is reached at different dates in different states, being influenced by the time of harvest, the maximum price is reached in nearly all states at nearly the same time. Thus the June 1 price is the highest first of month average price in 31 of 37 wheat-growing states, the 6 exceptions being only slight, whereas there are 18 states with low on August 1, 6 on September 1, 9 on October 1, 1 on November 1, and 3 on December 1.

In the case of corn both price and cost of holding varies from month to month more widely than does wheat, but the advance in price is greater than the cost of holding, justifying holding when facilities permit; thus the increase from the low to high average price is 33 per cent in Ohio, 36 in Indiana, 31 in Illinois, 34 in Iowa, 28 in Nebraska, and 27 in Kansas.

It has been estimated that to break even for holding corn, the price should advance 7.4 per cent the first month, 8.5 per cent in two months, 9.3 per cent for three months, 11.7 per cent for four months. The

minimum price in the Corn Belt states occurs between December 1 and January 1, and the maximum price about September 1, or eight to nine months after the low point.

In oats the increase from low point to high point is about 20 per cent, most of the state ranging between 18 and 22 per cent. The averages shown for this grain crop would seem to indicate that it does not usually pay to hold for only one or two months, nor for more than ten months after harvest, the optimum being about eight months.

The advance from low to high is generally greater in localities of large surplus than in localities of deficient production. For example, Iowa produces much corn and little wheat; North Dakota produces much wheat and little corn; the increase from low to high for wheat averages 11 per cent in Iowa and 16 per cent in North Dakota; and for corn 33 per cent in Iowa and 15 per cent in North Dakota.

The conclusion, from the examination of price trends, that it pays in the long run to hold rather than to sell at harvest, is in harmony with what might be expected when one considers that during the harvest period the offerings exceed the consumptive demand, whereas later in the season the conditions are the reverse.

The effect of variations in crop production upon prices is readily seen in a general way by relatively high prices with short crops, and low prices with large crops. But a measure of the effect of a given degree of shortage or excess of production upon price is not easily determined. In the seventh century Gregory King reckoned that a defect of 10 per cent in the corn harvest would raise the price 30 per cent, a defect of 20 per cent would raise the price 80 per cent, a defect of 30 per cent would raise the price 160 per cent, a defect of 40 per cent would raise the price 280 per cent, and a defect of 50 per cent would raise the price 450 per cent. Whether this relation between grain harvest and prices ever actually held I do not know, but I have manipulated the available crop and price data of the past fifty years in the United States, and have been unable to discover so striking a tendency as indicated in the so-called law of Gregory King. Modern transportation and credit facilities make such law inoperative for a limited area, as a county or state or even a nation. We know that a county may have a total crop failure without causing increased price if production elsewhere, enabling shipments into the country, is large.

It has been noted that in India where famines are not infrequent, prices of foodstuffs during such calamities do not rise in much greater proportion than the shortage, due, not to supplies coming from elsewhere, but to the reduced purchasing power of the natives, as a consequence of such famine.

I am inclined to suspect that a slight defect, not merely of harvest, but of supply, of any particular product in any locality, causes a rela-

tively greater change in price than a more material defect. Because, in any given area, habit is at first strong in stimulating demand for the short supply, and there is more or less inertia to be overcome before outside supply meets the local deficiency; but with greater shortage, this inertia is overcome, competition of substitutes come into play, and the advance is checked.

The yearly average price of a commodity in any limited area, as county or state, is of course influenced by both local production and by general production.

It is difficult to measure the strength of these two factors, local and general production, upon local price; they seem to vary considerably. I believe, however, that there is an inclination on the part of most of us to underestimate local conditions, or exaggerate general influences in determining a local price, as exemplified in the common expression that Chicago or the exports makes or determines the local price. Wheat prices in the United States are probably influenced more by world conditions than any other crop; and yet the spread or difference of price between different local market points vary widely from year to year, as may be shown by the annexed table showing the average price of wheat east and west of the Mississippi River.

WHEAT PRICES, EAST AND WEST OF MISSISSIPPI RVER

	Production		*Price*		
	West Per Cent	*East* Per Cent	*West* Cents	*East* Cents	*Difference* Cents
1912	84	16	76.8	97.6	20.8
1911	66	34	90.2	94.1	3.9
1910	67	33	88.8	95.1	6.3
1909	72	28	93.6	110.2	16.6
1908	..	..	87.9	96.7	8.8

In some years the price of wheat averages more than 25 per cent higher east of the Mississippi than it does west of the Mississippi; in other years, less than 5 per cent higher.

The long-time trend.—The third kind of price trend referred to, the long-time trend, due to the change in the value of the dollar, has been the dominant price factor since 1915. Size of production or cost of production has had little to do with the rapid advances. But even before 1915, that is, since about 1896, the general level of prices has been creeping upward, whereas during the twenty-five years preceding 1896 they tended downward. This downward trend to the nineties and upward trend since then is seen in the index number of commodity prices of all important countries, as England, France, Germany, and Italy, showing the universality of the movement.

Within the past five months, we have been witnessing enormous declines in the prices of agricultural commodities. During these four months all three of these price tendencies or influences have been work-

ing in the same direction; the seasonal cycle is downward in the latter part of the calendar year. Crop yields this year have turned out not only larger than average but much larger than anticipated early in the season. There is every evidence that the turning point has been reached in the upward trend in the general level of prices and that we are beginning on a downward movement.

When these three tendencies are operating in the same direction we may expect a greater change in price than when they counteract each other. In a consideration of the probable movement of prices of a commodity at any time one should consider these three influences separately, and then their probable resultant.

In the long time upward and downward trend in the general level of prices, everything does not rise and fall in unity, but there are varying degrees of lag. In general, raw materials with an open market are the first to respond to such change. Farm crops are such products. Therefore they were generally the first to advance and are now the first to fall. Wholesale prices and retail prices lag as do land values and wages, etc.

Control over Output and Prices.[4]

While the supply of foods ready for consumption is to a great degree the outcome of manufacturing processes, nearly all foods in their early stages and many in their finished form are the products of agriculture. This statement is generally true except in the case of fish, other sea foods, and salt. Conversely, except for the production of cotton fiber, wool, and draught animals, the industry of farming is the industry of food production. Of the total value of exports of farm products in 1914, about five-sixths was accounted for by foods and food materials. A study of producers' prices of food, therefore, becomes, for most practical purposes, a study of farmers' income.

It follows that the supply of foods partakes of the peculiarities of the supply of agricultural products. The chief of these peculiarities, in so far as they bear on price, is the lack of control over output. While the miner or mill owner can adjust the supply of his product to the demand for it with a fair degree of accuracy, the farmer can control his acreage alone. The moment his planting is over, the outcome of his effort is largely dependent on the weather, a factor beyond his control. In general farming, not even the acreage is readily responsive to changes in market prospects. The relation of crops to each other and to livestock production may be such as to commit the farmer to a program of several years duration.

[4] Wildman, M. S., "Prices of Foods," Study by War Industries Board, Price Bulletin No. 4, pp. 3, 4.

In many commodities, irregularity in production finds compensation in the accumulation of surplus stock. In normal times, the world possesses a great store of grain augmented at frequent intervals by harvests in one locality or another, and diminished by a fairly constant rate of consumption. The price of grain under these conditions moves within fairly narrow limits. Other commodities, commonly called perishable, are not capable of economical preservation and storage. In cases of this sort the range of prices is great. A small crop may sell at a fancy price, while an abundant crop may not return the expense of its production. To overcome the disabilities of perishable foods, canning, drying, and refrigeration are employed; but these are costly undertakings and presuppose the very fluctuations in price that their use is designed to prevent, for, without the spread between price to the farmer and price paid by the consumers, these operations would not be commercially possible.

While the supply of foods is essentially variable, the demand is, under ordinary conditions, remarkably stable.

The Supply of Agricultural Products.[5]

Inelastic supply, causes of.—In general it is true that the supply of agricultural products is inelastic.

Varying costs is one cause of *inelastic supply.*

Diminishing returns in agriculture is another cause for inelastic supply. This is closely allied with the principle of varying costs in that increasing costs may explain the varying costs of different producers. Nevertheless, diminishing returns would exist if the various producers all had the same costs, and it would act as a force for making an inelastic supply. A doubling in price would not bring a doubling in production, for the cost of producing twice the product would be greater than the additional price received. In other words, the principle of diminishing returns causes production in agriculture to change slowly in response to changed prices.

Immobility of capital is another cause of inelasticity of supply. When once a plant is built and equipped with special machinery, the process of shifting the investment to another enterprise cannot be made without considerable loss and sacrifice. The same thing holds true of agriculture. The farm that is equipped for dairying is not easily made over into a fruit farm, at least not without some loss. The same thing also is true in case of any specialized type of farming, or with farming in general, if the alternative is some other form of enterprise. All this tends to slow down the process of changing from one enterprise to

[5] Locklin, P. D., University of Illinois.

another, or, in the case of agriculture, from one type of farming to another. In short, it is a common cause of inelasticity of supply.

Lack of substitute uses for land is still another factor closely allied to the above which tends to create inelasticity of supply in agriculture. In some cases land can be used for one purpose only, in many other cases the substitute uses are very limited. This may arise because of climate or other natural limitations, or it may be due to the lack of markets within reach. Here is a factor which may cause continued production of a crop at a very small profit or at no profit at all. If land will grow wheat but nothing else that can be marketed, it probably will be used to produce wheat even at a loss for some time before it is abandoned entirely. The lack of a substitute use for land is thought to be one factor explaining the persistence of sheep-raising in Ohio in spite of its long-continued unprofitableness.[6]

The inability or disinclination to change occupations, found among a certain class of people, is still another factor acting as a hindrance to elasticity of supply. This is apt to be particularly true of a farming population, due in part to their mere numbers, and in part to the fact that whole communities are engaged in one type of farming and may have been accustomed to it for generations. The saying that it takes a sheriff to change the type of farming in a community indicates the common acceptance of this situation. Communities do change their type of farming, but it is a slow process.

The factor joint costs may also operate to cause inelasticity of supply, for the supply of a product produced jointly with other products will not readily be adjusted to changes in its price.

Control of Wholesale Prices of Meat Products.[7]

Two of the factors which generally determine the prices of meats are the price level of certain other foods and the quantity of meat which is offered for sale. There are other factors, such as weather conditions and holidays, which have some influence on the daily prices of meat, but they are minor factors compared with the first two named. Limited by these factors, the packers at all times sell their meats at as high prices as possible. Moreover, they are enabled to a considerable extent to influence both the price level of certain other foods and the quantity of meat which is offered for sale.

If meat prices go comparatively high, people buy less meat and more poultry, eggs, butter, cheese, fish, and the vegetable proteids, such as beans and peanuts, provided these meat substitutes are cheaper. But

[6] Taussig, F. W., "Free Trade, Tariff, and Reciprocity," p. 153.

[7] Report of the Federal Trade Commission on the Meat-Packing Industry, Part III, pp. 154-156.

by gaining control of a considerable proportion of these substitutes the Big Five are able to a great extent to keep the prices in line with meat prices.

In the long run, of course, the quantity of meat which is offered for sale will depend on the number of live stock which are produced in the country and the quantity of meat which is imported. The big packers control the importation of meat from South America. The number of live stock which are produced will depend on the prices which are paid for them. The Big Five, being in a monopolistic position in the meat-packing business, can determine in a large measure the live-stock prices. They may increase or decrease the spread between the prices they pay for the animals and the prices they receive for the products. By manipulating this spread the big packers may increase or decrease live-stock production in the country and thereby increase or decrease the quantity of meat which is offered for sale.

In any one comparatively short period of time the big packers are able effectively to regulate the quantity of meat which is offered for sale. If the general prevailing prices are unfavorable to them they may reduce the amount of meat offered by curing, canning, and freezing a larger quantity of their current kill. It is not necessary for them immediately to offer for sale the fresh meat which they have in stock. Fresh meat can be kept in the cooler for thirty days without injury to it and if they desire to keep it longer they may, and do, freeze it. To decrease the supply at any one market they have only to reduce shipments to it. By these methods the big packers are enabled not only to prevent gluts, but temporarily to raise the prices of meats or temporarily to prevent the prices from being lowered.

Unfavorable weather conditions and holidays cause temporary decreases in the amounts of meat demanded at particular markets. By decreasing shipments to these particular markets and by holding over part of the supply on hand, price fluctuations due to these temporary conditions may be considerably reduced.

The fluctuation in the prices of fresh meat is not infrequently due to the fact that frozen meat, not being as desirable as fresh, is sold for a few cents under the price of the latter. Hence, when a situation arises in which the big packers would be inclined to freeze and hold a supply, they may let it go at a lower price fresh rather than freeze it. Various estimates of both present and future market conditions, of course, determine whether they will dispose of the meat in the fresh or frozen state.

It was pointed out in Part II of this report that the branch houses of the big packers work together in regulating the supply of meat offered on the different markets each day. If they did not work together in the markets they could not greatly influence the daily prices. The

big packers themselves say that prior to the formation of the meat pools prices of fresh meats fluctuated a great deal more violently than at present.

If the packers place prices too high on their meats they are unable to sell the supply on hand, and they must eventually reduce the prices to where the supply will move, or be bought. They endeavor at all times to make the selling prices as high as possible and at the same time have the goods move. Because of the absence of competition and their partial control over the prices of meat substitutes, as well as the quantity of meat which is offered for sale, the prices they get for their meat products do not fluctuate violently. They remain at the maximum level consistent with the necessary movement of the products.

The result of these conditions of control of meat supply and consequent control of prices is that the small packers are placed in the position of living by sufferance. In some cases, by a process of local price-cutting, the big packers have forced them out of business when they became objectionable. The remaining small packers, realizing the situation they are in, have to content themselves with following the lead of the big packers and adjusting their prices to those made by the concerns which dominate the industry.

Factors That Cause High Prices.[8]

One of the most valuable results of this war promises to be a more general and better understanding of the fundamentals of economics and finance. The confusion, for instance, which seems to exist in many quarters as to the causes underlying the precipitate rise in commodity prices, and particularly that which erroneously attributes the present price level solely to the expansion of banking credit, will probably be dispelled. In the great laboratory which the world-wide war is affording for the testing of practically all such theories it will be established conclusively that there are *many* factors which contribute to the advance of prices, not the least of which is the well-known law of supply and demand.

Price movements, in fact, sum up in themselves the results of the bewildering and immensely complex interplay of all economic factors. The attempt to analyze the causes of price movements involves a study of all the various complex phenomena of our economic life. Since price changes result from many and diverse economic factors, it has come to be felt by many that any attempt to explain such changes solely from the standpoint of the increase or decrease in the circulating medium leaves out of consideration many other important factors. In the case of the increase of general prices during the present war, the most im-

[8] Guaranty Trust Company of New York.

portant of these factors are greatly increased demands, the disruption of distributing processes, a shortage of labor, and the decrease in production of various products.

The increase in wholesale prices of 81 per cent and the increase in retail prices of 57 per cent for January, 1918, as compared with July, 1914, creates a serious problem in our economic life. In making readjustments to the new level of prices, various classes of people have been differently affected. During a period of falling prices, the debtor class and business men feel the burden of the change while the creditor and those with fixed incomes are benefited. During a period of increasing prices, the creditor and the fixed income class feel the burden, while the debtor class and business men are benefited.

From a history of world prices it would appear that our economic life is one of constant change and that the problem of a changing price level has ever been with us. The measure of this changing price level consists of index numbers which for many purposes may be considered as an imperfect test of change of price levels. Various systems of index numbers differ among themselves in measuring the changes in the price level. The following table shows the periods of world-wide changing price levels:

1789-1809	general	prices	increased	approximately	85%
1809-1849	"	"	decreased	"	60%
1849-1873	"	"	increased	"	34%
1873-1896	"	"	decreased	"	40%
1896-1914	"	"	increased	"	47%

A nation at war is an insistent buyer of commodities. At the outbreak of the European War, several such buyers entered our market. Their insistent buying power led to an intensification of the market demand. Industrial plants in laying plans for expansion to take care of war contracts went into the market bidding for capital in the form of building machinery, raw materials, and also labor. In order to get this additional supply and to shift it from other lines of production, it was necessary to pay higher prices. Other industries, not working on war contracts, found that it was more difficult to retain their skilled labor and to get raw materials at usual prices, and as a result they were compelled to offer higher prices or reduce their output.

The outbreak of the War disrupted the normal distributive system, so that the supply of important commodities in the countries at war was restricted. The demands upon available shipping for troop movements combined with war losses further disrupted the machinery of distribution. A short-sighted failure to provide railroad transportation adequate to meet the increasing commercial and industrial needs of the country resulted in restricted supplies and increased costs. This greatly

curtailed the shifting of many commodities from points of production to places of most insistent demand. As an example, say, the surplus of wheat at the end of a season in Australia is estimated to be about 180,000,000 bushels. If shipping were available, the transfer of this supply to centers of demand would lower prices.

There has also been a decrease in the production of certain important commodities, particularly agricultural. For instance, thirty-cent cotton in part is due to decreased production as indicated by the following figures for the United States:

bales

1911—16,100,000
1912—14,100,000
1913—14,600,000
1914—16,900,000
1915—12,000,000
1916—12,500,000
1917—12,300,000

Under normal conditions, two or three short crop years in succession led to a higher level of prices. It is a well accepted principle of economics that a decrease of 10 per cent to 20 per cent in the supply of a product is likely to lead to a much greater increase in price.

These four economic factors—intensification of demand, disruption in distribution, shortage of supplies of certain commodities, and shortage of labor—certainly must be considered as forces generating an increase in prices. This view has the support of Professor Nicholson, a staunch exponent of the quantity theory of money when he states, "It often happens that a rise of prices begins with a rise in demand for important commodities, the rise being accelerated by speculation. Such a rise, however, cannot be maintained or advanced beyond certain limits unless there is an increase in the currency required for cash payments."

In this country, the rise of prices was made possible by the fact that the demand was backed up by purchasing power. Other countries sent us gold which added to our monetary supply.

The increase in the price level, occasioned by the causes enumerated above, necessitated more money to do the same volume of business, as judged by the amount of commodities. As an example of this, increased wages and increased value of inventories made it necessary for business men to increase their working capital. In addition, we find that the volume of business increased. During the period of the War, according to the estimate of Professor Anderson, the volume of business increased 30 per cent as measured by units of commodities. Railroads carried increased quantity of merchandise. Pig iron production, a usual barometer of the volume of business, increased from 30,722,000 tons in 1913 to 39,043,000 in 1915 and 38,195,000 in 1917.

And we should not overlook the fact that the increase in price aided in the stimulation of American industry and augmented the total amount of production. In fact, under the conditions obtaining during the first three years of the war, the necessary expansion in industry could be secured only by a rise of prices and a concomitant increase in the volume of money.

Price-fixing.[9]—The proposition that the government should guarantee a "fair price" for staple products, in order that the producer may know what he can count upon, evidently has obtained wide currency in the agricultural districts.

Perhaps it is well to have the proposition put in tangible form, for its weaknesses are more apparent in the details than in a vague general proposition. The United States exports approximately 25 per cent of its wheat production, and this portion must be sold in world markets in competition with wheat grown in other countries. Wheat is grown everywhere, and the production of other countries can be readily increased if there is a relatively better price for wheat than for other crops. The effect of raising the price of wheat in this country above the price of competing supplies would be to cause all other supplies to be taken first, and at the enhanced price the rest of the world would soon arrange to get along without any wheat from the United States. At the same time, the higher price would stimulate production in the United States, and tend to shift consumption to other foodstuffs, unless the prices of the latter were fixed to correspond, and the government would have to buy and store the increasing surplus, without any prospect of its ever being wanted. Of course the folly of this would soon be apparent, and the plan would have to be abandoned or the government would have to assume the task of limiting the production of wheat. How would the government go about regulating the production of wheat? Would it say that each farmer might put only a certain percentage of his land in wheat, regardless of the size of his farm or the character of the soil and its adaptability to wheat, or would it undertake to name farmers who might grow wheat and farmers who must grow other crops? Evidently the regulation of the production of wheat would be a very important new governmental function.

Prices interdependent.—The advocates of government price-fixing apparently have little comprehension of the complex system of prices which exists throughout the business world, and which adjusts production and consumption to each other. There is a far-reaching relationship of prices—an equilibrium of prices—which must be maintained in order that the exchanges may readily go on. These relation-

[9] *Monthly Bulletin,* National City Bank of New York, April, 1923.

ships are changing all the time with changes in supply and demand. If a grain crop is short the price of that product must go up in order to throw the demand to some substitute, while if the crop is large the price must go down in order to stimulate consumption. The markets are quick to respond to these influences. Producers know that their goods must move into consumption or they will be forced to curtail production. To fix a price above the figure at which goods will be taken for consumption is folly.

Example of corn and live stock.—Almost the only demand for corn is for feed for live stock, and it is necessary that there shall be a relationship between the production of live stock and of corn. Sometimes this relationship is lost sight of for a while, and the balance is lost. In 1920 corn was too high to be fed profitably, and a good many farmers reduced their holdings of live stock, particularly hogs. Then in 1921 and the fore part of 1922 there were not enough animals to balance the supply of corn, with the result that corn fed to hogs yielded about $1 per bushel while corn was selling in the markets at 40 to 60 cents per bushel. The cry went up that the government should fix the price of corn at a fair price, but the situation corrected itself in 1922, when the farmers produced more pigs to eat the corn, and so brought the relationship between corn and hogs back to normal. That change was brought about automatically by the low price of corn. If the government had undertaken to relieve the situation by buying corn for storage at a "fair price," the farmers might have gone on indefinitely raising more than there were hogs to eat it, and the government would have had no way of disposing of the corn. Under the pressure of economic law the farmers brought the situation back into balance, and the only real remedy was put into effect.

This example of corn and hogs illustrates the entire price situation. The goods which one group of people produces must be traded for the goods which the other groups produce. Money is a convenient intermediary, but it is a mistake to suppose that anybody, government included, can pay money for products unless he can turn around and dispose of the products for consumption. It does no class of producers any good to have their products simply pile up in storehouses; that process must soon come to an end. There must be a prompt adjustment of price relationships throughout industry in order that all kinds of products may be taken off the market and consumed. When the changing character of this relationship is understood the utter impracticability of government price-fixing will be seen. It may serve a temporary purpose in time of great emergency, like wartime, when the government is trying to concentrate all the energies of the nation upon one purpose, but as a permanent policy it simply interferes with the benefit workings of economic law.

Prices must conform to natural conditions.—A knowledge of the workings of economic law also answers the sensational alarms that are sent out about arbitrary price-fixing in various lines. Price-fixing by combinations of producers must take account of natural market conditions. The price must be low enough to move the entire product into consumption and high enough to induce sufficient production to meet the demand. This means that price-fixing cannot for any considerable time be an arbitrary action. It will defeat its purpose unless it complies with both of the foregoing conditions. The arbitrary price-fixer, given ever so much power, really has very little choice. He wants the largest aggregate profit, and in nearly all businesses that is obtained on a large production, hence we find as a rule that big business seeks a large volume of output on a small margin of profit.

Protecting Resale Price on Trade-Marked Goods.[9]

Retailers in all parts of the country are interested in the effort now being made to pass a bill sponsored by Senator Arthur Capper of Kansas and Representative Clyde Kelly of Pennsylvania to stabilize prices of trade-marked merchandise. The bill is the result of many months' conferences with committees of the American Fair Trade League, the National Chamber of Commerce and many other national organizations.

Should this bill be passed, it will immediately curtail price cutting practices used by department and chain stores, and other large buyers. That these methods are unfair there can be no doubt to those who are familiar with both sides of the question.

Those opposed to the bill say it will have a tendency to raise the cost of living. This is what they would have the world believe, but no one manufacturer has the field to himself, as they compete with each other to gain and hold a market. To get the market, the manufacturer has to make his price one which will attract the larger number of retail buyers. If I'm manufacturing a trade-marked soap, it has to be much better than Ivory if I expect to sell it for one cent per cake more than asked by the Ivory manufacturer. If I'm making a radio set, it has to be listed at a price equal to or lower than other sets which have the same general equipment and parts. Competition between my factory and other factories makes the price at which I can expect to interest wholesalers, retailers, and consumers.

The bill in itself provides for a fixed price based on manufacturing costs, so that, should I have a monopoly, the price would be only such as would give all distributors a fair margin and not impose an outlandish cost on the customer. And if I hold a monopoly on a distinctive pro-

[9] By C. D. Maddy.

duct, I compete with those articles which are used partly to fill the needs I claim for mine.

Department and chain stores have long used the trade-marked article as a merchandising leader. Their advertisements lead one to believe that they are cheap because they sell at 1 cent less than the small buyer. But this one product is only a small part of the retailer's sales. It makes people think that all prices are 1 cent or more lower than those asked by the one-store dealer. Yet these same stores will, in many instances, display a product of their own adjacent to the trade-marked goods with the price two or three cents above the standard merchandise. Mr. Buyer or his wife think that because it is higher it is better, but the fact of the matter is that the private brand was probably made by the same manufacturer that produced the trade-marked product and sold to the chain as "seconds" at a price far below the regular price. This is the common practice of chain stores with inferior quality merchandise. If you doubt it, take a can of Del Monte goods, note that the net content and whole pieces are invariably greater than in the cans you buy bearing the name of any chain grocery store.

Then there are those who assert that once a retailer buys anything, he has the common law right to sell it or to dispose of it in any way he sees fit. But has he? The manufacturer of a trade-marked article has spent real money to create the market on his goods for the retailer. Is he not entitled to some voice in how the market should be treated? He has advertised the article and in his ads has stated the price to be $1.25. People enter the store, sold on the commodity and ready to spend $1.25. If you or any other dealer offers them the goods at $1.15 the customer thinks the stuff is not so fine grade as advertised, otherwise, it would be worth the price named by the man who made the article. He or she leaves your store under the impression that the manufacturer is a liar. You have killed the chances of a repeat order, at the profit made possible by the manufacturer's advertising, and you have literally taken money out of your own pocket when you made the first sale. You took a loss of ten cents by selling at $1.15 instead of the real price, $1.25.

Surely, the large buyer wants to cut prices because he can often sell at your cost price and make more per sale than you can make per sale at the advertised price. The big buyer takes all quantity and cash discounts on large lots which give him a wider margin. I maintain that the large buyer should make his money in full, but he should not use this as leverage to make the public think all little dealers are robbers, crooks, and high-binders.

Large department stores claim that if they, through their ability to organize, establish a house which can effect greater economies for the general public, they should have the right to pass these savings along in the form of lower prices on their goods. If this be true, why do they not

pass savings along on those goods which are made up under specifications for them, with their own private brand name on them? Then, through their efficient staff, they would be of tangible economic value to the world, because they could sell their own goods at a low price in competition with those items which manufacturers have established as measures of quality.

The argument is also raised, "Why make the retailer the agent for the manufacturer?" That's what it amounts to when the maker fixes the resale price. This would be justified if the bill did not stipulate that the retailer, should he wish to discontinue the line or close out or go into a receiver's hands, would have the right to offer the manufacturer the goods at the price paid for them by the retailer, thus giving the retailer a capital stock value at actual cost.

Ford maintains the fixed price rule and you may not like the Ford car, but you can't get more motor value than he offers dollar for dollar. Public utilities have a fixed rate made by the public service commissioners in their respective districts, yet you pay less for gas, electricity, and power than you would if these "makers" were not operating under fixed price laws.

The old threadbare stand taken by some, that the price maintenance bill would not be economic, as it fails to consider open market on raw materials, labor costs, and financial markets, is more academic than practical. You may as well bring up the theory that a pebble thrown into the ocean will make ripples extend from shore to shore. In theory it will, but one pebble makes little difference to any one of the many waves. Labor costs and raw materials, if they do down, would give the various manufacturer in each and every field a chance to compete with themselves. Just as soon as one made a cut in wholesale and retail prices, all others would have to follow or in some manner equalize resale values.

Then they say fixed prices make no allowance for near and distant transportation. This is bunk, pure and simple. Prices are based upon all costs and include the average and mean carrying charges, not the cost for a Philadelphia manufacturer to dispose of his wares in Trenton and another set of figures for the same manufacturer to sell his products in Seattle, but one set of figures for the disposal of his commodities midway between these points. Other firms sell their goods f. o. b. point of origin and where this is practiced the question has no bearing on the fixed price as the retailer in small towns operates at a smaller rental charge than does his brother in the big town. The big city man has a smaller margin per sale but he has a greater volume.

The greatest slam at price maintenance is that once the resale price is established, the manufacturer will hold the resale price as fixed but increase the cost to the retailer, thus putting the merchant in a vise

squeezing the margin of profit down until it hurts. As stated, the bill carries the provision that the retailer reserves the right to offer the merchandise back to the manufacturer should he—the retailer—wish for any reason to discontinue the line. It is good both ways. If the retailer is squeezed, he can dump the goods back, or if the maker refuses to take them back the retailer is at liberty to dispose of them as he wishes. Here he can cut the price and make a more rapid disposal of goods than he now can when several stores are cutting the prices on trade-marked goods as a subterfuge, blind bait, or leader. Then every dealer has always the right to pick a similar article made by a competitive manufacturer, and refuse to carry the original line.

The price maintenance bill is the salvation for the small retailer. It places him on an equal footing with the larger interests and it prevents the large buyers from using price as an unfair advantage on sales, over the little fellow. And always, any unfair advantage is the source of unfair competition.

Control of Production and Exportation and Effect on Prices.[10]

History.—Prior to, and especially since, the war reports came to this country of efforts by foreign governments to control the production or exportation, or both, of certain raw materials essential to our welfare. Therefore, the Sixty-seventh Congress, in February, 1923, authorized and made appropriation for an investigation by the Department of Commerce of the growth and extent of foreign government controls of the production and exportation and the prices of crude rubber, coffee, nitrates, and other raw materials essential to our needs and of which the United States was the largest single importer, and whether these controls were being used to the detriment of the American consumer.

While this work was nearing completion there arose louder and more pronounced complaints as to the alleged detrimental effect of these controls, especially in increasing prices. Thereupon, the majority floor leader, Mr. Tilson, introduced, and the House on December 21, 1925, passed, House Resolution 59, reading as follows:

RESOLUTION

Resolved, That the Committee on Interstate and Foreign Commerce be, and it is hereby authorized and empowered to investigate, by subcommittee or otherwise, the means and methods of the control of production and exportation of crude rubber, coffee, silk, nitrates, potash, quinine, iodine, tin, sisal, quicksilver, and other important raw materials, and their effects upon the commerce of the United States, both as to supply and price, and to report to the House its findings and recommendations thereon; said committee shall have leave to report by bill or otherwise at any time on the matters herein stated in one or more reports.

[10] House Report No. 555, 69th Cong. 1st Sess.

The resolution was referred to the Committee on Interstate and Foreign Commerce.

General findings.—Exhaustive hearings were held. There appeared Mr. Secretary Hoover, Dr. Julius Klein, and other officials of the Department of Commerce, special investigators of that department, representatives of the rubber industry, the Rubber Association of America, the American Automobile Association, the Farm Bureau Federation, Bureau of Standards, etc. The committee finds:

1. That controls of either production or exportation which materially affect prices have been instituted by direct or indirect foreign governmental action as follows: The Government of Great Britain, through direction of its colonial office to its East Indian possessions, over rubber; the Government of the State of Sao Paulo, Brazil, over coffee; the Government of Chile over nitrates and iodine; the Governments of Germany and France over potash; the Government of Egypt over long-staple cotton; the Government of Japan over camphor and at times over silk; and the Government of Yucatan, Mexico, over sisal.

The tendency further to develop such governmental trade controls is illustrated by the Government of New Zealand in the latest measure of this type wherein a governmental control board is established to handle the trade in kauri gum (an important ingredient in varnishes). This is to go into effect on April 1, 1926. Happily, there are substitutes for this commodity, while that is not true of rubber and some of these other essentials. Other controls exist to the same extent over certain other commodities, but through benevolent attitudes of governments rather than through direct legislative or administrative action.

2. All of the controls specifically referred to have certain common characteristics in that

(a) They are all confined to commodities where the preponderating production lies in the country mentioned. For example, the British possessions produce 69 per cent of the world's rubber, Brazil 65 per cent of the world's coffee, and Chile 100 per cent of the world's natural nitrates.

(b) They are confined to commodities where the consumption within the country of origin is in small ratio to the consumption in other countries. For instance, 5 per cent of the world's coffee is consumed in Brazil and 7 per cent of the world's rubber is consumed in the United Kingdom. Only a small per cent of the nitrate or iodine production is consumed in Chile, and so on.

(c) Of rubber, nitrates, iodine, sisal, coffee, raw silk, and camphor the United States consumes nearly half, and in some cases almost 75 per cent of the entire world's production.

(d) These controls are largely exercised through governmental limitation of exports or of output imposed upon each producer or dealer.

(e) They are all stated to be for the purpose of stabilizing the price for the mutual benefit of the producer and the consumer.

(f) All of them have maintained or brought about prices highly profitable to their producers and some of them have from time to time advanced prices to exorbitant levels. Seemingly, they either take the course of all monopolies not to remain content with highly profitable prices or they fall into the hands of speculators who force the price to extortionate levels. In many cases the declared "stabilized" price has thus been exceeded greatly. For instance, the price of rubber was advanced to 300 per cent of the originally announced "fair" price.

3. The effect has been to increase the price which the American consumer must pay for several of these commodities to an unreasonable and exorbitant figure and in other ways to restrict the natural flow of adequate supplies. This will be given in detail later when each commodity is specifically handled.

4. This entry of foreign governments into the business and control of trading and the consequent rise in price at once compels consumers of such commodities to deal directly or indirectly with foreign governmental authorities and sooner or later our citizens are forced to demand that their government assist in these negotiations. This projects the government of both parties into business in large issues. As a result the complaints of consumers of such controlled commodities throughout the world regarding real or fancied wrongs in prices, supplies, and other trading conditions become matters of governmental policy and concern and consequently stir international ill will. In fact, through these processes trading is being taken from the market places and encumbered with the formalities, and far-reaching, serious consequences of international relations with an inevitable harmful effect to the world.

5. An immediately effective remedy against price exactions has been demonstrated in the power of the American consumer to decrease demand as recently accomplished in the case of rubber. Emphatic complaints of American users of rubber goods, particularly tires, began to reach the Department of Commerce in the latter part of 1925. Since both official and unofficial representations of the British Government had brought no relief, the Secretary of Commerce advised the complainants and the public generally to reduce their demand for rubber by using substitutes and by extracting a greater measure of service from all rubber articles through using them properly and repairing them promptly.

The immediate response indicated that the consumers realized the power they held. The price of crude rubber began to decline almost immediately from a high of $1.10 in November, and the decline has continued until the best grades are now selling on the New York market at around 50 cents per pound. Attendant circumstances to this remarkable result include a 16 per cent lower consumption of

crude rubber in the last quarter of 1925 than in the previous quarter, a 46 per cent advance in the sales of tire repair materials, an appreciable decrease in tire purchases and a consequent increase in tire stocks, an 80 per cent increase in the consumption of reclaimed rubber, and substantial increases in the stocks of raw rubber in New York and London.

The committee believes that American consumers generally will not be slow to realize that what has been done in the case of rubber can be done with other commodities, when their prices are advanced to unreasonable levels by monopolies controlling them.

6. These controls violate economic law and produce disastrous economic results both to producer and consumer. The normal improvement in production by cheapening costs is suspended. The restriction of production prevents growth to meet future world demands which would ordinarily be the response to high prices. To the consumer it means not only unfair charges but substitution of inferior alternatives. To the manufacturer and distributor it means greatly enhanced hazards, the costs of which are passed on as a further charge to the consumer.

7. There are some 70 other vital commodities which could be controlled by action of foreign governments and which the United States does not produce in sufficient quantities to satisfy its requirements. The substantial increase in the price of these government-controlled commodities and the resulting enormous profits of some of these controls in the past is an encouragement for their establishment and extension over many other essential raw materials of international commerce, many of which can be controlled by the action of one or two governments acting in agreement. While it is popularly held that such government controls must stimulate production outside the controlled area and thus defeat their own objects, yet the experience so far plainly indicates that this process is so slow that the world consumer in the meantime would be compelled to pay billions of dollars in exorbitant prices. To illustrate, it takes about eight years before a rubber tree can be brought into full bearing and almost as long in the case of coffee and sisal.

8. The suggestion has been made in certain quarters that these governmental controls were instituted as a sort of reprisal against the protective tariff policy of the United States as embodied in the Fordney-McCumber Act of 1922. Such is not the case. The Brazilian restriction of coffee had its origin in 1906, the Mexican sisal restriction in 1915. The Chilean nitrate control dates back to 1885, and the British control of crude rubber was in process of formulation before the Fordney-McCumber bill became a law.

With the exception of crude rubber, the four leading governmental control commodities come from three Latin American countries—Brazil,

Mexico, and Chile. The tariff relationships between these countries and the United States are decidedly in their favor.

We find that over 90 per cent of our imports from Brazil come in free of duty, while 90 per cent of our exports to Brazil are subject to a tariff duty. About 85 per cent of our imports from Mexico come in without duty, whereas, we find that about two-thirds of our exports to Mexico are subject to the payment of a tariff duty. About 98 per cent of our imports from Chile are admitted free of duty, whereas almost 90 per cent of our exports to Chile are subject to the payment of a duty. With reference to Great Britain—rubber being subject to governmental control by that government—we find that about 60 per cent of our imports from that country come in subject to duty and that about 10 per cent of our exports to Great Britain are subject to duty. Upon these imports from us in the year 1924, they collected in tariff duties over $100,000,000. Their average rate on the dutiable manufactured goods was approximately 29 per cent. It must also be borne in mind that of our total exports that go in, about 65 per cent are foodstuffs or raw materials.

Furthermore, since the war, the exports from the United States to these countries have increased materially above the pre-war average. This is likewise true of their imports into this country. The following table will explain:

TRADE OF THE UNITED STATES WITH CERTAIN COUNTRIES

[Values in thousands of dollars.]

	—Imports into U. S.—			*—Exports from U. S.—*		
	1910-1914 Average,	1924	1925*	1910-1914 Average,	1924	1925*
United Kingdom	567,592	982,942	†1,001,101	278,897	366,466	†409,705
Straits Settlements	2,876	7,506	10,970	24,625	147,634	293,685
British India and Ceylon	‡11,317	36,940	39,577	‡66,322	128,602	188,302
Ceylon alone	§413	1,589	2,149	§9,966	25,325	45,188
Brazil	31,484	65,207	86,415	110,878	179,337	217,681
Chile	13,870	31,377	38,061	22,881	98,284	91,565
Mexico	53,091	135,075	143,995	70,479	167,087	179,679

* 1925 totals estimated from 11 months' figures.
† Excluding Irish Free State.
‡ British East Indies, excluding Straits Settlements.
§ British East Indies, excluding British India and Straits Settlements.

It was further ascertained that the exports of Great Britain to the rest of the world have increased since the pre-war years much less than her exports to the United States. The increase in British domestic exports to the United States, in terms of value, between 1913 and 1925, was 74 per cent, while the increase to the rest of the world, after taking into account the effect on the figures of the segregation of the Irish Free State, was 37 per cent.

Specific Findings.

Crude rubber.—The advance in the price of crude rubber had been so great that the committee gave especial attention to government control of rubber. Furthermore, this control fairly indicated the economic and political characteristics of this type of governmental action. The method of control of crude rubber was formulated in October, 1922, upon the recommendation of a committee appointed by the British Colonial Secretary and composed chiefly of men interested in rubber plantations. The chairman was Sir James Stevenson, and the recommendations are commonly referred to as the Stevenson Act. The British Colonial Secretary adopted these recommendations and submitted them to the several East Indian legislative councils.

Laws embodying them became effective on November 1, 1922. The announced intention was to restrict exportation and curtail production by a plan which would maintain a "fair" or "stabilized" price at about 36 cents per pound. The hearings disclosed that such a price would yield an annual return to the rubber growers of from 15 to 25 per cent on their invested capital, even on the higher production cost plantations. Furthermore, evidence was submitted showing statements by Sir James Stevenson and Mr. Eric Miller (also of the Stevenson committee) that 36 cents was the objective of the plan. There has been no material increase in production costs since the Stevenson plan went into effect.

There can be no question but what 36 cents brings an ample return to the producer. In brief, the plan limits exports to a percentage of a fixed or arbitrary standard production assigned to each plantation. The standard is based on the general yield of 1919-1920. Under the terms of the plan, the permitted exports automatically rise or fall quarterly as the price fluctuates above or below the 30-cent level, providing the British colonial office authorizes it. The standard production was fixed at a gross total of 335,000 tons. The potential or capacity production is now 385,000 tons. The standard quota per acre has varied and was originally fixed so as not to exceed in any plantation over 400 pounds per acre. A certain percentage of this standard production is allocated to each plantation for exportation in each quarter year, depending upon the average price of rubber during the preceding quarter and the action of the British colonial office. This percentage has run from 50 per cent to 85 per cent. During the entire period of control up to January 1, 1926, it has averaged about 62 per cent of standard production. This arbitrary or assessed standard production is about 15 to 20 per cent below potential production or what the plantation could actually produce. Therefore, during the control period, the exportation of potential production has been restricted about one-half. If a planter exports more than the allowable percentage, he must pay a heavy export tax

not only upon the excess over and above his percentage but upon the entire amount exported. This tax is sufficiently substantial as to be practically confiscatory.

There is no question but what there was effective governmental control under the Stevenson plan.

Effect on supply and price.—The average price of rubber (plantation ribbed smoke sheets) at New York during the years 1914 to 1918, inclusive, was 67.41 cents per pound. These were war-time prices. The average yearly prices since then have been:

1919	48.70
1920	36.30
1921	16.30
1922	17.50
1923	29.45
1924	26.20
1925	72.8

During the years 1925 and 1926 the average monthly price and percentage of exportation allowed on standard production was as follows:

Month	*Average Monthly Price Cents*	*Percentage of Exportation*
1925		
January	36.7	50
February	36	55
March	41	55
April	43.6	55
May	58.4	65
June	77.3	65
July	103.2	65
August	83	75
September	88.9	75
October	98.1	75
November	109.5	85
December	98.2	85
1926		
January	86	85
February	64	100

The highest price reached was in July, when one day the price soared to $1.21 per pound.

The manufacturers using crude rubber must anticipate their wants and place their orders from four to six months in advance of its actual arrival here. The effect of these rapidly rising prices upon the manufacturer who has anticipated his wants is retarded somewhat. This is evidenced by the following table showing crude-rubber imports:

UNITED STATES IMPORTS OF CRUDE RUBBER, JULY, 1925, TO JANUARY, 1926

	Quantity	*Import Value per Pound*	*Total Value*	*Value at Originally Announced "Fair" (36 Cents)*	*Import Cost Above "Fair" Price*
1925	*Pounds*	*Cents*	*Dollars*	*Dollars*	*Dollars*
July	72,699,696	46.4	33,701,723	26,171,891	7,529,832
August	74,844,042	53.2	39,834,348	26,943,855	12,890,493
September	59,061,732	62.1	36,686,013	21,262,224	15,423,789
October	77,617,160	64.5	50,027,338	27,942,178	22,085,160
November	84,571,583	66.5	56,271,963	30.445,770	25,826,193
December	90,336,039	72.02	65,055,868	32,520,974	32,534,894
1926					
January	94,985,457	76.35	72,528,151	34,194,765	38,333,386
February*	73,577,034	79.54	58,526,134	26,487,732	32,038,402

* Estimated on basis imports into New York customs district only.

It is obvious that as the rubber coming in for the next several months will have been purchased during the peak prices of 1925 (in November and December the average was $1.01 per pound), a further rise in import values will be inevitable. The import cost above the "fair price" amounted to over $100,000,000 during the last three months.

Our rubber imports in 1925 were 888,478,385 pounds. Should the prices of November and December have been continued during the year 1926, rubber imports of like volume would have cost $897,363,169. The hearings showed that 18 cents was a fair average cost per pound. The plantation cost of our supply, therefore, was $159,372,565. On the basis of 36 cents, the fair price announced by the growers when the control was inaugurated, the scheme would have cost the American user a total of $318,745,131. But, if the November-December price of ($1.01 average) was maintained, the American rubber purchaser would be paying $897,363,169 or $737,990,604 more than production cost, and $578,618,038 more than its fair price. For every 10-cent increase per pound, the cost to the American user of rubber will be raised by $90,000,000 this year.

The American manufacturers, fearful of its effect upon both supply and price, protested the putting into effect of the Stevenson plan. The pivotal price in the scheme was 30 cents per pound. A British committee came to the United States and made assurances that the maximum price objective was 36 cents per pound and that action would be taken in the event of a runaway market to prevent the price from mounting above this figure. The hearing shows that, during the past year, numerous negotiations were undertaken with British officials by representatives of American users of rubber to secure a relaxation of restrictions in order to maintain the accepted "fair" price. Informal

representations were conducted through official channels. Neither were effective.

Finally, while the hearings were in progress and with current prices of crude rubber double the admitted "fair" figure, the restriction authorities by decision effective February 1, 1926, continued to maintain an effective restriction on export amounting to 15 per cent or 20 per cent. This is the difference between "standard" and "potential" production. Of course, so long as the plan is permitted to exist the percentages can be applied at any time.

It is obvious that such a plan of restriction of exportation in a country producing 70 per cent of the world's supply would materially affect supply. The following table shows a great loss to the world of 361,126 long tons:

CRUDE RUBBER RESTRICTION—LOSS OF PRODUCTION IN MALAYA AND CEYLON DUE TO RESTRICTON ACT

(Figures in tons except where otherwise noted.)

Restriction Year	*Average Percentage Exportable*	*Standard Production*	*Permissible Exports*	*Actual Exports*	*Loss to World*
Nov. 1, 1922—Oct. 31, 1923	61.25	324,000	198,450	198,459	125,541
Nov. 1, 1923—Oct. 31, 1924	58.75	325,000	190,938	202,830	122,170
Nov. 1, 1924—Oct. 31, 1925	61.25	336,000	211,800	222,585	113,415
Total, 3 years	60.42	985,000	601,188	*623,874	361,126

* Excess of actual exports over permissible exports was due to exports of certain licensed stocks, export allowances to small estates, and a few shipments exported through the payment of maximum rate of duty.

The marked increase in Dutch and all other production which began long before restriction was effective in British territories continued during the three years. Later, the production in non-British areas was unquestionably stimulated by the British restriction; the increased production, using 1922 as a normal, amounted to 215,000 tons at the end of three years.

In other words, assuming that 100 per cent of "standard production" could have been realized in Malaya and Ceylon if there were no restrictions, the loss to world supply through British restriction of 361,126 long tons was counteracted to some extent by the increase since 1922 in Dutch and other nonrestricted areas of 215,000 long tons, making the net loss in world supply during the three restriction years 146,126 long tons.

As a result of this loss, London stocks of crude rubber declined as follows:

LONDON STOCKS OF CRUDE RUBBER

(Long tons.)

End of Year	
1922	72,299
1923	60,246
1924	29,488
1925	6,129

Notwithstanding this increase in non-British areas, Dr. H. N. Whitford, formerly special investigator to the Department of Commerce, advised the committee that estimated world consumption in 1931 would be exceeding the then estimated production so as to make a deficit of 165,000 tons in maintaining a normal working supply so essential in maintaining a fair price to the consumer.

The claim that the control was necessary to save the rubber-growing industry from destruction is not borne out by the condition of the industry at the time as is evidenced by the fact that not one planting company had failed and the majority were able to cover costs of production at average prices even in the worst year. The *London Daily Telegraph* (a leading British journal) referred to this fact on January 15, 1923, as follows:

"Speaking generally, the cost of producing rubber has been so surprisingly reduced that with the present price of over 1s. 3d. (about 30 cents) per pound for the commodity, practically all the companies are now working at a profit. There can be few industries that have come through the world depression with so little loss as the rubber industry. Not a single rubber company has disappeared, and there have been fewer appeals for capital and less numerous reconstructions than in other industries of equal magnitude."

The change in the price policy of the control during the past year and its abandonment of the 36-cent "fair" figure as its real objective is revealed by the fact that the authorities in charge of export restriction refused to withdraw the plan or to decrease the restrictions when this was urged by the American manufacturers as an imperative measure to prevent runaway prices.

Coffee.—Governmental control had its genesis in the valorization scheme pertaining to coffee. Again we find large percentage (65 per cent) of world's production in Brazil, the country of control. It consumes about 5 per cent of what the world produces, while the United States consumes about 50 per cent. During the last three years we imported an average of 10,200,000 bags of coffee (132 pounds to the bag), valued at about $200,000,000. Of this, Brazil furnished 6,700,000 bags, valued at $124,000,000. It amounts to 55 per cent of the total coffee that Brazil exports.

The valorization in Brazil began with the passage of the act of

1906. Under this act, the state of Sao Paulo, backed by the Federal government, bought from 8,000,000 to 10,000,000 bags of coffee during the next three years at a very low price. This coffee was disposed of largely during 1911-1913 when smaller crops and the stock shortage, brought about by the government withholding its supply, had caused a considerable rise in price. This enterprise was made possible through a loan of 3,000,000 pounds sterling guaranteed by a surtax of 5 francs per sack. An arrangement then was made with foreign merchants to store the coffee and advance 80 per cent of the price while the state would advance 20 per cent.

The second large purchase was made during 1918, when prices were very low due largely to the War, which had interfered with exports to Europe. This was disposed of in 1919 at a very good price and large profit to the government. This was financed through an issue of paper money by the Federal Government, amounting to about $75,000,000 and an additional loan from the Federal Government to Sao Paulo of $27,000,000.

The third major coffee purchase was in 1921, when about 4,500,000 bags were purchased. The financing of this operation was conducted through the Banca de Brazil on short-term notes, which were refunded through a British-American loan of 9,000,000 pounds sterling floated in May, 1922.

Since 1921, however, the policy has gradually changed from one of purchasing coffee to one of limiting the movement of coffee to the ports. The coffee is thus held in the interior and the burden of carrying the surplus falls back upon the producers. To aid in this the government has built large interior warehouses.

A loan of 5,000,000 pounds sterling, with prospects of an additional like amount, was recently negotiated in Europe, and this has strengthened the position of the Coffee Defense Institute, the semiofficial body responsible for the valorization operations.

During these years Brazil has kept her production close to an average of 12,000,000 bags. In the meanwhile other coffee-producing countries have generally increased production by nearly 50 per cent. This governmental control over coffee has resulted in substantial price advances to consumers. Although it is impossible to state exactly what has been the increased cost to the American public, it can be pointed out that the difference between the average import values of coffee in the United States in 1922 and 1925 was about 10 cents per pound, which amounts to about $135,000,000 on the annual coffee purchases of the United States. A substantial part of this advance is due to the operation of the Brazilian valorization scheme, since production costs have only slightly advanced in that time.

Potash.—The world's production for the year 1924 was estimated at 1,200,000 tons of pure potash (K_2O) for the year 1924. France and Germany, operating as a monopolistic unit, control the potash business of the world and produced in 1924 approximately 1,107,000 tons of pure potash, the domestic consumption in France and Germany amounting to approximately 60 per cent of the output, or 664,000 tons.

Approximately 95 per cent of our potash imports are of Franco-German origin, the value running well over $1,000,000 per month.

A monopoly has existed in potash for the past thirty-five or forty years, since potash was discovered in Germany and its value as a fertilizer was first determined. This control by Germany and France is absolute. All operators in Germany are obliged to join the syndicate and all matters of policy and details of German control are vested in the minister of economy. Attempts were made by American purchasers in 1910 to break the monopoly and contracts were actually entered into at prices 35 per cent under the prevailing syndicate prices but the German government, through legislative procedure, nullified these contracts and American buyers were again and still are obliged to buy from the potash syndicate at a fixed price.

With the cession of Alsace to France following the War, and the development of Alsatian potash deposits, extreme rivalry for the American market ensued with a rapid lowering of war-time prices until August, 1924, when the Franco-German potash agreement was entered into. That agreement allocated French and German participation in the American market and eliminated all price competition. In May, 1925, a new Franco-Prussian potash accord was entered into whereby the two contracting parties, operating as a monopolistic unit, now control production, shipments to all parts of the world, and prices. The minister of economy has just announced that this agreement, which was about to expire, would be extended for three years.

In connection with potash, it should be noted that, though the price is no higher than it was in 1913, the price is believed to be none the less exorbitant.

Nitrates.—Chile nitrate is a natural monopoly, there being no other known geologic occurrence of a similar character. Very little nitrate is used in Chile, the total production in 1925 being 2,672,000 metric tons, of which the United States took close to 50 per cent, in round figures valued at $50,000,000.

The Chile Nitrate Producers Association embraces all producers of nitrate with the exception of the two American companies. The Chilean government is directly a party to the association, four of the eighteen directors being appointed by the President of Chile. Production is controlled through allocation of quotas and prices are fixed.

Associated activities on the part of nitrate interests have been more

or less in effect for a number of years past. The first combination under Chilean control was entered into in 1885. Subsequent combinations were entered into and the present association is a continuation of an agreement established by government statute on January 10, 1919. Nitrate producers are of many nationalities, but the preponderance of control is in the hands of the British and the Chileans, though British participation seems to be decreasing. The Association is not an owning corporation but a non-profit-making non-coöperative agency.

The government export tax is a flat charge equivalent to $12.34 per metric ton. This approximates 20 per cent of the sales price and amounted to $11,000,000 paid by this country in 1924.

The following quotation is taken from Part I of the nitrogen survey of the Department of Commerce, dated January 7, 1924, and is practically true to-day:

"The present price of $48 f. o. b. American seaboard could; by abandonment of taxes (upon which the Chilean Government is dependent), by improved methods, and by the narrowest margin of profits, be reduced to about $35 per ton. This is not given as a probability, but the ultimate base figure which our fixed nitrates must meet before the Chilean industry will cease to function."

Usually agriculture alone is considered with regard to Chile nitrate, and therefore it may be of interest to consider the disposition of our imported nitrates, as follows:

	Per Cent
Fertilizer	48
Explosives	34
Chemical	14
Miscellaneous	4

Sisal.—Mexico produces 75 per cent of the world's sisal. The average production for the past three years has been about 650,000 bales of 400 pounds each. The United States takes approximately 90 per cent of the Mexican production. In 1925 the imports from Mexico into the United States were 610,265 bales, valued at $17,709,962. Mexico uses very little of the sisal production and at most would not amount to more than 2 per cent of the crop.

Combinations controlling the price and production of sisal have existed in Mexico since 1915. These combinations have been organized or sanctioned by the Yucatan or Federal Government of Mexico. The present coöperative society is a body of eight members, who represent the Federal and State Governments and the growers of the fiber. The coöperative society has entire control of the marketing of the crop and the fixing of the price of fiber. It also has indirect control over the production, and these controlling agencies have in the past restricted production by refusal to purchase the fiber from the planters and by

quoting prices to the producers which do not permit profitable operations.

During 1913 the average price of sisal in New York was less than 5 cents, and in 1917 and 1918 the price was forced to more than 19 cents. The price at the present time is 9 cents per pound in New York. It has been conservatively estimated that in 1918, during the period of extraordinarily high prices of sisal in the United States, the Mexican control of production and distribution cost the American farmer an extra thirty-five to forty million dollars.

The present form of control, although less iniquitous than some previous forms, is costing the American farmer, according to fair estimates, between six and eight million dollars a year.

Silk.—Silk was for many years our leading import. It was supplanted in this respect by crude rubber in 1925. The silk mills in the United States have an invested capital of over one-half billion dollars. They are largely dependent upon Japan for their raw silk. Japan produces fully 75 per cent of the world's silk and we take 80 per cent of the Japanese production. During the post-war period of inflation, raw silk prices reached about $16 per pound and in the following months of depression the prices fell precipitately. At this time a silk syndicate was formed. Financial support was requested from the Japanese Government, and it was given. Some 50,000,000 yen were appropriated for a loan to this corporation. The money was used to acquire stocks of silk to be held until the time was proper to unload. More money was needed, and an additional loan of 30,000,000 yen was appropriated.

These operations had the effect of stabilizing prices. The stocks purchased by the government-aided syndicate were liquidated at a profit, whereupon the syndicate was abolished. There has been no direct control of this character over the production or distribution or the price of silk since. While silk is an essential, yet in another sense it is not, for there has recently been developed a substitute. We could get along without a pound of silk if it was absolutely necessary, except possibly for one or two war purposes, such as its use in parachutes and in gunpowder bags. Rayon, a new fiber which has been developed and has come into its own within the past few years, might replace every pound of silk if it was absolutely necessary. The silk mills in this country could be adapted to the use of this fiber; some of them are using it now.

Conclusions and Recommendations.

The problem of remedies is indeed most difficult. These governmental controls violate economic principles. They stifle the growth of producing industries and stimulate the use of inferior substitutes among consumers. Furthermore, they violate other than economic principles. Their disturbing influence upon international goodwill cannot

be overlooked and is, in fact, one of the most important objections to them. The friendly intercourse of nations would be better and more soundly based if these controls were wholly abolished. We commend the efforts our government has made to induce an abolishment of these controls and urge renewed watchfulness and continued endeavor to accomplish that result.

If we consider the problem wholly from the point of view of domestic correctives, we have four alternative remedies:

The first is to secure immediate relief from high prices by conservation and substitution campaigns among our consumers, such as the very successful rubber conservation campaign for which the Department of Commerce is responsible.

The second is by governmental and private action to create an independent source of supply which cannot be brought under foreign control.

The third is for American citizens to refuse to furnish credit to these controls.

The fourth is direct retaliation in some form.

With these alternatives in mind, the committee reaches the following conclusions:

1. It has been proved in the case of rubber that a conservation campaign can be conducted by the American people as a protest against high artificially controlled prices and with a fair degree of success. This experience is of considerable significance in showing the ability of the consumer to take matters into his own hands, and to secure some measure of protection through exercising positive control over demand. As a result of this demonstration, the committee believes that a considerable measure of protection can be attained in this way for the American consumer. While the committee believes that it is desirable to give time for consideration by foreign governments of the undesirability of such combination before resorting to legislation in the United States, yet if the American consumer should be further subjected to unfair prices, the committee believes that further and more extended efforts as to carrying on conservation campaigns should be systematically organized and carried out. If necessary the government should assist.

2. The ultimate solution of the problem of foreign control of commodities essential to American industries and progress will unquestionably be for the United States to become more self-sufficient in their supply through endeavoring to produce these commodities for itself, either under its own flag or in suitable foreign countries which would agree not to interrupt free trading in them at any time. In effecting such agreements, the governmental facilities of the United States should freely assist.

3. For growing rubber under the American flag, the southern Philippines appear most suitable. Physical conditions are known to be

excellent. Under the existing Philippine land laws, the holdings of individuals or corporations are limited to about 2,500 acres. This condition could be altered by the Philippine Legislature or by the Congress of the United States if it chose to change the basic law under which the islands are now administered. Furthermore, certain experiments have recently been undertaken to develop the production of rubber from the guayule shrub in the Southwestern States. For several years rubber has been produced from this wild shrub in Mexico. In 1925 our imports of this rubber amounted to 8,469,123 pounds. The committee believes that these experiments contain such possibilities as to warrant serious attention and consideration.

Outside American territory, good possibilities for successful rubber culture appear to exist in the Isthmus of Darien in the Republic of Panama, the Canal Zone, Brazil, Colombia, and other parts of tropical America. Plantations in such locations would be especially valuable to the United States from the standpoint of national defense, since rubber from them would more likely be uninterruptedly available in the event of war. Substantial progress is also being made in Liberia by American interests. As a step in the direction of assuring such supplies, the committee specifically recommends that the Department of Agriculture be authorized and enabled, in coöperation with their respective governments, to establish and maintain demonstration rubber plantations in South and Central American countries. Certain suggestions were made in this connection to the committee by Dr. H. N. Whitford, formerly crude rubber expert for the Department of Commerce.

4. Efforts of the Bureau of Standards and others to develop a synthetic rubber and other synthetic products should be further encouraged.

5. The committee considers that opportunity exists for the development of the potash resources of the United States, and believes that support should be given to the Bureau of Mines or the Geological Survey for the exploration of potash deposits in Texas, Utah, and possibly other states.

6. It is recommended that Congress bring to an early settlement the Muscle Shoals question. Such action will give protection to the American consumer of nitrate, both because Muscle Shoals is now an unknown and deterring factor to our growing nitrogen industry and because undoubtedly that plant itself will be used for nitrogen production.

7. The committee recommends that the Department of Agriculture be encouraged further to investigate the possibilities of producing sisal in continental United States or its insular possessions and to make experimental plantations for this purpose.

8. Since these governmental controls are contrary to the interests of the American consumer, the committee takes the position that American citizens should refuse to aid or assist them by extending credit to them.

This is obvious. Furthermore, self-interest should prompt this action on the part of American financial interests, for the granting of loans of this character would create a just resentment against them on the part of the American public. In some instances requests for loans of this character have been refused. In at least one instance the loan has been granted. Requests for loans should be discouraged and if made should be refused.

9. Retaliation by the United States against these governmental controls was not given serious attention by the committee and will not be except as a last resort.

10. The committee has received suggestions that Congress give direct aid to development by American citizens of alternate supplies of these raw materials, but takes the position that aid or subsidy of this sort is inadvisable, partly because it is an intrusion of government into production, against the principle of which this investigation is directed.

11. Suggestions made to the committee that it secure passage of a law permitting combination of American purchasers to buy coöperatively are not approved at this time. Such action is not urgently demanded by the trades concerned.

12. The committee, for reasons heretofore appearing, has not at this time suggested remedial legislation, since it believes that a frank discussion of these questions and the development of a better understanding of the consequences of the intrusion of governmental price controls in international trade may secure an abandonment of the practices. If, however, it develops that the American public cannot be protected against a repetition of its experiences in the past by resort to methods mentioned above, the committee will have no hesitation in reopening the question. Accordingly, the committee makes this preliminary report with the purpose of making further report to the House later if the occasion should require it.

Chapter XXV

PRICE POLICIES

Price Maintenance Best for Manufacturer, Retailer and Consumer.[1]

Does the restriction of retail prices benefit or injure the public?

The right of the manufacturer to maintain a restricted price policy must, in the last analysis, depend upon the answer to that question. If such price restriction actually throttles competition, it is a bad thing; if, on the other hand, it encourages competition in quality and service, it is a good thing.

There is more than one kind of commercial competition. There is competition in price, with its ever-attendant danger of loss in quality. There is, where established, maintained, and published prices prevail, a healthy competition in quality. The former is sometimes, and the latter almost universally, to the benefit of the ultimate consumer.

The manufacturer who restricts the prices at which his goods are to be retailed to a certain figure is just as much in competition with other manufacturers of similar goods as are those who do not restrict prices, but in a more healthful way. Bear in mind, however, that this discussion refers only to an *individual* concern or corporation, not to a combination between natural competitors to create an artificial price. That's another and quite foreign subject, though, unfortunately, likely to be confused by some people with the real question at issue.

The manufacturer who publishes a price list on his goods, then allows a certain discount to the dealer in those goods, and insists on that dealer selling his goods at the list price is by no means free from competition. If he sells wisely, he has familiarized himself with the average percentage that it costs the dealer to handle his goods, and he makes his discount large enough to pay the dealer a normal profit—a profit that will be satisfactory to him, but not big enough to prove a constant temptation to cut prices. In making his list price, this wise manufacturer will put it at a figure that will pay him a normal profit, after giving a discount to the dealer that will likewise pay him his normal profit. Such manufacturer is as much in competition with other makers of goods as though he had no established price, but his consumer customers get a square deal; they all buy his goods at the same price.

[1] Jones, L. B., "Price Maintenance Best for Manufacturer, Retailer, and Consumer," *Printers Ink*, Vol. 75, May 4, 1911, pp. 3-5.

The retailer must make a certain percentage of profit over and above the cost of doing business or go into bankruptcy. Isn't it manifestly fairer to the consumer if the dealer nets 5 per cent on what he sells to Smith and 5 per cent on what he sells to Brown than it is for him to lose 5 per cent on what he sells Brown and make it up by netting 10 per cent on what he sells to Smith? And that's just what happens every day where retail prices are not restricted. Every retailer knows this, though the buying public does not. The restricted price plan is, in fact, particularly favorable to the small consumer, the man whom the courts are ostensibly trying to protect. It has been decreed that the railroads shall not discriminate against the small shipper by giving a lower rate, whether directly or by rebate, to the big shipper than the small shipper enjoys. Carried to its logical conclusion, the price restriction policy means the same thing. All retail purchasers are treated alike. It means the square deal.

And how is the manufacturer affected? He has a widely advertised article at, say, ten dollars. It is generally known that his goods are sold at list price only. The dealer is already receiving a normal discount. This manufacturer usually keeps ahead in improvements in his line; but, for the sake of argument, we will admit that a competitor announces an important and genuine improvement. What happens? One of three things: An improvement in the article in question to meet the competition, a cut in price in order to pick up the cheaper trade in this line, or, if the margin of profit will not admit this, an entire abandonment of the manufacture of such article. In cutting the price, if that method be followed, the price at which the goods are to be retailed may still be restricted at whatever lower level may be decided upon as a *normal price at the new level forced by the competing improved product.* Price restriction has in no way prevented a general lowering of price; it has simply maintained a *uniform* price.

A restricted price means that the goods are to be sold at a *certain* price, that the retailer is not to go either above or below that price; but if the established price is abnormally high for the quality of the goods, it cannot live. No mere restricting of price can annul the laws of supply and demand or of commercial competition. Indeed, goods that are sold at known prices offer themselves to the keenest competition, because it is so easy for the manufacturers of competing articles to figure just what can and must be done.

The result is that the manufacturer of restricted price goods is alive to the fact that he must constantly back up his prices with quality. He is averse to changing his methods or permitting the retailers to change their methods of handling his goods, because he takes an honest pride in his one-price-to-all policy. The result is a constant effort to better his products, a constant effort to give his customers more for

their money. It is a competition just as keen and far-reaching, as bitter, if you like, as a competition in price-cutting. Because one manufacturer of automobiles restricts the retail price of his car to $4,000, another $3,000, another to $2,000, and another to $1,000, does any one maintain that there is no competition in automobiles? And, similarly, there is competition between dealers, even though they maintain prices—a competition in service to their customers that makes or ruins their business, and, locally, the business of the concerns whose cars they handle.

Take hats. Dunlap and Knox derbies are restricted to five dollars. You can't buy one for less, yet you can buy a pretty good-looking derby for a dollar, a better one for two dollars, and something really good for three dollars. But Dunlap and Knox are by no means free from competition. It's a competition of quality. They just put style and goodness into their hats, else men would buy the cheaper ones. They compete with each other and with the imported hats and perhaps with some other five-dollar hats. They compete with the cheaper hats by offering better style and quality. But it would be absurd to say that hats cost more because Knox and Dunlap don't permit the retailer to cut prices on their goods until the season is over.

To the careful observer there can be but one conclusion as to the merits of the policy of price restriction. That policy means a square deal to the ultimate consumer. It means that one man's money is as good as another's. It means that those manufacturers who adopt the policy must make good goods in order to maintain their prestige, must be ever on their mettle to anticipate competition, must forestall it by making improvements and making them before the other man does. The market is still open for those who do business on the other basis, but if their goods do not equal or better the restricted price goods, the public will buy the restricted price goods.

Competition began with commerce. Competition must continue to exist so long as there are two or more separate concerns manufacturing similar goods for the same market. If one of these concerns makes highly superior goods and is equally alert in its selling methods, it will, by reason of the law of the survival of the fittest, get the big share of the trade. Whether prices are restricted or not has nothing to do with the case further than the fact that the concern that makes the goods of known quality is in a position to make its prices known and stick to them. Having quality, it can afford to compete on a quality basis. No underhanded methods by which one customer is gained at the expense of another need be resorted to.

The price restriction policy means a square deal for the consumer, a reasonable profit to the dealer and a constant effort toward betterment of the product on the part of the manufacturer.

Who Should Fix Resale Prices? [2]

Should the power to fix resale prices be lodged wholly with the manufacturer, or wholly with the dealer?

The power of price maintenance is demanded only in connection with goods which are of the identifiable sort, and associated in their resale either with the name of the manufacturer, or with his trade-mark or brand. It would apply only to those commodities which are for the most part distributed through the conventional wholesale-retail channels. Within these limitations would be included probably more than half the volume of the country's retail trade. The majority of grocery commodities, excepting green goods, and the majority of drugs would be included, and smaller but, nevertheless, impressive proportions of ready-made clothing, dress goods, toilet articles, shoes, hardware, jewelry, and novelties. In addition to virtually all of the country's specialty manufacturers, all the retail stores and wholesale houses are vitally concerned and, of course, the entire body of the public.

Problem of price maintenance.— Into this field of such wide and numerous interests, price maintenance has only recently entered as a problem of real importance. Its entrance may be explained as being due to a broadening of the functions of the manufacturers. Formerly they were limited to producing commodities and transferring them to commission men or jobbers where they disappeared from sight and interest. To-day we often find the manufacturer of specialties attempting to bring within his range of vision and influence not only the wholesale distributors, but also the retailers and ultimate consumers. This broadening of function has been made possible by the vastly improved facilities and methods of advertising and transportation. In some cases it may be said that the manufacturer has reached that point where he combines within himself virtually all the functions of producer and salesman, even though he continues to make use of the jobbers and retailers.

This increasing control by the manufacturer over the destinies of the commodities which he produces has been facilitated by the agency of commodity standardization. The commodity is standardized in every conceivable way. Each unit is a perfect replica of every other unit. To these uniformities of quality, quantity, form, function, and carton many manufacturers are adding price uniformity, maintaining that the efficacy of national advertising and the degree of public appreciation is thereby increased.

It is asserted that when a commodity reaches this stage where its qualities and price are widely known and associated, it becomes especially subject to the evil of price-cutting. The public, having associated

[2] Murchison, C. T., *Annals of the American Academy*, Vol. 82, pp. 189-197.

for a long time a given commodity with a given price, will immediately detect a lowering of price and so confine their purchases of that commodity to the retailer who has cut the price. The effect is to compel competing retailers to meet the cut or else discontinue handling the commodity. In case there are any exceptions, they carry it only as a necessary evil and handle it half-heartedly, preferring to offer substitutes where possible. Eventually the price-cutters themselves, having exhausted the advertising value of the cut price, will lose interest in the commodity and either drop it or attempt to discourage the demand for it by offering substitutes which afford bigger profits.

The evils resulting from price-cutting.—The evils which are said to result may be summarized as being: (1) a decline in the value of the stock owned by dealers who are in the realm of influence exerted by the price-cutters; (2) a growing reluctance on the part of dealers to handle the commodity, offering substitutes, and a consequent decline in sales of the discounted commodity; (3) losses suffered by the manufacturer and jobbers through the declining demand from retailers; (4) inability of the public to secure conveniently the commodity of their choice, accompanied by the necessity of having to accept inferior substitutes.

To prevent price-cutting, manufacturers resorted to many devices, the chief of which are: (1) The manufacturer grants to such dealers as are willing to maintain the fixed price a liberal rebate on the list price, such rebate payable only when the goods are sold. Any variations from a fixed price entail forfeiture of the rebate. (2) Many manufacturers have refused to sell at all to those dealers guilty of cutting prices below the standard. Some have gone so far as not only to refuse to sell to the offending dealer directly, but also to bring pressure to bear on all jobbers and retailers to refuse to supply the offender, thus making it impossible for the price-cutter to renew his supplies from any source. (3) Prices have been maintained by causing to be incorporated in the contracts of sale special provisions by which the dealers bound themselves to observe a fixed price. (4) By making conditional sales in which title to the goods sold to dealers remained in the manufacturer and passed to the dealers only upon the completion of the resale made at the fixed price. The manufacturer reserved the right to demand the return of all unsold goods, upon the failure of the dealers at any time to maintain the price. (5) The use of a license agreement whereby the dealer is regarded merely as an agent or demonstrator without title in the goods. As agent he must sell at a stated price. His profits are in the form of commissions. (6) By affixing to the goods or its container a statement to the effect that a certain price must be observed, the implication being that the use of such a notice made of the transaction a conditional sale, which bound

the dealer to the fixed price. (7) A claim on the part of the manufacturer of patented or copyrighted goods that the usual patent or copyright tickets included the right to fix a resale price and to compel the observance thereof.

Virtually all these methods have, in whole or in part, been adjudged illegal by the Supreme Court, and in so far as they still exist, they are with very few exceptions merely nominal. Apparently no dependable price maintenance weapon is now available.

Types of price-cutting.—There are two quite distinct and totally different types of price-cutting—the predatory type which for greater exactness we shall term "below cost" price-cutting, and "profit yielding" price-cutting. The former occurs where the dealer cuts to such a degree as to sacrifice all profits on the article cut. His purpose is to make good the loss by gaining increased patronage. The profit-yielding type occurs where the dealer, as a result, either of economies created by his own efficiency, or of excessive gross profits allowed by the manufacturer, is enabled to cut the price somewhat, but continues to make from it a fair profit. By far the greater part of price-cutting is of this type.

How Price-Cutting Leads to Monopoly.[3]

The evil results of price-cutting are far-reaching. It is sometimes urged that price-cutting of a trade-marked article injures no one; that the producer is not injured, since he received his full price in the original sale to jobber or retailer, and, indeed, may be benefited by increased sales, since lower prices ordinarily stimulate trade; that the retailer cannot be harmed, since he has cut the price voluntarily to advance his own interests; that the consumer is surely benefited, because he gets the article cheaper. But this reasoning is most superficial and misleading.

To sell a dollar Ingersoll watch for sixty-seven cents injures both the manufacturer and the regular dealer, because it tends to make the public believe that either the manufacturer's or the dealer's profits are ordinarily exorbitant; in other words, that the watch is not worth a dollar.

Such a cut necessarily impairs the reputation of the article and, by impairing reputation, lessens demand. It may even destroy the manufacturer's market. A few conspicuous "cut-price sales" in any market will demoralize the trade of the regular dealers in that article. They cannot sell it at cut prices without losing money.

They might be able to sell a few of the articles at the established price, but they would do so at a risk to their own reputations. The cut by others, if known, would create the impression on their own cus-

[3] "How Price-Cutting Leads to Monopoly," *Printers Ink*, Vol. 86, Jan. 1, 1914, pp. 64-68.

tomers of having been overcharged. It is better policy for the regular dealer to drop the line altogether. On the other hand, the demand for the article from the irregular dealer who cuts the price is short-lived.

The cut-price article cannot long remain his "leader." His use for it is sporadic and temporary. One "leader" is soon discarded for another. Then the cut-price outlet is closed to the producer, and, meanwhile, the regular trade has been lost. Thus a single prominent price-cutter can ruin a market for both the producer and the regular retailer. And the loss to the retailer is serious.

On the other hand, the consumer's gain from price-cutting is only sporadic and temporary. The few who buy a standard article for less than its value do benefit, unless they have, at the same time, been misled into buying some other article at more than its value. But the public generally is the loser, and the losses are often permanent.

If the price-cutting is not stayed, and the manufacturer reduces the price to his regular customers in order to enable them to retain their market, he is tempted to deteriorate the article in order to preserve his own profits. If the manufacturer cannot, or will not, reduce his price to the dealer, and the regular retailers abandon the line, the consumer suffers at least the inconvenience of not being able to buy the article.

The position of the independent producer who establishes the price at which his own trade-marked article shall be sold to the consumer must not be confused with that of a combination or trust which, controlling the market, fixes the price of a staple article.

The independent producer is engaged in a business open to competition. He establishes his price at his peril—the peril that if he sets it too high, either the consumer will not buy, or if nevertheless the article is popular the high profits will invite even more competition. The consumer who pays the price established by an independent producer in a competitive line of business does so voluntarily; he pays the price asked, because he deems the article worth that price as compared with the cost of other competing articles. But when a trust fixes, through its monopoly power, the price of a staple article in common use, the consumer does not pay the price voluntarily. He pays under compulsion. There being no competitor he must pay the price fixed by the trust or be deprived of the use of the article.

The road to monopoly.—The competition attained by prohibiting the producer of a trade-marked article from maintaining his established price offers nothing substantial.

Such competition is superficial merely. It is sporadic, temporary, delusive. It fails to protect the public, where protection is needed. It is powerless to prevent the trust from fixing extortionate prices for its product.

The great corporation with ample capital, a perfected organization,

and a large volume of business can establish its own agencies or sell direct to the consumer, and is in no danger of having its business destroyed by price-cutting among retailers. But the prohibition of price-maintenance imposes upon the small and independent producers a serious handicap. Some avenue of escape must be sought by them, and it may be found in combination.

Independent manufacturers, without the capital or the volume of business requisite for engaging alone in the retail trade, will be apt to combine with existing chains of stores, or to join with other manufacturers similarly situated in establishing new chains of retail stores through which to market their products direct to the consumer.

Americans should be under no illusions as to the value or effect of price-cutting. It has been the most potent weapon of monopoly—a means of killing the small rival to which the great trusts have resorted most frequently. It is so simple, so effective!

Sales Policies.[4]

Price protection.—A point at which the Federal law frequently touches sales policies is in the maintenance of retail prices. The aim of the manufacturer here requires little comment. Some national producers make no attempt to maintain the retail prices of their products at any fixed, advertised level. Alongside of them in the same industry are other concerns which put forth the most strenuous efforts to protect such prices. In breakfast cereals, for example, the Quaker Oats Company allows retailers to market its products at any figure which they please. The Cream of Wheat Company pursues the exact reverse of this policy. On the whole, the price protection plan seems to have gained many adherents in recent years. The manufacturer reasons that a staple market for his goods is more important than retail price competition. Price-cutting disturbs his market and causes ferment and complaint among his distributors. It often proves most costly to the producer. The latter wants peace, permanence, stability. Hence, the steady, insistent growth of price maintenance campaigns.

No serious legal question arises if the manufacturer can retain the ownership of his product until it reaches the consumer, that is, if he can sell his product by agencies rather than through independent dealers. An agent is an employee, and the employee may be instructed as to the price at which goods are to be sold. But this is an expensive method. The manufacturer must finance the marketing of his goods, which means wrapping up large quantities of additional capital. Few producers to-day resort to a real agency method.

[4] Young, J. T., "Sales Policies and the Federal Trade Commission," *Annals of the American Academy*, Vol. 115, pp. 25-30.

If a manufacturer abandons the agency plan and sells his goods through independent dealers, his efforts to keep up the retail price after the goods have passed out of his hands encounter a host of legal problems. Let us examine a few of these:

(*a*) He cannot contract with retailers that the latter shall sell his goods to the public only at certain prices. Such a contract would be an agreement to suppress competition in price. A contract to suppress competition, the courts have always held, is an agreement in restraint of trade.

(*b*) A producer may, however, *request* dealers to maintain a certain fixed retail price, and if they fail to do so he may refuse to sell to those who cut prices. The distinction is that a "request" to maintain prices is not an "agreement" to do so.

So when a soap company requests its retailers not to cut the list prices of its soaps and perfumes and exacts from them no pledge to comply, but simply asks them as a matter of trade policy that they adhere to the list, there is *no agreement* in restraint of trade, and the practice is legal so far as the Sherman Act is concerned. The Colgate Case, 250 U. S. 300, 1919.

(*c*) If the manufacturer, after requesting dealers to maintain certain retail prices, employs investigators to report as to which retailers are cutting prices, refuses to furnish them with more of his goods when they do cut and then requires them before receiving a new supply to pledge themselves to maintain the regular retail list, he is practicing an unfair method of competition, that is, one which is oppressive and *tends to restrain competition* or create a monopoly. Federal Trade Commission v. Beechnut Packing Co., 257 U. S. 441, 1922.

(*d*) Another method of price maintenance, which has failed to stand the court test, is the so-called open-price plan. The members of a trade association agree to send to the secretary a weekly or monthly statement of their sales, giving exact prices, quantities, and grades. Sometimes they also report on the stock in hand of each grade and size. The secretary or other price-maintaining officer of the association digests this material and sends a weekly or semi-monthly letter to all the members, sometimes accompanied by an earnest plea to maintain existing prices. Each competitor is thus kept informed of the sales quotations of his rivals, and a strong influence to maintain prices is exerted. The members do not combine to keep up their prices to any fixed level; they agree only to give information as to what they are doing and what stock they have in hand.

The open-price system led to such a noticeable maintenance and even increase in price levels that the government's attention was attracted to it, and in American Column and Lumber Co. v. U. S., Dec. 19, 1921, the Supreme Court declared it a violation of the Sherman Act.

This seems to reach the border line between legal coöperation and combined restraint of trade. Every producer and large dealer needs information as to the general conditions of the market in order to prevent serious blunders and losses. This information usually covers approximately the points mentioned in the lumber case, namely, the amount of goods of each kind on hand, and the ruling price.

Secretary Hoover has clearly shown that a reasonable coöperation among competitors to these ends is necessary and proper, and that if the law does not permit such coöperation the law should be amended, or else the government itself will have to provide the information required. Intelligent competition must be based on comprehensive data.

Price discrimination.—Closely related to the problem of price maintenance is that of price discrimination. Can a national producer sell to any persons whom he pleases and at any price that he pleases? Again we must observe the difference between agents and independent dealers in the retail trade. Any manufacturer may designate another person as his agent. He may fix the price through his agent at any figure that he pleases. But if he sells his goods outright to an independent dealer he must bear in mind Section 2 of the Clayton Act, which forbids discrimination in price between different purchasers where the effect is to lessen competition or create a monopoly. The teeth of Section 2, however, have been carefully drawn by a proviso that it shall not prevent "persons engaged in selling goods . . . from selecting their own customers in *bona fide* transactions and not in restraint of trade."

The rise of the chain store with its vast buying power has brought pressure on many manufacturers and wholesalers to sell to chain companies at a lower price than to small retailers. To counteract this, the little stores have pooled their buying and have demanded of the wholesaler or the producer the same terms as the chain store for the same quantity of goods. Can the wholesaler or the manufacturer legally discriminate in favor of or against either of these competing groups?

Again, when a number of retail stores form a coöperative buying agency called a coöperative wholesale company, this new concern comes into active competition with the old established wholesale companies already in the field. The old line wholesalers demand that they be given a lower price than the coöperative. Can the manufacturer legally do this?

The second question was answered in Mennen Co. v. Federal Trade Commission, 43 Sup. Ct. 705, 1923. The Mennen Company manufactured toilet preparations which it sold to two classes of dealers, wholesalers and retailers; the former, of course, secured the regular wholesale price, while the retailers were charged a higher rate. The company classes only the old line wholesalers as wholesalers. It placed the coöperative wholesalers in the retail class on the ground that their

capital stock was held by retailers and that they were really purchasing agencies for the retailers.

The Supreme Court ruled that the Mennen Company had not violated the section because the "coöperative wholesalers" were in reality not wholesalers, but retailers. It also declared that when Section 2 of the Clayton Act prohibited discrimination which might "lessen competition," it meant competition between sellers and not between purchasers or retailers. Accordingly the Mennen Company's practice was legal.

A national producer may also favor chain stores and may even refuse to sell to coöperative or pooling buyers. This was decided by the Circuit Court of Appeals of the 2d Circuit on May 5, 1924, in Trade Commission v. National Biscuit Co.

Other restrictive agreements.— Another legal problem affecting sales policies is the maintenance of free, open competition as against artificial obstructions. If a group of distributors combines in a refusal to deal with a manufacturer or a retailer, such a combination being "an agreement to restrain trade" is forbidden by the Sherman Act. This question is an exceedingly broad one. It usually arises in the following way: A manufacturer or a wholesaler wishes to sell direct to the public while at the same time continuing to sell to retailers. The retailers, feeling that a wholesale concern should not engage in retail trade, agree among themselves not to deal with wholesalers who compete also in the retail trade. But an agreement not to deal is an agreement to restrain trade, and is forbidden by the Anti-Trust Law.

So also is an agreement between wholesalers not to sell to a retailer who cuts prices, as we have seen. If a group of publishers, seeking to protect the retail sale price of their copyrighted books, publish a "cut-off list" containing the names of those retailers who persist in price-shading and circulate this in the trade so that a cut-price retailer is unable to secure a supply of books, such a combined effort is again an agreement to restrain competition, contrary to the Federal law.

Exclusive agreements.—The "tying contract," as it is sometimes called, is an attempt by one producer to exclude others from certain channels of retail trade. To this end he stipulates in his contracts with retailers that they must not deal in the products of his competitors.

It is, of course, well understood that if a producer distributes his goods through agencies, he may require his agents not to deal in the products of a competitor. Federal Trade Commission v. Curtis Publishing Co., 260 U. S. 568, 1923. It is also clear that a wholesaler may for a limited time sell two associated products only in conjunction with each other, such as steel tape and cotton bagging. This was established in Federal Trade Commission v. Gratz, 253 U. S. 421, 1920. Here there was reason to believe that speculators were attempting to secure control of the supply of steel tape; also there was no

evidence to show that the public interest had suffered by the wholesaler's action.

But the steady growth of exclusive contracts brought certain evils in its train, and in Section 3 of the Clayton Act it was made unlawful to lease or sell goods in the course of national trade on the condition that the lessee or the purchaser shall not use or deal in the goods of a competitor of the lessor or seller, when the effect of such a condition is to lessen competition or tend to create a monopoly in commerce. The interpretation of this clause by the courts and the commission has been followed with keen interest by those in responsible charge of sales policies.

In Standard Fashion Co. v. McGrane-Houston Co., April 10, 1922, the Supreme Court applied this section. The fashion company manufactured and distributed "standard" garment patterns. It and other pattern companies were owned by a holding company which supplied about two-fifths of the 52,000 pattern dealers and agencies in the United States. The McGrane Company operated a retail dry goods store in Boston. In 1914 the Standard Fashion Company made an agreement with the McGrane store by which the latter was to sell the Standard patterns. One clause of the agreement read, "The McGrane Company shall not sell nor permit to be sold on its premises any other make of patterns during the term of contract."

The Supreme Court held that this latter clause was a violation of Section 3 of the Clayton Act. The McGrane store was not an agency of the Standard Fashion Company, but an independent dealer. A substantial lessening of competition or a possible monopoly might result from the carrying out of such exclusive agreements on a large scale. The contract was, therefore, invalid. This decision makes it clear that wholesalers and manufacturers may not exclude the products of their competitors from retail stores by contract.

They may, however, furnish a retailer with equipment and apparatus which are to be used exclusively to dispense their own lines of goods. For example, an oil company may furnish retailers and garagemen, at a nominal charge, pumps and tanks required for the sale of their particular line of gasoline, and may attach to this the condition that these pumps and tanks shall be used only for their line of gasoline and not the gasoline of their competitors. This does not prevent the retailer from making similar contracts with other companies. He may, as many retailers and garagemen do, have two or even three separate pumps and tanks for the sale of the products of different oil companies.

In the phonograph business it was for some years customary to restrict dealers by agreement to the sale of a single manufacturer's phonograph and records. But this has now been abandoned except where the retailer ceases to be an independent dealer and becomes an agent. All

large department stores now sell several makes of both talking machines and records.

Just What Is a Fair Price?[5]

Is the price too high?

That's one of the commonest of questions. Every man asks it, and every woman asks it even more often.

Human instinct is aroused in opposition to what is regarded as unfairness or exaction. The individual is up in arms against being imposed upon. Much of his early training is directed toward providing him with standards or tests designed to enable him to hold his own or make his way in the world without being unduly put back by others.

Out of this individual desire for self-assertion and for the prevention of any infliction of unfairness upon him grows a community standard of fairness or equity—the idea of an abstract base from which to measure charges, fees and taxes.

The effort to establish such a community or abstract standard goes back practically to the development of a money economy in the early medieval world. The *justum pretium* of the monastic writers was the fair price of the later economists, although the methods employed in determining it at varying periods were necessarily very different.

The result of struggles.—With the advance of the competitive system there came to be a general tacit acceptance of the view that fairness was obtained as the result of a series of struggles between individual consumers and individual producers, the former seeking to get the lowest possible figure, the latter the highest, but the conflicting interests of different elements in the same group resulting in the establishment of a price which on the whole was the best for the community—the fair or reasonable price of the older economists, the "normal" price of the later writers on the subject, and the "competitive price" of American lawmakers.

Effort to regulate or control prices within recent years, since the beginning of the present period of industry, was frankly based upon the thought that by preserving competition, fairness, or equity as between individuals or groups in the community would also be preserved.

How did this notion develop and what is its logical basis? The question of "fairness" in price long since passed almost into a proverbial position. It has been accepted as axiomatic that a price must be fair or equitable, although seldom if ever has any test of these qualities been afforded.

Perhaps the most common test which is unconsciously applied is that of the prevailing or "market" rate. This of course is based upon the assumption that there exists what is ordinarily known as a competitive

[5] Willis, H. P., *Nation's Business*.

market, so that the real basis upon which fairness is estimated in such cases is that of competition. This concept of fairness assumes that there is something approximating uniformity in prices throughout the "market" to which reference is made.

Another view of the situation is based on the thought that fairness in price is that figure which gives to the producer or supplier of the article a fair return. This must mean a return which in wages or profits or both is about equal to those which are being obtained by the majority of producers in the field. In other words, it is the prevailing, or at times the average, rate of remuneration for the outlay of labor and the application of capital to a given purpose.

In as much as a return of this kind must evidently be sufficient to keep the producer in the field, this concept of fairness, when carried one step farther back, means a price that will yield the producer about as much income in the form of wages or interest as he could get in some other occupation.

Labor and capital at work.—Going still farther back the fair price in this view of the case must be one that will yield sufficient to keep labor and capital continuously at work, furnishing the services and products which they are called on to supply. Here again also the idea of standardization or price uniformity emerges as soon as temporary and accidental features are stripped from the problem.

These conceptions grow out of the older ideas of economic life in which it was assumed that a considerable number of producers were at work turning out goods and services, their action in bidding against one another being relied upon to prevent exceptional, exorbitant, or "peak" prices. This was "competition" in the older sense of the term, and hence the tendency to identify competitive prices with those that were fair, reasonable, or normal.

It takes but little unprejudiced thought about the situation to recognize that industrial changes and modifications of business organization have gone far toward making these earlier ideas almost entirely obsolete. The tendencies which have worked in that direction are several; but the chief may be enumerated as (1) growth in size of the business, (2) transportation and redistribution of business, and (3) standardization of product.

What becomes of fair prices?—Suppose, for example, that industry has so developed, as it has in many branches of business, as to put a large proportion of a trade or line of manufacture into the hands of a single concern, and that this concern is generally regarded as the leader in the particular branch of business in which it exists. Such leadership may have been acquired simply as the result of greater efficiency, lower costs of production, or better organization.

The result of these factors is to enable the large concern to name prices, if it feels so disposed, which would considerably undercut those of the smaller houses in the business, while, nevertheless, leaving a substantial profit to the large producer.

What becomes of the older idea of a fair price in this case? That depends of course upon a number of factors much more complex than the average man is supposed to reckon on. Does he, for example, wish to see the business continue to be distributed among a number of establishments rather than be absorbed by a single one? In that case, of course, a fair price will be a price that is sufficient to keep some of the less efficient producers in the field and to give them an incentive to continue business.

Such a fair price may yield much more than average or normal returns to the large producer, while it may, on the other hand, give very much less than that figure to the less favorably situated enterprises. In such a case the idea of "fairness" becomes a judgment as to the quality of prevailing prices not in the case of individual producers, but in the case of the industry as a whole as differentiated from other industries or from the community.

Uniformity isn't fairness.—If we say that a fair price for steel rails is $50 per ton, that can mean only that at $50 the industry as a whole is able to get a sufficient amount of business upon conditions that will enable the great majority of producers to keep going. The figure of $50 may give a very handsome profit to the large producer, and if he were allowed to monopolize the entire field would undoubtedly be regarded as exorbitant, or the reverse of fair.

It is in circumstances like these that the idea of a single price uniformly made to all and practically uniform throughout a whole industry comes to the front. An unfair price in that case is one which is above (or in some circumstances below) the general uniform price of the industry. And because of the fact that in such industries the consumer is not as a rule in position to bargain with individual producers he comes to look upon a standard or uniform price as being a safeguard to himself —uniformity is in his mind the test of fairness, because it places him upon the same basis, so far as cost or competition are concerned, with every other consumer.

This does not mean that the standard or uniform price is necessarily always the correct one—the one which circumstances unmistakably mark out as fair. There may be combinations between producers; there may be conspiracy on the part of some to remain out of the market and allow others to fix prices as they see fit.

Uniformity does not necessarily mean equity or fairness in the fixing of the price but (and this is the essential thing in the matter) it does not by any means indicate the reverse. On the contrary, other things

being equal, the presumption is that it does represent fairness, since it implies that all buyers of the product are at least upon the same footing.

Older conceptions altered.—Transportation and specialization of manufacture have also done much to alter the older conceptions of fairness in price. If we assume what has often been true for long periods, that a given article is obtained solely from one district or area, the price problem has been a good deal simplified.

If we further assume that consumers are so situated as to have about equally advantageous access to this source or area from which goods are distributed the problem is still simpler. It then involves only those questions of relationship between individual producer and consumer which have already been referred to. But in the modern world the cases in which the price problem may be reduced to these simple terms are few indeed.

Take the steel industry as an example. We have the production of heavy steel products centralized at a number of points, while we have consumers scattered about, some at very great distances while others are close at hand.

Does fairness permit an effort to place consumers upon the same basis with respect to one another?

If so, then the price made by a mill in Pittsburgh to a buyer who expects delivery in Texas must be a very much lower figure than the price to be made by the same mill to a buyer near at hand.

If not, then the price made by the mill must be a uniform price to all —a price which is quoted to the buyer regardless of his situation, so that he is left to carry the cost of transportation, and, where he is far distant from the producer, to submit to a corresponding disadvantage in the production of his own goods because of the higher costs of his materials.

Which of these methods of quotation is in the abstract really more just than the other? The answer to that question must depend entirely upon the general conception that is entertained by the community with respect to economic relations between different parts of the country.

Take still another and rather more complex case. Suppose that plants are situated in many different places, each with a body of consumers in its immediate neighborhood. A plant at point *A* can make a price of, say, $2 to local consumers who are within a given freight area. Outside of that it must charge, say, $2.50 in order to supply its goods at the same profit as in the case of those who buy at $2. But another producer situated at *B* is rather better equipped or sells on a lower cost basis. He can ship his goods into area *A* at $2 and meet the price of the producer at *A*. His sales in his own district *B* may be made at $1.50 and yet leave him with a reasonable profit.

Now does this mean that a fair price in area *A* is $2 and a fair price in area *B* is $1.50?

All the traffic will bear.—An affirmative answer can be given only if it be assumed that manufacturers are warranted in charging about what, and about all, that the traffic will bear. *B* evidently might raise his price in his home area to $2.50, since the consumer can never supply himself anywhere else, the competitor at *A* being out of the market.

He does not do so, perhaps because he can sell more product at $1.50, perhaps because he has other reasons. Instead of making a single uniform price to every customer on a delivered basis, he adjusts his price in accordance with local costs of production. He gives the distant customer as good a figure as that customer would be able to get anywhere else at the same time that he charges a lower figure to his immediate clientele.

Take still another case, in which freight rates are so arranged that *B* is protected in his home area and hence is able to charge $2.50 for his product without incurring the competition of *A* and so meets his home demand at $2.50 which he also ships into *A's* territory at $2, thus, giving the consumers in *A* a lower price than he charges close at home. What is the test of fairness in this case?

These are not hypothetical illustrations. They correspond in general terms to the issues which have been lately raised in the so-called "Pittsburgh Plus" case and in the suit against the cement manufacturers lately adjudicated by the Supreme Court. In the "Pittsburgh Plus" case, objection was made by the Federal Trade Commission to the practice of steel mills in using as the basis of charge to the consumer the price for steel prevailing in the Pittsburgh market, to which was then added the railway charge for hauling from Pittsburgh to the point of consumption. The effect of this method of price establishment was to name a so-called uniform net mill price—that prevailing in the Pittsburgh market—while the consumer bore the disadvantage of distance which was due to his location.

Artificial disadvantage.—In some cases this was an artificial disadvantage for the reason that the consumer perhaps was located near an efficient steel mill, which, however, for its own reason charged him the Pittsburgh price, plus an imaginary freight rate. The method in quotation was in all events a way of standardizing steel prices, subject to a distance-differential determined by reference to Pittsburgh as a center.

The other case represents the practice of cement manufacturers. They have habitually named prices which for moderate periods of time were nearly uniform to consumers in a given place. They have "absorbed" the freight in order to give consumers at a distance somewhat the same position in the purchase of cement that was given to consumers at

home. Neither plan of quoting prices has been acceptable to the government and both have been attacked.

It is interesting to note that the argument in these cases has been entirely lacking in self-consistency and that only one feature is common to the objections made to these trade practices. That feature is the uniformity of price brought about thereby—a uniformity which in the first case existed only in the quotation because the addition of freight rates promptly resulted in a difference to the consumer, but which in the second case was a uniformity of charge to the consumer, although not a uniformity of charge at the mill. Apparently the government was not willing to have uniformity of action at either end of the line. Yet both methods are far superior in fairness to the old "cut-throat" competition.

Standardization of product has likewise caused a great change in the application of the older standards of price fairness. If a commodity like pig iron, cement, or flour of a certain kind has assumed a definite market position, conforming to known and often officially established tests, the older element of choice or discrimination based on variation of quality automatically disappears.

If the output of one mill is the same precisely as that of another, undistinguishable in appearance, service, or other characteristics, why should the consumer pay more or less for the output of one mill than for that of another?

The fact that one establishment is further off or has a higher unit cost does not seem to him a good reason for paying a higher price for its product or *vice versa*. So a uniform price tends to be established by custom and the bargaining of the market either changes it uniformly for all (as in wheat, cotton, and other products traded in on the exchanges) or else changes it not at all, save, perhaps, at intervals. Undercutting the recognized fair price comes to be recognized as injurious both to consumer and producer and prices tend to be stabilized.

Very little more than a rehearsal of these difficulties is necessary to show that the older standards of price judgment are hopelessly out of date. Evidently the mere existence of what is called competition in the older sense does not to-day result in low prices to the consumer and has never operated to insure him a parity of position with every other consumer. Neither has such competition invariably resulted in establishing conditions of steady and reliable supply.

What efficiency has done.—The old method of selecting commodities on the basis of their relative merits of durability, composition, and the like has disappeared in those industries which now turn out a standardized product. The old method of judging fairness on the basis of profits earned or returns obtained by the individual producer has dis-

appeared in all those industries where there is material difference in efficiency between producers.

The thought that fairness was inherent in those prices which represented a fairly stable relationship between producers themselves and stood for the average or usual return necessary to keep a number of essential plants going disappeared, when it became evident that one or a very few concerns were capable of turning out the entire supply needed at a given price and could, if they chose, drive others out of the business.

Yet our lawmakers have consistently adhered to the view that fair or desirable or equitable prices were those and those only which varied considerably within given areas and given moments of time and which were the outcome of a test of strength between individual consumers and individual producers. They have apparently viewed competition as a struggle between individual producers and individual consumers, ignoring the fact that competition may quite as truly exist between a group of consumers or a group of producers or between consumers alone who were competing for portions of a limited supply. Owing to this narrowness of definition and to the legalistic trend of thought among lawmakers, the past twenty years have seen our legislation, our court decisions, and our executive procedure fall into a muddle of conflicting theories, standards, and ideas on this whole subject.

The business man to-day who wishes to be a law-abiding member of the community finds himself wholly at sea as regards his relations with his customers.

The business man confused.—He can obtain conflicting opinions about as numerous as the lawyers he chooses to employ, while, it must be added with regret, he has found professional economists loath to struggle with the practical problems of actual business, particularly in the price field, and inclined to take refuge behind abstractions, references to "scientific" principles whose nature they are unwilling to state or to apply. The result has been to leave the business man confused, and, in many cases, defiant, with respect to the whole situation.

Is there a "rule of reason" in this field of thought? It is high time that efforts be made to find it. The community wants to see so far as possible equality of opportunity among its members and it desires that industrial and other service should be rendered at a figure which, allowing for differences in ability, produces substantial equality among those who manufacture for its use. Prices should be such as to realize these conditions—*should* be, that is to say, if it be desired to comply with the general standards of conduct that are prevalent in the community to-day. Evidently, too, fairness cannot be realized under conditions which produce a difference of position or advantage between

consumers. Clearly then we may begin by stating what a fair price is *not*:

1. A price is not fair if it takes advantage of the relative weakness of low bargaining capacity of a buyer.

2. A price is not fair if it emphasizes the unfavorable geographical or other position of a buyer or group of buyers.

3. A price is not fair if it artificially places one group of buyers at a disadvantage, to the advantage of another group.

From these negative principles some other and positive statements may be deduced:

1. A fair price places all buyers in the same position with respect to one another, and puts them upon the same basis of equality regardless of bargaining capacity.

2. A fair price eliminates, so far as can be done without hardship to any one, differences in geographical position and thereby equalizes buying power as between different areas.

3. A fair price gives each group of buyers the advantages which come from larger scale production and thereby tends to equalize their buying power still further.

These general principles tend strongly in the direction of establishing uniform prices to all buyers wherever merchandise can be standardized so that there is practically no difference between the various units of it. But as already explained at an earlier point, uniformity or the "one price policy" is not a guaranty of fairness, but only the external mark of it. From the seller's own internal standpoint, fairness would seem to involve the following tests:

1. Limitation of price to a figure which will result in placing the largest continuous supply of a commodity in the hands of consumers.

2. Subject to the foregoing qualification, further limitation of price to a figure which will yield about an average or standard return to capital as compared with capital in other industries.

3. Establishment of price at a figure which permits the steady introduction of new capital into the industry under at least ordinarily favorable conditions.

If, therefore, an industry is making a price to consumers which is uniform under uniform conditions, which results in no more than an average or normal rate of return on investment and which is such as to permit the investment of new capital from time to time in the enlargement of facilities it is in harmony with the general ideas of social ethics which prevail at the present day.

It is not of very much moment from the standpoint of the consumer whether the internal organization of the industry has assumed form as a series of small independent plants or as a group of highly centralized

large establishments or even whether conditions have led to the creation of a monopoly.

Extremely serious problems.—What was formerly termed "competition," leading to fairness of price, may exist under any one of these industrial forms. They themselves have nothing to do with the question of fairness nor do they even establish a presumption for or against the fairness of the charges they make to consumers. The form of organization, the conditions of business management, offer many problems, some of them of an extremely serious character, well worthy of careful analysis and where possible of control by the community. But these problems do not necessarily show themselves in the form of price, and the tests which were in other years based upon given conditions of price competition are no longer applicable.

The price question should be entirely separated from the question of the form of industry, whether competitive, semi-competitive or monopolistic, and it should be recognized that genuine competition in the true sense of the term is not limited to groups of producers contesting against one another, but is quite as truly to be found in the relationship between the community as a whole and the industry itself, and quite as truly in the relationship prevailing between different industries.

When these principles are recognized they will give rise to an entirely different type of legal regulation and one which is susceptible of reasonable application free of the absurdities and injustices which are found in the anti-trust laws of the present moment.

CHAPTER XXVI

MARKET ANALYSIS AND FORECASTS

Activities of the Domestic Commerce Division.[1]

This division was organized about two years ago for the purpose of assisting in Mr. Hoover's waste-elimination program. Prior to such organization the work on waste elimination, as applied to the domestic field, was more or less limited to industrial standardization and simplification of dimensions, varieties, etc. Although in its operation the simplification program affected the economic process all along the line, from producer to consumer, it did not directly attack the major problems of waste elimination in the actual channels of distribution. The Domestic Commerce Division was organized to meet this need.

The work has been necessarily experimental in character, due to the breadth of the field and the fact that previous efforts had not disclosed the strategic point of attack. In the early stages of the work, however, it became evident that one of the principal weaknesses was a lack of knowledge as to the purchasing power and consumers' habits in any given territory and, consequently, an inefficiency on the part of sellers in directing sales and advertising campaigns. In fact, it was admitted by some industrial groups that they were working in the dark because they had no definite basic information as to consumer markets. Therefore, one of the first steps taken by the division was to inaugurate a series of commodity surveys.

The results of these surveys are illustrated in the pamphlet, "Domestic Market Possibilities for Electrical Merchandising Lines." As will be seen from a review of this pamphlet, the purpose behind the study was to collect and group together data from all possible sources concerning factors which influence the purchasing of the commodity involved, and through an analysis of these factors, to set up a proportionate sales quota for each state, thus enabling national distributors of such merchandise to apportion sales effort according to the area's needs and capacities. Bulletins on other commodities have been handled in a similar way. Until such time as the field can be covered for other commodity lines, the factors developed by these studies can be utilized by other groups distributing closely related commodities. In fact, each study contains information and principles concerning merchandising which are of general value.

[1] The Corn Exchange National Bank, Philadelphia, December, 1925.

The next step taken by the division was to institute a series of regional surveys, as illustrated by the pamphlet, "Commercial Survey of the Philadelphia Marketing Area," attached hereto. While the commodity surveys were in progress it was found that satisfactory background information as to the marketing areas was not available. It is apparent that a knowledge of the broad economic and social factors of any area was indispensable to proper marketing, and it was only through a national program of regional surveys that these factors could be properly ascertained and valued. Sales areas are determined not by State lines, but by economic rather than political divisions. This is very aptly illustrated in the Philadelphia Survey. Here we have an area which might be regarded as one compact homogeneous market because of its political unity, but the facts developed that it is actually split up into five distinct districts, each requiring a different sales consideration. These districts are determined entirely by the social and economic background. Similar information must be brought out to cover every area in the country to enable distributors to carry out competent independent commodity surveys and intelligently promote and direct sales effort.

Too much waste is involved in our present system of distribution, due to the fact that marketing is based more upon guess, opinions, and past performances than upon factual knowledge and scientific analysis. Realizing this, the Domestic Commerce Division is concentrating its efforts on a series of regional surveys to cover the entire country. One on the southeastern area, comprising Alabama, Georgia, Florida, Eastern Tennessee, and North and South Carolina, is in the process of completion, and the results of this in printed form will be available early in the year. The others will follow as fast as the expansion of the facilities of the division will permit, but the division's efforts are limited by an annual appropriation of only $56,000, which does little more than enable it to set up a skeleton organization. The importance of these surveys is evidenced by the fact that, even though the Philadelphia Survey has been out for only a short time, it is being utilized by a number of national distributors in revising sales methods.

Statistics in Market Studies.[2]

The United States is not a single market. It is, rather, a collection of markets which have certain factors in common. With 110,000,000 people spread over three million square miles of territory, the country is the most populous area on the planet having no customs tariff, or serious commercial barriers between its parts. There is a common business language, there is a uniform currency and a single monetary system.

[2] By Paul T. Cherington, "Statistics in Market Studies," *Annals of the American Academy,* Vol. 115, pp. 130-135.

The states are closely knit by transportation facilities and by telegraph, telephone, and radio communication; interstate trade is under uniform legal jurisdiction, and the state legal systems have a certain degree of similarity. Throughout the country, commercial customs are, in the main, similar, and there is a fairly well unified distributing mechanism in every important trade.

Complexity of factors in market studies.—But, notwithstanding these common factors, the country cannot safely be treated as a unit in market studies. There are few studies in this field which are not obliged to take into account one or more of the non-political bases for subdivision of population. These are as numerous as the whims of human impulse, but often they are more powerful commercial influences than nationality. The markets for some products are determined by the economic status of the people. Silk underwear, for instance, may be ever so much desired, but for most people, under present circumstances, it is a luxury not practical for general use. Other markets rest on habits and customs, as, for example, market preferences for brown eggs in Boston and for white eggs in New York. Others are dependent on prejudices, such as those which account for the difficulty of selling certain cuts of meat. Climatic conditions are another factor; mufflers and ear tabs sell briskly in New England, and not at all in certain other sections of the country. Racial influences are among the strongest factors determining markets. The 978 foreign language newspapers published in the United States bear evidence of the importance of racial cleavages. The composite nature of the population is illustrated by this as it is also by the more familiar facts that in New York City there are more Irish people than in Dublin, more Jews than in Jerusalem, and more Italians than in Rome. Over one-tenth of all the Jews in the world live in New York City (1,600,000 out of 14,000,000). The total populations of Buffalo, San Francisco, and Pittsburgh combined about equal this racial group in New York City. This group is almost as large as the whole city of Philadelphia and twice the size of Boston or St. Louis. The Italians in New York (over 800,000) outnumber those in Rome and are served by 1,933 grocery stores and 204 drug stores—more than all the stores of these classes in some entire states. Buffalo has 218,000 Polish people, which is nearly a quarter of the population of Warsaw. The foreign-born population of the United States is one-fourth of the total and in New York state the foreign-born is one-half. Over 70 per cent of the population of New York City is either foreign-born or of foreign parentage.

The United States has about one-quarter as great a population as Europe in an area approximately equal. The chief contrast is that our races are mixed together in forty-nine states, while those of Europe are held separate by language and other factors in forty-one countries.

It is seldom that any one of these motives determining markets operates alone, although it is not uncommon for one to stand out conspicuously above the others as a controlling influence. Moreover, there are none of these effective restraints on markets which can be regarded as permanently operative. All market studies are confined largely to the present tense.

The market for snuff gives a concrete instance. The output of snuff in this country is about 38,000,000 pounds a year, and it is increasing. Scottish and Norwegian snuffs are sold among the peoples descended from those two stocks, illustrating racial influences. The mountaineers of Kentucky and Tennessee still pursue the habits which were general a century ago, illustrating the influence of established habits. Climatic influences also doubtless have something to do with it. But the present limits of the market may be only temporary. The mournful literature of a century ago is full of sorrow over the spread of the snuff habit among women very much as our own scolds at the spread of the cigarette habit—regarded by many people as more harmful and more disgusting than snuff-taking. Similarly, the annual output of plug tobacco, which amounts to over a pound for every man, woman, and child, is at present confined to consumption by a relatively small part of the population. It may spread to Fifth Avenue and other select circles now using other forms of tobacco; but for the present, its market is mainly among men who spend most of their time out of doors.

Any form of technical equipment such as machine tools offers an example of a product whose market is determined by the nature of the article and the uses to which it may be put. No great social change is likely to affect materially the influences which determine the actual or potential market for such products, nor do many of the other factors determining the markets for consumers' goods. Economic depression may postpone purchases and competition may cause shifts from one specific machine to another, but the market remains fairly stable and can be measured by almost purely quantitative standards.

Gauging sales quotas.— The complexity of the market factors and their constant shifting make the sale of consumers' goods peculiarly dependent on influences beyond internal control. Plant expansion, the acceleration or retarding of the rate of production, the direction of sales pressure, and all the other internal adjustments which must be made following shifts in the market (whether those shifts may be natural or induced) all require time. A change in a market may occur almost overnight which necessitates months of work before production is adjusted to it. Conversely, changes in conditions of production have sometimes produced changes in markets which have been long in working out. The inter-relation between the problems of production and marketing have grown more intimate year by year. A relatively short

time ago almost any manufacturer could sell goods up to the capacity of his plant by appealing to any convenient portion of the possible market. But, with the growth of plants, both in size and number, the sharpened competition with other producers of similar products, substitutive competition, and the increased scattering of response due to multiplied pressure, it is no longer possible to depend on getting adequate results from efforts to reach a market without a factual background.

All modern business enterprises recognize this side of the sales problem in one form or another as a result of competition. Quotas commonly are set for the sales force, based not merely on the total number of inhabitants, but with due regard for the variations in habits, or other qualitative factors. For many years the National Cash Register Company could base its sale quotas on the ratio of 1 to every 400 inhabitants. But such rough approximations no longer suffice in highly competitive markets.

Similarly, advertising plans and the corresponding selling operations involve an increasing use of qualitative studies of markets and the means for reaching them. A short time ago an advertising agency made an analysis of the circulation of forty-four magazines in a western city of about 500,000 inhabitants. By classifying the income groups and checking the subscription lists by occupations as ascertained from local directories, it was possible to get an idea of the subscriptions by occupational groups and by approximate economic status. The figures thus obtained have quite closely paralleled actual figures for national circulations in instances where these were available. By such methods the qualitative factors in circulation may be gauged in buying magazine advertising space.

There is scarcely an advertising campaign, or a selling plan of first magnitude now operating, which has not back of it at some stage a study of the market to determine not only the number of actual or potential customers, but to get as good an idea as is possible of who they are, what their economic status is, what their buying habits and practices are, and what control their purchases of the goods to be sold. When advertising is involved, these data are supplemented by studies of the means of putting before these people in the most effective way those ideas about the merchandise best designed to convince them of the merits of the merchandise and its adaptability to their use. In this way, not only has advertising become an activity far more constructive than mere "puffing," but the whole process of marketing with which it is allied has been freed from many wasteful elements of chance.

Methods of investigation.— The technique for conducting such inquiries has been assuming more definite form from year to year. Some

generalizations about working methods now in use are now possible when the activities of some of the leaders in this field are examined.

The investigations which are conducted by advertising organizations for the purpose of collecting data on which to base advertising plans fall into two main classes:

1. Those which are designed to produce simple *facts.*
2. Those which are designed to yield collections of *opinions* or judgments of considerable numbers of people.

Generally speaking, the first type can be cast in the form of questions calling for categorical answers. The second, in contrast, involve more or less complex or qualified answers based on human views or reactions. These two types of inquiry merge into each other and they may even be carried on side by side; but in discussing them there is an advantage in keeping clear the underlying distinction between them. In the first type, the emphasis is mainly on the quantitative aspects of the investigation. If, for example, a given food product were under investigation, one of the first points to establish is how many people there are who either do, or can, use the product; and not until some conception of this mathematical fact is in hand is it feasible to evaluate properly the supplementary data reflecting the more detailed opinions or judgments which are the result of habits or other qualitative factors.

For investigations in quest of factual data, the procedure is in the main comparatively simple and direct. In determining the field for investigation, the problem is largely one of numbers; the questionnaires designed to bring out data from the field once selected ordinarily are simple and short, asking for straight categorical affirmative or negative answers; the actual gathering of these data also is relatively simple, the factors involved being mainly those concerned with securing a large number of answers cheaply, quickly, and impersonally; and the final tabulation of the material after it has been collected usually is equally direct and free from serious complications.

The second type of investigation, covering opinions and judgments on which decisions about consumer purchases may be based, involves much greater complexity in each of the four essential steps.

In the first step, determining the field for investigation, great care is necessary in the selection of representative sample groups. To a certain extent, it is possible to make good use of existing selections. For example, the subscription lists of magazines often present the result of a process of natural selection which has been going on over a period of years, so that by taking into consideration the character of the magazine it sometimes is possible to get a fairly well-chosen sample group. Similarly, there is a certain amount of selection represented by some types of previous purchase. Owners of high-priced automobiles, for instance,

may be assumed to be a reasonably well-selected group for other high-priced purchases.

In addition to existing classifications, however, it is necessary, when much work is conducted by field investigations, to develop arbitrary, new classifications of sources which may be carried over from one investigation to another without too great modification. The grouping of population by incomes, by occupations, by economic strata, or by other standards, serves a useful purpose. One organization, to use a concrete illustration, has found it desirable to set up arbitrary classifications of families to be followed by its investigators working on house to house inquiries. This classification which sounds general and descriptive, but works satisfactorily in practice, is as follows:

Class A. Homes of substantial wealth above the average in culture that have at least one servant. The essential point, however, in this class is that the persons interviewed shall be people of intelligence and discrimination.

Class B. Comfortable middle-class homes, personally directed by intelligent women.

Class C. Industrial homes of skilled mechanics, mill operators, or petty trades people (no servants).

Class D. Homes of unskilled laborers or in foreign districts where it is difficult for American ways to penetrate.

Again, when the distributing mechanism is the subject for investigation, it may be necessary not only to work out classifications by trades and by types of business such as wholesalers and retailers, but also to set up standards of classification within these groups. The following descriptive classification of retail stores has served a useful purpose in helping investigators to appraise data collected in field investigations:

Class A. Stores of manifest excellence in their respective lines, giving courteous and intelligent service and catering for the most part to a discriminating clientele. The volume of business done is of minor importance.

Class B. Efficiently managed stores catering to a clientele the majority of whom are people of moderate means and at least ordinary intelligence.

Class C. Slip-shod stores doing business for the most part with slip-shod people. The clerks in these stores frequently are limited in outlook and except on a question of distribution are not as a rule worth interviewing.

Class D. Not necessarily inferior to Class B and Class C, but of a different type. Class D stores are found in foreign districts where it is difficult for American ways to penetrate. Unless the investigator has trustworthy knowledge of the language spoken in the district and of the local customs of the community group, he should be wary of visiting these stores, as he is more than likely to be entirely misled by appearances and arrive at unwarranted conclusions.

In the second step, *the preparation of questionnaires,* this more complicated type of investigation calls for careful planning. This involves

not only care in the selecting of strategic facts, but also in the formulation of the questions so as to secure the truthful answers with a minimum of distortion due to self-consciousness on the part of those answering them. At the same time, it is necessary so to plan the questionnaires as to keep the way open for obtaining any unusual reactions, thus avoiding deadening or deceptive standardization.

In the third step, *the collection of data,* for this type of inquiry, the working methods need to be carefully chosen in order to insure securing enough material to make the result representative without collecting more than is necessary for insuring accuracy. Personal visits to those whose reactions are sought are the most thorough, and in many respects the best, method of procedure; but this method is costly, slow, and under ordinary circumstances yields relatively small number of data. The facts thus gathered also have the disadvantage of being constantly in danger of modification by the personal reactions of investigators. Mail inquiries will yield reactions from large numbers and are thoroughly impersonal; in fact their impersonal character is one of their chief drawbacks. Combinations of these two methods, or perhaps combinations of these with still other methods of investigation, make it possible to get enough reactions to be representative, and at the same time to insure responses which are significant.

In the fourth step, *the tabulation of data,* once obtained, this more complicated type of investigation makes it impossible to set hard and fast rules which are uniformly applicable. In brief, it may be said that it is necessary to conduct the work of tabulation in such a way as to insure accuracy while at the same time preserving such personal or individual qualities as are likely to be useful in interpreting results.

These concrete illustrations of working method serve to give point to the statement previously made that the studies of markets which have become an integral part of marketing plans have raised modern sales operations to a new level of certainty and definiteness. Statistical methods as applied to marketing need the refinements that can come only from practice; but a long step was taken when the need for statistical facts was recognized. Sound practice in this difficult statistical field cannot be expected to become general instantly, but the task is being undertaken with seriousness and with a clear recognition of sound statistical principles.

The Place of the Modern Distributive Survey in Relation to Maximum Sales.[3]

The place of the modern distributive survey to maximum sales is similar in use for the sales manager of to-day as the compass is to the

[3] By Edwin G. Booz, "Edwin G. Booz Surveys," *Annals of the American Academy,* Vol. 115, pp. 95-98.

mariner, explorer, or woodsman. The great magnetic power which draws the hands of the survey is truth—full and accurate information properly analyzed and organized. The extent of the sales executives' knowledge is directly proportionate to the diameter of his own information, and that which he draws upon.

The sales manager in the field of clothes, food, fuel, or shelter is on a tremendous sea of opportunity to meet the tremendous needs along any one of these fundamental lines. This sea is filled with many hazards on which innumerable businesses have been wrecked, by sailing the sea without the compass (distributive survey), which points to the channels of safe and profitable distribution.

Maximum sales are the result of applied intelligence. It is only ignorance of the right thing to do at the right time which holds sales below the possible maximum. The more intelligent is the approach to the problems of distribution the less is error likely to prevail. Appreciative of the soundness of these preliminary statements, business executives, charged with the problems of business distribution, have turned to business analysts to get the facts as to potential sales, the channels, the competition, the consumer's point of view and demand. Hence has come into the business men's vocabulary, rather commonly in the last ten years, the studies called distributive or market surveys.

We shall consider in this article some of the applications of this new technic called the survey. We believe the reader will be interested in the illustrations as to the type of problems to which the survey has been applied so that he may better know when to employ it.

The national advertiser.— The first case that we might consider is "Where to place the effort to get maximum sales in the tire business?" We have in the United States 16,523,898 (as of July 1, 1924) owners of automobiles and trucks. The outer dimensions of this tire market can be figured accurately when one knows something about the depreciation on tires and cars, on the one hand, and the rate of growth and production of trucks and automobiles, on the other.

To reach personally through an organization a market of 16,523,898 users of tires is too expensive for any business. Consequently, a less expensive method is sought through advertising mediums. There are 23,000 newspapers and 5,000 magazines in the United States which profess to reach a part of this gigantic tire market. Even with an appropriation of several million dollars, which was true in this case, maximum sales demand a survey to determine what publications these 16,523,898 owners read and prefer. The logical and profitable thing to do is to put this million dollar appropriation into the publications which are sought and read by the tire users, thereby eliminating the millions of waste circulation which are offered. Do you see what a practical problem this would be for the sales and advertising managers?

The business insurance used in this case was a market survey. The facts of the survey are sought from a national cross-section of tire users numbering 100,000 people picked with proportionate distribution from coast to coast.

With a courteous letter and a prepared return post card more than fifty per cent of these people are glad to coöperate with the survey. They tell us what publications they read and the order of their preference. When you know what kind of an automobile and on what road a man travels home at night it is a clear index as to where to reach his attention.

After one has the tire users' attention, the message that will be retained, or lost, depends upon the copy appeal and its presentation. This is the basis upon which media are selected to-day by modern advertising managers.

The publication.—Everyone interested and informed on the problems of distribution knows how the publications have sought to convert their circulation from a mere list of names to a market of wealth-producing and wealth-spending citizens. To do this they have studied their subscribers to find out what they want and what they buy. To-day, therefore, the so-called survey, or research department, is a part of practically every well-organized publication in the United States.

The findings of these conclusions and surveys have the strength of the publications well in hand. Indeed, one generally needs a discount for the bias unintentionally inserted and the weakness which has not been disclosed. The data and information supplied should properly pass through trained outside hands.

Each publication is a channel of distribution. Practically every home in the United States is the beginning of one or more of these channels where we find considerable duplication among these publications. Every publication naturally thinks that it is the preferred medium of the home. As a matter of fact there is a waste at this point amounting to hundreds of millions of dollars each year and it takes a very careful comparative survey to determine which of these channels is navigable and profitable.

The retailer.—The larger retailers, applying their intelligence to their problems, have given a place to research bureaus which aid them in knowing more exactly where the markets are and the best approach to them. This has stabilized the retailers' business so that they can relate themselves to the constant barrage of sales talk to which they are forced to listen in trying to maintain a stock of goods which will show the proper turnover.

These retailers have found that the word "demand" is a strong word for the transitory filmlike form which the desires of customers take. Only a small percentage of these desires take the form of a demand for a specific article made by a specific house. When retailers stop to

think what the consumption is in the United States from 100,000,000 people for simple items like bread, meat, potatoes, milk, shoes, or stockings, his thought is likely to give him the same feeling that he gets when he steps into a desert of quicksand.

Let us ask ourselves what the maximum sales are in one simple line in the United States. This will aid us in visualizing the size and maze of the cobweb field of distribution underlying a few of the thousands of lines and products in the United States.

There comes yearly into the United States 1,100,000,000 pounds of coffee. This coffee is distributed to 48 states, 11,000 cities and villages. It goes through an army of 5,000 salesmen and 75,000 retail stores.

There are 2,500 coffee roasters in the United States competing for the maximum sales. Where this coffee will be distributed is a question the survey can solve. The average retailer only sells 10 per cent of the coffee used in his own logical territory. The grocer is ignorant of this fact and has not surveyed his own market.

Distributor's survey — distributor's problem.—The problem arises in this form, "It is our desire to begin an investigation at Kansas City and later extend it to the St. Louis territory which will enable us to determine definitely and correctly the possibilities and probabilities ahead of us in our lines."

The fundamental questions raised and answered in the survey are:

1. Is the product right?
2. Is there a good market for it?
3. Can we always get the raw materials to manufacture it?
4. Can we develop our plants on a unit and process basis?
5. Can we sell it at a good profit?
6. What, if any, should be our problem of development?

Each of these simple direct questions call for further analysis which is as follows:

1. **Is the product right?**
   1. What is the composition of the product?
   2. What is it good for?
   3. Who helps make the product?
   4. How long has it been on the market?
   5. What results has it produced?
   6. In what respects is it superior to other products?
   7. Does the price to the dealer and consumer meet competition?
   8. Is there a good profit to the dealer? How does it compare with other products?
   9. Does it have the endorsement of government agencies?

10. How does it compare with the standards endorsed by the trade associations?

2. Is there a good market for it?

1. How much has been sold?
2. How has it been sold?
3. Why has it been sold?
4. Where has it been sold?
5. Where can it be sold?
6. What are the determining factors of the territory?
7. What has been the merchandising plan?
8. What is the proposed merchandising plan?
9. Is the merchandising plan sound?
10. What is the present demand for the product?
11. Is it a necessity?
12. What are the big factors underlying the future demand for it?
13. Is it a repeater sale?
14. Why is the Kansas City territory a market for it?
15. What has been the tendency in its consumption for the last ten years?
16. What is the competition for this trade?
17. What are the selling seasons for it?
18. What success has it had?
19. Has the missionary work been done for it?

3. Can we always get the raw materials to manufacture it?

1. Who controls the yards at Kansas City and St. Louis?
2. How long can we control the product?
3. What are the probabilities of not having the contract renewed?
4. What substitute source of the product exists in case competitors take control?
5. Where are the sources of its composition?
6. Is the quantity assured for the future?
7. Is the control open?
8. What big factors of government regulation enter into consideration?
9. What will be the tendency in transportation of raw materials?

4. Can we develop our plants on a unit and progressive process basis?

1. What is the manufacturing unit equipment for the product?
2. Has the manufacturing been put on a progressive process basis?
3. Can the process of manufacturing the product be successfully extended still further?

5. **Can we sell it at a good profit?**
   1. What profit has the product shown?
   2. What profit has been made on what has already been sold?
   3. What profit has been made on that sold by contract for this year?
   4. What is the estimated margin between production costs and selling price for this year?
   5. Will our manufacturing costs parallel those of our competitors?

6. **What should be our program of development?**
   1. How many can we produce this year?
   2. What is the balance we have to sell this year?
   3. How much can be sold next year?
   4. What per cent of increase in demand will the present plant accommodate?
   5. What is essential to larger production?
   6. How much land is needed in Kansas City to take care of the increase in the number of plants, warehouses, and storage space on a fifteen-year basis?
   7. How many production units the size of the present plant should be built for next year?
   8. What is the required organization for the extension and operation of the product's company?
   9. Where should the general office be located in Kansas City?
   10. On what railroads should the plants be located in Kansas City?
   11. Should the product be analyzed and experimented with?
   12. What merchandising plan should be adopted?
   13. What competitors will need special study and attention?

Breaking Down Sales Resistance in Industrial Selling.[4]

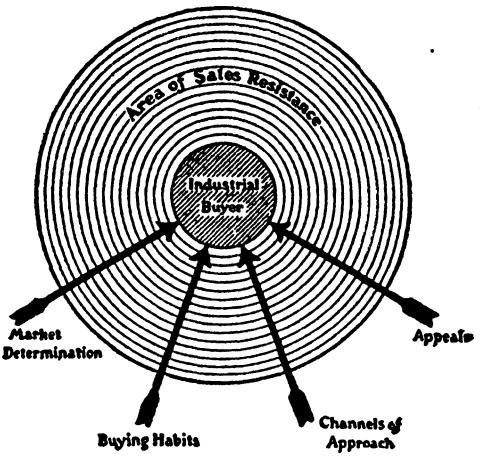
A survey of the buying habits of industry.—Buying habits of Industry, like all habits, are subject to analysis. They are not intangible. They can be checked and weighed, the same as any other commodity. And, once understood, the method of getting at industrial buying power is simple and direct.

In the interest of manufacturers selling to Industry, the McGraw-Hill Company presents the results of an unusual survey of these buying habits. This survey is based upon information obtained from Industry itself. Thus, through the medium of the survey digested in this booklet, Industry is given voice and states clearly the factors that determine how goods are moved from industry to industry.

In every sale to Industry there are four cardinal principles to be fol-

[4] By Malcolm Muir, Vice-President, McGraw-Hill Company, Inc., *The Annals of the American Academy*, Vol. 115, pp. 83-94.

lowed before the sale is consummated. Each principle represents an essential step in breaking down the barrier of sales resistance surrounding the industrial buyer.



These principles are not at all mysterious. As shown in the above illustration they are:

1. The worth-while markets must be determined.
2. Buying habits of these markets must be analyzed.
3. Channels of direct approach to the buyers must be selected.
4. The strongest possible appeal to these buyers must be prepared.

When these principles are adhered to and applied to the specific problems of any manufacturer they automatically result in policies which bring high sales efficiency.

A Birdseye Picture of Industry.

How large is the industrial market as a whole?

There are certain yardsticks which answer this question and which measure Industry for us, for example, the percentage of people engaged in gainful occupations:

Forty-five per cent of all such people are employed by Industry, 26.4 per cent by agriculture, and lesser percentages by trade, personal service, and miscellaneous divisions.

Truly, Industry is the workshop of the world, a mill that never ceases grinding.

Furthermore 54.5 per cent, or $61,000,000,000 of America's business income is produced by Industry.

And Industry spends $35,500,000,000 a year of this income for ma-

terials, equipment, supplies, power and new plants (not including labor) in order that its work may be carried on economically and with the most efficient methods. Also, it is interesting to note that a substantial amount of this great expenditure is for projects charged to capital investment.

The structure of industry.—How is Industry divided and concentrated so that the manufacturer with a definite sales problem can pick out any particular section and bring his sales ammunition to bear upon his real markets?

Again the answer is simple; neither complicated nor mysterious, for the structure of Industry as a whole is composed of certain definite divisions, any of which may be segregated and intensively cultivated. With a proper working knowledge of these divisions the manufacturer can avoid the wasteful policy of scattering, which has been the downfall of many sales campaigns.

Briefly, Industry is composed of two basic groups—"Service Industries" and "Manufacturing Industries"—and these have

Nine major divisions.—Service Industries contribute four of these divisions:

1. Mines and quarries.
2. Public utilities.
3. Power plants.
4. New construction.

Manufacturing industries (350 different types) group into five divisions:

1. *Process industries,* which take raw materials and convert them into finished products: for example, the manufacture of rubber and cotton into automobile tires.

2. *Mechanical industries,* which make products from metal; the production of the automobile from steel, aluminum, copper and other metals.

3. *Textile industries* such as cotton mills.

4. *Lumber industries,* including saw-mills and plants making finished products.

5. *Miscellaneous industries;* a few important industries as tobacco, but mainly small groups (manufacturers of artificial limbs, etc.) which take their production practices from the larger established industries.

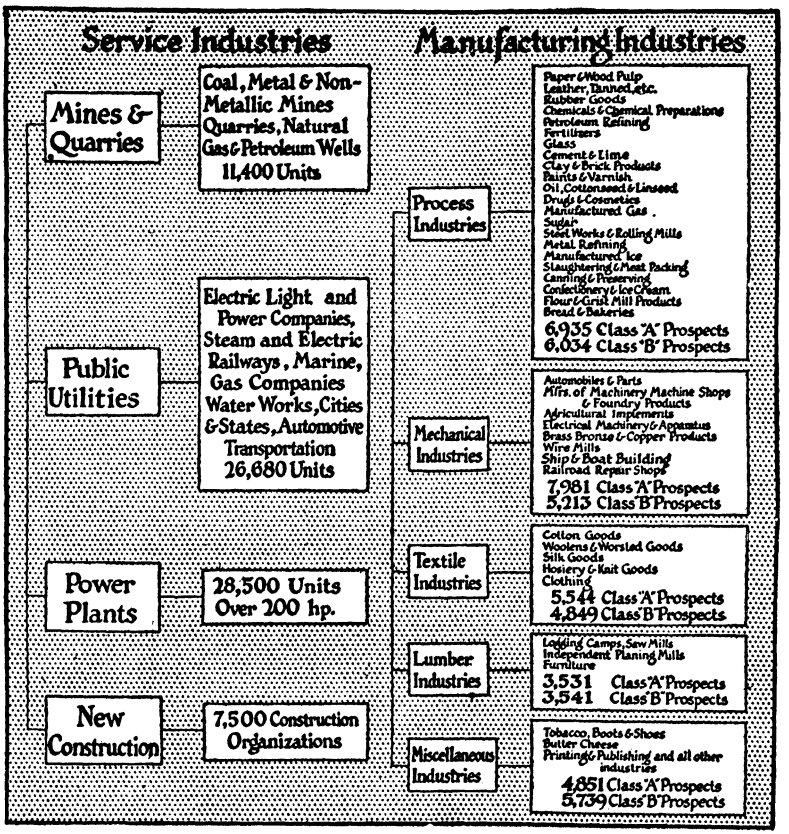
Industrial markets for most products follow these group classifications rather than the restrictions of a single industry. For example, the sale of evaporators is not confined to any one industry. The market for this apparatus is the "process industries" as a group, since evaporation is a process common to the operations of most of these industries.

However, the nine major divisions of the industrial market may easily be subdivided to determine the exact number of prospects in any single industry where this is desired.

Locating the profitable markets.—For the manufacturer whose product can be sold to every field, industry offers a maximum sales objective of 125,000 units. This figure, of course, eliminates small operations such as "wagon" mines and "back-lot" manufacturers. These businesses rarely are stable, and are apt to be liabilities rather than assets from a sales standpoint.

The 125,000 units employ over 95 per cent of all the workers in industry. They produce a corresponding percentage of the income. They spend over 95 per cent of the $35,500,000,000.

The importance of market determination which establishes for any product the profitable industrial groups among these 125,000 cannot be overemphasized.

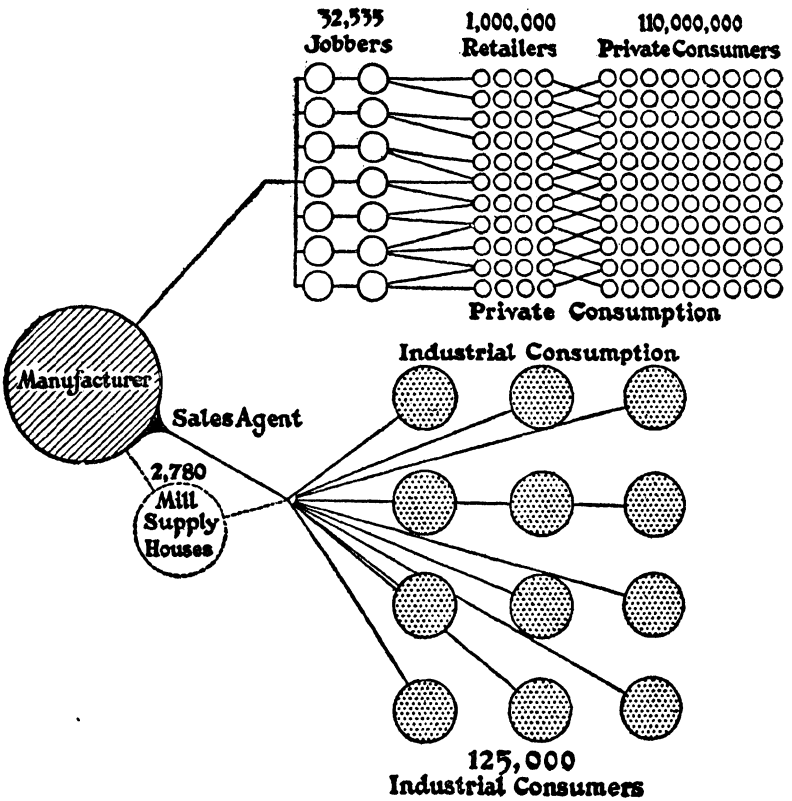


The Buying Structure of Industry.

The above chart is a skeleton outline for the classification of Industry. This detailed analysis classifies every industry and furnishes the number of worthwhile prospects in each.

The manufacturer must select and rate his available markets. He then can attack these one by one in order of importance, building surely until he reaches the limit of his plant capacity.

As an example of the dangers when even a large concern scatters too widely, there is the case of a leading manufacturer of equipment that



Flow Sheet of Distribution for Private and Industrial Consumption.

There is a fundamental difference—emphasized in this chart—between the distribution of products for private and industrial consumption.

Distribution to private consumers obviously proceeds through jobber and dealer channels. The manufacturer's problem here is to transmit his enthusiasm for his product through these successive organizations on to the ultimate consumer.

The manufacturer of products sold to Industry, however, is in direct contact with his customers. Even where the product is stocked with supply houses, the manufacturer can go direct to his important customers. The real problem of the manufacturer selling to Industry is to show his customers where and how to use his equipment.

can be used by every industry. This manufacturer adopted sales plans to reach out for all possible business, irrespective of the size or location of the orders. His business increased slightly, but his profits shrunk alarmingly. Later investigation showed that increased sales costs had more than eaten up the possible gain. He found that he had lost money on every customer who purchased less than $200 a year. He really had but 40,000 profitable prospects in the whole country, yet these represented 96 per cent of the total purchases of his type of equipment. In the effort to reach everywhere he had dissipated his energies so that he had failed to entrench himself in his profitable markets. He had in fact thrown away his actual profits chasing "will-of-the-wisp" business.

On the other hand, the present successful leaders in most lines of industrial equipment have refused to be blinded by the scattered borderline business. These leaders have determined their profitable markets, and have built a commanding sales and service position in these, one by one, as their plant capacity expanded.

The principle of market selection, in fact, is woven into the underlying requirements of industrial buying itself.

Industrial buying.—Industrial buying has been aptly defined as the "movement of goods from industry to industry," for each industry is dependent upon other industries for its materials, supplies, and equipment. Without this constant interchange of buying the wheels of industry would stop.

Thus, automobile manufacturers turn naturally to other industries for the material and equipment used in building their cars. Steel must be purchased from the steel mill, machine tools from the machine-tool manufacturer, electrical equipment from the electrical industry.

This is industrial buying.

The industrial buyer uses machinery and equipment as a means to an end. He buys on a basis of performance. The buyer and the seller must work together; the one rendering a definite service, the other expecting it. The seller must understand exactly what the buyer proposes to do with the equipment in order to talk "results."

The manufacturer who fully cultivates an important field becomes regarded as a specialist in the field. He builds on the foundation of confidence and holds his grip in good times and bad.

Summing up, then, the market requirements for profitable industrial selling are:

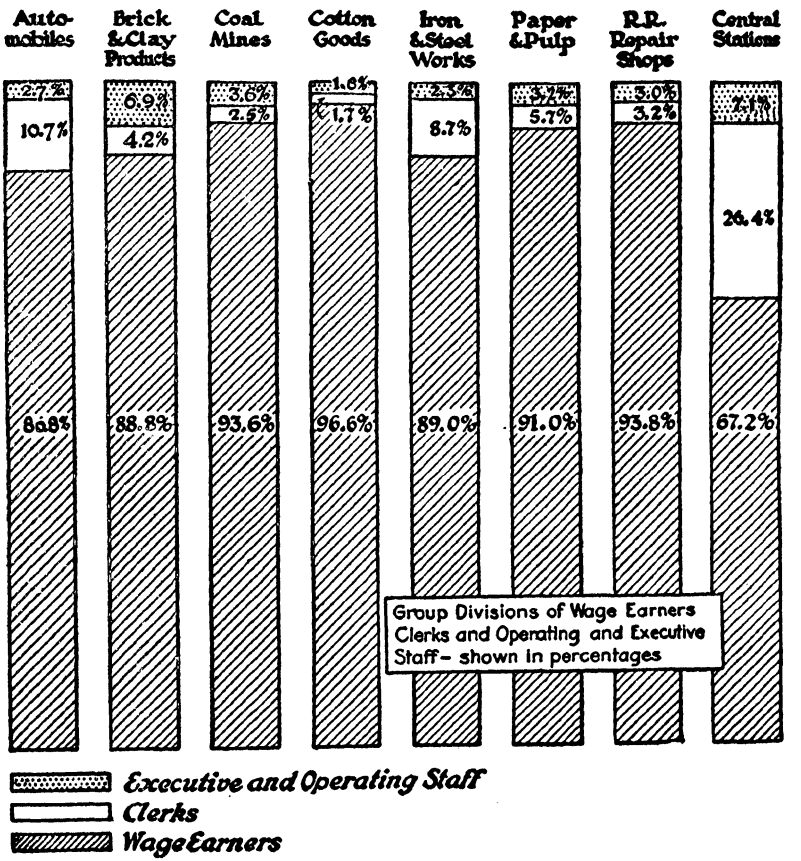
1. *Sufficient scope for sales expansion.*
2. *Concentration of the business into worth-while buying units.*

For these markets we have, as seen, a selection from a maximum of 125,000 industrial enterprises. But there is a further selection of the classes of men who are the real buyers of equipment.

Over 17,000,000 people are employed by the 125,000 units. The

great percentage of these 17,000,000, however, are factory hands, laborers and clerks. Executives, operating heads, superintendents, engineers, department heads and others in whom the manufacturer might be interested represent but a small fraction of the total.

It is this thin but vitally important strata of men in industry that actually controls the buying.



The Concentration of Buying Power in Representative Industries.

The purpose of this chart is to show the relative percentage of those in Industry who are (1) wage earners, (2) clerks, and (3) men responsible for administrative sales and production activities.

The manufacturer's interest in the first two groups usually is negligible; the proposition, therefore, is to determine which men in the third group actually control buying. Obviously, there are many in this last group who do not influence purchases of equipment, for example, those in sales departments.

As the next step, therefore, we may consider figures such as those shown in the above chart.

The small group at the top of the column covers all of those who hold in their hands the key to industrial buying.

Buying classes.—Carrying out the basic principles of industrial sales promotion we must determine then by further study of this upper group:

1. Which particular men control the buying for industrial equipment?
2. What is the most effective channel of approach to these men through advertising?
3. What is the strongest appeal?

The Buying Habits of Industry.

Who controls buying?—Who are the men that really control the markets for the products sold to industry?

The presidents or general managers of the principal manufacturing enterprises in the country were requested to list the men in their organizations who (1) initiate the installation of equipment, and (2) specify the type and make.

The companies which revealed their buying practices speak for over one hundred separate industries—they employ an aggregate of more than $7,000,000,000 capital.

The facts these companies furnished check in factors that are vital in promoting the sales products to Industry:

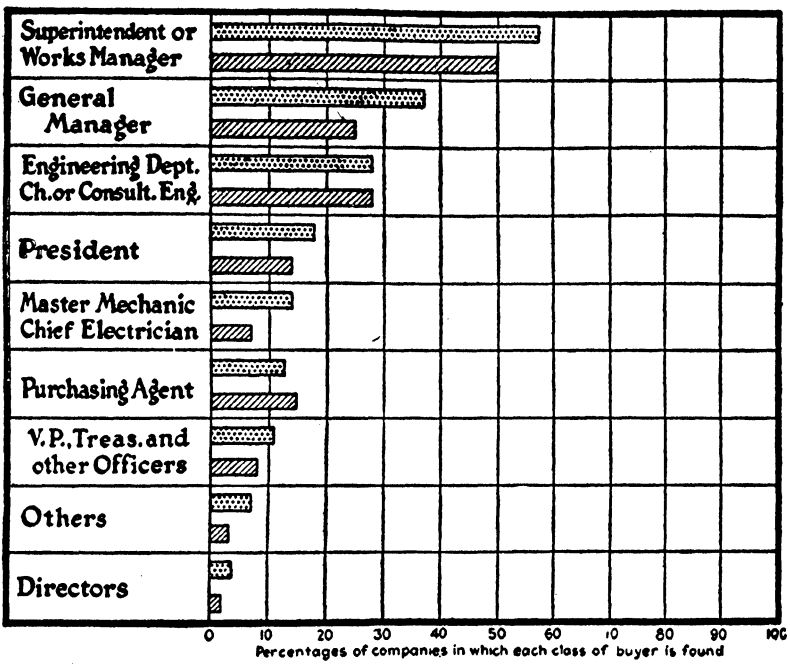
1. Buying power[6] for industrial equipment lies with the men responsible for the production activities of the business rather than with the general administrative executives.
2. "Initiating" and "specifying" power are in the hands of the same individuals. By "initiating" is meant the decision that new equipment is required. By "specifying" is meant the selection of the type and make of equipment.

Superintendents and works managers are the leading buying influence for industrial equipment. General managers are next; then the chief engineers and engineering departments. The men in these major groups are clearly men with direct production responsibilities who are accountable for results that can be secured only through the proper application of machinery and equipment.

The place of the president as the fourth factor is interesting. Presidents are sometimes thought to be an important buying class for industrial products, whereas they usually are general administrative execu-

[6] By "buyer" or "buying power" is meant, of course, the man who initiates the installation or specifies the equipment. This is distinguished in many cases from the man who issues the formal orders as a matter of routine.

tives taking no part in the selection of equipment. Industry showed this fact clearly in the survey. Analysis of the presidents and other officers that did report shows that these men take a hand in buying only where they personally share the responsibilities for production activities. This condition can occur in the so-called "one-man" companies, and in certain larger organizations, where the profits depend primarily upon special production processes.



Buying Power for Industrial Equipment.

The length of the dotted bars represent the relative importance of different types of men in initiating installations.

The shaded bars represent their importance in specifying the type and make of equipment. In small or moderate sized companies one man may hold full responsibility for purchasing equipment; in large companies the responsibility usually is delegated to specialists in different lines.

The relative importance of the production officials is emphasized strikingly when the bars for the superintendents, general managers, engineering departments, master mechanics and chief electricians are placed end to end in comparison with the total length of the bars for general executive or purchasing titles.

Continuing from the president, the figures are charted for the lesser buying groups down finally to the directors who, as shown, take no appreciable part in initiating installations or specifying equipment. This

is not surprising. The director's participation in business is confined primarily to broad policies and finance.

The men who must be sold, then, are those in charge of production, engineering and maintenance.

These men must be sought by responsibilities, not by title.

Channels of approach.— Once the manufacturer has determined his profitable markets and has located the buyers in these markets, he must decide how best to extend and back up the work of his sales force by influencing these buyers through advertising.

The question is, What type of medium provides direct contact with the industrial buyer?

To ascertain this it has been common practice to present a long list of names of publications and ask the recipient to check the ones he "reads." This type of test was discarded. A man invariably will check a number of publications without regard to the purpose for which he uses them. Such results may be highly misleading to the manufacturer who seeks a direct path to his industrial buyers.

After all, there is no step more essential than the selection of the proper mediums. If the medium is not the one which the buyer says he actually uses in purchasing equipment then the force of the entire plan will be scattered to the winds like seed sown from an airplane.

The buyer was forced to name mediums without assistance or prompting. No publications were listed. In each case the industrial buyer was asked this definite question:

"In what publication should advertising of equipment be published to be most useful to your organization?"

There was no easy checking. The man in Industry who answered this question was forced, first, to select from all publications those in which he actually used the advertising pages as a guide in selecting equipment; second, to write down the names of these publications.

Industry, therefore, was compelled to write its own audit without any clews which might influence its statements.

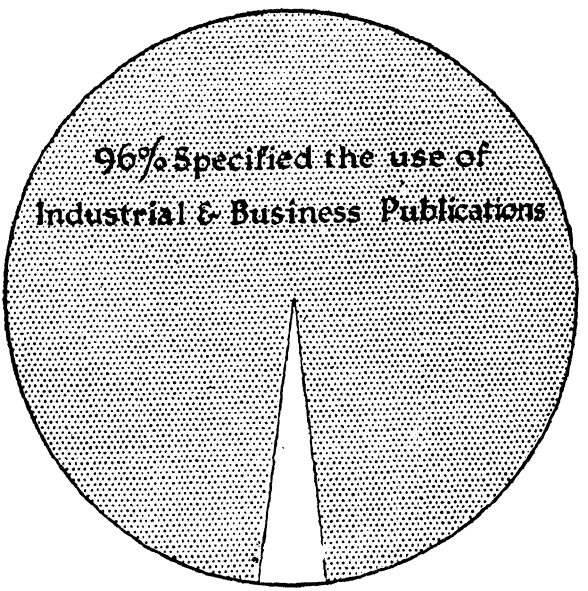
The vote.—Over 96 per cent specified the use of industrial or business publications as those in which they desired the manufacturer to tell about his equipment. The names of publications were given specifically by the great majority. In a few cases, classes of publications were specified, for example, "Engineering Journals."

Some may ask why the industrial publication is universally named as the direct channel of approach to the industrial buyer.

The answer lies in the unprecedented development of Industry itself during the last half century. For example, we have watched the evolution of mass production, we have seen the application of electricity as a servant for every workman, manufacturing has expanded thirty fold, mining, public works, and transportation have been forced to

follow at a corresponding pace—all within this short span of years.

Each phase of this progress has rested on the application of engineering sciences. Hand in hand with this expansion, therefore, has gone the need for a leadership to stimulate the progress and voice the policies of Industry. A mine in Alaska, for example, may develop an improved method. How can the mine manager in Africa apply this advancement in the art except through knowledge obtained from a source in which he places his trust?



Specified the use of:—	
Industrial and Business Publications	585
Directories	51
Misc. & Financial Pub.	29
General Mediums	16

Classes of Publications Which Manufacturers Use in Buying Industrial Equipment.

The vote charted here was obtained from 609 leading manufacturing concerns. These concerns are located in over one hundred separate industries. Many of the concerns which reported are of such magnitude that their practices set standards for whole industries. The capital employed, in fact, by the companies which specified publications approximates $5,000,000,000.

It is the industrial journal that serves this function. The worthy industrial journal interprets, analyzes and criticizes—all in the "code" of the industry it serves. It is a working tool.

It is not strange, then, that the industrial buyer almost universally has reported that he uses the advertising pages of industrial journals as a buying guide for equipment, materials, and supplies—that the industrial journal is a direct path to the industrial buyer.

Advertising requirements of industrial buyers.—The final question then is, What type of information can the manufacturer furnish most effectively in these advertising pages? This is the fourth and last of the fundamental principles of industrial sales development.

Opinions were obtained from some of the most exacting buyers in Industry. They selected leading units throughout the manufacturing and service industries and asked:

"What information should manufacturers of equipment furnish in their advertising to be most helpful to you?"

The industrial buyer wants performance facts. He wants to know what the product will do rather than how it is made. He wants to know all possible uses of the product. He wants the manufacturer to describe installations, to give working data and cost data, and to describe new features from the standpoint of the service they give.

Here we see the same self-interest in Industry that is the motive force back of so many of mankind's achievements. The man whose success depends upon his ability to produce a product is interested in a manufacturer's equipment only from one viewpoint—that is, whether this equipment brings increased production efficiency, for in Industry equipment as stated is only the means to an end—and it is the "end" in which the industrial buyer is interested.

This principle applies not only to the advertising or copy appeal but to the work of salesmen. It is a basic principle that must be woven in the fabric of the entire sales policy. Whether it is a question of the development of specialized salesmen, the building of a salesman's data book, or whether it is purely a question of the most effective copy appeal, the industrial buyer must be approached from the viewpoint of the *performance possibilities* of the equipment.

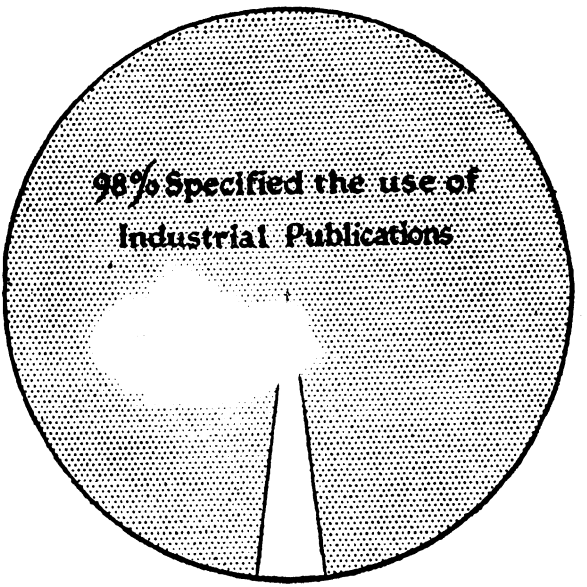
In applying this principle to his own advertising the manufacturer will see at once that it emphasizes the importance of addressing each industrial group in terms of the business problems of that group, that is, specialized copy.

For example, if a manufacturer makes conveying machinery, his appeal to the coal fields is radically different from his appeal to manufacturing industries. The equipment is bought by the coal mines on the basis of cost per ton of coal handled. The mine manager or superintendent requires information that shows the performance of the equip-

ment under this light; facts about the performance of the same equipment in factory operations do not serve the purpose. On the other hand, coal mine data means little to the factory manager.

This example clearly shows the necessity of specialized copy which, literally, talks to the industrial buyer in the "code" of his particular work.

The four cardinal principles.—In light of all that has been contributed by Industry as to its buying habits, reference may be made



Specified the use of—	
Industrial Publications	344
Directories	21
Financial Publications	2
General Mediums	7

Classes of Publications which Public Utilities, Mines and Construction Companies Use in Buying Industrial Equipment.

As with the manufacturers, the organizations which reported for the service industries were highly representative of the practice in their fields—many of the utilities and mines, in fact, operate groups of properties.

again to the four cardinal principles which the manufacturer must apply if he is to get full return from his sales dollar.

The first essential step—the determination of the worth-while markets—is a clean-cut application of definite market analysis. Industry, despite its great ramifications, can be classified with exactness and the profitable markets segregated for any product.

Secondly, when the manufacturer determines these markets and considers their relative importance, he will next bring facts to bear to ascertain which men control the buying. In other words, he will establish his buyers.

Third, in putting the influence of advertising behind his sales force to extend his markets and break down the barriers of sales resistance the manufacturer will select the direct channels of approach to his buyers.

Finally, he will develop as his sales and advertising policy the appeals that will tie his product directly to the production problem of each of his fields. He will thus win recognition for his organization as a specialist in the industries he selects.

When the manufacturer has established his sales promotion on these principles, he is obviously attacking his markets with the guaranty of high efficiency in sales and advertising effort. He is cutting directly through the area of sales resistance that surrounds the industrial buyer.

It is a fact that the outstanding industrial sales successes to-day have been built on these cardinal principles.

The development of America's production efficiency is one of the great romances of history. Hand in hand must now come an era of improved industrial sales efficiency, if America's economic position is to be maintained.

Business Forecasting and Its Relation to Modern Selling.[5]

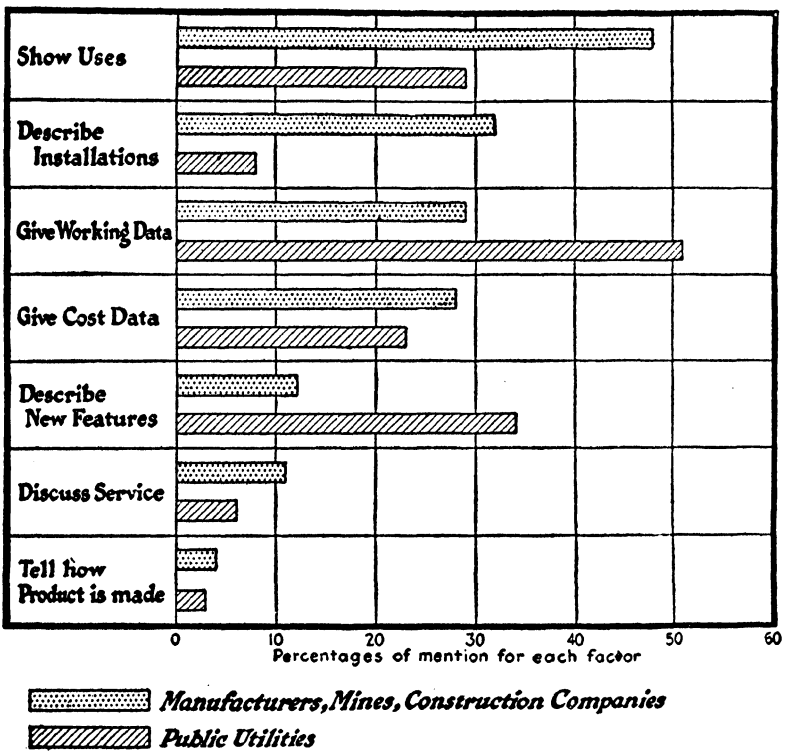
The economic "services" can be divided into two groups: (1) the reporting services, which specialize in collecting facts and figures; (2) the forecasting services, which specialize in interpreting the information. These two types of service are not entirely distinct. Some of the collecting or reporting services discuss their statistics, and some of the forecasting services do field work or compilation of original data.

The reporting services.—Among the pioneers in this field were the great mercantile or credit reporting agencies, Dun and Bradstreet. These organizations are best known by their books of ratings and their special reports on concerns and individuals seeking credit. Each of these organizations, however, publishes a useful magazine that contains

[5] By Roger W. Babson, *Annals of the American Academy*, Vol. 115, pp. 142-148.

statistics on business failures and other commercial and financial information. There are other credit rating companies; and important activities in the interchange of credit information have been developed by the National Association of Credit Men.

In the industrial and commercial field, an interesting service is that conducted by the F. W. Dodge Company, which supplies information on specific projects in building and construction. The Canadian building field is ably covered by the MacLean reports. The Motor List Company provides a very complete service on registrations of automo-



Advertising Requirements of Industrial Buyers.

The difference in the requirements of public utilities and those of the manufacturing, mining and construction industries is interesting. The latter groups are continually applying new types of equipment; thus these buyers wish the advertising to show uses, to describe installations and of course to support this information with working and cost data.

The utilities, on the other hand, have standardized many of their practices. They therefore wish information that will enable them to compare the performance of different makes of equipment. For that reason, the outstanding requirements of the utility group are working and cost data and new features.

biles. Other mailing list and directory companies, such as Boyd's, and Buckley and Dement, are rendering valuable service.

In recent years there has been a marked tendency among the trade journals to expand their statistical material and also to discuss the trends of production, stocks, and prices. Publications such as *Automotive Industries,* the *American Contractor, The Jeweler's Circular,* the McGraw-Hill group, and other representatives of the trade press are giving their readers a wealth of economic as well as technical information. The stronger publications are making every effort to keep their editorial activities untrammeled by advertising considerations, though this phase of trade journalism will always remain a problem.

This same problem of serving both the reader and the advertiser is also encountered by the general business publications and by the newspapers. Nevertheless, high editorial standards are reached by magazines such as the *Commercial and Financial Chronicle,* the *New York Journal of Commerce, System Magazine, Printers Ink,* etc.

There has been a remarkable increase both in the quantity and quality of business information published in the newspapers. A real service is available in the pages of such papers as the *Boston Transcript,* the *Chicago News,* the *New York Times,* and others.

Some of the most useful publications are the yearbooks. A good example is the "Directory of Newspapers and Periodicals," compiled by the N. W. Ayer Company. Another excellent publication is "Rand McNally's Bankers Directory," issued every six months; this is becoming of great service because of the editorial policy of enlarging the scope of the statistical material.

One of the most striking developments of recent years is the work of the National Retail Hardware Association, The National Retail Jewelers Association, The Newsprint Service Bureau, The American Railway Association, The Life Insurance Sales Research Bureau, The National Association of Purchasing Agents, Canadian Bankers Association, National Lumber Manufacturers Association, and other organizations. It is deplorable that the development of statistical research by the associations, in the main an activity of the utmost value to the whole nation, has been impeded by fear of persecution at the hands of narrow-minded and short-sighted politicians, whose malignity is matched only by their stupidity.

On the other hand, in sharp contrast to the attitude of some politicians, who regard business as Mexicans do the bull, we have the splendid work of the Department of Commerce. Under Secretary Hoover, this Department has issued a *Survey of Business* and other publications, which fully merit the title of business services. Excellent work along this same line is also carried on by the Federal Reserve Board, the Department of Labor, and other departments. New York, Massachu-

setts, and a growing list of other states are also furnishing economic data of considerable importance. In Canada, the Dominion Bureau of Statistics under the leadership of Dr. R. H. Coats is collecting valuable information for the business man.

Among the chambers of commerce, several of the most intelligent of these organizations are collecting and disseminating real information on local conditions. They have learned the lesson of real service both to their membership and to business at large. In this they were led by the publication of the United States Chamber of Commerce known as *The Nation's Business.*

Several of the colleges which have courses in business administration are collecting and publishing data on business conditions. The simple, sound, and eminently practical studies of the Harvard Business School, for example, or Northwestern University, deserve the highest credit. Excellent work is also being accomplished by such institutions as Carnegie Institute, Cornell and the state universities of North Carolina, Nebraska, Indiana, Idaho, Illinois, and Washington. The type of research which many of the colleges are performing has a brilliant future.

One of the latest, and in some ways the most interesting, sources of business information is the radio broadcasting station. Starting in a simple way with some brief reports on weather, crops, and markets, this activity has gradually been developed until the business man can now get a surprisingly comprehensive service from the air. With the future perfecting of apparatus and assigning of wave lengths, the broadcasting of business reports has immense possibilities.

Forecasting services.—These forecasting services can be arranged in three groups, as follows:

1. Services that emphasize some form of the lag theory.
2. Services that emphasize the area theory.
3. Services that emphasize other theories.

The lag theory is based on the observation that certain factors rise early at a time of business expansion; other factors rise at a later stage of the period; while still other factors with a pronounced "lag" may not rise until the close of the period. A similar sequence or difference in phase characterizes a period of business depression.

A simple illustration of this theory is the behavior of the stock market. Many times in the past an upward movement in business has been foreshadowed several months in advance by a rise in stocks; and the market has often anticipated a downward turn in business, by a considerable interval.

It is obvious that this tendency of different factors to lead or to lag is a phenomenon of great practical importance and that it should serve as a very useful guide in forecasting. The theory has been given pro-

found and prolonged study; and when carefully interpreted and applied it has led to some most serviceable results.

Development of lag theory.—One of the pioneers in the development of the lag theory is the Brookmire Economic Service. Without attempting refinements of description, it may be noted briefly that the Brookmire organization originally developed several indices such as: (1) a measurement of the monetary and credit trend; (2) a measurement of the trend of the security markets; (3) a measurement of the trend of business.

It is well established that easy money and abundant credit are one of the causes of and the prelude to rising stocks. In other words, available credit tends to be employed first in the stock market. As expansion proceeds, funds are withdrawn from stocks with resulting decline of their prices, and put into business, which in turn expands. Hence, to state the proposition crudely: monetary conditions anticipate stock market conditions; and stock market conditions anticipate business conditions.

Area theory.—From the above viewpoint we will refer to the area theory as advocated by the Babson Statistical Organization. The area theory is the outgrowth of a principle originally proposed by Sir Isaac Newton. Newton suggested that the fundamental law of action and reaction, which obtains so rigorously in physics and mechanics, can be traced likewise in economic and human relations. The first investigations along this line yielded only negative results. In business, for example, there is found no equality in the degree of expansion (action) and the subsequent depression (reaction). Expansion may reach any intensity, varying from the mildest improvement to the most hysterical boom; while depressions are slight, profound, or any one of a dozen intermediate graduations. The records fail to show that when business goes up like a rocket it comes down like the stick. There is absolutely no definite equality between the height of the rise and the depth of the drop.

Likewise if you investigate the time element, yon can find no demonstration of the law of action and reaction. A brief expansion may be followed by a prolonged depression, and vice versa.

When, however, you consider both intensity and duration, combining the two to form an area, then Newton's law is demonstrated in a remarkable way. Suppose, for example, that a period of great activity has lasted several years, thus forming a big area. With considerable assurance you can forecast that the ensuing period of depression will be equally big. Whether it will take the form of an excessive drop of brief duration or a moderate decline dragged over a prolonged stretch, no man can foresee.

The shape of an area of depression is unpredictable. Its size can

be foretold with considerable precision. This, stated very briefly, is the area theory.

Enlisting the aid of science.—One of the forecasting systems recently developed is based upon a process somewhat analogous to the methods which engineers call "differentials." The process is somewhat involved, but it can be explained in a broad way as follows: Take a factor such as bank clearings, for example. Assume that clearings are increasing every month. This increase may be fixed quantity (such as $100,000,000 per month) or a fixed percentage (such as one per cent per month). Of course a uniform percentage rate of increase represents a more pronounced upward trend than does a uniform numerical increase. There is still another trend, however, such that clearings may be increasing not only numerically and not only in percentage, but this percentage rate itself may be increasing. In other words, in successive months there may be increases of 10 per cent, 15 per cent, 20 per cent, etc. The percentages may be growing at a fixed rate.

It may even be discovered that this rate of growth of the percentage is tending upward. In short, by a process of continuous analysis, finer and finer, there can be worked out a succession of growth measurements somewhat akin to the engineer's differentials of the first, second, or higher orders. Of course the same principle applies to a set of statistics which is decreasing instead of increasing.

There are various other types of service which do not follow any clearly defined theory, but operate on general methods comprising a variety or combination of various systems. In this connection one caution is worth noting. Though most of the services have kept away from this danger, there are still individual business men who try to forecast business conditions on the basis of a single factor, like the stock market, pig iron production, or building. It is unfortunate that very often a single barometer has made a correct indication and has given some business man a false confidence that he has discovered an infallible clue to the future. The trouble is that presently there comes a time when he bases some serious commitment on the indication of his pet barometer and the indication proves to be false.

To be sound, a system must be based upon a broad group of factors, so that they will mutually check each other, and the combined reading will be reliable. It can almost be said that when you are looking into the merits of any business service, the question of real importance is the scope of the barometers studied rather than the technical details of how they are handled. Nearly any of the established theories should give reasonably accurate results, provided it is applied to a sufficient number of good barometers; whereas even the soundest theory may lead you astray if you attempt to apply it to a scanty and ill-chosen list of statistics.

AN ESTIMATE FOR THE CONTINENTAL UNITED STATES, OF THE TOTAL QUARTERLY WAGES AND SALARIES PAID TO ALL EMPLOYEES BY ALL ENTERPRISES OF WHATEVER SIZE¶

	Millions of Dollars Paid to Employees									Maximum
	1920				1921				1922	Cyclical
Industry	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*	*First Quarter*	*Decline (Per Cent)*
All Industries	9,463	10,048	10,472	9,905	8,381	8,114	8,047	8,055	7,743	23.16
Agriculture	216	323	483	316	201	279	390	250	181	19.25
Extraction of Minerals	477	488	548	540	465	423	396	364	349	36.31
Building and Construction	528	656	684	553	446	495	573	575	549	24.54
Other Hand Trades	180	193	190	195	183	192	189	193	186	1.02
Finance	156	161	168	173	169	165	164	169	165	5.20
Public and Professional Service	964	960	912	1,046	1,062	1,002	951	1,124	1,117	4.27§
Domestic and Personal Service	666	690	700	695	678	678	672	661	643	8.15
All Transportation	1,197	1,341	1,512	1,458	1,170	1,119	1,087	1,111	1,005	28.11
Steam Railways	811	921	1,073	1,002	772	713	679	691	628	36.72
Other Transportation	386	420	440	456	398	406	408	420	377	7.27
Commerce and Trade	828	854	862	887	829	830	823	839	795	5.41
Wholesale	100	105	107	106	96	99	98	95	88	17.75
Retail	728	749	756	781	734	731	725	744	707	4.74
All Factories	4,252	4,382	4,410	4,042	3,176	2,929	2,802	2,769	2,752	37.60
Food, Drink and Tobacco	343	343	359	368	297	279	299	288	257	30.16
Lumber and its Products	331	364	361	321	275	296	290	273	267	19.66
Metals and Metal Products*	2,176	2,223	2,246	2,004	1,405	1,142	988	970	1,060	56.85
Paper and Printing	240	249	254	272	244	238	232	248	237	8.82
Mineral Products†	303	317	334	335	282	265	260	254	248	25.97
Textile and Leather Products‡	859	887	856	742	673	708	733	737	683	24.12

* Vehicles, railroad cars, and all products not elsewhere recorded are included here.
† Includes chemical, stone, glass, and clay products.
‡ Includes clothing of all kinds.
§ Increase, minimum for corresponding quarters.
¶ King, W. T., "Employment, Hours, and Earnings in Prosperity and Depression,"

Means of Mitigating Business Depressions.[7]

We have learned, then, how to mitigate the violence of crises. The next step is to devise methods of mitigating the severity of depressions. Several such methods have been proposed. Though not yet tried on a large scale, some of the proposals rest on a careful study of experience and merit thorough consideration.

Concerning one line of action there is no room for doubt. The more men of affairs understand the cyclical factor in business activity the more they plan to take advantage of the opportunities it presents for gain and to avoid the losses it threatens, and the better the data at their disposal for judging business prospects the less violent will oscillations become. When a future danger is so clearly perceived that every one prepares to meet it, that danger seldom proves serious.

A notable illustration is afforded by the extraordinary fall of prices in 1865. Every one expected that when the Confederacy collapsed the credit of the Federal Government would improve, that the United States notes which were the standard money of the day would rise in value, and that prices would tumble. Of course this anticipated fall of prices was a grave danger against which every business had to provide. Nearly all business men made such provision. The anticipated fall began in January, 1865, and it proved more violent than any previous decline. Yet the fall of prices passed off without producing a severe financial stringency or a long depression. No troubles occurred comparable with those which accompanied the corresponding drop of prices last year, although the banking system was by no means so well organized to withstand a strain in 1865 as it was in 1920.

Every measure which aids the business public to foresee coming dangers, as they did in 1865, will prove helpful. In particular the statistical data which summarizes current conditions should be, and can be, rendered far more useful than they are at present. Gaps in our knowledge should be filled in by compiling fuller statistics of stocks of goods on hand and on order, of manufacturing output, of construction, of numbers of men at work part-time, full-time, and overtime, and of their earnings, of the leading factors affecting cost of production and fluctuations in demand. Not less important is the effort to make the sometimes bewildering array of figures more intelligible and more significant. Finally these more complete data in more intelligible form should be made readily accessible to all men to use them. Happily, there are many active workers in this field—government agencies, of which the Department of Commerce is especially progressive at present, business associations, scientific societies, forecasting agencies, statistical departments in cor-

[7] Mitchell, W. C., "Effective Means of Lessening Serious Business Depressions Possible," *New York Evening Post*, Vol. 19, 1921.

porations, commercial periodicals, newspapers, and individual statisticians. We can count upon a gradual improvement both in the data and in the use made of them.

Things Business Should Know.[8]

"Coming down to brass tacks," said Mr. Lamson, "it is easy enough to say that if we had known all about the state of affairs in industry before the storm broke upon us last year we not only could have lowered our gears and set our brakes for the steep down-grade ahead, but could even have gone far to avoid the steepness of the grade altogether. We didn't know—that's no secret.

"The question is not whether we ought to have known, but *what* we ought to have done. And is it possible to know that? Is the information to be had, and if so, how can it be made practically available in simple form for the manufacturer or business man with intelligence to see 2 and 2 making 4, so that he can understand it and act upon it?

"If you were to come in here any time and ask me:

" 'What is the normal production in your establishment?'

" 'What is the present production with reference to normal?'

"Very well; the answers to these questions, if you had them for any whole industry, would enable each concern to determine where it stood with reference to the whole industry. And if you had the answers totaled for all the industries of the country you could come pretty near knowing how things were going generally.

"It is essential in the planning of purchases and production to know also the consumption of raw material, raw materials on hand, the amount of finished product produced, finished product on hand, and the principal product sold or distributed during a given period.

"These details of his own situation the individual manufacturer might not be so ready to disclose; but if he knew the general situation in these respects throughout his particular trade it would be of the utmost value to him, and to the whole industry. Then supply would be more nearly harmonized with demand; the panicky buying and selling now in vogue would be lessened if not entirely eliminated; inefficient and impulsive production and selling policies would be more quickly and easily detected."

Monthly reports of all industries.—"Such information would have to be very much up to the minute," I ventured. "The statistical machinery moves slowly, and ——"

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[8] Gavit, J. P. This is the conclusion of an interview with Mr. F. L. Lamson, treasurer of the Norwalk Tire and Rubber Company, of Norwalk, Conn., about the necessity of reliable and timely information concerning manufacturing and business conditions, *New York Evening Post,* Oct 22, 1921.

"It doesn't move slowly in the reports of the wheat and cotton crops, does it? Don't you newspaper men get those reports by telegraph, and right up to date?"

"Yes, we do. Men wait on tip-toe, and try to steal the information in advance."

"Well, I would have this information gathered and made public not later than the 15th of each month for the preceding month. That, I believe, would be often and prompt enough for the planning of industry and general trading based upon an accurate knowledge of the true conditions in each industry and in all industries combined—for the industries are interrelated to a very great extent. One should know as well the general background of industry as a whole.

"Timeliness is as essential as are the facts themselves."

"Government is the only agency that can get such information," I suggested.

"I think so. Certain people have favored the gathering of this information directly by or with the assistance of the trade associations; but I personally foresee reluctance on the part of individual concerns to expose the 'innards' of their business to their competitors."

Scope of the information needed.— "What sort of questions would you have asked—whoever it was that asked them?"

"The monthly report that I would request from each concern would cover these points:

"1. Principal and secondary products, respectively.

"2. Number of employees, male, female, children under sixteen, and grand total. Proportion of these male and female, who are 'common laborers'.

"3. At what percentage of total maximum capacity is the plant now operating? (This should be estimated on the normal production of the plant, assuming all conditions favorable to production.)

"4. If production is not maximum capacity, what are the principal causes or limiting factors?

"5. Principal raw material consumed week ending 'last pay day'—name, unit, quantity.

"6. Principal raw material on hand 'last pay day'—quantity.

"7. Second principal raw material consumed, week ending 'last pay day'—name, unit, quantity.

"8. Second principal raw material on hand, 'last pay day,' quantity.

"9. Principal finished product produced week ending 'last pay day,' unit, quantity.

"10. Principal finished product on hand 'last pay day,' quantity.

"11. Second principal finished product produced, week ending 'last pay day,'—name, unit, quantity.

"12. Principal products sold last calendar month, quantity.

"13. Second principal products sold last calendar month, quantity.

"14. What percentage of production last month was on principal product?

"The answers to these questions would be reasonably accurate right away; but one of the effects of such reports would be to acquaint some industrial managements more closely with their own conditions. Accuracy would steadily increase. Business men would quickly learn anything they are not minutely acquainted with now.

Disclosure of unemployment.—"The number of employees on the factory payroll is the most accessible record in any plant. Suppose there were but three plants in a given industry, and that their answers at the end of a certain month showed" (Mr. Lamson quickly sketched a table):

Per Cent of Capacity	*Number of Employees Working*	*Normal Employment*
35	700	2,000
65	650	1,000
85	850	1,000

"Instantly you would see that the industry at full capacity would employ 4,000 persons; that the 2,200 represented an average of 55 per cent of the normal. And you would see 1,800 as the number of unemployed at that moment in that industry.

"Such a plan as I have outlined would (1) make available planning statistics sufficiently complete, comprehensive, and authoritative; (2) it would put producers, sellers, buyers, and the public all in possession of the same fundamental facts, consequently placing each interest in the same relative position for trading. And (3) it would establish a confidence that would contribute to a generous support on the part of producers in securing, disseminating, and continuing permanently such information."

Bankers' Aid in Stabilizing Business.[9]

The evil effects of the business cycle would be reduced if the public could anticipate the movements that constitute the normal cycle and discount them. Economic movements that are widely anticipated are thereby either prevented from taking place or mollified in their occurrence.

Assume, for example, that the evidence at a particular time shows we are several years along on the rising curve of a business cycle, that there has been no substantial liquidation for two or three years, that speculative activity is running high on the exchanges, that prices of the more speculative stocks are rising, that bank clearings are large, that reserve ratios at Federal Reserve banks and commercial banks are tending down-

[9] Kemmerer, E. M., *New York Evening Post,* Oct 25, 1921.

ward, call and short-time interest rates and Federal Reserve discount rates rising, the ratios of bank loans to deposits increasing, credit becoming more and more extended, and that commercial failures for some time have been running abnormally low, showing that little dead wood has of late been cut out of the business structure. This, for example, is a substantially correct picture of the year 1906, and of the latter part of 1919, and the early part of 1920. Fundamental crop conditions at such a time may or may not be good—if they are poor, so much the worse—but the other conditions mentioned would be ominous, and particularly so if they were occurring as above assumed at somewhere near the time period when, according to past experience, the cycle might be expected to be approaching its crest.

What would banker do?—Under such conditions what should a far-sighted and prudent banker do?

Broadly speaking, he would do a number of the following things: First of all he would probably try to get his assets in a more liquid condition. He would sell his less gilt-edged securities while the selling was good, and place the proceeds either in the most gilt-edged securities on the market, or he might purchase with the proceeds prime commercial paper of short maturities, scattering well his risks. He would place a larger proportion of his resources in the best commercial paper of concerns outside of his own community whose businesses were of the kinds least affected by crises—concerns whose paper he would have no responsibility to renew at maturity. He would clean up his loan accounts with his Federal Reserve bank and with his correspondent banks, and strengthen his reserve position. He would get a larger proportion of his paper into short maturities and would bring pressure to reduce his "capital loans," the kind that have formed the "renewal habit."

The general plan of action that he adopted for himself he would suggest to many of his customers. He would advise them of the danger of an undue extension of capital at such a time, and of the danger of too large an inventory, of too heavy commitments in the purchase of raw materials, and of over-extended credits to customers.

Banker would profit.—The extensive adoption of such a policy on the part of bankers would retard the upward swing of the business cycle and prevent it from going so far as it otherwise would. It would likewise eliminate the necessity of a corresponding downward swing—in other words, it would tend to iron down the curve and make for business stability. This would be a social gain, but it would also probably yield a financial profit both to the banker and to the customer who followed his advice. An intelligent discounting of the economic and financial future always pays.

The situation would be reversed if the cycle had been a declining

one. In such a case a process of liquidation would have existed for some time, the record of business failures would have been relatively high, stock exchange activity comparatively low, with the prices of the more speculative securities either stagnant or tending downward, and those of the most gilt-edged investment securities relatively high as compared with other securities. Bank clearings would be low and bank reserve ratios would be high, but bank funds would be in rather small demand because of the excessive caution of business men in expanding their businesses or in stocking up with raw materials. The ratios of bank loans to deposits would be low; likewise Federal Reserve rediscounts. The proverbial hand-to-mouth policy would be increasingly evident in business, and unemployment would be growing. "Things in general" would seem to be headed towards a period of depression. Such was the situation in the fore part of 1907 and such in the main has been the situation during the greater part of 1921. What could the banker do towards checking such a decline, cutting off the lower part at least of the trough of the normal business cycle, and starting the curve on its upward movement?

Broadly speaking, he could reverse the procedure suggested above for the time when the cycle was approaching its crest.

The preceding liquidation period accompanied by a relatively large number of failures and reorganizations would have cleared the way and made safer a forward movement. With a substantial period of rising prices and rising interest rates in prospect, both the banker and the business man could wisely make commitments for longer periods than before, greater risks would be justifiable now than at the previous period. The cautious making of capital extensions and improvements by the business man would now be sound policy, and the banker, although he should keep his assets reasonably liquid, would not need to stress liquidity as much as he had at the other period. In the making of loans, local industries of the kinds that had been most thoroughly liquidated should be favored, and longer maturities should be acceptable. The extremely gilt-edged security holdings could well be melted to a substantial degree into other securities with larger yields, which, though good, would not be the luxuries from the standpoint of safety that the previous holdings would now have become. During the upward movement of the business cycle certain kinds of business normally revive quicker than others —commonly these are the ones that first experience the decline. Such industries, particularly the more basic ones, are the ones that should first receive encouragement.

Our exact position in the cycle at any time can never be known, and sometimes it is impossible to feel certain even about our approximate position. The business cycle, moreover, is only one of many fundamental forces affecting general business. It is crossed and recrossed by

the even more regularly recurring seasonal cycle. Then again there are the movements covering long periods of years like the wide swings of the general price level and of the interest rate level. Always there is the uncertainty of crops, and always the possibility of war. A new condition like the present after-war situation of Europe temporarily may so overshadow the forces of the usual business cycles as to make forecasting and the discounting of the future exceptionally difficult. By and large, however, and viewed over any considerable period of years, the business cycle is sufficiently regular in its occurrence and sufficiently marked in its manifestations to make possible a fair amount of forecasting and discounting, and the banker who seriously and studiously makes an attempt to do this should in the long run by so doing bring profit to himself and render a valuable service to the community.

The Relation of the Government Crop Reports to Marketing.[10]

As I see it the results made available by the Crop Reporting Service are of special value for three principal purposes, namely, (1) As a basis for production programs, (2) as a basis for marketing program, and (3) as a permanent record of crop and live stock production between census years. Naturally crop reports are of some value for other purposes, but those I have mentioned constitute the principal reasons and justification for maintaining a Crop Reporting Service. My approach to marketing activities in recent years has therefore been from the crop-reporting side. Your approach to crop reporting activities has probably been from the marketing side. The relation between the two services is naturally very close and I think we may profitably devote a little time to considering that relation. In fact, the relation between crop reporting and marketing is so close and fundamental that it has led to the consolidation of the former Bureau of Crop Estimates and the former Bureau of Markets of the Federal Department of Agriculture.

Marketing.—Marketing as it relates to farm products consists of the various operations which are performed from the time the products are harvested on the farm until they reach the ultimate consumer. These operations include assembling, sorting, grading, packing, shipping, storing, selling, financing, insuring, subdividing, advertising, and delivering, often through many different hands. It involves a knowledge of times, places, quantities, qualities, carry-overs, stocks on hand, total production, marketable surplus production, present and prospective supply, consumption, present and prospective demand, imports and exports, surpluses and deficits, past and present prices, transportation, storage, and credit facilities, financial and economic situations, statistics, relative value of different sources of information, mail, telegraph, cable, and radio news serv-

[10] By Leon M. Estabrook, U. S. Department of Agriculture.

ices; and it involves the ability to appreciate the significance of these various factors, their relation to each other, the interpretation of them into action promptly, and the exercise of good judgment in deciding upon the proper action to be taken at any given time. The factors which I have enumerated, which are by no means all the factors which enter into marketing, indicate how exceedingly complex marketing processes and organizations are. You will note that crop reports are only one of many factors.

Prices.—However, if we ask ourselves what one thing more than any other in the whole marketing process is most universally regarded as important, which more than any other adjusts differences, which measures values, which reflects market conditions, and which makes the wheels of commerce and industry go around and causes the complex machinery of marketing to operate, I think the answer will be the one word "Prices." Of course, quantities and qualities, times and places, become exceedingly important at times and may be more important than price in particular instances, but these occasions are relatively rare. The greatest interest on the part of producers and consumers and of all who handle or deal in agricultural products centers about prices and the factors which influence prices.

Supply and demand.—Price changes are not in direct proportion to changes in the relation of supply to demand but are more in the nature of a geometrical progression.

Another peculiarity of the law of supply and demand is its universality, that is, it operates everywhere and at all times, the same as gravity. Like gravity, also, its effect may not be apparent when interfered with by special legislation or monopolistic control or price manipulation, but in such case the law is not suspended but is merely rendered temporarily inoperative. It operates wherever commodities are produced or consumed, in particular localities and throughout nations, and in the case of certain great staple commodities it is world-wide in its application. If, therefore, the prosperity and purchasing power of farmers depends upon prices, and if the prices of farm products largely determine the cost of living, and if prices are determined by relative supply and demand, then it becomes tremendously important that all who are engaged in producing, buying, selling, handling, and consuming these products shall have full, accurate, unbiased, and dependable information with respect to the relative supply and demand.

Of the two price-determining factors, supply and demand, supply is by far the more important. One of the peculiarities of demand for agricultural products, especially food products, is its inelasticity based on the ease with which demand is satisfied. A hungry man will pay a high price for sufficient food to satisfy his hunger, but once satisfied he will pay almost nothing for an additional amount of food at that par-

ticular time. The same is true of whole populations. Per capita consumption does not vary greatly, and on the average the demand for agricultural products is fairly stable, not so stable, however, but what it is necessary to study it closely in order to detect changes which take place in the consumptive demand as the years go by, such, for instance, as the decline in per capita meat consumption in the United States during and following the War, and the decline in per capita consumption of meat products, bread grains, and cotton in European countries due to conditions growing out of the war. On the whole, however, the demand may be regarded as fairly constant, and just to the extent that we regard the demand as staple, relative supply becomes the principal price-determining factor.

In naming relative supply as the main price-determining factor for farm products I have indicated the principal relation of crop reports to marketing. The crop reports deal largely with the question of relative supply, both present and prospective. For the great staple crops they show the surpluses carried over from one season to another, stocks actually on hand at given dates, by states and counties. They show the prospective supply by forecasting crop production based upon the estimated acreages planted and relative condition of the growing crops, monthly until harvested; and they show the yields actually harvested and total production. Account is also taken in the crop reports of imports and exports, stocks and consumption, surpluses and deficits, for the United States and for all countries of surplus production in competition with the United States and for consuming countries of deficient production. In other words, world balance sheets are drawn up and published from time to time showing the net world surplus or deficit in comparison with previous years.

I wish I had the time to describe to you in detail the organization and methods of the Bureau of Markets and Crop Estimates for estimating crop and live-stock production and the various estimates which have a direct bearing on the relative present and prospective supply, and to discuss with you some of the deficiencies and imperfections of the present system and how we propose to remedy them, but my time is limited. I will simply say in passing that the Bureau has developed what is acknowledged to be the most complete, comprehensive and accurate organization and system for estimating crop and live-stock production in the world. It has also accumulated in its library and files what is said to be the most complete collection of published and unpublished, official and unofficial, statistical reports relating to the agriculture of all countries of the world. For collecting, compiling, preparing, and issuing crop reports the Bureau has an office force of more than 100 employees at the Washington office; it has a well equipped branch office in charge of a trained statistician in each of the larger States; it has about 22,000

voluntary crop reporters, mostly farmers, throughout the United States covering every county and township and every important crop and class of live stock; and more recently it has representatives in foreign countries. All these sources of information are checked one against the others and all computations are checked and rechecked to insure accuracy. If all the crop reporting and statistical agencies in the United States, other than the Division of Agricultural Statistics and Prices of the Bureau of Markets and Crop Estimates, were combined into one organization and all their facilities and information were pooled, they would still fall far short of the Federal Crop Reporting Service. Furthermore, because of my intimate connection with the Crop Reporting Service and the numerous occasions which I have been called upon to check up the results and explain the service, I feel justified in saying that the crop and live-stock estimates of the Bureau are on the average extremely accurate. It should not be forgotten that the figures published by the Bureau are estimates based largely on the sampling method and not on actual enumeration. Nevertheless, many of these estimates are quite as accurate as the most elaborate and expensive census, and most of them are sufficiently accurate for all practical purposes. Their accuracy is due not only to the many different sources of information which are utilized and to the extreme care which is exercised in tabulating, analyzing, checking, and summarizing the data collected, but is largely due to the stability which comes from the use of large numbers of individual returns, the effect of which is to offset or cancel out the overestimates with an equal number and degree of underestimates, so that the final result is more nearly correct than the majority of the individual estimates. The statistical formula for this stability which comes from the use of large numbers of returns may be expressed as follows: The degree of error in any result is inversely proportional to the square root of the number of returns. Knowing this formula and the average error in the individual returns, it is practicable to know definitely just how many reports are necessary to attain any desired degree of accuracy.

I should like to outline briefly some of the improvements in the Crop Reporting Service which are contemplated, which constitute a portion of our continuing program, and which will be made effective whenever the necessary funds are available.

County estimates.— Prior to the census of 1920 the crop and live-stock estimates were made only for entire states and combined for the United States. There has been a growing and most insistent demand that the estimates shall be localized by counties. During the last three years the Bureau has gradually extended its system to making county estimates through its state statisticians. Later it is hoped to publish maps for each state at or about harvest time indicating surplus and deficient production by counties for each of the important crops.

Marketable surplus production.—Marketable surplus production is the portion of the crop which is sold, which leaves the farm and enters the channels of trade, which determines the price and in which marketing agents and agencies are directly interested. Up to the present time the Bureau has simply estimated total farm production, except that during the war period when emergency funds were available, the Bureau developed its fruit and truck crop reporting service to the point where marketable surplus for principal areas of commercial production was estimated. This service proved to be of great value, but was curtailed or abandoned when the war emergency funds ceased to be available. As a matter of fact, only a portion of the total crop production ever moves out of the county where grown, the remaining portion being consumed on the farms. For instance, rarely more than 25 per cent of the corn crop is marketable surplus, from 75 to 80 per cent being consumed on the farms where grown. It is this fact, the fact that the commercial movement of farm crops does not agree with the estimate of total production, that accounts for the widespread impression that the Bureau habitually overestimates production. As a matter of fact such checks as are available indicate that the Bureau underestimates crop production two years out of three.

Estimates in detail.—Estimates more in detail, such as production by varieties, qualities and grades; estimates of abandoned acreage, of loss and damage from diseases and insect pests; disposition, utilization, shrinkage, and waste, farm stocks, and other factors which have a direct bearing on time, place, quantity, or quality of production.

A more complete and efficient live-stock reporting program.—Perhaps more than anything else is needed completely accurate and timely information with respect to live-stock production. The importance of the live-stock industry can hardly be overstated. In total value of products it exceeds 6,000,000,000 dollars annually. It is the source of the nation's present and future meat supply and contributes largely to our export trade. It is an important feature in all successful systems of farm management, utilizing roughage and waste materials, affording a market for a large part of the grain and feed produced, and maintaining soil fertility. More than half the cash income on farms is derived from live stock and live stock products. Yet for this great industry the Bureau has had in the past less than $30,000 and has never been able to estimate regularly dairy and poultry production, which have an annual value of more than 3,000,000,000 dollars. In the budget recently submitted by the Bureau is included an item of $70,000 especially for estimating live stock and this item has been approved by the Secretary of Agriculture and by the Commissioner Director of the Budget. If approved by Congress it will be possible for the Bureau to greatly enlarge its live-stock reporting service and to forecast the beef crop,

hog production, lamb production, wool production, and dairy and poultry production with the same frequency and degree of accuracy as the Bureau now estimates the staple crops of the country.

An improved foreign information service.—It is not sufficient that we develop a complete and satisfactory system of crop reporting in the United States alone. The law of supply and demand is not limited to any state or even to the United States, but extends throughout the world. It is necessary, therefore, to have timely, unbiased, and dependable information at all times with respect to crop and live-stock production, stocks on hand, consumption, imports and exports, surpluses and deficits, for all countries. Notice my use of the words "timely" and "unbiased." The Bureau now receives regularly the official reports of the International Institute of Agriculture at Rome and also official reports directly from the adhering governments. These reports are valuable, but they are not timely. They are too slow in reaching the United States. There are various unofficial reports of all degrees of dependability, but they are open to the suspicion of being biased. It is, therefore, necessary to supplement these sources of foreign crop information, and the Bureau is advocating the employment of agricultural attachés in the same way and for the same purposes as agricultural attachés are now employed by many foreign governments. The Bureau now has a small appropriation of $50,000 available since the 1st of July, 1921, with which to collect foreign crop information. Two representatives of the Department abroad are permanently employed, one at Buenos Aires and one at London. During the past summer three representatives of the Bureau were sent to Europe to investigate the cotton situation. More recently a meat specialist has been employed to investigate and report upon live stock and meats in Europe. In addition to these men, Professor Warren of Cornell and Mr. Callander of the Bureau of Markets and Crop Estimates have been sent to Europe, their special mission being to investigate all sources of crop and live-stock statistics and of her economic information with a view to formulating a definite program for collecting and transmitting to the Department at Washington prompt information bearing especially on the supply and demand situation for American farm products.

Commodity economists.—As soon as funds are available the Bureau proposes to employ a corps of trained commodity economists or specialists whose particular function it will be to bring to a focus all the statistical and economic information available within and without the Department bearing on their particular commodities; to analyze summarize, and interpret the data; to act as consulting experts; to coordinate, unify, and systematize the various sources of information; to secure the coöperation of all organizations and agencies engaged in the collection of commodity data; to answer correspondence and to repre-

sent the Department before the public and before the various commodity organizations.

Better presentation of results.—It is planned also to improve the methods of presenting the data obtained by the Bureau. The commodity economists will be expected to prepare careful analytic statements in popular form, setting forth the essential facts with respect to relative supply and demand, for publication in periodical and special reports and in the press. These reports will be brief and well illustrated by maps, diagrams, and charts so as to be readily understood at a glance even by those who are not accustomed to analyzing statistics.

Change of organization.—A further change in organization is definitely proposed in the last budget to Congress, namely, the consolidation of the Office of Farm Management and Farm Economics with the present Bureau of Markets and Crop Estimates under the new title "Bureau of Agricultural Economics." This Bureau will concentrate in one organization all the activities of the Federal Department of Agriculture dealing with the business side of farming. The consolidation is even now under way, and you will be especially interested in knowing that the three projects, cost of production, cost of marketing, and foreign competition, will be greatly strengthened and expanded.

Agricultural economics.—Over and above the organization and improvements which I have outlined, it is proposed to have a Departmental Board or Committee, on Agricultural Economics, made up of chiefs of the larger bureaus within the Department and of agricultural leaders outside of the Department, who will from time to time consider questions of reorganization and redirection of activities, who will pass upon prepared statements bearing upon the economic situations of national importance as they develop, and outline or recommend constructive programs of production and marketing.

Chapter XXVII

WAYS OF DISTRIBUTING MANUFACTURING PRODUCTS

Twenty Years of Trying to Find the Best Way to Market.[1]

Let us go back about twenty years or so to the beginning of my experiments. At that time I was living on a twenty-acre fruit ranch outside of Pasadena, California. The ranch was my home, although I was not dependent on its operation for a livelihood. For several years I had been a physical instructor in various western schools and colleges. I was so engaged when I lived on the ranch which was operated as a side-line, although I admit the little income it brought was a welcome supplement to my none-too-opulent salary. I disposed of the crop of apricots and peaches to a local cannery or fruit-drying establishment. There wasn't anything very scientific about this method of marketing, but it enabled me to get rid of my crop with a minimum of worry and bother, and, I might also add, of profit. My principal crop was peaches. One year when there was a good crop I took my peaches to the cannery and was horrified to find that they would not buy them, and that all I could get for them from the dryer was $10 a ton. This did not pay for the cost of picking and delivering. It allowed nothing for spraying and for the care of the trees throughout the year. It allowed nothing for the heavy investment in the orchard. I came home utterly discouraged. I saw that I was in the wrong end of the fruit business. It seemed that if any money were to be made in the line, it would have to be made in the selling instead of the producing end.

Any plan must reach consumer.—Probably a better way of stating that fact would be to say that production in any field does not become profitable until the product is sold. To make their business profitable, producers must cultivate markets and create demand among consumers for their merchandise. If an agricultural producer is so small that he cannot create markets he must align himself with an association or sell to a company that is able to cater to the consumer. Any marketing plan is weak that does not reach the consumer. That is the first lesson to be learned from my failures.

My discouragement soon gave way to enthusiasm as I planned to build up a canning and packing business of my own. I started to

[1] By A. Claude Braden, President, Braden's California Products, Inc., *Printers Ink*, Vol. 130, May 26, 1925, pp. 119-128.

experiment with some recipes in the kitchen at home. Gradually a line of fancy goods was developed, but for years I was afraid to leave my steady job. Finally, a company was organized and the Braden Preserving Company was launched. We sold through the usual trade channels—broker, jobber, and retailer. In the meantime I gave up orcharding, and also my physical training work and confined myself strictly to the canning enterprise. Slowly we built a nice business, not only in this country but also in several export markets.

Disastrous effects of buyers' strike.—All was going well until the depression of 1920 and 1921 came along. Our 1920 pack refused to move. We still had much of it on hand, when, in the early spring of 1921, I took a trip across the country, calling on the wholesale trade. In an effort of several weeks' duration, I did not succeed in selling a dollar's worth of goods. My failure was not surprising. At that time the nation's distribution system was tied up in a knot. The best price wholesalers were willing to pay for Braden's fancy preserves was $1.75 a dozen, whereas these same preserves were being offered by retailers at from fifty to sixty cents a jar. Naturally, at these prices retail sales were few and far between. The buyers' strike was on. The period of deflation had arrived, but retailers failed to recognize it. For months they refused to take their loss and, while they were refusing, the business of the country was checked. The buyers' strike continued long enough, and retailers stood out against it long enough, to ruin many a company. The fact that wholesalers were quoting a ridiculously low price on our preserves didn't do a particle of good. Since retailers were heavily stocked and were not selling, naturally, they were not buying, regardless of the distress-prices being offered.

Our business was in a desperate plight. There we were, with most of our 1920 pack still unsold, the 1921 packing season coming on in a few months, and sales absolutely at a standstill. When I returned to California I pictured the situation to my associates. One of them was more optimistic than I was. He offered to assume all of the company's liabilities for my interest and I let him have it. A few months later the company went under.

Looking back at that failure from the vantage point of time, I cannot see how it could have been avoided. We were operating along recognized lines. We were using the customary distributing channels. We were selling a high-grade line, and were liberal in our trade relations. The collapse of the business was not our fault. We were simply one of the many victims of post-war deflation. A consoling thought is that practically every canner and packer in the land got into trouble at the same time we did and for the same reason. Those that were better financed than we were and longer established, pulled through after much travail. Those that were in no stronger position

than we were shared our fate. Had there been no deflation or no war, with the result that business conditions in this country pursued their normal course, perhaps our little enterprise would have succeeded, and hence grown stronger each year. In that case this article would never have been written.

Fortunately, this first bitter experience in marketing did not whip me; I was eager for another trial at it. It can be imagined that I did not want to attempt the same method of selling again. For me, that method had demonstrated itself to be inoperative. If I started on the same plan once more, I had no reason to believe that I would be any more successful the second time than I was the first.

Jobber-dealer method.—One of the objections to the jobber-dealer method of distribution is that it does not allow the small manufacturer sufficient control of his business. After all, he is dependent on the energy and efficiency of distributors over whom he has no control. My line, or the line of any small manufacturer, is only a trifling part of the stock of a jobber or a retailer. We could not justly expect these distributors to devote much of their time and energies to the sale of our goods. This being the case, the small fellow must trust to luck and be thankful for any crumbs of coöperation distributors may throw to him.

Feeling this way about it, I was anxious to try a system of distribution that would make me more independent of the usual distributing agencies and enable me to get my business closer to the consumer. That is what I had really been striving for right along ever since that day I sold my peaches for $10 a ton.

To consumer by mail.—So I decided to sell to the consumer by mail. I thought there was no more direct route to the ultimate user than that. This dismal chapter in my search for the best marketing plan can be quickly told. It failed. In attempting to build up a mail-order business, I followed the usual plan. I sent out price lists, letters, and other attractive direct-advertising to selected lists. But few orders came back—at least, not enough to make the business pay. I quoted most alluring prices, too. In fact, that may have been what was wrong with the plan. Perhaps the proposition seemed too good to be true. Some of my Pasadena prospects asked me what was wrong with the goods.

Anyway, a taste of the mail-order plan was enough. I am not criticizing the mail-order business for certain lines of merchandise, and it may be all right for anyone who has the time and patience and capital to stick to it. My short experience in the business convinces me that it is a thing of slow growth. A profitable mail-order business cannot be built over-night. Since this was apparently true, I saw that I had made another false start. The exigencies of my personal situation demanded a business where quicker results could be achieved.

For several years I had been watching the remarkable success of the Fuller Brush Company in selling through salesmen direct to the home. I was impressed with the fact that in 1921, when most businesses selling through conventional channels were hard hit, Fuller increased his business about 100 per cent. After considerable investigation I determined to follow the Fuller plan in selling Braden's California Products. My determination became all the stronger when I learned that another California packer who had been successfully using the Fuller plan for several years realized his normal profit in 1921 when most other houses in his line lost heavily. Any preserver or canner who made money during 1921 had a good selling plan.

Fuller brush plan adopted.—Under this plan, the Braden's California Products, Inc., was launched. We pack, or have packed for us, a considerable line of canned fruits and vegetables, preserves, pickles, etc. We handle only the fancy grades and all goods are sold on a money-back guaranty of satisfaction. In canned peaches, for instance, there are five grades recognized in the trade. The fancy grade is the best. For three years we have sold through salesmen calling at the homes of our customers. I have gone far enough with this plan to know that at last I am on the right track. So far, we have met with unvarying success in selling direct to the home, and this, despite the fact that since we started we were in the throes of building an organization and of creating a system to care for our rapidly growing business.

Selling season.—For the last two years our men have started to sell in the spring and have continued to sell until the pack was ready for delivery in the fall. They call on housekeepers, show their samples, and obtain as large orders as they are able. They obtain a down-payment of 20 per cent. The remainder is paid on the delivery of the goods in the fall. The orders from all over the country are sent to Pasadena and shipment made in pool cars, consisting of about 500 orders to convenient centers, such as Philadelphia. From these centers delivery is made by a local delivering company or the American Express Company to the individual purchasers.

Average order.—Some figures from our business last year may be of interest. Our average order was for $26.30. Our largest order was for $667.50. Our salesmen, taking them as a whole, averaged a sale on 50 per cent of their interviews. A few of our higher grade representatives turned 80 per cent of their demonstrations into orders. When the salesman does not gain admittance to the home, or gets no chance to show his goods, we do not term it an interview or demonstration.

Getting an interview.—The worst difficulty our representatives encounter is in getting an interview. Once they gain admittance, they are able to sell a surprisingly high percentage of their calls. I think the attractiveness of our samples is responsible for the unusually high aver-

age of orders per call. A normal person cannot resist the appeal of a demonstration of delicious-appearing food. In saying this, I do not wish to take credit from our men. We are aiming to build an organization of well-trained, well-bred gentlemen who will always reflect the courteous, deferential attitude which the company tries to take in its relations with customers.

Profits by Fuller experiences.—We are attempting to overcome the trouble of getting interviews in various ways. Here, again, we are profiting from the Fuller experience. Our representatives are now sending a card to their prospects a few days in advance of their visits. This card is in facsimile handwriting and bears my signature. The card briefly tells the prospect to look for the Braden button, which every salesman has to wear. By the way, we charge our representatives $5 for this button. The money, of course, is given back to the man if he returns the button should he be leaving our employ. We take this precaution so as to keep the buttons from falling into the hands of anyone other than our authorized representatives. These buttons help to identify our salesmen with the Braden organization and are a valuable means of introducing them officially.

But probably the most important step we have taken to gain acceptance for our representatives is an advertising campaign which has just been started in a woman's magazine. Mr. Fuller told me that running his first advertisement was the best thing he ever did for the development of his business. After he started to advertise it became much easier to get salesmen and for Fuller salesmen to see their prospects. I believe our first advertisement is the same size as Fuller's first effort. Fuller developed as an advertiser just as he did in every other respect. For several years his annual appropriation has been running around $500,000. How big an advertiser Braden's California Products, Inc., will become remains to be seen. Our first effort is frankly experimental. I have no doubt that it will turn out satisfactorily and that advertising will become a permanent part of our selling program. We use a round-robin selling stunt. Practically all of our customers give us the names of friends on whom they would like our representatives to call.

How to prolong selling season.—Heretofore one of the weaknesses in our plan was that our men could sell only from March to about November. The pack would be sold out about that time and there would not be anything for them to do until the next March. It may be surmised that any ambitious man would not be content to remain idle that long. From now on we are going to provide year-round employment for our representatives. They will be engaged in booking advance orders from March until well along in the fall. From then until the following March they will be given an opportunity to sell from stock,

which hereafter we will carry during the winter months in our branch offices.

Near-by trade.—Our plan from the first has been to build up our territories adjacent to our branch offices. We are working on a basis of one representative to each 50,000 of population.

Naturally, I am enthusiastic about the progress we have made in direct selling. I realize that a business which has been in existence for such a short time as ours is not justified in making many high-sounding claims. That, however, is not the purpose of this article. I have been merely trying to sketch my experiences with the idea of showing how we finally arrived at our present plan of marketing. It was through a process of elimination. I hold no brief for house-to-house selling as opposed to any other system of distribution. All I know is that for our business the direct plan seems to work out best. I am aware that in certain quarters the house-to-house plan is meeting with considerable opposition. This does not worry me. There will always be a number of systems of distribution in operation in this country. These systems need not necessarily be competitive. They supplement more than they compete. No one system can monopolize distribution. As soon as any particular system ceases to render an economic service it will be eliminated by rival systems that are rendering better service.

Also there will always be new systems of distribution springing up. If the cost of distribution is ever to show a decline, these new systems must be given a fair trial.

Getting an Inside Track on Overlooked Distributing Channels.[2]

It occurred to me that in marketing there are many "facts" that are not true. Too often manufacturers accept prejudice for facts. Practices become so traditional in certain trades that no one ever questions them. Customs, founded on misinformation or on conditions which no longer exist, are allowed to guide selling policies unquestioned for years.

Gradually, however, manufacturers discover the falsity of these long-established "truths." Often they keep their discoveries to themselves and cash in on the idea before their competitors know what they are doing. In many cases, even though the competitors did know, they are so enmeshed in tradition that they would not believe their own senses. These concerns allow their wideawake competitors to enjoy a cinch unmolested, simply because they refuse to recognize obvious facts.

To my notion, one of the most peculiar things about business is the length of time an aggressive manufacturer is allowed a monopoly on an idea before his competitors wake up. Oftentimes, though, the manu-

[2] John Allen Murphy, *Printers Ink*, Vol. 118, January 12, 1922, pp. 3-8, 173-179.

facturer enjoys the exclusive use of progressive methods, only because he is enterprising enough to do the pioneering, whereas his competitors are not willing to pay the price.

New outlets, value of.—The Royal Baking Powder Company is so appreciative of the value of new outlets that many years ago it installed a man in the advertising department whose special duty it was to look for "new business." Particularly it was this man's job not only to consider but also to find new advertising mediums. He kept his eye peeled for new oil, mining, lumbering, and agricultural developments. If a gold mine was discovered in Nevada, a new town would spring up overnight. The feeding of these mushroom communities was always quite a problem. Camps, boarding-houses, and big mess tents were the places where most of the miners and camp followers got their meals in the early days of these bonanza towns. Food that could be prepared quickly and served easily was naturally given the preference. Baking powder, of course, was a necessary ingredient in such foods. A mining town boarding-house would thus use probably twenty or thirty times as much baking powder as would an ordinary householder. This was desirable business.

Procuring new business.—But how to get it? A town scarcely gets out of its swaddling clothes before a newspaper is started. The Royal Baking Powder Company got its advertising into these newspapers as soon as it discovered their existence—sometimes in the first issue. The new medium scout kept in touch with postmasters in these new developments so as to be appraised of the launching of a newspaper. The scout also watched the second class entries at Washington. In other words, the great Royal Baking Powder Company, generally acknowledged one of the country's most successful advertisers, instead of waiting for these pioneer newspapers to season, was anxious to get its copy to them as quickly as possible. It put a proper estimate on the value of overlooked markets.

Again, when the outdoor vogue first came into being and camping out and eating under the skies became the craze, the Royal Baking Powder Company instantly saw that the old-style cook books were not suited for this alfresco cuisine. The out-of-doors demanded a different kind of cookery. Accordingly, the company supplied this need with a special booklet entitled "Hints on Outdoor Cooking." The new market didn't have a chance to get very far before Royal recognized it.

The need of watching for these despised channels came out several years ago when I was talking to the credit manager of a large wholesale house. I asked him who his best customer was. "From the standpoint of general desirability," he replied, "I regard John Jones of Benton, as the best account on our books." This surprised me. I owned a farm near Benton, and, of course, know the town very well. "Why," I de-

clared, "Benton hasn't over a thousand population, and since it is located in the pine country the surrounding territory is but sparsely settled. At that, there are four or five stores in the place, and offhand I would say that Jones's is the worst of the lot. How are you able to get so much business out of him?"

Strange place for a "best dealer."—"I'll let you in on the secret if you keep it dark," he cautioned me. "Jones deliberately masquerades in a poverty guise. He isn't rated. He never gives a financial statement to anyone. I don't know exactly what his idea is in being so secretive. For one thing he hates being bothered by traveling men. He knows that a good way to keep them off is to pretend poverty. Then, too, I suppose that he imagines if he became too communicative other merchants would get wise as to the source of his business. I'll tell you, strictly sub rosa, that Jones does very little of his business in Benton. Locally he has the reputation of being lazy. They say that he spends half his time in fishing and hunting. But do you know what he is doing on those trips? Why, he is drumming up trade for his store. He sells an enormous amount of stuff to small lumber camps, for a hundred miles around Benton. He also has a fine business with the fishing colonies and health resorts which abound in that section of the state. He is a remarkably good business man and is easily worth $200,000.

"I would astonish you, Murphy, if I told you how much of our business comes from these so-called poor risks. There is many a well-to-do merchant who, for one reason or another, is not rated. This is choice business, and the best of it is that it is easy to get because there is little competition for it. There are also thousands of other retailers who are rated, but so poorly, that many concerns do not solicit their orders. We do. Of course we watch them closely. On the average these fellows hang on for years. Very few of them fail. If they do we usually get some of our money, with the result that, on the whole, our credit losses are inconsequential. And there is still another side to our policy. Many of these low-rated dealers gradually work into a splendid financial position, and when they do, with a few exceptions, they are disposed to reward us for our faithfulness to them."

Certain it is, just as this credit manager has shown, there is a great market in the large number of retailers who have only a limited capital. By teaching these men sound merchandising principles, manufacturers not only find a valuable outlet for their goods, but also enable these dealers to build up their own business despite the inadequate capital. It must not be forgotten that many a large retailer started very humbly.

New cash customers from poor credit risks.—A well-known food manufacturer offered a thousand-dollar Liberty Bond to the salesman opening the largest number of new accounts during a three months'

period. The contest closed December 31. The salesman who won the race opened up more new accounts than all the rest of the salesmen put together. His performance was so spectacular that he was summoned before the board of directors to explain how he did it. "I went after poorly rated grocers, who are being carried by jobbers and on whom comparatively few manufacturers' salesmen call," he declared. "I told these men frankly that they were regarded as poor risks and that I could only sell them my goods C. O. D. I told them their stores were loaded with unknown brands and that their business would begin to improve if they scattered advertised brands among their displays. I advised them to get at least some advertised brands, even though they had to pay cash for them. A large number of these boys accepted my offer and thanked me for the suggestion. I think time will demonstrate that the idea will make better merchants out of these grocers. Do you realize that many fine neighborhoods are served only by slovenly grocers? Our distribution is handicapped unnecessarily when our goods are not sold in them. We make a mistake when we cater only to well-rated merchants."

Of course that salesman did not create that idea. He only seized an old idea and used it for his purpose. Several manufacturers attained their initial distribution by soliciting the easiest-to-sell retailers, or, in other words, those whose rating did not make them a constant target for eager salesmen.

Selling in small towns.—Back in the early days of this century I was connected with a concern that conceived a new method of selling furs in small towns. Briefly, the plan was to appoint local agents, furnish them with an elaborate catalogue to sell from, and one or two sample pieces, showing the style and workmanship of our furs. In each case the agent was to be a retailer with an established place of business. We sent a salesman out to sign up these agencies. He was instructed not to fail to get an agent in every hamlet, even though he had to appoint the local blacksmith. The man was out only a few days when he discovered that the millinery store was the one sure bet for our proposition. The millinery season is very short, with the result that the average milliner is always looking for some side-line on which she can fill in her income. The poor rating of these milliners made little difference to us, as the furs remained our property until sold, and in many cases were shipped direct to the customer after the order, with check, had been received. As I recall it, fully one-half of these agencies turned out to be profitable.

That is another idea that many concerns would like to keep to themselves. There are several different kinds of retail businesses that run distressing valleys in their sales at certain seasons. Manufacturers have found these men anxious for propositions that will help them to even

up their sales. The furniture business, for example, runs unevenly. For this reason furniture dealers have frequently been induced to add such departments as music, heating equipment, paint, all-the-year toys, interior decorating, etc.

You would naturally suppose that playing cards would sell best in stationery stores, candy stores, and places of that kind. By all odds, the best outlet for cards is the drug store. For years the United States Playing Card Company enjoyed this idea in private. The drug store beats out the stationery store on several similar products, simply because there are more drug stores. As a rule, there is a drug store emporium within a block or two, whereas a person may have to walk several blocks to find a stationery store. As a general thing people will not go out of their way to buy playing cards. They run out to buy a pack in a hurry or pick up one on a stormy evening as they go home from work.

Druggists' overtime profitable.—But there is another reason why drug stores are so successful in distributing side-lines that seem to be foreign to drugs. This is a point that is seldom discussed, and it is one that I am sure many manufacturers are anxious to keep to themselves. As a usual thing most retail businesses close down for the night around six o'clock, but people do not go to bed for four or five hours after that. During that time folks develop many emergency wants. A man, dressing for the theater, breaks a collar button. He runs, in desperation, to a near-by drug store. Sure enough, the druggist carries a small line of buttons. A stenographer mending her clothes for the next day discovers she is out of thread. Little brother is despatched to the corner apothecary shop and brings home the needed article. A business man has an important letter to mail that night but finds to his dismay that he is out of stamps. The drug store, the only business that is open, comes to his rescue.

Thus we find the druggist busily handing out ice cream, fly-swatters, crepe paper, stationery, books, candy, handkerchiefs, hair nets, and hosts of other things long after other merchants have retired. A honey-farmer told me last summer that his best customer was a Brooklyn druggist. "Druggist? You mean grocer," I said. "No, I mean druggist," he replied, but he could make no further explanation of the phenomenon. The next day I got the said druggist on the phone and asked him to "cough up an explanation."

"That," he said, "explains it. We push it for cough medicine. Best cure in the world for colds. Let me send you five pounds? Also we live in a convivial neighborhood over here. I have always been suspicious of the hurried honey sales we make around eleven P. M."

Another druggist told me that he had always been annoyed by people coming to his fountain in the evening asking to be sold a few lemons. "I tried to discourage this traffic by asking high prices for

the fruit, but to no effect. At last it dawned on me that these folks had a cold and wished to take a hot lemonade or a punch before going to bed, and that if I didn't sell them the lemons, they would not be able to get them anywhere else. Now I carry lemons in stock especially for this trade."

That is why you will find apples, oranges, and occasionally other fruit on sale in drug stores. When in strange cities, I have often walked blocks trying to find a fruit stand from which I could purchase my customary nocturnal apple. Being able to buy them in the drug store adjacent to the hotel is an inestimable convenience. In like manner we could show that the delicatessen store in some respects is forging ahead of the grocery store, simply because it is open longer hours.

New agencies of distribution, utilization of.—New agencies of distribution are springing into existence all the time. Many manufacturers utilize these instantly. Others do not see them for years. It is, for example, dawning on manufacturers that the club professional is about the best distributor of golf balls. Why? Merely because he is the nearest distributor to the point of use. A player on the course who has lost all his balls gives his order to the nearest seller who is able to make immediate delivery. The stand, or store, or cafeteria of the country club is also a market of growing importance. These chicken and sandwich shacks, wayside stands, and country tea-rooms which have sprung up so plentifully along our highways offer many manufacturers opportunities for additional distribution. Many smart sellers are already in on the ground floor.

I heard of an interior decorator who has found a veritable gold mine in tea-rooms. He offers to decorate these rooms becomingly, loaning the furnishings, provided the proprietor will tell interested guests that "these rugs, tables, candlesticks, draperies, etc., are for sale."

Too many manufacturers put a statistical estimate on their markets. Frequently statistics put an arbitrary limit on expansion. As an illustration the Dakotas for many years offered a greater outlet for jams, jellies, syrups, canned milk, and such products than the population of these states would indicate. Why? Because the original big wheat farmers were specialists. They didn't bother with cows or to raise their own food. They bought everything they needed. They were generous buyers, too, particularly in harvest time.

Retailers in small villages in Montana used to buy canned goods by the carload. Eastern salesmen passing through these places with their route sheets made out according to population statistics, never even saw these towns as they whizzed by. Wise manufacturers, however, with inside knowledge, combed these sparsely settled western states with a fine-tooth comb. They knew that miles from the railroad were many wealthy ranchers who had two or three dozen hungry cowboys

to feed several times a day, and that every two weeks these ranchers drove a six-horse team to the village for a wagonload of necessities.

These ranchers were sticklers for quality and are yet, where they exist. They wanted the best, regardless of cost. Even the cowboys themselves wanted the best saddle, the best bridle, the best boots and spurs, the best Stetson hat, and the best whisky that money could buy. How Stetson got the bulge on this market I don't know, but he did. A young man went out into Montana twenty-five years ago and, observing the Stetson vogue and the general predilection of ranchers for quality, saw that the local stores gave the feminine end of the family little opportunity for finery. "These men would treat their women like queens if they had a chance," he reasoned. "I'll start a store and give them the best and most fashionable apparel the East affords." He did. To-day he is one of the Northwest's leading merchants and he has never swerved an iota from his original program. The market was there right along, but he was the first to have the judgment to recognize it.

New drifts in distribution, information as to.—I asked a manufacturer who has the reputation of being very quick to sense these new drifts in distribution how he gets his information. "I have a very simple system," he replied. "I merely watch the salesman's orders as they float across my desk every day. Through them I keep my fingers on the pulse of our trade. They tell me how our advertising is pulling. Through them I can tell how crops are, what the financial situation is in our various territories, what competition is doing, and many other things. To my trained eye, there is an intangible something about a salesman's order that is as revealing to me as an investigator's report. To be more specific, it has been my experience that there are always two or three salesmen on a staff who are using original methods. They are unearthing new sources of trade, are making more productive calls per day than the average, are covering their territory faster, or are something else decidedly out of the ordinary. These men may be totally unaware of their enterprise. For this reason it is not good policy to question them too minutely about their work. I prefer to watch them from a distance, and as soon as I make sure that they are doing something original we try by indirection to get the other men to emulate them. But even though the other men do not profit by the example, I find it is worth my while anyway to observe these leaders, if for no other reason than that it keeps my knowledge of conditions in advance of competition."

This idea of looking over order blanks to get the feel of a business is one that is used by a great many manufacturers. In that way Henry K. Likly, president of Henry Likly & Company, discovered a rich and undeveloped outlet for luggage in apparel stores. Advertising agents

also employ the plan extensively in getting a thorough grasp of their clients' business. J. K. Fraser, now president of the Blackman Company, told me some time ago that this was a pet stunt of his. It is impossible for anyone to run over several hundred orders without getting a graphic bird's-eye view of a business. I know of no easier way of keeping track of the pioneering trends that may be taking place in some obscure corner of an industry. That explains how the Royal Baking Powder Company discovered the value of advertising in new bonanza towns. A large order came in one day, without any special solicitation, from the diamond mines of South Africa. The possibilities of mining booms as outlets for baking powder were realized at once, and to cash in heavily on this discovery the company immediately started an advertising campaign in forty or fifty of South Africa's newspapers.

How to Make Small-Lot Buying Yield Extra Profits.[3]

To all appearances, the small inventory idea is solidly established as an axiom for profitable retail merchandising. Besides this, there is the determination, rather widely expressed among dealers in many lines, not to anticipate requirements to any extent, even when these requirements can be gauged fairly well in advance. Nevertheless, many sales executives are refusing to look on these trends as obstacles which cannot be overcome. What they believe and are demonstrating is that it is often easier to go around these obstacles than to hurdle them or smash a way through.

It is interesting to hear, in this connection, what the director of sales for one of the biggest furniture manufacturers in the country said when he was asked recently what had become of hand-to-mouth buying. Why had all the complaints about it quieted down? Did it still exist as a menace to the manufacturer?

"Hand-to-mouth buying, if you insist on calling it that," he replied, "is present to just about the same degree and extent that it was two or three years ago. What has changed are the mental attitudes and the methods of many sales executives. The moment they began to borrow, adapt, and devise merchandising tactics to meet the situation, hand-to-mouth buying became, to them, a sales opportunity instead of a sales problem.

"Notwithstanding, there seems to be a fear, in certain quarters, that the sizes of orders placed by dealers will not come back to par again. If I may hazard a prediction here, it is that they never will come back. We receive more orders than formerly. But the individual order is much smaller. However, our total sales volume is larger, and, because

[3] By Dana Hubbard, *Printers Ink,* Vol. 130, March 19, 1925, pp. 110-119.

we have learned to study freight rates and warehousing, we have kept selling expense in hand. Our satisfactory profit last year was earned, I think I may say, largely because we have discovered that dealers will buy in largest volume from the manufacturer who makes it easiest and most convenient for them to buy."

This furniture executive's attitude is being duplicated by a growing list of manufacturers. These companies have now accepted the dealer's point of view in this matter of smaller inventories. By adapting their distributing methods to the retailer's demands, and by making it a comparatively simple matter for dealers to replenish stocks with a minimum of delay, they have actually turned what they considered to be mere dealer apathy to good account.

Reserve stocks, warehouses for.—The establishment of reserve stocks located close by the chief points of consumption is one of the chief factors in doing this. Both the public warehouses and the branch warehouses owned outright by the manufacturer are apparently being used to a greater degree than ever for the purpose of making it easy and convenient for the dealer to buy. *Printers' Ink* has already described in detail how certain concerns have established and operated these distributing centers.

It should not be thought that the dealer is the sole beneficiary of this principle of handling distribution by zones. The manufacturer is quite as much the gainer. The growing practice of maintaining warehouse stocks stands for much more than a concession to dealers who refuse to load up on merchandise. It sometimes enables a manufacturer to enter markets which otherwise would be unprofitable.

This is what I had in mind when I said that a sales problem had been turned into a sales opportunity. Here is the way it works out.

The sales manager of a Middle Western concern had built up a big volume of business among syndicate stores located in the territory within a 500-mile radius of Chicago. Buyers of similar syndicate stores in various parts of the East had assured him that they would be glad to make exclusive contracts for his merchandise if he could meet the delivered prices of eastern competitors. The sales manager, in figuring the cost of putting his goods into New York, Philadelphia, Boston, and other eastern centers, had been in the habit of using the less-than-carload freight rate, for the reason that no one store can possibly take a carload of his product at one time.

As soon as the public warehouse idea was explained to him, and the difference between the l. c. l. and carload rates to eastern markets was made apparent, he substituted the carload rate plus warehouse cost for the l. c. l. rate formerly used in his computations. The result showed that he could make a satisfactory margin of profit by going into this new territory and establishing warehouse stocks.

New possibilities opened.—This sales manager is now planning to meet eastern competitive prices. He sees the possibility of doubling his present volume of sales. This will lower production costs, particularly overhead expenses. The result here will be, not only new and profitable business in the East, but an increased profit on the business which he has built up over a period of years in the Central West.

Another beneficial outcome of establishing warehouse stocks at points adjacent or convenient to the centers of consumption is the more intelligent manner in which it enables a manufacturer to extend credit. It is becoming a rather common thing for manufacturers to supply their warehouses with lists of customers who are good credit risks and whose orders for merchandise will be honored at the warehouse without first going to the manufacturer's home office. E. & A. Opler, Inc., Chicago manufacturers of cocoa, maintains forty-three warehouses across the country for the convenience of customers whose credit justifies this convenience. The Keystone Steel & Wire Company, Peoria, Ill., follows the same method at its thirty-two warehouse points.

"We supply all our warehouses with a list of approved credit customers and authorize the warehouse to honor all orders received from customers whose names appear on our credit list," says John Simon, manager of the branch distribution department of the Keystone company. "This saves a delay of from one to five days as compared with orders that would have to come to our head office for credit approval. We authorize our salesmen to mail orders direct to the warehouse for shipment to parties who appear on our credit list."

In this way, the first-class credit risk is impressed with the desirability of maintaining his good credit standing. He sees a premium offered in recognition of his practice of meeting his obligations with prompt regularity which has a direct value in time and money saved. Naturally, a retailer will usually see to it that nothing menaces or interferes with the continuance of this practice.

The warehouse also operates as a convenience for the merchant who is not a gilt-edged risk. It permits him to buy more often and in smaller quantities with the assurance of sufficient stocks of merchandise close at hand to take care of any demand that he is likely to face. The incentive to buy in larger quantities than his balance sheet justifies is automatically removed and both he and the manufacturer are saved time and embarrassment. Spot stocks in properly located warehouses offer the customer an opportunity to fill in those items on which he runs low. It gives him quick delivery and lets him turn his capital more times each year.

What hand-to-mouth buying actually seems to have amounted to is a bigger total volume of business done by the dealer with the same amount of capital as heretofore, the cutting down of risks due to style changes,

unseasonable weather, etc., a steadier volume of purchasing power and the elimination of some of the hazard of alternate booms and depressions. There has been no falling off in the volume of sales of those manufacturers who have kept it clearly in mind that dealers will inevitably buy more when it is easy and convenient for them to buy and get good deliveries.

"Hand-to-mouth buying makes it necessary for manufacturers, jobbers, and others to use public warehouses to an increasing degree," says Mr. Simon of the Keystone Steel & Wire Company. "It is only necessary to cite our own experience and the average manufacturer who has never used warehouses will quickly see the advantage. The following will illustrate what effect small-lot buying has had on our business. In 1920 we had fourteen warehouses; in 1921 sixteen warehouses; in 1922 twenty-four warehouses; in 1923 twenty-five warehouses, and last year we used thirty-two warehouses.

"I feel that the success or failure of distribution through warehouses lies not so much with the warehouse itself, as it does with the point of distribution—in other words, the city or district in which the warehouse is located. We use great precaution in picking our points of distribution, so that one point will not conflict with the other. We also endeavor to maintain a minimum stock at our warehouses with a maximum turnover."

Another sales executive, in explaining to *Printers Ink* this matter of picking locations, agreed substantially with Mr. Simon. His company, he says maintains nearly seventy warehouses, located so that every one of the company's dealers is within twenty-four hours of one of them. The firm's policy is to open a warehouse stock wherever the trade shows that it needs and wants one. The size of the city has little or no bearing on the matter. If the merchants in and around any center are able to assure the manufacturer that their business will justify the establishing of spot stocks there, this company has announced that it would promptly create a warehouse stock in such a locality. What this company's thousands of retailers have shown beyond any particle of doubt, during the last year or two, is that they want to carry and display wide stocks of merchandise. They object, however, to heavy stocks.

Smaller capital but wider display.—What does that mean? Only that they find that, with a warehouse stock near to them, they can do business very nicely on what not long ago would have been regarded as a mighty slender capital investment. These dealers want to be able to show a good variety of models and patterns. Also, when a customer picks out something, they want to be able to get it quickly from the manufacturer's stock if it doesn't happen to be in their own stock. Without the warehouse stock suitably located this is impossible.

With the warehouse stock made available, the retail dealer finds that he can put his money into the wide-but-thin-stock display, advertise it well, and speed up the turn of his capital.

"I have had a chance during the last few years," says Mr. Simon, who has already been quoted, "to talk warehousing with a large number of manufacturers who use this method of distribution. I have talked, too, with a large number who have never given this method serious thought and consideration. I have found the latter intensely interested and invariably eager to learn how warehousing can assist them in increasing their volume or decreasing their sales expense. This is all very simple to us who have been associated with transportation problems, but there are hundreds, probably thousands, of cases where manufacturers are staying out of a given territory because the l. c. l. freight rate is too high.

"It has been my experience that the average sales executive, will, very often, in mapping out a sales campaign, fail to give sufficient consideration to the part that transportation plays. Until recently, most goods were sold f.o.b. factory, and the sales manager considered his job as finished when his department turned in a signed order to ship on a specified date. I believe this condition is changing very rapidly and I think that within a few years we will find that the majority of manufacturers will either offer store-door delivery, or sell f.o.b. some warehouse point, as we do.

Distribution management important.— "In as much as there seems to be a trend in this direction, it strikes me that the average manufacturer would profit immensely by considering the importance of a distribution department under the supervision of a distribution manager, who would devote the greater portion of his time to a survey and study of development possibilities of business through public warehouses. The distribution manager should be included in all round-table discussions and conferences of the company's executives.

"Most manufacturers now using public warehouses delegate the job of handling warehouse accounts to the traffic manager or traffic department. The broader opportunities are open to the manufacturer who will delegate this work to a distribution department. I would urge all business executives to put the traffic and distribution departments on a plane of importance equal to the sales and advertising departments."

Any consideration of distributing merchandise by zones through the use of warehouses inevitably splits up into several questions of disturbingly large proportions. It opens up the subjects of turnover, transportation expense, jobbing connections, and the size of dealer inventories. After all, however, acceptance or rejection of the zone merchandising idea hinges on whether it is desirable and economical to bring dealers

nearer to the sources of supply. So long as dealers are convinced that it is sound business for them to buy in smaller quantities than formerly, and so long as they are unwilling to anticipate future requirements for any but short periods, the desirability of hooking up more closely than ever with the dealer is obvious. Whether this contact is to be promoted through establishing warehouse stocks or through more intensive jobber cultivation is a decision which every manufacturer must make for himself.

Dealers are demanding, as they realize more and more what turnover means, that manufacturers make it possible for them to do business without tying up the amounts of money they were at one time accustomed to invest. Where the branch house is too expensive, the public warehouse offers one means of strengthening national distribution. To-day, the modern public warehouse handles pool-car distribution, takes care of spot stocks, offers a store-door delivery, reshipping facilities, and such services as weighing, recoopering, and other special arrangements.

Why should this interest the sales manager? Simply because every sales executive should be just as keenly interested in ways of selling expense as in increasing sales volume. As competition increases, margins of profit are apt to become smaller. The smaller margin of profit, in turn, puts a premium on getting the utmost out of every dollar spent to move merchandise.

No one will contend that the warehouse stock is a cure-all for laggard dealers. Furthermore, it may not be an economical method for some manufacturers who are aiming at national distribution. On the other hand, it represents one outstanding answer to the problem of making the most of the retailer's decision to buy in smaller lots.

And the reason that it stands to-day as a satisfactory answer to this problem lies in the demonstrated fact that the easier the manufacturer makes it for the dealer to buy from him the oftener the dealer buys.

Six Advantages of the Exclusive Agency Plan.[4]

The argument for exclusive agencies rests largely upon the basis that intensive development of a potential market takes place best when a dealer feels that he is protected within a given territory and made reasonably sure of the results of creative efforts. This is the view taken by Lee R. Fleming, sales manager of the Flyer Garment Company, which manufactures overalls and work pants, selling direct to the retail trade.

"We have tried selling our line to any dealer in a town," says Mr.

[4] "When shall we use the exclusive agency?" *System*, Vol. 47. pp. 304, 305, 338-340.

Fleming, "and we have tried the exclusive dealer plan. Based on our experience we have chosen the exclusive dealer plan as the more economical and satisfactory of the two methods as it has proved to offer these six advantages: (1) It increases sales and lowers selling cost; (2) it provides more regular and dependable volume of orders; (3) it obtains a more uniform distribution; (4) it makes customers more loyal to the line; (5) it makes easier to maintain retail prices; and (6) dealers take more interest in actually selling and advertising the line.

"When offering an exclusive dealer contract we can more effectively capitalize and merchandise our advertising, as the dealer accepts it as a personal help to him in building a business in his community, and on this basis is even willing to spend his own money to feature our brand in his local advertising.

"Under the plan of selling our line open, the dealer would sell our brand only when we had created a demand or when the purchaser would accept the garment without question. The exclusive agent is willing to take the time and trouble to sell a customer on all the features and qualities of our goods, as the repeat business in his community must come to him."

Mr. Fleming is of the opinion that the exclusive account, on an average, remains a customer a longer time than the average account sold on the open plan. In the latter case, the dealer has no future interest in the line, and if some competitor offers or appears to offer a price concession or any slight advantage, the dealer is disposed to accept it.

"The exclusive plan," he continues, "has lowered selling costs. One good dealer advertising and concentrating his sales efforts on our line will place orders for larger quantities than would four or five dealers when we were selling each 'catch-as-catch-can,' and the salesmen's orders average nine orders for fill-ins to one stock order. With exclusive dealers the ratio is reversed, the orders average nine stock orders to one for fill-ins, and the salesmen can work a much larger territory in the same length of time. The salesman calls on only one man in a town, and that man is depending upon our firm for his stock in that department. He gets his order and has worked perhaps three towns in the time he previously would have been calling on five or six dealers in the one town, with only the probability of his total sales averaging one good stock order of the size the exclusive dealer is willing to place for present and in anticipation of his future requirements. It requires less time to sell five times as much to one enthusiastic dealer than it did to sell the same amount to five indifferent dealers."

This company also finds it easier to maintain a resale through exclusive dealers, as they have no incentive to cut prices when there is no local competition, and to obtain a more uniform distribution of goods.

"After trying both methods," says Mr. Fleming, "we are convinced that the exclusive dealer plan offers many advantages over selling the line open. We would rather have one dealer in a town, who will work with us and push the sale of our goods, than to have a few dollars' worth of goods mixed in a heterogeneous stock in ten stores where none takes an interest in our brand."

The obvious dependence of manufacturers and retailers upon one another makes for more in common and, therefore, for greater stability in relationships. Better control of production and distribution means lower selling expenses by selling a larger bill to each dealer, by having a reduced number of shipments, by minimizing credit risks, and by eliminating price-cutting among competitors. All this tends to stabilize prices and secure fair margins and reasonable profits to all concerned.

The general relationship involved in "mill-proprietary brands versus merchants' individual brands" is handled in this way by the Chicago Paper Company. W. N. Gillett, who is vice president, says:

"There has been a rapidly growing tendency during the last few years on the part of the paper mills to manufacture, advertise, promote, and sell mill brands through the merchants. The distribution of these lines is handled through one or more paper merchants in each of the cities having such distributors, and the number of distributors in a given city is based largely on the size of the market.

"Other mills, and, in some instances, the same mills, make lines of paper for the paper merchants under the merchants' individual brands and names. The advantage in the mill brands is that usually the lines are standardized to a higher degree, and, owing to the wide distribution under this plan, the mills are enabled to carry on a national advertising program and other promotion methods.

"There is a disadvantage in this plan in instances where mills overdo this distribution method by having multiple distribution in the same centers which is likely to react against the line, owing to a lessening of interest and activity on the part of the paper merchants because of the probable division of results. Another disadvantage is that some paper merchants would have several branch houses or agencies and not all are able to obtain the same mill lines for all of their distribution points, owing to previous arrangements or circumstances, in which case, the paper merchants' interests are divided between brands in different markets.

A universal retailer's complaint.—"One advantage of the private brand is that a merchant has exclusive sale and can use greater discrimination in the placing of his business based upon intrinsic values, proximity of mills from the standpoint of freight rates and service, and more complete control of his own lines.

"As a rule, the mills manufacturing their own grades or brands

work very closely with their distributors, and, through their advertising and promotion efforts, very materially assist in selling the goods.

"The merchant having but one, or at the most, a few, houses, finds it profitable and advantageous to handle, largely, carefully selected mill-proprietary brands; while those paper merchants who have a sufficiently wide distribution system to justify their using national methods of advertising and promotion, may find it more desirable to handle just their own private brands."

One of the complaints made most frequently by dealers is that manufacturers tend to advance prices on goods that have become established to the point where they no longer pay the distributor a reasonable amount for handling, even when a strong demand exists. Past results also show at times a tendency to lower the quality in order to allow the dealer a larger margin or to retain for the producer a bigger profit.

Either of these tendencies carried sufficiently far defeats itself in time by the opposition of dealers and the substitution of competing goods. Not infrequently retailers pressed in this way build up their own proprietary brands or seek the volume of their trade on unbranded goods, while carrying below the counters those that are well advertised but of small profit. Even small dealers not infrequently have their own private brands, claiming that these private brands make initial purchases as well as repurchases easier and, therefore, cheaper.

But brands usually take rather large markets to be successful. In the hands of small dealers, especially, they are thought to be an added expense. Their making must be anticipated and their production consequently is more costly than quantity orders. Thus, one large manufacturer turns out a given collar in 26 different styles, often putting through 500 to 1,000 dozen at a time. If a dealer wants his private brand in small quantities, he must pay the increase in cost of production and handling; he must anticipate his wants by six weeks or more. He loses, also, the advantage of national advertising, and, of course, it is true that a dealer who gets trade established on his own brand or ticket can then sell any similar construction under that name, as well as the one with which he starts.

It is no sufficient answer in the long run to say that well-advertised and well-liked goods bring people into a store, and, therefore, ought to be handled even without profit, as postage stamps are. A dealer cannot continue in business unless he can make a reasonable profit, and it is usually poor merchandising for him to sell some goods regularly without profit and make up the difference by selling other goods at a high profit. A merchant's continuance in business is bound up with price, quality, and turnover of the goods he handles.

The background for this whole problem was well stated in this way by a man of experience and outlook in both production and distribution.

"Twenty-five to fifty years ago manufacturers generally confined themselves to the production of goods. Distribution was regarded as quite another field—that of the jobber, who had a well-defined and limited territory and entire responsibility for creating demand in the territory for the goods he handled. The typical '100 per cent agreement' bound the manufacturer to sell to no other jobber in a given territory, and the jobber not to buy similar merchandise from any other producer.

"At the turn of the century national advertising was growing strong, with a desirable trend towards mass production and mass distribution, and resulting lower prices. It created a demand for the manufacturer's product without reference to territorial limits. As the manufacturer created this demand, he insisted that jobbers stock up with his goods and saw to it that jobbers' discounts were correspondingly cut down—very commonly from 20 per cent to 10 per cent."

What has become of the "easy" profits?—Thus, the old personal relationship between a manufacturer and his jobber in a given territory tended to break down. "The jobber," continued this authority, "was now under compulsion to stock up with all, or at least several competing brands, and could not, therefore, push any one to the exclusion of the others. The selling of exclusive brands gave way to order-taking for whatever was in stock; a defined territory carefully worked in seeking orders wherever they could be picked up; reasonable margins and net profits to an existence profit only. Quality and reputation were minimized under the pressure of finding a large outlet for competing lines; and customers were led to buy wherever they could get price or credit."

It looks now to many as if there were a tendency to go back to the old relationship between producers and distributors. If easy profits are gone and we face an era of sharp competition, relations of a close, dependable, and economic nature must be sought, if profitable dealings are to obtain.

Which arrangement is best will depend, then, upon the nature of the merchandise to be sold, the scope of selling, the amount of advertising done by the manufacturer, the price policy pursued, the volume desired, and the expectation of constant and profitable relations between the producer and the distributor. The opinion has been expressed that the exclusive agency for any product will become a thing of the past. Many producers and distributors alike hold just the contrary view and claim that exclusive, or at least confined, lines, offer the most profitable relations, and that this relationship is distinctly on the increase at the present time.

The final consideration, however, must be the effect upon the public—the ultimate consumer. Does the exclusive agency plan make for higher or lower retail prices, or simply for uniform prices? Does it

provide the variety and satisfaction which consumers want? What effect has it upon the quantity of the manufacturer's output? Upon his net profits? Does it really make for steady and satisfactory relationships between producers and distributors? Does it remove the stimulus of competition for the potential market? Does it encourage the substitution of competing merchandise on the part of other dealers?

Methods of Distributing Farm Machinery.[5]

In the farm-implement industry the several factors which carry the manufactured product from the factory to the farmer are few in number, but elaborate in method. The system is one that has developed in accordance with the growth of the industry and its special circumstances, physical and economic.

The ordinary "chain of distribution" is simple and direct—from factory to branch house, to retail dealer, to farmer. The great bulk of farm equipment is marketed in this manner. Where the sales territory is so large that the branch houses do not cover all of it, or where the manufacturer is too small to be able to maintain branches, sales are made to jobbers who sell to the retailer. An exception to the ordinary system is the mail-order house, buying direct from the manufacturer or making the implements itself and selling direct to the farmer on mail order. Manufacturers making only one line generally sell to jobbers.

Branch houses and jobbers are located throughout the country at important distribution centers, while every town in the farming sections has its retail implement dealers, usually two or three in each town.

The manufacturer makes and ships the implements to his branch houses or sells them to jobbers. The branch house employs salesmen to visit the retailer within the branch territory, solicit business from him, and give information regarding his financial soundness. It also employs experts to aid the retail dealer in setting up, demonstrating, adjusting, and repairing machinery, and in some cases it employs canvassers, who assist the dealer in getting orders from the farmer or introducing and selling new or intricate types of machinery. Sales by the branch house to the dealer are made under a contract agreement. Shipments are usually made to the dealer from the branch warehouse or transfer stock.

The retailer receives and stores the implements in his warehouse or store, displays them for the farmer's inspection, explains the method of operation, and when he makes a sale often sets up and delivers the machine. He is in some cases assisted by the canvassers and experts of the

[5] Report of the Federal Trade Commission on the Causes of High Prices of Farm Implements, pp. 51-60.

branch house in performing these functions. He makes minor repairs and keeps a stock of repair parts readily available, so that the farmer may lose no time if his machine breaks down in the midst of the plowing, seeding, cultivating, or harvesting season. In a number of localities the retail dealer may be found in competition with or supplanted by farmers' coöperative stores, chain stores, or farmer agents representing the manufacturer.

The wholesale sytem.—The wholesale system of implement distribution consists of branch houses maintained by manufacturers and of independent jobbers who buy from the manufacturer and sell to the retailer.

The branch house.—The first link in the normal chain of distribution is the manufacturer's branch house. Branch houses are established at convenient trade centers, from which farm equipment is distributed to dealers within an alloted territory. Branch houses of companies which do not have full lines sometimes supplement their lines by jobbing noncompeting implements of one or more other manufacturers.

Each branch house is responsible for an allotted sales territory which may embrace several states, one state, or a group of counties in one or more states, the size of the territory depending upon the number of branches and the degree of agricultural development within the region served. The number of sales branches maintained by any one company varies from one sales office at the factory to 143 branch houses located at convenient points throughout the world. Some manufacturers with only a few branches sell through jobbers also, or through branches of other manufacturers. Many own their branch-house buildings, while others hold them on lease. In some cases the branch house is separately incorporated, with the entire capital stock owned by the main company. In export trade most manufacturers sell through jobbers, but a number of the large companies have branches in Canada and some in Europe, while at least one has them throughout the world.

Farm implements are sold generally through branch houses in the United States and mostly through jobbers in foreign countries, except in Canada, where the branch houses outnumber the jobbers.

International Harvester Company's system.— The International Harvester Company maintains at each of its branch houses a force of salesmen, canvassers, and experts. The salesmen are called "blockmen," because each of them operates over one section or block of the branch territory. Each block consists of one or more counties.

The blockmen supervise and solicit trade with the dealer, the canvassers solicit trade with the farmer and assist the dealer and blockmen, while the experts aid in the installation, adjustment, and repair of machines.

The retail system.—There are four principal agencies retailing farm equipment: (1) the retail dealer, who keeps the implements in his store to which the farmer must come in order to buy; (2) the canvasser, who visits the farmer at his home and shows him samples or describes the implement; (3) the mail-order house, which approaches the farmer through the mails by advertisement and catalogue, and fills his order by freight, mail, or express; and (4) the coöperative store which buys implements and other supplies for its farmer members.

The great bulk of farm equipment retail sales are made through the retail dealer. To-day the retail dealer buys from the manufacturer's branch house or from jobbers and sells to the farmers in his locality. Some retailers sell implements exclusively, but a great many handle them along with hardware, automobiles, or general merchandise, and are thereby enabled to sell implements with a smaller pro rata overhead cost. This saving in selling expense, due to handling other articles along with implements, is an advantage which the manufacturer does not have, and is perhaps one reason why he does not establish a retail selling organization of his own and eliminate the retail dealer.

Marketing Agencies — The Branch Houses.[6]

Number and distribution.—The chief agency employed by the big packers for marketing their products is the branch house. There are in the United States, 1,327 of these branches operated by interstate slaughtering companies, of which 1,188 are controlled by the Big Five and their controlled companies. More than half the branch houses are located in the Atlantic seaboard states, a large proportion of this fraction being in the North Atlantic States. The more sparsely settled regions of the South and the West are reached by another marketing agency peculiar to the packer organization, the route car, popularly known as the peddler car.

The branch house is a natural outgrowth of concentration in the packing industry. With the disappearance of local slaughterers and the development of the refrigerator car, the need arose for some kind of marketing agency for handling fresh meats at the consuming centers. The need was at first met by a body of commission merchants and independent wholesalers. The wholesale grocers had long played a conspicuous part in the distribution of cured meats and other products of the packing houses, but not being fitted for handling fresh meats they soon lost their trade in cured meats. As time has gone on the packers have more and more assumed the function of wholesaler, not only of their own products, but of purchased goods as well. The advance beyond distribution into

[6] Report of the Federal Trade Commission on the Meat Packing Industry, Part IV, pp. 32-37.

manufacture is a later development, and since it has begun the two have progressed together toward monopoly.

It has not always been easy to determine among wholesale agencies which were packer controlled and which were not, but by 1888 the Armour interests were known to be operating 11 branches, Morris 9, and Cudahy 1. The number of Swift's branches at that date is not known. Beginning the next year the number of these establishments began to increase rapidly, and by 1899, the first year for which the number belonging to Swift & Company is available, the Big Five were operating 544, by 1908 the number had risen to 887, and in 1912 it stood at 1,110. As already stated, the number operated by the Big Five and their controlled companies in 1916 was 1,188. The investment involved in this number of branches is not available; but it can be given for those operated by the Big Five and their 100-per-cent-owned subsidiaries in 1918. The "branch-house investment," as shown by the consolidated balance sheet for these companies, November 2, 1918, stood as follows:

Armour & Company	$98,225,023
Swift & Company	82,669,274
Morris & Company	18,504,133
Wilson & Company, Inc.	20,986,912
The Cudahy Packing Company	19,667,092
Total Big Five	$240,052,434

The spread of these investment figures cannot be given for all the companies, but the large items in the branch-house investment of Armour & Company for August 22, 1918, can be given as follows:

Fixed Investment	$14,329,000
Equipment	1,638,340
Products	40,831,570
Accounts Receivable	21,744,260
Bills Receivable	883,847
Miscellaneous Supplies	580,000

Branch-house organization.—These branches are something more than selling agencies. They are factories in a way, where, for example, meats are cured and sausage manufactured; they are cold storages for holding stocks for limited periods; and, so far as goods are withdrawn from them to ship to surrounding territory or for supplying car-route cars, they may not improperly be called warehouses; but primarily they are wholesale markets.

Each branch house has its own manager, office force, and sales and delivery organization. The branches are grouped into districts and placed under the supervision of a district manager or superintendent. While some apparent independence in the management is given by the methods followed by various companies, each branch is just what the name implies,

not an independent, self-directing organization but an integral part of a vast system of distribution acting under a common authority. The means, especially carcass meats, are often handled by the branch on a commission basis, the commission ranging from 48 to 65 cents per hundred, but this does not mean that the manager is acting in the capacity of commission merchant. He, like all the other branch-house employees, works on a salary basis, and the commissions merely supply means for paying the expenses of the house. It is desirable from the company's point of view to make the manager feel that the business is his in the sense that he must make it pay. Wilson & Company, Inc., since 1916 has followed the plan of assigning a definite capital for each branch, according to its needs, and charging interest thereon. The circular announcing this changed policy illustrates the way in which this sense of independence is encouraged:

"Effective with the June, 1916, period, all branches . . . of this company will be put on a capitalized basis. Under this new system all branches will pay interest on the capital used in operating the business. This, you understand, includes investment in the building, fixtures, equipment, etc. Where buildings are not owned by the company, branches will be charged with the rent and will pay interest on the fixtures equipment owned by the company. The company will draw drafts on branches for product shipped as follows:

"A. products:[7] Full amount of invoices.

"B. products: An Arbitrary Amount.

"This will make it necessary for all branches to watch their collections very closely, so as to have money in the bank and be prepared to meet drafts as they arrive.

"The administrative charge which has been paid in the past will be discontinued.

"Under this system the company will furnish you with building, equipment and capital with which to do business. I will expect you to handle your branch on a profitable basis. Every branch will be operated on the same basis as an independent concern. Every item of expense is under control of the manager. Any losses shown by the branch will be an actual loss to the company. We will expect all managers carefully to consider every item of expense.

"We figure, on this system, the results shown by the branches from now on will be due entirely to the management of the same. We have confidence in the managers and are looking forward to profitable results for the balance of the year.

"This new system has been adopted on the recommendations of Mr. Wilson, who feels with this system a manager is in a position to handle

[7] "B products" with this company means mainly carcass meats; "A products" other than carcass meats.

his branch in the same manner in which he would if he owned the business, as he controls the capital involved and the necessary expense, to operate his business.

"On the new system you will be charged 5 per cent on the capital invested. In addition to this all operating expenses will be taken care of by the branch as in the past. We figure this new system is going to be a great help to our business in several ways. We figure in doing away with this administrative expense that branches are in better position to take on some business on a small margin of profit, which will not only enable them to increase their volume of business, but it will increase their earnings as their future expenses in the future will not be affected, as they have been in the past, by increased volume, due to the basis of figuring our administrative charges. . . ."

An example of the way the capital of the branch is determined by Wilson & Company, Inc., is shown in the following extract from a report of the General Auditing Department on the "Capital Requirements of the 45th St. [New York] Provision Department," dated February 18, 1918:

"We have surveyed the figures covering business done by the 45th St. Provision Department, for the year 1917 and report as follows:

"Total sales for the year were $974,652.93. The average days outstanding were 8.06, thus making a turnover of $45.28. This gives us as capital required to carry outstanding accounts, the sum of $21,525.00.

"The average inventory for the year was $41,375.93, which figure is not true at the present time, inasmuch as the freezer inventory has been reduced. We have therefore based our calculations of average inventory on the figures for the last 6 months of 1917, which results in an average of $28,060.56.

"We thus find a net capital required of $49,585.56; for our purposes $50,000.00.

"We believe these figures will be satisfactory to all concerned and suggest that they be continued until the close of June period, at which time the requirements are to be again reviewed and any necessary adjustments made. . . ."

But, as a matter of fact, no real independence exists. The branch-house manager is charged or "pays" prices fixed absolutely by his company for goods of the company's production. He is not at liberty to buy where he will; he is not free to pursue his own selling policy; but is subject to instructions from the district superintendent, the district inspector, and the managers of the various departments from which he draws supplies at the plant. The coördination of the selling organization within itself and with the manufacturing end of the business is made an objective of the packers. This is illustrated in a circular of Morris &

Company to its branch house managers and salesmen announcing a visit of the department managers in 1917:

"The success of Morris & Company and, therefore, your success, rests in your hands. It is at your end of the business we have to depend to increase our volume. We can buy our products and manufacture them on as good a basis as anyone giving equal quality. One strong point in your success and our success is coöperation. The reason for this trip our department managers are making is to get better acquainted with you, so they can coöperate with you more closely and in this way increase your sales and profits. It is necessary to keep in close personal touch with our different department managers. If our products are not arriving in first-class shape, if the quality is not what it should be, if you are out of line on prices, if competitors are selling products that we do not at the present time manufacture, it is necessary that you should take these matters up with our department managers, so they can put you in line to do business. Our district managers are in close touch with all houses and therefore are able to see things on a broader scale and give profitable advice to branch-house managers."

Strategic position of the branch house.—These houses are something more than branches. They constitute an important part of a great system of production and distribution. To say, therefore, that Swift & Company has 415 branch houses and that Armour & Company has 370 such houses and employs in connection with them more than 2,400 salesmen does not disclose the full strength of the big packers' position in the wholesale market. The manner in which the houses are located and supplied to meet every grade of want, the opportunities they furnish for gathering market and trade information, the way in which they are connected by every means of communication with one another through the district superintendent and with the central office by private wires, the mails, the telephone, and by weekly and monthly reports, give them a selling power more than proportioned to the number of outlets they furnish. Accepting the fact of concentrated control over the production of meats, no one will raise any objection to the size or efficiency of the organization built up for marketing products of the packing houses; but developed for the purpose of making outlets under their own control for their fresh meats and packing-house products they have become also the centers of distribution for other foods, many of which they have only recently begun to produce and many others which they do not produce at all. During a period when the general tendency has been to increase the number of wholesalers and to restrict the area within which each house operates there has grown up in competition with these more or less localized dealers the most widespread and powerful selling organization in the world.

The big packers do not hesitate to say that the branch house has been

an essential factor in the expansion of their industry and is now essential to the maintenance of it. The important thing to be noted here is the position in which the competitors of the packers who do not handle meats are placed by reason of this widespread organization. Some discussion of its economies is given below.

Substocks.—In addition to the full-fledged branch houses some of the companies have outlets closely associated with the branches and subsidiary to them. Swift & Company, for example, has a considerable number of "substocks"—that is, houses with an organization in all respects like the branch house, except that they have no accounting department. Sales tickets and reports of all kinds are sent to a neighboring branch, through which all accounting to the district office and the Chicago office is done. In 1918 the company had thirty-nine of these "substocks," twenty-four of which were located in the South and Southwest.

"Storage and delivery" houses.—Still another outlet closely associated with the branch house system is found in the "storage and delivery" houses. These are merely the establishments of local merchants who enter into contract with the packing company to store goods as shipped and to deliver them to customers secured by the company's salesman attached to a branch house having jurisdiction of the territory. The "storage and delivery" service is performed on a percentage basis. The merchant, in addition to performing this service, may buy and sell on his own account, but he may be regarded as acting essentially for the packer. He is not an ordinary commission merchant. The company secures the orders and makes collections. This arrangement enables the company to reach regularly, at carload rates, consuming centers which could not support a branch house or could not do so without cutting into the sales territory of neighboring houses.

Chapter XXVIII

SELLING AND ADVERTISING

Understanding the Consumer's Mind.[1]

Analyzing the market.—Within recent times, as population has increased and human wants have multiplied, and as indirect relations between buyer and seller have so largely replaced direct contacts, manufacturers and sellers have become aware that the consumer has been slipping out of their ken. They have, therefore, made efforts to recapture him. Their methods, which need not be thoroughly described here, may be roughly designated by the term "analyzing the market." This market analysis involves a study of everything that can possibly affect the goods either in manufacture or sale, and everything that can be affected by them, including sources of raw materials, labor conditions, means of transportation, and competing commodities.

As should be expected, one of the prime objects of interest in this analysis is the consumer himself. For he, among all the unknown elements of the situation, is potentially one of the most active factors and an indispensable party to any plan of marketing. It has then become a truth self-evident to the modern marketer of goods that the consumer should be intently studied. The study is made difficult, however, by several characteristics of the modern consumer.

The consumer is impersonal.—The first characteristic of the modern consumer is that he is an impersonal being; that is, to the seller he has no personality. The task of the market analyst is to strip him of his anonymity and endow him with personality.

The consumer exists in the mass.—Whereas the clients of a hat-maker of a century or two ago might number only a hundred, each of them a personal acquaintance, those of a hat-maker working on a twentieth-century scale of production may number 1,000,000.

The consumer is widely distributed.—Coincident with the fact that the consumer exists in mass is the fact that the consumer extends from ocean to ocean. Furthermore, he lives in varied geographical regions.

The consumer is a many-sided individual.—If the consumer is to be accurately depicted he must be regarded as a many-sided figure: He is a physical being, possessing a height and weight of some dimensions. He is a physiological creature, of definite age, sex, blood-pressure. He

[1] By Harry Dexter Kitson, *Annals of the American Academy*, Vol. 109, pp. 131-136.

is an economic entity with a determinable capacity for earning, saving, and spending. He is a social unit living in a world of family, neighbors, and friends. He is an ethical individual controlled by ideals and habits which have been instilled in him by moralistic teaching. Finally, he is a psychical organism who thinks, feels, and acts according to recognized psychological principles.

Regardless of the logical and scientific categories under which the various traits of the consumer fall, they may all be concerned to some degree in the purchasing of goods and they must all be made the objects of solicitous study on the part of the seller.

Stages in the Act of Buying.

The psychological changes that the consumer undergoes in making a purchase are generally conceded to follow a fairly typical course.

Attention.—There is first a stage when the purchaser attends to the commodity. By this is meant that out of the mass of objects crowding into his mind he selects the commodity to be momentarily the clearest thing. Of course he ordinarily does not do this without some prodding on the part of the seller. He is usually stimulated through the application of the various determinants of attention such as intensity, extensity, change, color, repetition.

But to keep one commodity unchanged in the center of the consumer's mind is a difficult matter, for there are a host of other objects constantly assailing him. Furthermore, the mind is such an active thing that it cannot remain still. Like a stream it is ever in motion. Accordingly, if the commodity for sale is to maintain its central seat in the mind, there must be injected another force into the situation. This may take the form of:

Interest.—If the sale is to continue to a consummation, the initial attention must merge into something warmer, usually known as interest. Though interest is variously defined, it may be truthfully described as the recognition of old familiar elements in an unfamiliar commodity, followed by an attempt to draw nearer and nearer to the commodity. As the purchaser becomes better acquainted with the commodity he tends to identify himself more and more closely with it, until finally when he buys it he actually comes to consider it as a part of himself, exemplifying the statement of James that one's possessions are a veritable part of the material self.[2]

As means of arousing and enhancing interest there may be cited two chief psychological principles: *(a)* Give facts about the commodity. The facts being mostly new and unfamiliar should be presented in terms of facts already familiar to the consumer. *(b)* Arouse activity

[2] James, "Principles of Psychology," Vol. I, p. 292 ff.

toward the commodity. This recommendation is based on the well-established principle that the more activity one expends on behalf of an object the more interested one becomes in it.

Desire.—Though interest continues and even waxes throughout the course of a purchase, it leads normally to a state of mind that is best designated by the term "desire." This may be briefly described as a complex state of mind consisting of, first: A play of the imagination in which the consumer images himself in relation to the commodity; a feeling of pleasantness accompanies this; then come movements, either actual or incipient, toward the commodity; but these movements are blocked by such things as too high price, objections from a third person, ideas about competing commodities, etc. This blockage gives rise to feelings of unpleasantness. If the sale is to be consummated the blocks must be removed so that the consumer may move freely toward the object and acquire it. After they are removed, the consumer acquires the commodity, experiences a feeling of pleasantness, and thus fulfills the desire.

Confidence.—Somewhere in the course of a purchase comes a stage that can best be designated as confidence. The consumer must have confidence in either the commodity, the seller, or both, if he is to make a purchase of any consequence. The confidence need not always enter precisely at the point indicated in this outline. It may be present with the initial act of attention or it may develop during the growth of interest and desire, but it must enter somewhere before the final stages of the purchase.

Another device is repetition. Just as constant dropping wears away stones in the physical world, so constant iteration of a sale's message affects the mind of the consumer and makes him believe. It is this fact which gives value to the great amount of publicity certain firms give their commodity. By constantly keeping their name before the public they instill in the mind of the consumer a belief in it. The mere familiarity of the name endows the commodity with a prestige which is in large part confidence.

Decision.—After the foregoing stages have been passed through comes the stage when the consumer performs the act of handing over the money. This, which, in the nomenclature of theoretical psychology, is designated as a voluntary act, is usually divided into three phases: *(a)* the reception of an idea to be acted upon; *(b)* the development of this idea to a point when it explodes in action; *(c)* the simple awareness that the act has transpired.

The first event, the entrance of an idea, occurs at the initial stage of the purchase which we designated as attention. And the process of developing the idea is coincident with the development of the stages of interest, desire, and confidence.

The second phase is the veritable act of purchase. It is the culminating event toward which have been directed all the preceding efforts of the seller. This moment, just before the clock strikes twelve, often called the psychological moment, is one of the most interesting points of the entire purchase.

The task of the seller is to remove the ideas that conflict with his idea. Take, for example, the sale of an automobile. The buyer, by entering the salesroom, shows that he is entertaining the idea of buying this particular car. But there are many other conflicting ideas in his mind at the same time. The task of the salesman is to eliminate the undesirable ideas.

"To a superficial view the task of the salesman might seem to be that of taking hold of these unwelcome ideas and thrusting them into outer darkness, but such a conception is erroneous and will lead to egregious error. If the mind of the buyer contains the idea of another car, the proper procedure is not to dilate negatively upon that car in the effort to drive it out of mind. Every word uttered about that car acts as food for the unwelcome idea and causes it to wax stronger and stronger. The practice of criticizing or condemning a rival commodity is being recognized as poor business ethics, but we may go still farther and say that to speak either in praise or blame of rival goods is poor psychology, for every word makes the undesirable idea still more troublesome.

"What are the methods, then, by which the undesirable ideas may be forced out of the mind and the desired one enhanced? The answer is to force attention upon it; when this occurs, the strength of the desired ideas automatically decreases. The psychological situation may become clearer when conceived in terms of brain energy. The brain, according to some psychologists, is organized into a number of ideational systems, one for each idea that exists in the mind. Any ideational system may be roused into action by the drainage into it of brain energy. Now the energy of the brain may be distributed in various amounts over different systems, the amount in each system depending on the strength of the corresponding idea. In the case of a purchase, if the main idea is to grow in strength, its brain system must draw off from the other systems the brain energy resident within them, until the energy of the brain is all drained off into the one system, which means the triumph of the idea.

"The process consists in using concrete facts regarding the car: the power and smoothness of the engine, the luxurious ease of the springs, the elegance of the upholstery. With each increment thus added to the strength of the central idea there is a corresponding diminution of the strength of the undesirable ideas until finally the latter

dwindle away and the central idea dominates the mind and bursts forth in action.[3]

The moment at which the ground is entirely clear and the desired eruption is ready to occur is the psychological moment. It is a time of great dramatic stress. For the central idea is in a state of the most delicate equilibrium, so slight that the merest trifle may disrupt it. Many a "perfectly good sale" has been lost, at least for the time being, through the inopportune occurrence of a telephone call, a baby's cry, an accident in the street.

Satisfaction.—To the superficial observer and to the person who takes a narrow individualistic attitude toward selling, a sale is completed when the money has passed from the hand of the buyer to the palm of the seller. To one who regards the sale from a broadly social point of view, however, it is clear that the sale is not completed until the buyer is satisfied. The buyer does not cease thinking about his purchase immediately after he has made it. He carries along in his mental stream many relics of it: the original impression made by the goods; the manners of the salesman; the promptness of delivery. If he does not consciously ruminate about these facts and keep them in the center of his attention, he at any rate carries them along in the margin of his thought-stream; and when he encounters a similar article he recalls his previous experience. If it was satisfactory he willingly makes a repeat purchase.

Again, the buyer carries about with him the visible evidence of the quality of the article every time he uses it. It gives him either pleasure or displeasure. If it wears well and fulfills all the claims made for it he feels satisfied and gives a repeat order.[4] Or he tells his friends. Thus the effects of one sale persist and spread in the minds of the consumers like waves made by a stone dropped into the water.

This conception of the sale as a continuous process has long been implicit in the teachings of business ethics; it has also been demonstrated to pay economically; it is now finally justified on psychological grounds.

Methods of investigating efficiency of advertising.—The foregoing description of the mental processes involved in making a purchase furnishes only an outline for psychologizing about the consumer. The specific and detailed problems being attacked and those clamoring for solution are too numerous and varied to be listed here. The majority of those which have been thus far attacked by psychologists relate to the technical phases of advertising: the most favorable length of head-

[3] Kitson, "The Mind of the Buyer," Chap. XIII.
[4] Kitson, "The Mind of the Buyer," Chap. XIV.

lines; legibility of type-faces; value of various positions on the page, etc. Three types of such investigation may be prosecuted:

Scientific investigation of returns.—Conditions may be arranged that the returns from one type of advertising may be compared with the returns from another type. By successive trials of different methods and by comparisons between the returns, the relative values of different advertisements may be determined.

Volume of Sales and Selling Costs per Salesman; Analysis Reports from 53 Wholesale Grocery Houses in Ohio.[5]

These concerns varied widely in size, including five houses whose sales for the year were less than $500,000 and nine houses whose sales were over $2,000,000. The aggregate volume of business reported was close to $70,000,000, or an average of about $1,300,000 per company. The middle, or "typical," concern in the list had sales of $885,000. In the main the concerns reporting showed about the same characteristics as those whose results were included in the Bureau's recent report on costs, operating expenses, and profits for the year 1924.

Of the total sales reported, approximately $7,000,000 were shown as consisting of "house" orders, leaving some $63,000,000 of business secured directly by the efforts of salesmen. To obtain this business the concerns reporting employed approximately 517 full-time salesmen. On the average, therefore, a wholesale grocer in Ohio employs 9¾ full-time salesmen who sell $122,113 worth of merchandise a piece. In the tabulations following, the figures given for "total sales" by concerns include all sales, while in computing averages per salesman only sales obtained directly by salesmen have been considered.

The range of results obtained by salesmen of various firms is a wide one. No information is available as to the volume secured by any single salesman, but the averages by companies have been calculated. The highest average sales per salesman was $198,362.25. This was obtained by a concern which employed eight salesmen and had total sales of roughly $1,600,000. The low record was made by a relatively small concern, whose three salesmen sold only $42,435.04 each. On the average, for the trade as a whole, each salesman sold about $122,000 worth of goods during the year, or at the rate of a little over $10,000 a month. A summary of the experience of the various wholesale concerns reporting is given in the tabular form on page 696.

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[5] Bureau of Business Research, Ohio State University, Howard C. Greer, Acting Director, August, 1925.

Total Sales per Salesman	*No. Concerns*
Over $175,000	4
$150,000 to $175,000	11
$125,000 to $150,000	10
$100,000 to $125,000	11
$ 75,000 to $100,000	10
Less than $75,000	7

High record: $198,362.25, by concern with 8 salesmen and total sales of $1,600,000.

Low record: $42,435.04, by concern with 3 salesmen and total sales of $150,000.

Typical experience: sales of roughly $120,000 per salesman.

The average expense per salesman (including both the direct compensation of the salesman and amounts paid for his traveling expenses) was $3,210.23. It was found impossible to separate compensation from traveling expenses, since the salesmen of many concerns pay their own expenses out of their compensation. There is considerable variation among the concerns reporting, their experience in general being indicated in the table below:

Average Expense per Salesman	*No. Concerns*
Over $4,000	7
$3,500 to $4,000	11
$3,000 to $3,500	11
$2,500 to $3,000	14
$2,000 to $2,500	10

High record: $5,150.04, by a concern with 8 salesmen, total sales of $1,600,000, average sales per salesman of $198,362.25.

Low record: $2,071.66, by a concern with 3 salesmen, total sales of $350,000, average sales per salesman of $114,338.33.

Typical experience; expense of roughly $3,150 per salesman.

This sales force expense represents an average of 2.58 per cent of the total volume of sales, or $2.58 per $100 of sales secured. In this respect also there was a wide variation among the firms reporting. The high record was $4.11 per $100 of sales, this being the experience of the same small concern in which sales force expense was $2,071.97 per man and sales volume secured only $42,000 each. On the other hand, the low ratio of $1.43 per $100 of sales was made by a concern with an average expense per man of $3,501.60, the men securing a sales volume of $175,000 each. The range of experience in this respect is shown in the table below.

Sales Force Expense per $100 of Sales	*No. Concerns*
Over $3.50	4
$3.00 to $3.50	6
$2.50 to $3.00	17
$2.00 to $2.50	11
$1.50 to $2.00	14
Less than $1.50	1

High record: $4.11, by a concern with 3 salesmen, total sales of $150,000, average sales per salesman of $42,435.04, and average sales-force expense of $2,071.97.

Low record: $1.43, by a concern with 5 salesmen, to total sales of $1,225,000, average sales per salesman of $174,889.60, and average sales-force expense of $3,501.60.

Typical experience: expense of $2.52 per $100 of sales.

From the examples just quoted it may be seen that securing sales economically is not solely a matter of either the amount of compensation or the volume of business produced by the salesmen. In general those concerns where the salesmen produce a large volume have an expense ratio below the average, while those whose salesmen produce a relatively small volume of business have a relatively high expense ratio. In other words, the cost of securing the sales seems to depend more on the volume obtained than on the amount of compensation; or, to put the matter still another way, a well-paid salesman who produces a large volume of business tends to be a cheaper investment than a low-salaried man who sells a smaller volume of goods. By way of illustration the following comparisons are submitted:

Typical experience: expense of $2.25 per $100 of sales.

Sales-force Expense per $100 of Sales	*Sales per Salesman*		
	High	*Medium*	*Low*
Over $3.50	.	1	3
$3.00 to $3.50	.	2	4
$2.50 to $3.00	3	5	9
$2.00 to $2.50	3	8	.
$1.50 to $2.00	8	5	1
Less than $1.50	1	.	.
Sales-force Expense per $100 of Sales	*Expense per Salesman*		
Over $3.50	2	.	2
$3.00 to $3.50	1	2	3
$2.50 to $3.00	5	10	2
$2.00 to $2.50	4	6	1
$1.50 to $2.00	2	7	5
Less than $1.50	.	1	.

Methods of compensating salesmen.—The plans used in fixing the compensation of salesmen vary widely among the concerns reporting. Four distinct bases of payment were recognized in classifying the methods: straight salary, salary and commission, commission with drawing account, and straight commission. Each of these bases, however, is still further subdivided, some concerns allowing traveling expenses to their salesmen and others making no travel allowance. Eight plans in all were in use in the Ohio wholesale grocery trade in 1924.

There were actually still other variations in method disclosed in those concerns allowing "commissions" to their salesmen, since these

commissions were calculated in many different ways, as further noted below. Some concerns also used more than one method, part of the sales force working on one plan and part on another, or others. The distribution of the concerns by types of method used is indicated in the following table, each method being recorded once with duplications eliminated by deduction from the final total.

	Number of Concerns		
Methods of Compensation	*Expense Allowed*	*No. Expense Allowed*	*Total*
Straight Salary	23	5	28
Salary and Commission	13	3	16
Commission with Drawing Account	1	6	7
Straight Commission	5	9	14
Total Salesmen	42	23	65

Concerns using more than one method:

6 concerns used 2 methods total duplications.

3 concerns used 3 methods in above summary 12

Actual number of concerns reporting 53

Methods of Compensation	*Number of Salesmen*		
Straight Salary	117	23	140
Salary and Commission	108	54	162
Commission with Drawing Account	4	66	70
Straight Commission	18	127	145
Total Salesmen	247	270	517

From this table it will be seen that more concerns used the "straight salary" plan of compensation than employed any one other method, there being 28 instances of this plan, or nearly half the total reported. Expenses were allowed by 42 concerns, or roughly two-thirds of all those reporting.

When number of salesmen in the various groups is considered, however, the commission basis of payment is found to be much more general. Out of 517 salesmen employed, 377 (or nearly 75 per cent of the total number) were compensated wholly or in part on a commission basis. The number who paid their own traveling expenses, without any specific allowance from their company, is also relatively larger, being more than half of the total. The largest single group is that of salesmen who received a straight commission, no salary, and no expense allowance; on this basis were 127 men or nearly 25 per cent of the total number.

From the figures quoted (and shown in detail in the table on this page) it may be deducted that the concerns using the "straight salary"

basis are those employing on the average a smaller number of salesmen. Those concerns using the commission plan are only a little over half the total number of companies reporting, but they employ roughly three-fourths of all the salesmen. Further data along this line is shown in the section headed "Comparison of Results under Different Methods" and in the table on page 701.

There appears to be no uniformity whatever in the rates of commission allowed to salesmen. Each concern has its own method. Some figure commission on profits, some on sales, and some on sales increases, extra-good performance, etc. The data tabulated below is taken from the reports sent in and is given merely as illustrative of the different methods prevailing. The percentages based on "profits" are assumed to be on "gross profits"; some concerns referred to "net profits," but in view of the rates in effect these are presumably "net" only after a portion of the operating expense deductions, and not the final "operating profit" figures after all charges, losses, etc. Salesmen calling on out-of-town trade usually have a higher commission rate, out of which they are presumably to meet the expenses of their trips.

COMMISSION RATES AND BASES

No.	*Basis*	*Rate—City Men*	*Rate—Traveling Men*
Salary and Commission—Expenses Allowed (13 Concerns)			
1	Sales	1% over $65,000	same
1	Sales	2% over fixed basis	"
1	Net profits	20%	"
1	Net profits	35%	"
1	Net profits	30% less fixed salary	"
1	Net profits	25% (less 6% on investment)	"
1	Gross profits	33⅓%	"
1	Sales	1%	"
1	Sales and profits	graduated	"
1	Figured profits	not given	"
1	Increased sales	not given	"
2	No basis given		
Salary and Commission—No Expenses Allowed (3 Concerns)			
1	Net profits	(2¼% on first $1,000) (10% on balance)	"
1	Net profits	25%	35–40%
1	No basis given		
Commission and Drawing Account—Expenses Allowed (1 Concern)			
1	Sales	2%	2½%
Commission and Drawing Account—No Expenses Allowed (6 Concerns)			
1	Net profits	25%	same
1	Gross profits	35%	"
2	Gross profits	25%	35%
1	Gross profits	32½%	45%
1	Gross profits	"different rates"	

STRAIGHT COMMISSION—EXPENSES ALLOWED (5 CONCERNS)		
1 Sales	2%	same
1 Gross profits	15%	"
1 Net profits	35%	"
2 No basis given		
STRAIGHT COMMISSION—NO EXPENSES ALLOWED (9 CONCERNS)		
1 Profits	18%	32%
1 Profits	25%	40%
1 Gross profits	20%	30%
1 Gross profits	30%	40%
1 Net profits	20–27%	34–41%
1 Net profits	25%	35–45%
1 Profits	40%	same
1 Gross profits	"different rates"	
1 No basis given		

Comparison of results under different methods.—In the preceding analyses no comparison has been made between the relative cost of securing business under the different methods of compensating salesmen, nor has any distinction been made between "compensation" and "traveling expenses." Owing to the great variety of methods employed it was not possible to obtain a comparison for all concerns reporting. An analysis has been made, however, of eighteen concerns which operate entirely on the "straight-salary-expenses-paid" plan, as compared with ten concerns which pay their salesmen commissions only (with or without "drawing account") and make no allowance for traveling expenses. In this analysis a separation has been made between amounts paid as "compensation" and amounts paid as "expenses" whenever that information was obtainable. The results are indicated in the following paragraphs.

The eighteen concerns in the first mentioned list had an average volume of business of $780,000 in 1924; they are, therefore, in the main the smaller concerns among those reporting. Their 99 salesmen, however, sold an average of $131,000 apiece, which is somewhat better than the average of Ohio grocery salesmen in general. The average total expense per salesman in these concerns was $3,160, which is slightly less than the average for all salesmen. Since these salesmen secured more than the average amount of business the rate of expense to their employers for their services was less than the average, or $2.27 per $100 of sales.

The average salary of these salesmen was almost exactly $2,300 per year, their traveling expenses making up the other $860 of their total expense. The salesmen of one concern on the list received an average compensation of over $3,700 per year, and in one other the average compensation was just over $3,000. In all the remaining organizations the salesmen's compensation averaged less than $3,000. The lowest

average was $1,360, but only two other concerns showed less than $1,800. Thirteen concerns, therefore, showed average salaries for salesmen of between $1,800 and $3,000.

The ten concerns paying a commission without any allowance for traveling expenses had a somewhat different experience, but the number was so small and the variations within the group were so wide that the averages are perhaps not to be considered typical. These were larger companies, with an average sales volume of about $1,750,000. Their 128 salesmen sold on the average $116,000 each, which is slightly less than the volume secured by the typical wholesale grocery salesman. The average cost per salesman to the employing companies was $3,324, slightly more than for the eighteen concerns who paid a straight salary plus traveling expenses. Since the volume secured by the salesmen was on the average less, the cost percentage was somewhat higher, or $2.37 per $100 of sales. The high, average, and low figures for the concerns in both groups are shown in the tabulation below.

RESULTS UNDER DIFFERENT METHODS OF COMPENSATION

STRAIGHT SALARY—EXPENSES ALLOWED (18 CONCERNS—99 SALESMEN)

	Sales per Salesman	*Expense per Salesman*	*Expense per $100 of Sales*
High	$174,889.60	$4,365.52	$4.11
Average	131,216.43	3,160.07	2.27
Low	42,435.04	2,071.66	1.43

STRAIGHT COMMISSION—NO EXPENSE ALLOWED (10 CONCERNS—128 SALESMEN)

High	$198,362.25	$5,150.04	$3.32
Average	116,083.07	3,323.99	2.37
Low	55,169.50	2,269.38	1.50

In the tabulation above, each column of figures is to be considered independently, the record of the high and the low concern on each point being shown without reference to the record of that particular concern on the other points. That is to say that the concern showing the highest "Sales per Salesman" is probably not the same one that shows the highest "Expense per $100 of Sales," the general tendency, of course, being just the reverse.

It will be noted that the average cost for both groups here discussed is less than the general average for all of the fifty-three concerns reporting, which was $2.58 per $100 of sales. Obviously, then, the cost for the remaining twenty-five companies not included in either list must have been considerably above the average. These twenty-five other companies employed varying methods of compensation, combinations of several methods, and in some cases several different methods within the same concern. It is accordingly impossible to classify them. There

is probably some significance, however, in the fact that concerns paying a straight salary plus traveling expenses obtained a larger than average volume of sales per salesman at a smaller than average cost per $100 of sales. Only five of the concerns following that plan showed more than an average cost of securing the business. If there is any additional significance in the fact that none of these concerns had a total sales volume exceeding $1,300,000 per year, this Bureau will not attempt at the present time to say what it is.

A figure of some interest in this connection would be the average net earnings of these wholesale grocery salesmen who receive a commission and pay their own traveling expenses. This cannot be determined, however, since there is nothing in the data now at hand which indicates in any way the average amount of the expenses. They undoubtedly differ widely among salesmen, since some of them call mainly on city trade, some call entirely on out-of-town trade, and some combine the two. In the event that this study is repeated another year and that the wholesale grocers are interested in the problem, an attempt will be made to secure some informative data on this subject.

Another point of interest left for further investigation is the relation between the cost of the services of salesmen on a commission basis and those on a straight salary basis where both plans are used within the same concern. If another year the concerns reporting find it possible to supply the data required, the Bureau will endeavor to determine what this relation is, and to calculate for the entire list of coöperating companies the cost of securing business under each of the various methods of compensation.

An Economic Defense of Advertising.[6]

The great increase in the amount of advertising in the past half century and the apparent prosperity of most companies that have advertised persistently may be accepted as evidence that advertising benefits those who use it. But are their profits offset by the losses of others? Is our billion dollar annual expense for advertising a tax upon the public? And if wholly or partly a tax, does it benefit society enough to justify it? In short, does advertising make for public welfare?

In many minds the answer is doubtful. Probably it will remain doubtful.

To me, personally, an economic defense of advertising seems in the same category with an economic defense of education or transportation. These are essentials of present-day civilization, without which further progress is inconceivable. In theory, advertising is very closely akin

[6] Hotchkiss, G. B. Paper read at the 37th Annual Meeting of the American Economic Association, Chicago, Illinois, December, 1924.

to education and transportation. It teaches people to know the goods and services available for their use; it distributes ideas regarding commodities as a preliminary and an accompaniment to the physical distribution of the commodities themselves.

But it is not advertising in theory that is generally attacked; it is the institutions and methods that exist to-day. In defending these, I assume that I am not expected to indorse all advertisers or their motives. Some use advertising harmfully; still more use it wastefully. Probably the majority are actuated by selfish desire for profit. Some do not consider the public welfare at all. But if their advertising is really a public benefit, their motives need not disturb us any more than the motives of a wealthy man who donates a building or an endowment fund to a university. Cynical persons criticize even the advertising of the Metropolitan Life Insurance Company that tries to show the public how to maintain health and prolong life, because the company benefits through getting premiums for a longer period before a man cashes in. Few advertisers are more altruistic than this and so I may as well admit that all have some hope of personal profit.

Advertising as a science.—Advertising has been studied as a science only a short time. It has still to rid itself of misconceptions and misleading terminology. Moreover, it has so many economic by-products that its real essence has been more or less obscured. What it needs most is to be defended from its past history, and possibly from some of its professed friends.

Advertising as a stimulus.—Only a few months ago a great English statesman declared that he believed in advertising because it stimulated consumption, and what England needed was stimulation of consumption. Many people have eagerly seized upon the idea that advertising is economically justified, because consumption is just as necessary as production. It is true that increased consumption is often an effect of advertising, but if it were the only effect we might regard advertising as having the same economic status as fire, earthquake, or war.

Stimulation of consumption is a by-product of advertising. In some industries—the California Raisin Growers, for example—increased consumption has resulted in great benefits by making demand balance supply. Advertising was an important instrumentality without which this purpose could not have been attained so easily and cheaply. Manufacturers, likewise, have used advertising when their plans necessitated a readjustment or control of the demand for their product. Not always does this mean an increase of demand; during the War a decrease of demand was desired, and advertising was employed both privately and by the government to help achieve the object. In spite of this, I deny

that the primary economic function of advertising is to stimulate or even control consumption.

This misconception of advertising is very widespread. It has been fostered by the misleading phrase, "creating demand," used not only by business men but by economists. All advertising can do is to transmit the knowledge. It cannot create the want nor furnish the purchasing power.

For a long time advertising men deluded themselves with the belief that they could create demand, or at least desire. Very likely some sellers of space still claim that it can be done. But the idea that advertising has the hypnotic power to induce people to buy what they do not want is no longer entertained by anybody who is familiar with the process.

That advertising has in very limited degree the power to "create" demand may be inferred from the care with which the present-day advertiser consults public taste before embarking on any extensive campaign. Quite commonly he has researches made to discover the consumer's preferences, as a result of which he may not only change the size, shape, and appearance of his package, but make material alterations in the product itself. All this is preliminary to the advertising which broadcasts the information that what the public wants is now available.

Some critics who see nothing good in salesmanship decry this process as a diabolical attempt to add salability without adding utility. While there is a theoretical distinction between salability and value, the practical difference is not easy to discover, and the determination of value to the consumer by the pragmatic process of finding out what he will buy is probably as satisfactory as any other philosophical method. In a community where even presidents and governors are chosen by popular vote, it is not likely that the average citizen would intrust to any individual super-mind the privilege of determining what he shall eat and drink and wherewithal he shall be clothed; still less would the citizeness permit the super-mind to choose for her the kind of girdle or hair net she shall wear, the odor of her face powder, or the shape, size, and color of the containers that grace her dressing table.

Granting a certain amount of gullibility in the public, I, nevertheless, maintain that anyone who conceives of salesmanship as a compound of "meretricious appearance" and specious "doctrinal sentences" is due for a costly but salutary experience if he tries to put this theory to work for his own commercial profit. Possibly he will emerge from his business venture with the new conception of the public as a ruthless tyrant, that, through its control over purchases, dictates to the manufacturer what he shall make, how he shall package it, where it shall be sold, and at what price, and even how it shall be advertised.

The article that does not satisfy some present human want is not marketable at all. And if the want is not one that has been habitually felt or is easily recognized, the marketing difficulties are tremendous. Without advertising the work could scarcely be accomplished. The task is still going on with thousands of products that contribute to our material welfare through increasing our productive power or our comfort. The demand for them is not being created; it is being awakened, intensified, directed, and made articulate.

However defined, the phrase "creating demand" does not truly represent the function of advertising. True, it is the most obvious *effect,* but we cannot afford to make the mistake of measuring mental forces merely by the physical reactions. We might as well say that the purpose of a medical course is to enable a man to pass the state examinations, as to say that the purpose of advertising is to make sales. When people know all about a product and its uses, and when the thought of it is dominant in their minds, naturally a certain percentage of them buy it. What effect has been experienced by those who do not buy is less easy to discover, but there is ample evidence of broadened knowledge, keener appreciation, and thoughts of health, cleanliness, family affection, as well as other distinctly social effects.

Please do not think I am trying to minimize the effect information has upon demand. Cut out of our newspapers all the advertising for a week, and sales at all the stores would drop perceptibly. Curtain their display windows and further loss is felt. Deprive the public of all kinds of information about things to buy, and trade stagnates. If sellers could not advertise to discover demand, consumers would have to advertise to discover supply.

Although the effects of advertising in bringing demand and supply together and in stimulating and controlling demand are to be regarded as economic by-products, they are not to be despised. There are many accompanying by-products which I have time only to mention.

First is the stimulation of production, and more important its stabilization.

Second is its stimulation of individual ambition and efficiency through raising living standards. This, I may suggest, is a by-product of all kinds of education, including college education.

Third is its effects upon production economies through fostering large-scale concentrated industrial enterprises. These could hardly be maintained for commodities of small unit consumption if it were not for nation-wide distribution, aided by national advertising.

Fourth is its effects upon marketing economies by substituting the machine for the man in the necessary processes of selling. The saving in personal word-of-mouth salesmanship by the manufacturer's agents

and by jobbers and dealers is often sufficient to offset the entire cost of the advertising.

Fifth is the saving of the consumer's own time and effort in buying. The standardization of merchandise under the manufacturer's trademarks is almost inseparably connected with advertising, for the brand means nothing until its meaning is known. The simplification of the buying process has saved us more than we shall ever realize, unless we are somehow compelled to return to the old days of the open cracker barrel and haggling over prices and quantities.

A sixth by-product is in democratizing the education afforded by magazines, newspapers, and other periodicals, by means of a subsidy. Whether this is an economically sound method or not is open to argument, but it is in harmony with our method of financing university education so that the beneficiaries of instruction do not bear the full burden of the cost.

This is an impressive list of services, and others of almost equal importance might be mentioned. Nevertheless, they are economic by-products of advertising, and not its chief function. Its chief function is to *educate*. No other term is broad enough. Advertising not only transmits information that is essential to processes of exchange and does it more cheaply than word-of-mouth, but it transmits more information, transmits it over a wider range, and does it with greater social benefits.

This view of the economic value of advertising rests upon the premise that information about goods and services is in itself an economic utility. Naturally such a conception finds no place in the work of older economists who assumed static conditions. Nor has it received much attention by those who lay stress upon the dynamic conditions that actually exist. However, one recent authority in his text on "Economics of Marketing and Advertising" has specifically pointed out that advertising may add value to goods by adding to their utility. Some others who are inclined to disparage advertising have granted it at least some possibilities of service in this respect.

How much has actually been accomplished may be seen by a study of history. The orange, for example, is much the same as in Adam Smith's day, but its utility is far greater. And its present importance in the lives of people has been due not only to better methods of production, standardization, storage, and transportation, but to more complete information regarding its properties and uses. Sunkist advertising has done as much for the public as refrigerator cars. It is not so long ago that a new invention like the typewriter, or the telephone, or a new book, had to wait the recognition of some government or the patronage of some powerful citizen before it could benefit its creator or the public. Improved products of familiar kinds, like the proverbial

"better mousetrap," had to wait for the consumer to seek them out and then tell his friends about them. To-day an inventor or an improver of a product recognizes that his work is only partly done when he has manufactured it, transported it, stored it, and put it in the hands of dealers. It is literally useless until the public knows of its existence and its merits. Advertising that transmits this knowledge adds an actual utility to the goods.

Even the most uncompromising foes of advertising admit the economic service of advertising that introduces a new and meritorious article to the public. They may admit also the services of advertising that teaches new uses for old articles. Their objections are most commonly directed against competitive advertising, prestige advertising, and the total volume of all kinds of advertising used, of which they say only a small part is truly educational.

Educational advertising.—One reason why it appears that only a small percentage of advertising is educational is that our view of it is individual. Perhaps only a few pages in a typical issue of a magazine tell you or me anything that we did not know before and wanted to know. But if we look at advertising from the point of view of its diversified audience we shall find that a large proportion of advertising is highly educational. In a typical recent issue of the *Ladies Home Journal,* which was analyzed by a group of graduate students in marketing, it was found that over 40 per cent of the advertisements contained information of such service to women that it might have been placed in the editorial columns. It told her how to prepare better meals, how to arrange her kitchen, how to decorate her home, how to preserve her personal appearance, and how to protect the health of herself and her family. In many instances she could make use of the information without buying the advertiser's product. When she is educated to a better knowledge of health and diet, or a keener appreciation of decorative art in the home, she has benefited immediately. Later the advertiser may profit also, if and when she buys his article.

In this issue, 40 per cent more of the advertisements were classed as competitive, but they gave information that enabled the housewife to choose more wisely, and with a clearer knowledge of the distinctive merits of specific brands.

The remaining 20 per cent were classed as deficient in educational value, but in some instances the classification did them an injustice. We have been accustomed to think of education as an intellectual process and hence do not see educational value in messages addressed to the senses and emotions. We should remember, however, that advertising must be adapted to those who are to receive it. We teachers sometimes ignore this fact because our pupils cannot get away from us. The advertising man knows that people will not listen to his

messages unless they are entertaining as well as instructive. The advertisements in which pictures and art work are dominant may be highly educational if they tell a woman what she wants to know about a product. As a matter of fact, advertising is often made so beautiful and delightful that it appears to the cynic as merely a process of enticement, but its aesthetic qualities should not blind us to its solider virtues.

Competitive advertising.—The proportion of strictly competitive advertising, done only because the other fellow does it, is smaller than is commonly supposed. Competitive advertising educates new users in many fields. In markets where this is impossible—automobile tires, for example—competitive advertising has fostered the improvement of the product. More important than this is the protection of the public by insuring that when an improved article becomes available they shall have opportunity to learn of it.

There were plenty of histories of the world before Wells' "Outline of History" appeared, but their market was limited. Wells' "Outline" was advertised in the usual way until the publishers thought that they had satisfied the existing market. Then a magazine publisher took over the advertising of the book and sold more than 100,000 copies. Most of the buyers were not habitual readers of histories. They would not have read this history if advertising had not brought information about it to their attention and made them realize how much they were missing. But did this sale of Wells' "Outline" take away from the sales of other histories? On the contrary, the sales of other histories increased, and, so far as I know, other forms of literature have not suffered.

It must be granted that competitive advertising has wastes, as does all competition. But the very nature of competition indicates that the wastes of advertising cannot be so great as those of any other method of competing, or that other methods would displace advertising. Considered at its worst, competitive advertising is one of the fairest forms of competition, for it is entirely in the open.

Prestige advertising.—To discuss prestige advertising that builds our faith in men and names would take more time than I have at my disposal, and also lead us into the field of psychology. It is true that a well-advertised branded article may sell at a higher price than an unknown article of the same intrinsic qualities. The consumer may pay $3 more for an advertised hat, for example, than for an unknown hat which a hat expert declares is equally good. But the average consumer is not a hat expert. Part of the $3 represents insurance against risk; part represents added satisfaction in his purchase and added pride in himself. Advertising sometimes increases the psychical value of commodities, and in so doing increases their exchange value. In so far

as prestige advertising has prolonged and intensified the consumer's satisfaction, it has contributed something for which he ought to pay.

In actual practice he does not pay the whole cost of this advertising, any more than of any other kind. Often prestige advertising aids in selling a whole line or family of articles—7, or 57, or 1,007 of them—and may be a more economical method than any other. Quite as many articles are bought because of our faith in men as because of our faith in merchandise. And faith in the integrity of a manufacturer, with confidence in his merchandise, results from education. Prestige advertising includes some campaigns that are of the most distinct social service through the education they directly give.

The volume of advertising to-day is indeed enormous. Its money cost is appalling, specially to those who look upon it as a tax upon the public purse. But the fact is that the greater part of this expense could not be saved. If we did not pay this amount out for advertising we should pay out all or most of it for other items of production and marketing expense. Part would go for higher costs of production due to smaller scale enterprises. Part would go for added costs of personal salesmanship, by manufacturers, jobbers, and dealers. Part would go for increased time and effort by buyers. Part would go for greater losses through unsatisfactory goods and substitutes by unscrupulous dealers. Very likely these and other added costs would more than compensate for the cost of advertising. If they would not, then we must consider the remainder as the consumer's payment for education—education that benefits the consumer, education that he could not obtain so cheaply in any other way and could not obtain so completely at all.

The Campbell Soup Company has been able to show that their advertising appropriation—one of the largest in the country—has been more than offset by the economies it has effected, so that the consumer gets a better product at a lower price. Many other manufacturers could tell a similar story. Some who cannot present such convincing figures of economies are no less confident that the benefits to the consumer of their products are so great that he would not begrudge the price he had to pay to be educated to use them. I hope that some time those manufacturers may come out boldly and say "Of the dollar you paid for your safety razor, 5 per cent represents the cost of educating you. You were entitled to know about the article, and advertising was the cheapest, surest, and most economical way of informing you." Possibly they could go even further and say, "We have also helped to give you new and higher standards of health, cleanliness, and personal efficiency, and you have paid us for that service."

I believe the time will come when people will generally understand this condition. This will be when they recognize that the giving of

information about goods and services is a service that somehow must be performed and must be paid for. If there is a better way of performing it than advertising, it has yet to be found. I hope this principle will be enunciated and fully developed in that future text which some economist is going to write and bring to the attention of a hundred thousand American citizens through the use of advertising.

One of the sad things in the history of advertising is that in its early days it was used by the inferior and spurious, while those who had more meritorious goods and services to be marketed were slowest to perceive the necessity of broadcasting information about them. Advertising is too important as a constructive force to be left to the quacks and second-raters. Those who have something to offer the public, which the public ought to know about, are not doing their duty to themselves or to the public if they fail to make use of the most economical means of transmitting the information to a wide audience.

An Appraisal of the Present Status of Advertising.[7]

The present status of advertising.—For purposes of showing its economic status, advertising may be divided into two main classes: (1) advertising in which all concerned in the process in which it is used regard their part in the advertising process as a legitimate factor used legitimately for legitimate ends, and (2) advertising in which either the seller of advertising or the user of it is using it for desired results without strict regard for the welfare of the other parties to the process, the consumer being regarded as being included in the process.

In this second type of advertising we find those flagrant abuses which are most frequently cited, for there is a great deal of advertising which falls short of economic justification because of dishonest use or inefficiency so gross as to constitute grounds for indictment on sheer waste. Roughly speaking, this type may be divided into three classes: (1) where those paid for the advertising are victimizing the advertiser, (2) where the advertiser is victimizing the consumer, and (3) where advertising is used for political purposes or for raising money for unjustifiable ends. Let us consider these in order.

1. The buyer of advertising often knows so little about it that the unscrupulous are often able to sell him advertising which is below economic justification. It is so hard for the unskilled to measure or estimate the effects of advertising, and the success of the marketing process depends on so many factors, that a man may even pay for inferior and wasteful advertising and be highly pleased with it. The worst offenders in this respect are the irresponsible advertising agencies, first, those so

[7] By W. D. Moriarty. Paper read at the 37th Annual Meeting of the American Economic Association, Chicago, Illinois, December, 1924.

lacking in skill that they cannot do efficient work, and second, those who deliberately or because of poor judgment oversell the prospect or sell him a type that he ought not to use. The unscrupulous sellers of space for newspapers are a close second in this respect, and the practices of many newspapers in getting out special editions and practically forcing their advertisers to use space far beyond the cost burden under pretense that the extra costs are so great that all the advertising padding is necessary is just another illegitimate selling device. How much of the burden of guilt for its wasteful and dishonest uses ought in fairness to be charged against advertising, and how much to the incompetent and dishonest who make use of it is an open question; but public sentiment will continue to condemn advertising on just such grounds, and those who wish to reëstablish advertising in the eyes of such people must help reduce these wastes.

2. There is still a great deal of unscrupulous advertising as part of unscrupulous selling processes. This is not confined to merchandising misrepresentation but extends to all selling processes in which advertising can be effectively utilized. Advertising is a tool that lends itself with marked adaptability to either nefarious or legitimate purposes. It is no defense of advertising to ask whether by its very nature it lends itself best to legitimate uses, nor to insist that its true nature is best shown by the fact that it is used chiefly by legitimate rather than illegitimate business. Almost all highly efficient sales processes use it freely, and the illegitimate often use it more lavishly than the legitimate, because the gross margin of illegitimate processes is higher and so allows a wider range for selling expenses.

In the third class the most vicious use of advertising is in misrepresentations to influence public opinion. This may be to secure the passage of undesirable legislation or to ward off the passage of desirable legislation.

It may be objected, and with some grounds of fairness, by some of the defenders of advertising, that advertising itself must not be made to bear the guilt of the illegitimate processes in which it is used, but that advertising should be judged by its results in legitimate processes. Those who are doing the most constructive work in lifting advertising to a higher plane, however, and these are the real defenders of advertising, are asserting the right and obligation of legitimate business to restrict not only the illegitimate use of advertising but all such illegitimate processes. For they recognize that legitimate advertising and legitimate business are unfairly hampered by adverse public opinion induced by illegitimate business as well as by the amount of purchasing power diverted from legitimate business by all such illegitimate processes. But whatever the attitude of the defenders of advertising toward the responsibility of advertising as a whole for its use in illegitimate

processes, they must face the responsibility for the shortcomings of advertising in legitimate processes where an attempt is being made to use it as a means of increasing business efficiency for legitimate ends.

When used in legitimate business and for legitimate ends, advertising is responsible, just like any other factor, to any tests of economic efficiency which can be applied to any case in point. Three tests will be considered here, primarily as tests of economic efficiency of advertising in present-day well-intentioned advertising practice.

1. Does advertising increase the total value product by more than the advertising costs?

(a) Does it so increase total utility per dollar cost to the consumer, either by increasing utility or decreasing cost?

(b) Does it so increase total value per dollar cost to the producer?

2. Is the advertising actually bought utilized to the best advantage, or does the buyer allow easily utilizable by-products to go to waste?

3. Does it increase the value product as much as the same amount, or less, spent in more intelligent advertising?

In applying these tests it will be necessary first to assume some reasonable standard of efficiency. Certainly the minimum which we can accept is the standard of efficiency in the given marketing field as judged by the efficiency of other factors; and the responsibility of advertising as a motivating force may well be held a just ground for insisting that reasonably effective advertising must increase the efficiency of the process in which it is employed by somewhat more than the normal profit rate in that field.

From the first test, it seems to the writer, advertising on the whole emerges rather distinctly triumphant. Even without in any way minimizing the wastes due to unskillful though well-intentioned advertising, the fact that practically no well-managed marketing or merchandising concern attempts to get along without it is prima facie evidence that under proper management advertising does produce value returns beyond its costs. We need not take up here the ways in which advertising, when properly used, increases volume and so decreases the unit cost of marketing, for both in theory and practice this has been reasonably well established. This is the great theme of the advocates of advertising, that over so great a field it is triumphant in the primary economic test of reducing costs to the producer, whether manufacturer or middleman.

In the main, advertising emerges triumphant when the test is applied as to whether it reduces cost to the consumer, though this fact is not so well recognized by the general public. The reduction in cost may come immediately through increase of quality or only in the long run through the lowered costs to producers being at least in part passed on to consumers through the lowering of price in competition for the mar-

ket. Of the two sources of advantage the writer is inclined to put more stress upon the increase of quality and the guidance of the consumer in his buying. The consumer is, after all, whether skilled mechanic or college professor, much more seriously ignorant as a buyer than he likes to think. The marketing system must protect his ignorance as best it can, but it can do so only by his coöperation; and this coöperation it secures primarily in two ways—through his personal confidence in the salesman and the store, and through educating him through advertising.

This education of the consumer may be without cost to him, and may in the long run be accompanied by lowered price through competition; but the rights of the consumer have in no sense been infringed upon if the price of the advertised product does not exceed the price the consumer would have paid for the non-advertised product by a greater amount than the difference in quality between the two. In short, even if the advertising necessary to sell a given product makes it necessary to increase the price of that product, or even if it enables the producer arbitrarily to increase the price, if the education of the consumer benefits him more by correct guidance of his buying and using habits than it costs him in added price, he has no legitimate complaint.

But while advertising answers reasonably well this primary test of adding to value more than it costs, it seems to the writer that at present it falls markedly short of meeting the second and third of the proposed tests; and these, after all, are the sharper tests which every factor must meet. The failure of advertising to meet them more fully than it does is due in part to its recent phenomenal development, and our final judgment should be based primarily on whether it gives promise of meeting these tests more adequately than it does now.

The second test asks whether the advertising actually bought is utilized to the best advantage, or whether natural and easily utilizable by-products are allowed to go to waste. Here economic analysis can do much to improve matters by inquiring more deeply into the proper functions of advertising in the whole process of production, manufacturing as well as marketing and merchandising. Largely because such advertising has been primarily directed by competent managers and more especially by competent advertising agencies, the advertising of manufacturers has been more intelligently utilized to secure coöperation all down the line; but in most merchandising, even in the larger stores, the partial utilization of the advertising directed at the consumer is an amazing waste. The fact that it pays more than it costs is only a partial justification; the fact that it might pay still more with proper utilization is a legitimate charge of inefficiency. This waste is due in part to the fact that the technique of its utilization has not yet been developed, but largely to the fact that even progressive merchants often fail to realize

that the most important function of such advertising is so to stimulate their own sales force in knowledge and interest that their sales efficiency will be increased.

It is hard to measure accurately what the trend is in respect to this fuller utilization of advertising. In most stores its proper utilization would almost require a reorganization of the recognized functions of advertising, extending the functions of advertising control in large measure over the sales force, and requiring in many cases a type of executive ability for the advertising manager which the present managers do not now possess. With all due acknowledgment of the services of journalism and psychology in the development of advertising efficiency, this narrowing of the functions of advertising to influence the consumer is one of the penalties advertising is paying for having been developed under journalistic and psychological analysis rather than under the primary guidance of economic analysis. In fact, the economist who has held himself somewhat disdainfully aloof from advertising problems may well recognize that many of the shortcomings of present-day advertising are due to the failure of economics to provide an adequate background of theory for advertising practice. The practical business man is eager to follow whatever will bring him the best results, but with most trained advertising men possessing a journalistic or psychological point of view it is not going to be easy for economics to establish its ascendancy in this field.

Hasty application of economic doctrine will not aid much in this phase of the problem. For instance, whatever importance may be attached elsewhere to the theory that the marginal product may economically be attributed to the last addition of the changing factor, and so be paid, that factor is subversive of all sound advertising practice and all proper economic analysis. This results in part from the nature of the advertising process. In the first place, a change in advertising budgets cannot be by infinitesimal driblets; a very substantial change is essential. Then, too, measuring results may in part be immediate but in part it must be periodic, and the addition to the advertising budget must be marked enough to create a new process; it must be marked enough to effect a change in combining proportions.

To understand that the marginal product secured by a change in the advertising budget is primarily a surplus for division rather than a fund for advertising, let us consider the formula for the maximum advertising budget under the theory of the marginal product fixing the price that can be paid. This formula can be applied to the maximum that could be paid to any factor or factors, whether advertising, or wages, or rent, or any combination of them, and would satisfy the first test proposed, that added product should at least equal added cost, but falls far short of satisfying the second and third tests.

This formula assumes that both stock and sales are expressed in retail prices, that the ratio of these is the present turnover, that increased sales will be expressed in terms of turnover (the x in the algebraic formula), and that gross margin is the percentage of selling price available for selling expenses and profits. This formula is

$$\frac{X\,(GM-PFC)}{X+T}+PFC=\text{New Break Even Price for Factor}$$

That is, multiply the difference between the gross margin and the present cost of the given factor by the additional turnover, divided by the present turnover plus the additional turnover and add to this result the present cost of the factor, and you have the new "break even" price, that is, the percentage of your total sales which you can pay for the given factor and still make as many dollars of profit as before.

Thus with a stock of $10,000 and four turnovers, and with an advertising cost of 2 per cent, if only the first test is to be applied we could justify an increased advertising budget of an astonishing size if by increasing our advertising alone we could secure even three-fourths of an additional turnover. Assuming a gross margin of 40 per cent, the percentage of total sales we could spend on advertising would be

$$\frac{\frac{3}{4}\,(40-2)}{4\frac{3}{4}}+2$$

which gives us 8 per cent. This means the percentage we could spend on advertising, not merely of our increased sales but of our total sales, and still make as much money as before. If we could secure this result with anything less we should be so much the gainer by the process. But if we could secure these added sales by spending less than this amount, then the spending of this amount is wasteful. The crucial point as a test of efficient advertising is not linked up with the theory of the marginal product, but is determined by the minimum by which we can secure the volume of sales for which we ought to strive. This minimum is in turn very largely dependent upon the effective utilization of the advertising we buy, not merely for effect on the consumer but for its fullest possible effect upon the members of our own organization.

The third test proposed is whether the advertising actually used increases the value product as much as the same amount, or less, spent in more intelligent advertising which is open for purchase by the advertiser. Here it seems to the writer that many advertisers have much to learn from very simple applications of the law of diminishing returns, the term being used in the Ricardian sense, not in the loose sense of increasing cost. Where the factors are divisible, or where the changing factor can be adapted to the more fixed factors unhampered by

limits on the product desired, all intelligent production is carried on in the stage of diminishing returns, and generally some considerable distance beyond the point of diminishing returns. Yet the elements of advertising are so often combined in such flagrant violation of this principle as to constitute a legitimate charge of inexcusable economic waste. The merchant who buys costly space and spends so little in filling it that he does not get maximum results per dollar cost of his advertising total is the most evident offender; but even the larger stores, which pride themselves on their advertising manager and the excellence of their advertisements, are almost as woeful wasters when they fail to go to the slightly added expense necessary to secure by the coöperation of their sales force a more perfect incorporation of their advertising into their sales process as a whole. For the most fruitful third of advertising for a merchant may be the stimulation of his sales force, and the advertising management which cannot get the sales force to coöperate intelligently in pushing the goods advertised, or the other goods which advertising policy has determined should be sold, is much short of reasonable efficiency.

Marketing forces that make advertising more efficient.—Advertising is not to be judged alone by its present status, however, but also by to what extent it is ridding itself of its present shortcomings and developing greater economic efficiency; and especial stress may well be laid on the extent to which the marketing forces and advertising itself must be given the credit for supplying the remedies. And though without doubt stimulated by criticism, even by evidently hostile and sometimes unintelligent criticism, the more evident and more successful remedies are coming from the marketing system itself, first, through its efforts to secure the most efficient results from its own advertising, and second, through its efforts to restrict the illegitimate uses of advertising on the part of others.

In the first place, advertising is increasing in efficiency through the efforts of the marketing system to develop still further a factor which is essential to even moderate success in the marketing and merchandising field. Improvement is not so rapid as it might be if the field were not so largely preëmpted by those without economic training, afflicted as most new professions are with more or less contempt for academic professional training. Then, too, progress is dependent largely upon managerial appreciation and on the rapidity with which evidence of efficiency or inefficiency can be made apparent with each new method tried out. Perhaps advertising has suffered because of a lack of an adequate body of theory to guide in the application in one field of methods apparently successful in another; but there is also a probability that the absence of any well accepted theories which administrators could apply has allowed a much more rapid, even if costly, development of advertising efficiency.

In fact, a good case can be made for the assertion that much of the seeming advertising waste is not really an economic waste but the economic cost of the phenomenal development of a new and highly efficient factor.

In part, this rapid development of advertising efficiency is due to the ease with which competitors can keep track of improvements in advertising methods so that the internal economies and efficiencies of to-day become, in advertising, the external economies of to-morrow. This is more true in marketing, however, than in any except the most efficient merchandising, for in the case of merchants of only normal efficiency, in spite of marked increases in efficiency over even a decade ago, even the consumer effects are far from efficient enough to exempt advertising from serious criticism on grounds of inefficiency. This remains true in spite of the fact that such merchants have the advertising of highly efficient merchants open to their inspection, and find their sales cut into because their own advertising is still so inferior. In part, this is due to the hostility of older men to advertising, and relegating it to poorly paid subordinates or doing it in a hurry themselves; but in larger measure it is due to the fact that many men in control of business are incapable of appreciating good advertising when they see it, and fail to turn their advertising over to a capable advertising manager or a capable advertising agency.

Primary credit is also due to the marketing system, and especially to those actively engaged in advertising, for almost all that is being done to eliminate or restrict illegitimate advertising. Every man who conducts a legitimate business has a right, so far as he can enforce it, to restrict and abolish illegitimate competition. Especially promising for the future of advertising is the recognition of this fact by the better business men of every community, accompanied by the recognition of the fact that every man who competes for a dollar of the social income through sales efforts is a competitor of every other man in the sales field. The department store has its competitors, not only the specialty store and the chain store, but also the real estate man, the insurance man, the oil stock salesman, and all other selling forces whether they serve legitimate marketing needs or merely prey upon the social income.

The organization of the Associated Advertising Clubs and Better Business Bureaus are signal illustrations of how advertising is improving under stress of marketing forces themselves. These organizations bring the pressure of organized legitimate business to bear upon all forms of illegitimate business but especially upon the illegitimate uses of advertising, because the advertising is open to more explicit inspection than any other phase of the marketing process. It is also noteworthy that the reputable advocates of advertising are unwilling to accept as a reasonable standard of honesty in advertising the average standard of

salesmanship. Salesmanship is so often the unknown methods of a subordinate, so often the thirst for triumph in the battle of wits, so often unscrupulous effort to pad the sales sheet; but advertising can make no such excuses, and seeks to make none. It is the published statement of an authority and is open to inspection by central authority and by competitors. It is deliberate, responsible. There may be some excuse for the spontaneous or uncontrollable atrocities of the trenches, but there is none for the planned atrocities of the staff.

The higher class advertising agency is another force which is compelling higher standards of advertising. Its influence is felt primarily in two ways, first, in educating business men as to the function of advertising in their business through bringing to bear upon each business the methods proved effective in both similar and widely dissimilar fields; and second, in contributing to the marketing process one of its most constructive and money-saving methods,—the marketing analysis which precedes the advertising campaign. So much progress has also been made by many advertising mediums in closing their columns to questionable advertising that their attempt to clear their columns of such advertising as a means of making them more attractive to legitimate advertising should also be given place with the other marketing reactions which are tending to clear advertising of many of its objectionable features.

To summarize the general situation, there is still considerable advertising that is clearly of the illegitimate type, a menace to the consumer, to the buyer of advertising, and to the legitimate producers of advertising; but the amount of this seems to be being reduced at a reasonably satisfactory rate. There is, however, a considerable amount of advertising which is much less effective than its complete economic justification requires, and not all of it is being improved at a satisfactory rate. In the advertising of manufacturers the need of developing the coöperation of their own sales forces, the coöperation of their distributing channels, and the coöperation of the ultimate buyer has forced the complexity of the true function of advertising upon those who control advertising policies, and in this field advertising has, in the main, reached a standard of efficiency which will compare more than favorably with the efficiency of other marketing forces. In merchandising, however, the advertiser has much to learn about the proper functions of advertising and the proper relation of space and other costs before his advertising will stand up under any critical scrutiny as producing as effectively as it ought for the money expended upon it.

Chapter XXIX

FINANCING THE MARKETING PROCESSES

BANK ACCEPTANCES.[1]

The term "acceptance" designates a draft or bill of exchange drawn to order, payable at a definite time after date or sight, the obligation to pay which has been accepted by an acknowledgment thereon written or stamped and signed (generally across the face of the instrument) by the party on whom the bill is drawn. This acknowledgment, which generally consists merely of the word "accepted" followed by signature and date, constitutes the agreement of the acceptor to pay the draft at maturity according to its tenor, without qualifying conditions. To be negotiable, such an accepted bill must be for a definite amount and must be payable in money.

An ordinary "trade acceptance" is created when, for example, the seller of merchandise draws a draft for the purchase price on the purchaser and the purchaser accepts the draft. The purchaser, however, may enter into an agreement with his bank whereby the bill is drawn on the bank and is accepted by it for his account instead of by the purchaser himself. Such a draft, when accepted, becomes a "bank acceptance." The Federal Reserve Board has defined a bank acceptance as "a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits."

Bank acceptances are used largely in financing international trade and domestic transactions involving major staple commodities. They hold a preëminent place among credit instruments and offer a means of investment in which the credit risk has practically been eliminated. This is due to the fact that direct responsibility for their payment rests on banking institutions whose credit is generally and widely known.

At a meeting of the leading banks and bankers of New York, Boston, Philadelphia, and other cities, held at the National Bank of Commerce in New York, August 14, 1918, it was resolved that:

"The accepting bank shall require from its clients that it be placed in funds to meet acceptances on day of maturity either by:

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[1] Commercial Banking Practice under the Federal Reserve Act, National Bank of Commerce of New York.

"(*a*) The deposit of clearing house funds one day prior to maturity, or

"(*b*) The deposit of cash or check on the Federal Reserve Bank of New York on the day of maturity, or

"(*c*) Debit to the account of the bank's client on day of maturity against funds cleared on, or prior to, such date."

BANK ACCEPTANCES BASED ON DOMESTIC SHIPMENTS OF GOODS

CHARACTER

"Any member bank may accept drafts drawn upon it . . . which grow out of transactions involving the domestic shipment of goods provided shipping documents coneveying or securing title are attached at the time of acceptance. . . . "[2]

Opinions and Rulings.

Shipping documents.— Under the provision of section 13, which authorizes any member bank to accept drafts based upon domestic shipments of goods, provided shipping documents conveying or securing title are attached, such documents must be made out or indorsed so as to convey or secure title to the accepting bank.[3]

A provision of section 13 which authorizes any member bank to accept drafts based upon the domestic shipment of goods, provided shipping documents are "attached," should not be construed so as to require that the documents be physically fastened to the draft. It is sufficient if the accepting bank has possession of the documents at the time of acceptance. If placed in possession of the bank's agent and under control of the bank, such documents could clearly be considered as in its possession.[4]

Transaction need not involve sale of goods.— A member bank may properly accept a draft drawn against the shipment of goods from a corporation to its agent or branch even though no sale of the goods is involved in the transaction.

In any case, where a draft is drawn against a shipment of goods in a transaction which does not involve the sale of those goods, the maturity of the draft should approximate the duration of their transit. In such a case the law contemplates that the acceptance of the draft should be for the purpose of financing the shipment, and that it should not be the means of furnishing a credit for any other purpose.[5]

Acceptance must arise out of actual transaction.—A draft drawn by the purchaser of the goods against a national bank is not

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[2] Federal Reserve Act, Section 13.

[3] Opinion of Counsel, page 198, October, 1917, Bulletin.

[4] Opinion of Counsel, page 765, October, 1917, Bulletin.

[5] Informal Ruling, page 690, September, 1917, Bulletin.

eligible for acceptance by that bank merely because it is secured by a bill of lading covering the goods bought.

The law contemplates some actual connection between the acceptance of the draft and the transaction involving the sale and shipment of the goods—that is, it was evidently intended that the draft should be drawn to finance that transaction. If a seller ships goods and mails the bill of lading to the purchaser and on arrival of the bill of lading the purchaser draws on his own bank, attaching the bill of lading as security, and offers it for acceptance, the transaction is merely a straight loan to the drawer secured by a bill of lading. As such it would not come within the spirit of the provisions of section 13.[6]

Retention or release of documents against acceptance.—Question is whether it is necessary, where a domestic acceptance is based upon a bill of lading, that the bank retain the bill of lading or other collateral during the life of the acceptance, or may the bank release the bill of lading after acceptance. Also, whether the same rule will apply in case the acceptance is secured by a warehouse receipt.

In as much as the statute merely requires the accepting bank to be secured in domestic transactions by shipping documents or warehouse receipts at the time of acceptance, the bank would no doubt have the right, if it became necessary to do so, to release either the shipping document or the warehouse receipt, provided the draft or drafts accepted for one person did not exceed 10 per cent of the capital and surplus of the accepting bank. This is a question, however, which should be determined by the bank itself.

Release of warehouse receipts.— It is no doubt necessary in some instances for the bank to release the shipping documents under some agreement with its customer in order that the transaction may be consummated. There would seem to be much less reason for releasing the warehouse receipts, and the banks might very properly adopt the rule not to release warehouse receipts other than in exceptional cases. In any event, this is purely a matter of agreement as between the bank and its customers. The Federal reserve bank in rediscounting such acceptances may reasonably take into consideration the question whether or not they are secured or unsecured at the time they are offered for rediscount.[7]

MATURITY

Statutory Provisions.

Maturity not to exceed six months.—Any member bank may accept such drafts drawn upon it, "having not more than six months' sight to run, exclusive of days of grace."[8]

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[6] Opinion of Counsel, page 380, May, 1917, Bulletin.

[7] Informal Ruling, page 634, July, 1918, Bulletin.

[8] Federal Reserve Act, Section 13.

Opinions and Rulings.

Duration of letters of credit.—While a letter of credit or credit agreement may lawfully be made by a national bank which will extend by its terms for a period exceeding six months, the agreement must not be of such a character as will impose upon the holders of the drafts accepted thereunder any obligation to renew such drafts so that the period of acceptance shall exceed six months in duration as to any specified draft.[9]

AGGREGATE AMOUNT BANK MAY ACCEPT

Statutory Provisions.

"No bank shall accept such bills to an amount equal at any time in the aggregate to more than one-half of its paid-up and unimpaired capital stock and surplus:

"Provided, however, that the Federal Reserve Board, under such general regulations as it may prescribe, which shall apply to all banks alike regardless of the amount of capital stock and surplus, may authorize any member bank to accept such bills to an amount not exceeding at any time in the aggregate one hundred per centum of its paid-up and unimpaired capital stock and surplus:

"Provided, further, that the aggregate of acceptances growing out of domestic transactions shall in no event exceed fifty per centum of such capital stock and surplus."[10]

Opinions and Rulings.

When a member bank purchases its own acceptance before maturity such acceptance need not be included in the aggregate of acceptances authorized by section 13.[11]

The limitations imposed by section 5202, Revised Statutes, on the liabilities incurred by any national bank do not apply to acceptances of such banks.[12]

BANK ACCEPTANCES SECURED BY WAREHOUSE RECEIPTS

CHARACTER

Statutory Provisions.

"Any member bank may accept drafts or bills of exchange drawn upon it . . . which are secured at the time of acceptance by a ware-

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[9] Informal Ruling, page 269, September, 1915, Bulletin.

[10] Federal Reserve Act, Section 13.

[11] Opinion of Counsel, page 397, August, 1916, Bulletin. See also "Purchase by National Bank of Its Own Acceptances," pp. 45-46, below.

[12] Opinion of Counsel, page 680, December, 1916, Bulletin.

house receipt or other such document conveying or securing title covering readily marketable staples."[13]

Opinions and Rulings.

Eligible security.—Warehouse receipts offered as security for bills accepted by member banks must be issued by warehouses which are independent of the borrower.

Where a corporation is formed as a subterfuge for the purpose of evading the spirit of the board's ruling, this fact should be taken into consideration by a member bank accepting the bill and by the Federal reserve bank to which it is offered for discount.

If the borrower exercises such control over the corporation issuing the warehouse receipt as to give him control over the goods in storage, the purpose of requiring a receipt of the independent warehouseman would be defeated. The corporation issuing such receipt must be organized in good faith as an independent corporation and its affairs must be administered by duly authorized officers and agents independent of the borrower.[14]

The requirements of the board appear to have been met where a separate corporation has been created and the warehouse receipts are issued by that corporation and not by the borrower. However, where both corporations have practically the same officers, the manager of the warehouse appointed to execute the receipts should not be an employee of the borrowing company, as the board requires that the receipts should be issued by a company independent of the borrower, and this requirement should be met in substance as well as in form.[15]

A borrowing corporation takes receipts for goods and materials stored in a warehouse controlled by a separate corporation engaged solely in the warehouse business, the entire stock of which is owned by the prospective borrower.

If a representative of the accepting bank is given control of the warehouse under a proper resolution of the directors of the warehouse corporation, the fact that the stock of the corporation is owned by the borrower should not prevent the acceptance of drafts secured by the warehouse receipts.

It should be agreed, however, that if by any future action of the warehouse corporation an attempt is made to exercise control over the warehouse, the representative of the acceptor should have the right

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[13] Federal Reserve Act, Section 13.

[14] Informal Ruling, page 31, January, 1918, Bulletin. See also Informal Ruling, page 30, January, 1917, Bulletin.

[15] Informal Ruling, page 862, September, 1918, Bulletin.

to move the goods and to place them in storage elsewhere at the expense of the warehouse corporation.[16]

A canned goods concern proposes to place part of its readily marketable goods and materials in storage with a lessee of part of its premises. The lessee is then to issue warehouse receipts to the owner of the goods, which receipts are to be used as security for drafts drawn against and accepted by a member bank.

If the premises in question are actually turned over to the lessee under a bona fide lease, the lessee being independent of the borrower and having entire custody and control of the goods, there would seem to be no objection to a member bank accepting drafts against the security of warehouse receipts issued by such lessee. It should, however, be expressly understood and agreed that the borrower shall not have access to the premises except with the permission of the lessee and that he shall exercise no control of any sort over the goods against which warehouse receipts are issued. The warehouse receipts must, of course, be in form properly to convey and secure title to the bank.[17]

It being understood that wool is stored in buildings under control of custodian entirely independent of borrower, custodian's certificate or receipt, if issued in proper form to convey or secure title, may be treated as a warehouse receipt within the meaning of section 13 of the Federal Reserve Act and acceptance of member bank under such conditions would be eligible for rediscount.[18]

It is the understanding of this office that the sugar referred to is placed in bond under transit entry and a warehouse receipt issued by the collector in negotiable form, but the sugar cannot be withdrawn for domestic sale or consumption without special permission of the Treasury Department. The board is of the opinion that member banks may legally accept drafts drawn against security of such warehouse receipt properly assigned.[19]

Ineligible security.—Drafts or bills of exchange drawn in domestic transactions against a national bank cannot, under authority of section 13, be accepted when secured by a chattel mortgage on cattle but only when accompanied by shipping documents or when secured by a warehouse receipt or other similar document conveying or securing title to readily marketable staples.

While cattle may be treated as readily marketable staples, a chattel mortgage is not considered a document similar to a warehouse receipt,

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[16] Informal Ruling, page 862, September, 1918, Bulletin.
[17] Informal Ruling, page 634, July, 1918, Bulletin.
[18] Informal Ruling, page 636, July, 1918, Bulletin.
[19] Informal Ruling, page 520, June, 1918, Bulletin.

since the borrower retains the possession of the goods and conveys to the bank only the legal title.[20]

A national bank is not authorized to accept a draft secured by collateral notes which are in turn secured by chattel mortgages on cattle.[21]

Member banks are not authorized to accept drafts of a cattle-loan company secured by notes of the owner of the cattle, although such notes may be secured by a chattel mortgage executed by the owner of the cattle to the cattle-loan company and the notes and chattel mortgage accompany the draft at the time of acceptance.[22]

A bill of sale is not a receipt similar to a warehouse or terminal receipt; it is merely in substance a chattel mortgage to goods in the hands of the drawer and not a receipt for goods sold in the hands of some third party "independent of the borrower."[23]

The acceptance of a draft by a member bank against an acceptance agreement which purports to assign to the bank certain collateral security, but which does not specifically mention any security as assigned, is an ordinary accommodation acceptance, and is not authorized by law.[24]

Substitution of warehouse receipts.—It is held that there is no objection to permitting mills to substitute other warehouse receipts for cotton receipts during the life of an acceptance.[25]

REDISCOUNT OF DRAFTS AND TRADE ACCEPTANCES

DEFINITION OF DRAFT

Regulations of Federal Reserve Board.

A draft or bill of exchange, within the meaning of this regulation, is defined as an unconditional order in writing, addressed by one person to another, other than a banker . . . signed by the person giving it, requiring the person to whom it is addressed to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person.[26]

Opinions and Rulings.

A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board.[27]

The drawer and indorser of a bill of exchange made payable on a

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[20] Informal Ruling, page 309, April, 1918, Bulletin.

[21] Informal Ruling, page 690, September, 1917, Bulletin.

[22] Opinion of Counsel, page 871, September, 1918, Bulletin.

[23] Opinion of Counsel, page 684, December, 1916, Bulletin.

[24] Opinion of Counsel, page 311, April, 1918, Bulletin.

[25] Informal Ruling, page 30, January, 1917, Bulletin.

[26] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A. V.

[27] Opinion of Counsel, page 870, September, 1918, Bulletin.

date specified in the bill are not discharged by a failure to present for acceptance, unless the bill expressly provides that it must be presented for that purpose, or unless it is payable elsewhere than at the residence or place of business of the drawee.[28]

The acceptor of a bill of exchange is the principal debtor. The law requires that notice of demand and protest be given to parties secondarily liable in case of dishonor. This right to receive notice is a personal one which may be waived by the parties entitled thereto, that is, the drawer and indorser; but such waiver has no effect on the acceptor or principal debtor.[29]

Negotiability.—The negotiability of a bill of exchange is not affected by provisions which waive demand, notice, and protest; which waive homestead exemption rights; and which provide for the costs of collection and attorney's fees.[30]

A provision in a draft or bill of exchange that it is payable "with interest at the rate of — per cent per annum after maturity, if payment is delayed," does not affect the negotiability of the instrument.[31]

A draft made "payable on arrival of car" is non-negotiable, not being payable at a determinable future time.[32]

"A bill made payable with 'collection charges' is not a negotiable instrument, though the Negotiable Instruments Law provides that an instrument payable 'with exchange' does not lose its negotiability."

Counsel suggests that the amount of exchange is usually ascertainable in advance while collection charges are not so ascertainable.[33]

While a bill containing a provision for payment of the costs of collection and attorney's fees, if it is dishonored at maturity, is a valid negotiable instrument, a bill drawn for a fixed sum "with collection charges" is not a negotiable instrument unless it is so drawn as to show that no collection charges are to be included unless the bill is dishonored at maturity.[34]

A bill made payable to the order of the drawee is not negotiable until the drawee as payee has indorsed it. When it has been accepted and indorsed by the drawee it is a valid negotiable instrument in the hands of a third party, and the drawer is not released, since the terms of his order have been specifically complied with.[35]

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[28] Opinion of Counsel, page 608, November, 1916, Bulletin.
[29] Opinion of Counsel, page 277, September, 1915, Bulletin.
[30] Opinion of Counsel, page 226, May, 1916, Bulletin.
[31] Opinion of Counsel, page 200, March, 1917, Bulletin.
[32] Opinion of Counsel, page 219, August, 1915, Bulletin.
[33] Opinion of Counsel, page 880, November, 1918, Bulletin.
[34] Opinion of Counsel, page 745, August, 1918, Bulletin.
[35] Opinion of Counsel, page 110, February, 1918, Bulletin.

DEFINITION OF TRADE ACCEPTANCE

Regulations of Federal Reserve Board.

A trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold, and accepted by such purchaser.[36]

Opinions and Rulings.

A draft to be eligible as a trade acceptance must be accepted by the drawee and not by anyone else.[37]

An acceptance to pay at a particular place different from the residence of the acceptor is a general acceptance, unless it expressly states that the bill is to be paid there and not elsewhere, and does not render the bill non-negotiable.[38]

A trade acceptance which consists of an order to pay a certain amount, which is the amount of the debt minus a discount for prompt payment at maturity, or, if not paid at maturity, to pay a greater amount, which is the amount of the debt without any discount, is an order to pay a sum certain and is negotiable.[39]

A trade acceptance providing for a fixed discount, if paid at a certain time before maturity, should not be approved for general use by the Federal Reserve Board.[40]

On the basis of the facts submitted in this case, it is held that a 90-day sight draft drawn by a firm in Calcutta on a company in Boston and accepted by that firm, covering a transaction involving the transportation of merchandise from Calcutta to Honolulu, is a trade acceptance rather than a banker's acceptance.[41]

ELIGIBLE DRAFTS AND TRADE ACCEPTANCES

Statutory Provisions.

Eligible paper is defined in the laws as follows:

"Notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products,

[36] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A. V.
[37] Informal Ruling, page 112, March, 1916, Bulletin.
[38] Opinion of Counsel, page 289, April, 1917, Bulletin.
[39] Opinion of Counsel, page 200, March, 1918, Bulletin.
[40] Opinion of Counsel, page 871, September, 1918, Bulletin.
[41] Informal Ruling, page 404, December, 1915, Bulletin.

or other goods, wares, or merchandise from being eligible for such discount; [or] . . . notes, drafts, or bills . . . issued or drawn for the purpose of carrying or trading in . . .bonds and notes of the Government of the United States."[42]

"The Federal reserve banks shall be authorized, subject to the maturity limitations of the Federal Reserve Act and to regulations of the Federal Reserve Board . . . to rediscount eligible paper secured by . . . bonds [of the War Finance Corporation] and indorsed by a member bank."[43]

Regulations of Federal Reserve Board.

The Federal Reserve Board, exercising its statutory right to define the character of a note, draft, or bill of exchange eligible for rediscount at a Federal reserve bank, has determined that:

It must be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used in producing, purchasing, carrying, or marketing goods[44] in one or more of the steps of the process of production, manufacture, or distribution.

It may be secured by the pledge of goods or collateral, provided it is otherwise eligible.[45]

Opinions and Rulings.

A bill of exchange drawn by the seller of goods and accepted by the purchaser of those goods is a trade acceptance, regardless of whether or not the purchaser intends to resell the goods or to use them for his own purpose. Therefore, a retail dealer may finance the sale of his goods to a retail customer by means of the trade acceptance.[46]

An acceptance drawn by a gas producing company on a gas distributing company and accepted by the latter in payment for gas sold and delivered is a trade acceptance, eligible for rediscount by a Federal reserve bank.[47]

Regarding the use of trade acceptances in connection with the sale of coffee mills, etc., on an installment plan, if the purchaser is willing to accept a draft in advance of the delivery of the goods there would seem to be no reason why such an acceptance should not be treated on the same basis as a bill drawn and accepted after delivery of such goods.[48]

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[42] Federal Reserve Act, Section 13.

[43] War Finance Corporation Act, Section 13.

[44] When used in this regulation the word "goods" shall be construed to include goods, wares, merchandise, or agricultural products, including live stock.

[45] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A. II.

[46] Informal Ruling, page 30, January, 1918, Bulletin.

[47] Informal Ruling, page 435, May, 1918, Bulletin.

[48] Informal Ruling, page 437, May, 1918, Bulletin.

Drafts drawn for the purchase price of electrical goods, which include the cost of installation, may be treated as trade acceptances when such drafts are accepted by the purchaser.[49]

A draft drawn by a lumber corporation upon a sales corporation which it and a number of other lumber concerns have organized will, when accepted, become a trade acceptance, even though the selling corporation is a stockholder of the sales corporation, provided the latter is organized in good faith and not merely to act as an agent for the purpose of evading the law.[50]

A bill drawn by a retail dealer on his retail customer to finance the sale of goods to that customer is a trade acceptance within the meaning of the board's regulations, even though it is drawn after the purchaser has failed to remit promptly on an open account.

The board is of the opinion, however, that the attempt to use a trade acceptance in this manner as a means of liquidating an otherwise slow account would involve considerable danger to the primary purposes of the trade acceptance movement and would subordinate the trade acceptance to the open account by suggesting it as a last resort for bad debts.

While, therefore, trade acceptances of this character should probably be considered eligible as a matter of law, nevertheless member banks and Federal reserve banks should be encouraged to discriminate against them so far as possible.[51]

The Federal Reserve Board may properly rule that a draft or bill of exchange drawn by the seller on the purchaser of advertising space and accepted by such purchaser is a trade acceptance.[52]

A draft or bill of exchange drawn by a publisher or other advertising agency on the purchaser of advertising space, and accepted by such purchaser, shall be considered a trade acceptance, provided the advertisement on which the draft or bill is based is for the purpose of promoting or facilitating the production, manufacture, distribution, or sale of goods, whether merchandise or agricultural products, including live-stock, and provided, further, that such advertisement is not illegal and is not for the purpose of promoting or facilitating any transaction which is prohibited by the laws of the state in which it is to be consummated.[53]

Acceptances based on foreign transactions.—The fact that importation or exportation is involved does not exclude the character of a trade acceptance, and trade acceptances originating through importation

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[49] Informal Ruling, page 310, April, 1918, Bulletin.
[50] Opinion of Counsel, page 33, January, 1918, Bulletin.
[51] Informal Ruling, page 30, January, 1918, Bulletin.
[52] Opinion of Counsel, page 116, February, 1917, Bulletin.
[53] Informal Ruling, page 114, February, 1917, Bulletin.

from foreign countries, which are indorsed by banks or bankers, may be taken within the range of the discount rates for bankers' acceptances.[54]

Bills drawn for the purpose of providing funds for the purchase and export of cross-ties and lumber to Cuba are eligible for rediscount if properly indorsed and otherwise conforming to the regulations of the Federal Reserve Board.[55]

INELIGIBLE DRAFTS AND TRADE ACCEPTANCES

Statutory Provisions.

"Such definition [of paper eligible for rediscount] shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the United States."[56]

Regulations of Federal Reserve Board.

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for permanent or fixed investments of any kind, such as land, buildings, or machinery.

The paper must not be a note, draft, or bill of exchange, the proceeds of which have been used or are to be used for investments of a purely speculative character.[57]

Opinions and Rulings.

A bill, in order to be a trade acceptance, must arise out of the purchase of goods, and unless that purchase is either consummated or actually contracted for at the time the bill is drawn, it is doubtful whether it can properly be said that the obligation arises out of the purchase of goods.[58]

The board's conception of the trade acceptance is that it is an instrument which carries upon its face the evidence of the commercial character of the transaction which gave it birth. The finance paper of the —— Corporation issued against drafts drawn by it on dealers and placed in trust to secure such paper issued by it in the shape of notes or certificates gives no indication whatever as to the nature of the security, which may or may not be eligible paper.

It appears to the board that the —— Corporation by issuing notes of this character is really raising money for capital requirements for

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[54] Informal Ruling, page 168, April, 1916, Bulletin.
[55] Informal Ruling, page 268, September, 1915, Bulletin.
[56] Federal Reserve Act, Section 13.
[57] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, V.
[58] Informal Ruling, page 378, May, 1917, Bulletin.

similar transactions in the future, and that the whole plan is in essence a finance operation rather than a commercial transaction.[59]

A draft drawn by a casualty company against a policyholder for premiums could hardly be said to be a draft by the seller on the purchaser of goods sold and would not, in the opinion of the board, come within the board's present definition of a trade acceptance.[60]

EVIDENCE OF ELIGIBILITY

Regulations of Federal Reserve Board.

A Federal reserve bank shall take such steps as it deems necessary to satisfy itself as to the eligibility of the draft or bill offered for rediscount, unless it presents prima facie evidence thereof or bears a stamp or certificate affixed by the acceptor or drawer showing that it is a trade acceptance.[61]

Opinions and Rulings.

The fact that a land company has stamped a bill a trade acceptance and has signed such statement as "acceptor" does not in itself make it a trade acceptance. The bill was accepted by the bank and not by the land company and, therefore, is not eligible for purchase as a trade acceptance under the regulation which requires a bill to be accepted by the drawee.[62]

MATURITY

Statutory Provisions.

"Notes, drafts, and bills admitted to discount under terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: Provided, that notes, drafts, and bills drawn or issued for agricultural purposes or based on live-stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board."[63]

Regulations of Federal Reserve Board.

The draft or trade acceptance must have a "maturity at the time of discount of not more than ninety days, exclusive of days of grace; but if drawn or issued for agricultural purposes or based on live stock,

[59] Informal Ruling, page 109, February, 1918, Bulletin.
[60] Informal Ruling, page 309, April, 1918, Bulletin.
[61] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.
[62] Informal Ruling, page 112, March, 1916, Bulletin.
[63] Federal Reserve Act, Section 13.

it may have a maturity at the time of discount of not more than six months, exclusive of days of grace."[64]

Opinions and Rulings.

A draft made "payable on arrival of car" is non-negotiable, not being payable at a determinable future time, and, therefore, is ineligible for rediscount by a Federal reserve bank.[65]

Drafts payable "ninety days from date or before on five days after demand (i. e., on five days' notice) by the holder hereof" are negotiable and eligible for discount with a Federal reserve bank.[66]

A demand note or bill is not eligible under the provisions of the act, since it is not in terms payable within the prescribed ninety days, but, at the option of the holder, may not be presented for payment until after that time.

If the bill were altered so as to read "on or before —— days from date, pay to the order of ourselves," etc., it would come within the terms of the law and would be eligible for rediscount.[67]

"A note or draft containing a provision for an extension of time should not be approved for general use by the Federal Reserve Board."[68]

AMOUNT OF PAPER OF ONE INTEREST REDISCOUNTABLE FOR ONE MEMBER BANK

Statutory Provisions.

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values."[69]

Regulations of Federal Reserve Board.

"The aggregate of notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one member bank, shall at no time exceed ten per cent of the unimpaired capital and surplus of such

[64] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, I.

[65] Opinion of Counsel, page 219, August, 1915, Bulletin.

[66] Opinion of Counsel, page 291, April, 1917, Bulletin.

[67] Informal Ruling, page 378, May, 1917, Bulletin.

[68] Opinion of Counsel, page 870, September, 1918, Bulletin.

[69] Federal Reserve Act, Section 13.

bank; but this restriction shall not apply to the discount of bills of exchange shown in good faith against actually existing values."[70]

Opinions and Rulings.

What constitutes "actually existing values."—A bill of exchange discounted before acceptance may be said to be drawn against actually existing values, within the meaning of section 13 of the Federal Reserve Act, when and only when it is accompanied by shipping documents, warehouse receipts, or other papers securing title to the goods sold.

An accepted bill of exchange, unaccompanied by shipping documents or other such papers, may be considered as drawn against actually existing values if drawn against the drawee at the time of, or within a reasonable time after, the shipment or delivery of the goods sold. In this latter case there must be reasonable grounds to believe that the goods are in existence in the hands of the drawee either in their original form or in the shape of the proceeds of their sale.[71]

A bill drawn for a balance due on open account of long standing, which is accepted by the debtor, might constitute a trade acceptance, but in order for it to be excepted from the limitations imposed by section 13 of the Federal Reserve Act as a bill of exchange drawn against actually existing value, it must have been drawn contemporaneously with, or within such a reasonable time after, the shipment of the goods as to justify the assumption that the goods are in the hands of the drawee in their original form or in the form of proceeds of sale.

As evidence of this fact, Federal reserve banks might reasonably require such trade acceptances as are offered as "bills of exchange drawn against actually existing value" to show the date of invoice, so that it may be determined whether or not the account is one of long standing.[72]

A bill of exchange drawn payable "at sight" and accepted payable in three months is a qualified or conditional acceptance, and the maker and prior indorsers are released. The instrument in effect becomes the promissory note of the acceptor, and would not come within the exception to section 5200 [or section 13] as a "bill of exchange" drawn in good faith against actually existing value.[73]

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[70] Regulations of Federal Reserve Board, Regulations A, Series of 1917, A, I.

[71] Opinion of Counsel, page 195, March, 1917, Bulletin.

[72] Informal Ruling, page 287, April, 1917, Bulletin.

[73] Opinion of Counsel, page 463, September, 1916, Bulletin.

REDISCOUNT OF COMMODITY PAPER

DEFINITION

Regulations of Federal Reserve Board.

Commodity paper within the meaning of this regulation is defined as a note, draft, bill of exchange, or trade acceptance accompanied and secured by shipping documents or by a warehouse, terminal, or other similar receipt covering approved and readily marketable, non-perishable staples properly insured.[74]

Opinions and Rulings.

"Staples" include manufactured goods as well as raw materials, provided the goods are non-perishable and have a wide ready market. This is held to include cotton yarns and flour.[75]

"Commodity paper" includes not only paper originating with the producer, but also paper of merchants and others when the commodity is not carried for speculative or purely investment purposes.[76]

Potatoes, properly graded and packed and stored in a weatherproof and responsible warehouse, as evidenced by its receipt, would undoubtedly constitute a readily marketable, non-perishable staple.[77]

Drafts drawn in sales to United States excluded.— Drafts drawn in connection with sales to the United States Government of lumber or other materials do not conform to the requirements of commodity paper as defined by the Federal Reserve Board.[78]

ELIGIBLE COMMODITY PAPER

Statutory Provisions

Nothing in this act contained shall be construed to prohibit notes, drafts, and bills of exchange secured by staple agricultural products or other goods, wares, or merchandise from being eligible for such discount.[79]

Regulations of Federal Reserve Board.

To be eligible for rediscount at the special rates authorized to be established for commodity paper, such a note, draft, bill of exchange, or trade acceptance must also comply with the respective sections of this regulation applicable to it, must conform to the requirements of

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[74] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.

[75] Informal Ruling, page 523, October, 1916, Bulletin.

[76] Informal Ruling, page 307, October, 1915, Bulletin.

[77] Informal Ruling, page 614, August, 1917, Bulletin.

[78] Opinion of Counsel, page 32, January, 1918, Bulletin.

[79] Federal Reserve Act, Section 13.

the Federal reserve bank relating to shipping documents, receipts, insurance, etc., and must be a note, draft, bill of exchange, or trade acceptance on which the rate of interest or discount—including commission—charged the maker, does not exceed six per cent per annum.[80]

Opinions and Rulings.

Federal reserve banks cannot discount commodity paper directly for mercantile firms.[81]

Drafts drawn in connection with sales to the United States Government of lumber or other materials cannot be treated as bills of exchange drawn against actually existing value and are subject to the limitations of section 5200, Revised Statutes, when discounted by national banks. Such drafts do not conform to the requirements of commodity paper as defined by the Federal Reserve Board and should not be discounted at the rate prescribed for such paper.[82]

SUSPENSION OF SPECIAL RATE ON COMMODITY PAPER

Regulations of Federal Reserve Board.

As the special rate on commodity paper is intended to assist actual producers during crop-moving periods and is not designed to benefit speculators, the board reserves the right to suspend the special rates herein provided whenever it is apparent that the movement of crops, which this rate is intended to facilitate, has been practically completed.[83]

REDISCOUNT OF BANK ACCEPTANCES

DEFINITIONS

Regulations of Federal Reserve Board.

A banker's acceptance within the meaning of this regulation is defined as a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.[84]

Opinions and Rulings.

The question of determining the eligibility of an acceptor under the regulation is left to the discretion of Federal reserve banks themselves. It is, of course, understood that the board would not wish to see con-

[80] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.

[81] Informal Ruling, page 112, March, 1916, Bulletin.

[82] Opinion of Counsel, page 32, January, 1918, Bulletin.

[83] Regulations of Federal Reserve Board, Regulation A, Series of 1917, A, VII.

[84] Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.

cerns regarded as eligible acceptors which are not in the habit of carrying on some acceptance business regularly and are not generally of such character and standing as to qualify their acceptance as a "banker's acceptance."[85]

A bill of exchange, in order to be negotiable, must be an unconditional order to pay, on demand or at a fixed or determinable future time, a certain sum of money to order or to bearer. If payment is dependent upon the happening of a certain contingency, the bill is conditional and non-negotiable. If payment is confined to the proceeds of a particular fund and is not chargeable to the general credit of the drawer, the bill is conditional and non-negotiable.

A general acceptance of a conditional bill or a conditional acceptance of an unconditional bill makes the acceptance a conditional one and destroys its negotiability.[86]

ELIGIBLE BANK ACCEPTANCES

Statutory Provisions

"Any Federal reserve bank may discount acceptances of the kinds hereinafter described, which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, and which are indorsed by at least one member bank."[87]

Regulations of Federal Reserve Board.

Any Federal reserve bank may discount for any of its member banks bankers' acceptances which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace, which are indorsed by at least one member bank, and which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples. Any Federal reserve bank may also acquire drafts or bills of exchange drawn on member banks by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange.

To be eligible for rediscount the bill must have been drawn under a credit opened for the purpose of conducting, or settling accounts resulting from, a transaction or transactions involving:

1. The shipment of goods between the United States and any for-

[85] Informal Ruling, page 362, November, 1915, Bulletin.
[86] Opinion of Counsel, page 21, May, 1915, Bulletin.
[87] Federal Reserve Act, Section 13.

eign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries; or

2. The domestic shipment of goods, provided shipping documents are attached at the time of acceptance; or

3. It must be a bill which is secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples.

4. Any Federal reserve bank may also acquire drafts or bills drawn by a bank or banker in a foreign country or dependency or insular possession of the United States for the purpose of furnishing dollar exchange and accepted by a member bank. Such drafts or bills may be acquired prior to acceptance provided they have the indorsement of a member bank.[88]

Opinions and Rulings.

There is some doubt in the courts whether the mere reference to a particular consignment of goods makes the bill conditional, some courts stating that it is merely an indication of the fund out of which the drawee is to reimburse himself; other courts holding that it makes the bill conditional because limiting payment to the proceeds of the particular shipment referred to. There is no doubt, however, that a reference, in general terms, on the face of an accepted bill to the fact that it is based on the exportation or importation of goods would not make it conditional and non-negotiable, and it would not, therefore, be ineligible for discount under the provisions of section 13 of the Federal Reserve Act.[89]

Federal reserve banks may, under the provisions of section 13, discount acceptances based on the importation or exportation of goods, provided they have a maturity at time of discount of not more than three months, and provided, further, that they are indorsed by at least one member bank. It is immaterial whether this member bank is located in the district of the Federal reserve bank which is making the discount or in any other district, the term "member bank" being broad enough to include member banks wherever located.[90]

The discount committee of the Federal Reserve Board has reported that, in its opinion, "Federal reserve banks should insist that acceptances when due should be paid by checks on the local Federal reserve bank, in order that they may be charged to the account of the acceptor on the day of maturity, or else that acceptances should be paid by checks through the clearings. If an arrangement on these lines cannot be perfected, Federal reserve banks ought to be required to add one day to the actual number of days the acceptance has to run when bought,

[88] Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.
[89] Opinion of Counsel, page 21, May, 1915, Bulletin.
[90] Opinion of Counsel, page 98, June, 1915, Bulletin.

so as to make up for the loss of interest incurred in collecting in this manner."

This report has been agreed to by the board, and your bank is requested, in buying acceptances, to charge discount for one additional day, except in cases where satisfactory arrangements are made to make actual cash payment at the Federal reserve bank on the day of maturity.[91]

Acceptances of an acceptance corporation ought to be dealt with exactly as would be the acceptances of a prime private banker. These acceptance corporations are in the same relation to the Federal Reserve System as the private bankers. They cannot become members, but, in as much as they expect to give full information about their own financial standing and the nature of their acceptances, and as they exercise a most important function for the further development of our acceptance business and discount market, their operation ought to be encouraged in every respect.[92]

In purchasing or discounting bankers' acceptances or other bills which are secured by warehouse receipts, etc., the Federal reserve banks should make sure that the receipt is issued by a warehouse which is independent of the borrower.[93]

Gold coin is "goods" within the meaning of section 13 of the Federal Reserve Act.[94]

Gold bars may be properly considered as "goods."[95]

While a very decided differential may be inadvisable, there is no objection to a moderate differential, say ¼ of 1 per cent, to apply between member-bank acceptances and the acceptances of large non-member institutions well known throughout the country and whose acceptances necessarily have a broad market.[96]

INELIGIBLE BANK ACCEPTANCES

Opinions and Rulings.

The board, having reached the conclusion that national banks are not authorized to accept bills secured by chattel mortgages on cattle, deems it advisable that Federal reserve banks should consider as ineligible bills drawn against the security of such chattel mortgages, whether accepted by member or non-member banks.[97]

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[91] Informal Ruling, page 521, June, 1918, Bulletin.
[92] Informal Ruling, page 634, July, 1918, Bulletin.
[93] Informal Ruling, page 30, January, 1917, Bulletin.
[94] Informal Ruling, page 29, January, 1917, Bulletin.
[95] Informal Ruling, page 29, January, 1917, Bulletin.
[96] Informal Ruling, page 28, January, 1917, Bulletin.
[97] Informal Ruling, page 309, April, 1918, Bulletin.

Under the regulations of the Federal Reserve Board defining bankers' acceptances, any bill which is payable elsewhere than in the United States would not be eligible for purchase as a bankers' acceptance, under the provisions of Regulations A and B, Series of 1917, even though eligible in all other respects.

The acceptance, however, might properly be purchased as a bill of exchange payable in a foreign country.[98]

EVIDENCE OF ELIGIBILITY

Regulations of Federal Reserve Board.

A Federal reserve bank must be satisfied, either by reference to the acceptance itself or otherwise, that it is eligible for rediscount. Satisfactory evidence of eligibility may consist of a stamp or certificate affixed by the acceptor in form satisfactory to the Federal reserve bank.[99]

Opinions and Rulings.

The Federal reserve bank reserves the right to ask state member banks for evidence underlying the certification given to it, and the bank examiner may require evidence from the national bank. Member banks would, therefore, best protect themselves by stipulating for themselves the right at times to ask for substantiation of the assurances given by their customers.[1]

MATURITY

Statutory Provisions

"Any Federal reserve bank may discount acceptances . . . which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace.[2]

Regulations of Federal Reserve Board.

Federal reserve banks may discount for their member banks "bankers' acceptances which have a maturity at the time of discount of not more than three months' sight, exclusive of days of grace.[3]

Opinions and Rulings.

Acceptance business of Federal reserve banks is not restricted "to the original transactions only," if the transaction has not been liquidated. When the first acceptance matures, member banks may renew the acceptance, and there is no reason why a Federal reserve bank may not

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[98] Informal Ruling, page 520, June, 1918, Bulletin.

[99] Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.

[1] Informal Ruling, page 406, December, 1915, Bulletin.

[2] Federal Reserve Act, Section 13.

[3] Regulations of Federal Reserve Board, Regulation A, Series of 1917, B.

discount such renewed acceptance, although a Federal reserve bank must not engage in advance to make such discount of a renewal.[4]

INDORSEMENT

Statutory Provisions

Any Federal reserve bank may discount acceptances . . . which are indorsed by at least one member bank.[5]

Opinions and Rulings.

If the acceptance is indorsed in blank it can, of course, change ownership from one holder to another without being indorsed by each subsequent holder, and the title would pass.

The board expresses the hope that we may soon reach the point when Federal reserve banks can make a definite rule not to buy bankers' acceptances except such as bear three responsible signatures, being those of the acceptor, the drawer, and the indorser.[6]

RULINGS OF FEDERAL RESERVE BOARD.[7]

Eligibility of Paper of Coöperative Marketing Associations.

The Federal Reserve Board has received a number of inquiries, and has made a number of rulings, with reference to the eligibility for rediscount by Federal reserve banks of paper arising out of the operations of agricultural coöperative marketing associations; and for the convenience of the member banks and others interested in this subject, there is published below a summary of those rulings together with a review of the general principles relating to the eligibility of such paper.

Definition of eligible commercial and agricultural paper.—The regulations of the Federal Reserve Board define eligible commercial and agricultural paper as notes, drafts, or bills of exchange which have been issued or drawn or the proceeds of which have been used or are to be used in the first instance in producing, purchasing, carrying, or marketing goods (including goods, wares, merchandise, agricultural products, and live stock) in one or more of the steps of the process of production, manufacture, or distribution. If a note, draft, or bill of exchange has been issued or drawn, or the proceeds have been or are to be used, for an agricultural purpose, that note, draft, or bill of exchange may be eligible for rediscount if it has a maturity at the time of rediscount of not more than six months exclusive of days of

[4] Informal Ruling, page 126, July, 1915, Bulletin.
[5] Federal Reserve Act, Section 13.
[6] Informal Ruling, page 744, August, 1918, Bulletin.
[7] *Acceptance Bulletin*, October, 1922.

grace. On the other hand, if a note, draft, or bill of exchange has been issued or drawn or the proceeds have been or are to be used for a commercial purpose, it will not be eligible for rediscount if it has a maturity at the time of rediscount in excess of 90 days exclusive of days of grace. The board's regulations further provide that no note, draft, or bill of exchange is eligible for rediscount if the proceeds have been or are to be used for permanent or fixed investments of any kind, for any other capital purpose, for investments of a purely speculative character, or for the purpose of lending to some other borrower.

Classes of associations under consideration.—Each of the associations involved in the rulings heretofore made by the board, of which this is merely a summary, was organized without capital and its members who agreed to sell and deliver their entire crops to the association, consisted exclusively of the producers of the particular crop which the association was organized to market. The agreements provided in substance that title should pass to the association at the time of delivery, that the association should have absolute control over the commodities delivered and over the resale thereof, and that the association should have power to borrow money upon such commodities and to pledge the commodities for money borrowed. The price at which the commodities were sold by the growers to the association was not fixed at the time of that sale, but the commodities were pooled according to grades, and after all of a particular pool had been sold the proceeds were distributed pro rata among the producers who had contributed to that pool. The conclusions stated in the rulings included in this summary, therefore, are not necessarily applicable to the paper of associations which operate on any plan substantially different from that just described.

Growers' drafts accepted by associations eligible as agricultural paper.—Where, at the time the growers deliver their crops to such an association, the association accepts drafts drawn upon it by the growers, such drafts are eligible for rediscount by Federal reserve banks as agricultural paper with maturities up to six months when discounted by the growers at their local banks with their own indorsements, provided the proceeds are used by the growers for agricultural purposes.

Growers' draft on association not trade acceptance.—A draft drawn by a grower on an association to which he has delivered his crop, accepted by the association, and discounted by the grower at his bank, is not, however, a trade acceptance within the meaning of the board's regulations, which define a trade acceptance as "a draft or bill of exchange drawn by a seller on the purchaser of goods sold and accepted by such purchaser," because the delivery of a crop to a coöperative marketing association under an agreement such as that described in the second paragraph of this summary is not the kind of a sale which

should be made the basis of a trade acceptance. Trade Acceptances, however, constitute merely a special class of eligible paper which sometimes bears a preferential discount rate, and the mere fact that such drafts are not included in that special class of eligible paper does not prevent them from being eligible for rediscount as agricultural or commercial paper if the proceeds are used for an agricultural or commercial purpose. As indicated in the preceding paragraph, growers' drafts accepted by associations may be eligible as agricultural paper if they are discounted by the growers at their local banks and the growers use the proceeds for agricultural purposes.

Carrying crop pending orderly marketing an agricultural operation.—In as much as agricultural products should not be dumped upon the market as soon as harvested, but should be marketed gradually, the carrying of agricultural products for such periods as are reasonably necessary in order to assist the orderly marketing thereof is a proper step in the process of distribution, and a farmer's note which is drawn, or the proceeds of which are used, to finance the carrying of the farmer's products for such reasonable period is a note which has been issued or drawn for an agricultural purpose within the meaning of section 13 of the Federal Reserve Act and which may, therefore, be eligible for rediscount by Federal reserve banks.

Money borrowed by a grower to enable him to meet his obligations without selling his crop immediately enables him to "carry" the crop, and, therefore, when a grower delivers his crop to a coöperative marketing association which is actually engaged in orderly marketing, and when the grower is obliged to borrow money for ordinary general purposes, such as the payment of obligations previously incurred in growing or harvesting the same crop, a draft drawn by the grower on the association for a part of the market value of the crop may properly be considered to be drawn for an agricultural purpose.

There is a distinction, however, between carrying agricultural products for such periods as are reasonably necessary to effect orderly marketing and mere speculative withholding from the market, in the hope ultimately of obtaining a higher price. Such withholding is not an agricultural purpose within the meaning of Section 13, and if a marketing association should engage in such a speculative holding of a crop instead of marketing it in an orderly manner, drafts drawn to finance the growers of such a crop during the holding of it for speculation should not be considered to be drawn for an agricultural purpose. The exact dividing line between legitimate carrying and speculative withholding is, of course, very difficult to define. The question of whether a doubtful case falls on one side or the other of this line is a question of fact which it is not for the Federal Reserve Board to determine, but which should be determined rather by the local bank whose cus-

tomer desires the loan and by the Federal reserve bank if the paper representing the loan is offered for rediscount.

Notes of associations for funds to finance packing and marketing.—A note of a corporation or association engaged in performing services in connection with packing and marketing agricultural products not grown by the corporation or association itself, the proceeds of which note are used to pay the current expenses of such corporation or association, such as the payment of wages and the purchase of supplies in connection with its business of packing and marketing agricultural products, should not be classed as agricultural paper eligible for rediscount with a maturity up to six months, but should be classed as commercial paper which may be eligible with a maturity not in excess of ninety days. While the note of a farmer, the proceeds of which have been used to finance the packing or marketing of his own crop should be classed as agricultural paper, the same is not true of the note of a corporation or association engaged in performing services in packing and marketing agricultural products grown by others, because that is a commercial rather than an agricultural business, even though such corporation or association deals exclusively with growers.

Notes of associations for funds to pay for commodities purchased.—The notes of associations, the proceeds of which have been or are to be used to make payments to the growers for commodities delivered to the association, are eligible for rediscount by Federal reserve banks if they have maturities not in excess of 90 days and comply in other respects with all relevant provisions of law and the board's regulations, because the proceeds are used for the commercial purpose of buying the commodities from the growers.

Bankers acceptances drawn by associations.—Drafts drawn by such associations are eligible for acceptance by member banks when secured at the time of acceptance by warehouse receipts covering nonperishable agricultural commodities stored in independent warehouses, and after acceptance such drafts are eligible for rediscount by Federal reserve banks, provided they comply as to maturity and in all other respects with the provisions of the Federal Reserve Act and the board's regulations. The law requires that a warehouse receipt, in order to be the basis of an eligible bankers' acceptance, shall be a document "conveying or securing title covering readily marketable staples"; but in as much as by hypothesis associations of the kind under consideration in this summary take title to the agricultural products delivered to them and are given full control thereof with authority to borrow money upon them and to pledge them for money borrowed, it is clear that they can store such products in independent warehouses and obtain negotiable warehouse receipts conveying security title.

The board has indicated already the general principles to be applied

by Federal reserve banks in determining under what circumstances warehouses are to be considered independent of the borrowers in passing upon bankers' acceptances, and the application of those principles to specific cases involves questions of fact which are primarily for the determination of the Federal reserve banks.

Warehouse receipts covering agricultural products as security.—Numerous inquiries have been made as to the eligibility of paper created by such associations and secured by warehouse receipts for agricultural products stored in warehouses which, although they may be owned by the associations or by corporations organized and controlled by them, yet have independent management and organization. In as much as the eligibility of paper other than bankers' acceptances is not dependent upon the existence or character of collateral security, the question whether such paper of the association is technically eligible for rediscount is not dependent upon whether the warehouse issuing the receipt offered as collateral security is independent of the borrower. The character of a warehouse receipt or other security offered as collateral for paper other than bankers' acceptances is material only as bearing upon the acceptability of the paper as distinguished from its eligibility, and the question of the acceptability is for the determination of the Federal reserve banks rather than the Federal Reserve Board. The preceding paragraph indicates the type of warehouse receipt that is required as the basis of an eligible bankers' acceptance.

No obligation to rediscount paper even though eligible.—It should be understood, of course, that even though a bill or note may technically be eligible for rediscount, a Federal reserve bank is under no obligation to rediscount it, but may accept it or refuse it in the exercise of its discretionary power.

How One Coöperative Association Functions.[8]

The Texas Farm Bureau Cotton Association, for example, has a little over twenty thousand producing members and has six hundred thousand bales of cotton signed up. Each of these members must deliver to the association every bale of cotton produced by him for a period of five years. The headquarters of the association, including sales department, bookkeeping department, display rooms, and executive departments, are in Dallas, Texas. The concentration point and class room, however, is located at the Port of Houston, where the members consign their cotton and where it is classed in even running pools, with reference to grade, staple, and character. The class sheets and samples are sent each night to the headquarters in Dallas, together with the

[8] *Acceptance Bulletin*, March, 1923, p. 5.

warehouse receipts, representing the classed cotton. The samples are meant for use in the display room, where all of the cotton is sold. The class sheets enable the association to tell at any given time exactly the amount of each variety of cotton they have on hand. The warehouse receipts representing the actual bales of cotton are negotiable, and are used as collateral to secure loans.

Generally there are two classes of loans—demand loans, secured by unclassed cotton at from 50 to 75 per cent of the Houston spot value, and time loans or acceptance credit, secured by classed cotton at from 65 to 75 per cent of the Houston spot quotations and differences.

The Texas Cotton Association during the season of 1921-1922 borrowed a little in excess of $6,000,000, all of which was paid back on time. Approximately $8,000,000 was returned to the producers. For the season of 1922-1923 up to date (March 10) there has been borrowed $9,350,000, the peak coming on December 29, when we had outstanding $4,257,000. There has been distributed to producers in the same period approximately $8,750,000.

Every bale of cotton received by the association is put into a pool with other bales of cotton of similar grade, staple, and character, or other evidence of commercial difference in value, and sales are made from each pool separately on its individual merits. Last season there were seventy-seven different pools and sales were made and proceeds credited to each pool.

Of course, the producer needs some money immediately upon delivery of his cotton. By arrangement with the banks, this is done by having him make a draft on his association with bill of lading attached for 12 cents per pound. This advance will carry the average farmer up until, say, December 1, when a distribution is made. The distribution takes into account the weight of the bale of cotton, the grade, staple, and character, and is made on a basis of 65 to 75 per cent of the market value thereof.

In order to carry out the plan of orderly marketing over a period, say, of ten months rather than allow the cotton to be dumped on the market at the harvest season, a large portion of the commodity must be refinanced once, and some of it refinanced twice, the theory being that an approximate proportion of the year's receipts be sold in each of the ten months. When final distribution is made, the producer receives the average price of the season for each pool in which he has cotton, less the cost of doing business. Thus, the sales up to March 10 show that the association has sold 69.1 per cent of its receipts, leaving 30 per cent to be marketed during March, April, and May. The approximate average price received for this 70 per cent of our cotton is 27 cents per pound and with every sale made now the average is raised. The unorganized farmer dumped his cotton on the market in

September, October, and November when the spot market in the interior ranged from 20 cents to 23 cents per pound. So, in that one item alone, we have made for our members from $20 to $35 per bale.

Relations with city banks.—The large banks, not only of the South, but of New York, Boston, San Francisco, Chicago, St. Louis, and Los Angeles, are gradually becoming acquainted with the association's plan of orderly marketing and are making them large loans. The financing of a large association, such as the cotton association, is now comparatively easy, on account of the fact that the commodity is well known from New York to San Francisco, but there are small associations, such as the sweet potato association and the alfalfa association, where the financing is very, very hard. They and others of a similar character are too large for the country bank to finance and too small for the large city bank. In addition the city banker very seldom understands the details of production and orderly marketing of these smaller associations. They are in addition perhaps located at a distance from his city. They are preaching diversification and are sincere in their belief that every farmer should diversify and raise enough from diversified farming to live on and have his cotton as his surplus crop, but, not being acquainted with the commodity handled by smaller associations, these very bankers refuse to lend money on the commodity, and thus fail to assist the farmer to diversify and by so doing fail to practice what they preach.

The country banker.—All permanent social changes come about through evolutionary growth, or, if checked, through revolution, and each change carries with it certain hardships for certain classes affected. These hardships exist until the classes affected are able to readjust themselves to the new order of things. These classes, therefore, are always found opposing the change. To apply the case here, it is the country banker, in many instances, who opposes the coöperative marketing associations. Many of these bankers feel that the associations' system of advances and distributions, which keeps pace with the sales policy, is placing a hardship on them. They do not get all of their money promptly in October and November. Occasionally the country banker himself is in the cotton business as a middleman. Perhaps he has a son, or a relative, in the business of buying the commodity dealt in. Many small banks have practically all of their assets tied up in cotton speculation, having loaned money to a local speculator or f.o.b. merchant. The time has been when small bankers were practically compelled to enter the cotton business themselves, or to lend money to a speculator or f.o.b. merchant, in order to get their share of the business. The whole system has been undesirable from an economic standpoint, but seems to have been necessary, and the country banker is finding it hard to readjust himself to a new condition of marketing.

His differences with the association, however, are in most instances on account of a lack of thorough understanding. Some of them fail probably to appreciate the system of orderly marketing. They still think that each member receives the price which his bale sells for and not the average price of the season. They fail to appreciate the fact that the association is paid for the cotton as it is marketed, and as orderly marketing means marketing through a series of nine or ten months, it follows that the producer must be paid in three or four installments. This, however, does not relieve the country banker from the embarrassment caused by the change, and he has not yet come to realize that the large city banks and even the Federal reserve bank will extend him accommodation where he can show that he is carrying cotton for the purpose of marketing in an orderly manner. A great many country bankers who do understand the theory of coöperative marketing approve it, but they approve it for the other fellow to practice, and they want their money paid on time.

The Texas Cotton Association is not asking the country banker to lend it a cent. It is able to finance itself easily with the aid of the large city banks, but we do ask the country banker, not only to carry the farmer through the period of production, but to carry him through the period of orderly marketing, with the aid and assistance of the city banks and the Federal Reserve Bank. We ask the country banker to coördinate his business with the sales policy of the association to the extent of arranging the maturities of the farmer to meet the plan of orderly payment, resulting from orderly marketing. Such a policy will in time do away to a large extent with the peaks and dips in the money market of the South and stabilize the price of money just as it is hoped that it will stabilize the price of cotton and other commodities. We ask the country banker to coöperate, especially in the matter of taking advantage of what is called the waiver right, wherein the producer signs a waiver in favor of the country bank, relinquishing his right to the advances and distributions. If the bank will take advantage of this waiver right, and several of them are so doing, the result is that instead of sending out five or six hundred checks to one small town to individual producers, thus encouraging small and useless spending, the associations will send all of the remittances to the country banker to be deposited to the credit of the various individuals signing waivers. Incidentally his deposits will be swelled.

How Manufacturers Are Financing Retail Installment Sales.[9]

Installment selling has been growing by leaps and bounds during recent years. It is possible to-day for the average person, by making

[9] By Roland Cole, *Printers Ink*, 1926, Vol. 131, pp. 3-8, 181-191.

an initial cash payment of from 10 to 20 per cent of the selling price, to buy almost anything, obtain possession of the article, and pay the remainder in regular weekly or monthly installments extending over several months or years, as the case may be.

Developments have been coming rather fast and furious of late. Selling on the easy-payment plan as a merchandising policy has worked upward from the retailer until manufacturers are using it upon dealers in a national way. It threatens to become epidemic.

The forces at work in this trend have their source partly in over-production—thus making it necessary to reach more and more customers. Many manufacturers who hitherto have been content to let their dealers direct their own selling policies are now giving serious consideration to the plan of practically forcing all dealers, by campaigns of national advertising, to sell on time payments. Other reasons for the growth of the movement are probably to be found in the increasing number of finance companies which have come into existence during the last twenty-five years, and the necessity that these finance companies obtain business.

There are said to be something like 1,400 finance companies doing business in the country to-day. Their business is to lend money to manufacturers, wholesalers, and retailers. As applied to retail installment selling the plan operates as follows: The consumer wants to buy an automobile, a piano, or a radio. He hasn't the capital to pay for it in cash or upon thirty, sixty, or ninety days' credit. He could pay for it in monthly installments out of his income, but the average retail dealer has not the capital to wait so long for his money.

So a finance company comes along and says to the retailer: "Sell your merchandise to your customers on the installment plan. Add, if you wish, a percentage to the cash price for time payments. Collect the down payment yourself. Have your customer sign a conditional sale contract for the balance. We will buy the customer's contract from you and collect the installments from your customer or permit you to do so as our agent."

This, in a general way, is what the finance company does. It performs a banking function and creates an installment credit market. The retailer makes the merchandising profit and the finance company makes the banking profit. Both profits are paid by the consumer.

Great good and far-reaching benefits have come to pass through installment selling. It has enabled thousands, even millions, of people of moderate means to buy advantageous articles which, had they been unable to buy them on the time-payment plan, they would never have owned. This applies to such things as labor-saving appliances in the home and on the farm, furniture, automobiles, education, and the like.

Harm results mainly through the abuse of the plan—when the op-

portunity to buy on the installment plan is extended indiscriminately to articles that are quickly consumed or depreciate in value faster than they are paid for. When the consumer overestimates his ability to pay, or when unforeseen misfortune, such as sickness or loss of position, interrupt or defer the payments, hardship and economic loss follow. Wisely administered, there is great economic benefit in installment selling as a means of enforced thrift, particularly when the article is recoverable or when depreciation does not outrun liquidation.

Dangers of installment selling.— There are those who advocate installment selling and those who decry it. J. H. Tregoe, secretary and treasurer of the National Credit Men's Association, says that there is an element of danger in excessive installment selling. As a rule, he thinks the consumer pays a rate for the accommodation that is out of proportion to the value of the article involved. One hundred dollars does not buy $100 worth of merchandise. If $100 worth of merchandise costs the consumer $120 or $130, this adds to the cost of living by shrinking the consumer's dollar. In a recent bulletin the association said:

"The selling of commodities on the installment plan has grown to large proportions. Were we able to ascertain the load of individual credit created by the purchase of commodities on installment payments, it would amount to a very large sum, probably three billion dollars at the present time.

"The marketing of certain commodities naturally lends itself to installment payments, while for others such form of payment is most unnatural. Where the commodities deteriorate rapidly, where their recovery in the event of the debtor's default would be difficult, where the plan encourages extravagance and the excessive mortgaging of future income for immediate satisfactions that are neither necessary nor important to proper living, the installment system is a danger to the credit situation and to the public welfare.

"There is a moral consequence resulting from the large number of finance companies now operating throughout the country which are encouraging installment selling of commodities or even service, apparently merely that installment paper may be created which they can discount at high rates, aside from the material effects on the nation's credit that cannot be ignored.

"People, whether in or out of business, must be taught to use credit properly, for upon this facility rests in the largest measure their prosperity and happiness."

James M. Lynch, president of the International Typographical Union, in a speech at Indianapolis recently, is reported to have said that rapidly increasing production and the lack of foreign markets "have turned the full force of the nation's highly organized selling force upon the domestic field. The result is the wage-earner, as well as other

classes, has been driven into debt. Buying power is being sopped up in advance of its development; cost of doing business is increasing fearfully."

Commenting upon this speech of Mr. Lynch's, the *New York Sun* remarks editorially: "Mr. Lynch blames salesmen and wives rather than wage-earners themselves. "Insinuating salesmen," he says, "trained in selling psychology and in 'credit desire,' abetted by wives jealous of their neighbors' display, are constantly waiting to take the breadwinner in a weak moment and load something on him."

"The root of the evil," he says, "is the tremendous growth of the credit business. Everybody has noticed that. There is scarcely a luxury that cannot be bought on the so-much-a-month plan. Credit has been described by economists as a young man's greatest asset. But they do not mean by 'credit' the chance to go into debt for something that never will increase capital and that will disappear quickly, perhaps before it is paid for."

Almost on the same day that the foregoing editorial appeared in the *Sun,* Edward A. Filene, President of the Wm. Filene Sons' Company department store of Boston, in the course of a statement wherein he denied that President Coolidge's commendation of economy and saving habits in general was responsible for bad business, said in part:

"One of the outstanding phenomena in American life to-day is the growth of installment plan banks. Not only houses, and furniture and equipment for them, are being bought on the part-payment plan, but automobiles, radios, phonographs, clothes, and many other things.

"I heard of a workman the other day who got into financial trouble. His friends, looking over his affairs to pull him out, found that with an income of $60 a week he actually had definite payments due every week of $72 for house, automobile, furniture, radio, etc.

"The average income of our citizens is under $2,000, and of those incomes ordinarily rent would be in the neighborhood of 20 per cent, and food about 40 per cent. The present rents are nearer 30 per cent of the income, and food, say, 50 per cent. That leaves about 20 per cent for all the other expenses—education, recreation, clothing, health, doctors and medicines, savings, etc. All these things will be unwisely or perhaps disastrously skimped unless wise economy is practiced."

Apropos of the foregoing the *New York Times* said editorially: "Something much like a systematic campaign against the selling of goods on the installment plan seems to have started, for adverse criticism of it as uneconomic and a temptation to extravagant expenditure is coming from several quarters. The *Times* yesterday contained two denunciations of it, one by E. A. Filene, the Boston merchant, and the other by President Lynch and Secretary-Treasurer Hays of the International Typographical Union.

"Probably the installment plan of sale deserves neither wholesale condemnation nor wholesale commendation. As a means of getting luxuries it is wholly evil, but for acquiring necessities of the more nearly permanent sort it has real advantage, always expensive but sometimes worth what they cost. In many instances, doubtless, the proposal to sell on installments is made only after the 'saturation point' has been reached, or nearly reached, on a particular article, and 'buying resistance' must be broken by the intensive efforts of sales managers and agents. That creates an increased overhead, and, of course, the consumers pay it. And it cannot be really and permanently advantageous to 'business' that people should be persuaded into buying what they cannot afford." .

The consumer's testimony.—Installment selling is a good thing only when it benefits the consumer. When it fails to do this it is an evil. How to determine in individual cases whether it is good or bad is not easy. The testimony of manufacturers who have used it for years is for the most part favorable. But the testimony of the consumer, who is by all odds the most important factor in the situation, is not available, and probably would not be of much value if it were. For what is the testimony of the consumer worth unless the testimony of all can be had? The only testimony which the consumer can offer is his individual prosperity and the prosperity of the whole—or the reverse. If the buying power of the consumer evaporates under installment selling, the system is evil, and should be abandoned. Until that can be definitely determined, light must be sought in other places.

There have been some recent developments which are worth examination. A number of manufacturers whose products have heretofore been sold to the consumer on the customary terms of cash and credit—thirty, sixty, and ninety days—have just announced that their goods may hereafter be purchased through their dealers on time-payments. Several of these announcements are being made the subject of national campaigns of advertising to the consumer. Among them are the save-the-surface campaigns of the paint industry—Devoe and Raynolds Company, The Sherwin-Williams Company, John Lucas & Company, Geo. D. Wetherill & Company, The Acme White Lead and Color Works, Johns-Manville, The Beaver Products Company, and The American Radiator Company.

The plan adopted by the save-the-surface campaign was described in *Printers Ink* of January 29. It provides for the sale of materials to home owners as well as to contracting painters. Under the plan, the property owners pay 20 per cent down and the balance in ten equal monthly installments. The Sherwin-Williams' plan, described in *Printers Ink* of March 19, is similar. The plans adopted by the other companies named are practically the same.

There are two ways in which the plan is being used by the manufacturer. The more generally adopted form is where the manufacturer makes an arrangement with an already established finance company to finance the paper. The paint manufacturers, Johns-Manville, the Beaver Company, Dodge, Hudson, and most of the automobile companies follow this method. Under this arrangement the finance company advances its own money and makes the profit. The other form of the plan, a more recent development, is where the manufacturer organizes his own finance company for financing his own dealers in the sale of his own product. Such is the plan used by the American Radiator Company, General Motors, Studebaker, the General Electric Company, and just recently Westinghouse. Under this form of the plan, the manufacturer's own finance company advances the money and makes the profit.

It is argued by those who have studied the matter that a most important element of the financing plan is the dealer's relationship to the customer—whether he makes the collections or arranges to have this done by the finance company.

Normally, the dealer performs the merchandising function, takes the risk, and makes the merchandising profit. The function of the finance company is to furnish the funds, take the banking risk, and make the banking profit. When the dealer indorses or guarantees the transaction with the customer, then the dealer takes the credit risk. If the dealer also undertakes to make the collections all the finance company does is to advance the money. The rate charged by the finance company varies according to the extent of the service rendered, the nature of the risk, and various other conditions.

The success of installment selling depends upon the extent of the credit market. The selection of risks naturally determines the extent of the dealers' market.

Should dealers select risks?—Who is to select the credit risks—the dealer or the finance company? If the selection is left with the finance company, the dealer becomes an order-taker. The finance company then assumes the merchant's function and determines the market. This is not so good. As will be shown later, it is a decidedly dangerous course. The sounder plan is for the dealer to select the risks and to be responsible for them. Such a condition makes for better dealers. Moreover, when the dealer allows the finance company to make collections, the dealer loses contact with his customers. He passes up an opportunity to cultivate goodwill and develop new business with present customers. Regular contact with his time customers often leads to the development of new sales prospects.

Several questions arise concerning this method of selling, answers to which are being sought by manufacturers who are wondering whether

the adoption of retail installment selling will benefit their sales. Is the plan economically sound? Will it change cash customers into installment customers and fail to attract a sufficient number of new installment customers to make the change advantageous? What would happen in the case of business depression or a period of unemployment? Is it wise to compete for retail business on the basis of credit terms instead of quality of merchandise? Is the consumer to-day in a position to pay two profits—the profit on the merchandise and the profit for the use of the money? Will a widespread use of installment selling jeopardize the future market? What will happen to the dealer?

It should be stated at once that retail installment selling is pretty well established, is of long standing, and has been proved sound in the selling of furniture, pianos, musical instruments, household appliances, sewing machines, farm equipment, and books. Tracing the practice to its inception, one sees it came about as a natural development. In the case of all the articles mentioned, there is no consumption of the merchandise, and only a moderate degree of depreciation. Recovery, in case of default, is possible. Then, in the beginning, the dealer carried the bag. He controlled and regulated the extension of credit. He did it wisely, and made money, or he did it unwisely and failed.

In process of time, the individual merchant comes face to face with the problem of expansion. His merchandise is all sold; he needs more; he has no cash. He turns to the manufacturer, and the manufacturer has to deal with the problem. Presently, the economic need of a financing agency makes itself felt. The merchants' bank and the manufacturers' bank can help up to certain limits—sixty days, ninety days, six months. But retail installment selling involves not days and months, but a year or longer. At this point enters a new industry—the finance company.

So that the reader who may not be familiar with the history of the finance company may see its economic place as an extension of the banking function, I will quote here a description of finance companies that appeared in the Federal Reserve Bulletin (Final Edition) of January, 1923, issued by the Federal Reserve Board of Washington. This statement is authoritative and fairly comprehensive:

"Since about 1900 there has been developed in the United States a group of organizations variously known as finance companies, credit companies, or discount companies. Their business may include one or more of the following: (1) discounting or buying commercial receivables, i.e., accounts, notes, or acceptances; (2) advancing funds to dealers with which to purchase automobiles (wholesalers of automobiles); (3) advancing funds to enable dealers to sell automobiles on the installment plan (retail sale of automobiles); (4) advancing funds to enable dealers to sell furniture, agricultural implements, books, musical

instruments, refrigerators, restaurant fixtures, household utensils, electrical appliances, etc., on the installment plan; (5) advancing funds against merchandise. Specialization is noticeable, especially in connection with discounting receivables and financing automobiles. Scarcely any companies undertake all the above classes. The larger firms in the field usually limit themselves to discounting receivables and financing automobiles. It is only with these two classes of business that the present study deals, in as much as they comprise the great proportion of the total volume of business done. For clarity in the following study, "finance company" will be used where the general group of companies is referred to; "discount company" in speaking of practices in connection with discounting receivables; and "auto-finance company" in referring to automobile financing.

"A recent study (Merrick, the Modern Credit Company) states there are to-day over 125 finance companies in existence with an aggregate capitalization of approximately $100,000,000 and a volume of business amounting to $1,200,000,000 annually. An official of one of the largest companies gives a smaller figure in each case—$65,000,000 capitalization and $800,000,000 as the volume of business. Another authority places the volume of receivables discounted in the Eastern States alone at roughly a half-billion dollars a year. The size of the individual company varies greatly, from a capital of a few thousand to several million. The average size of the company specializing in discounting receivables, however, is larger than that financing automobiles, as automobile business, as a rule, is much easier to obtain and new companies can acquire reasonable volume in a shorter time. Further, as one writer explains, "sellers of accounts receivable are, generally speaking, larger concerns than the average automobile dealer and will hesitate to place their business with a small or new company." Of the 125 companies mentioned above, 45 are incorporated under the laws of Delaware. In New York a number have incorporated under the banking laws of that state and are subject to regular examination by the State Banking Department. Both preferred and common stock are usually issued."

Nothing since the bulletin of January, 1923, has been issued by the Federal Reserve Board on the subject of finance companies. The investigation upon which the foregoing report was based was made about 1920. The situation has changed greatly during the last four years. The number of finance companies operating in the United States has grown from 125 in 1920 to something like 1400 in 1925.

Many of these are very small, even individuals, operating in local territories. Of well-established companies, ably managed and well financed and doing a more or less national business, there are about 150.

Probably the biggest factor in the development of installment selling and its extension to other commodities than, furniture, pianos, sewing

machines, books, household appliances, and farm equipment, is the automobile.

Curtis C. Cooper, president of the General Motors Acceptance Corporation, the finance organization of the General Motors Corporation, is authority for the statement that the automobile industry as it exists to-day could not have been built up on a cash market. The most important single factor, he said, in extending the market for motor cars in recent years has been the development of the credit market.

In the beginning, automobile dealers were required to pay cash because manufacturers were unable to sell cars on credit. They had all they could do to finance production. The dealer, in turn, was obliged to demand cash from the public. The whole business was done on a cash basis. Then came the necessity for continuous uniform production and the extension of the selling season throughout the winter. It became necessary for dealers to divide their annual requirements into twelve parts and to take monthly shipments from the factories. Those dealers who were able had to finance their winter stocks with their own capital and whatever bank credit they could obtain. The majority of dealers, however, were not able to do this.

A. R. Erskine, president of the Studebaker Corporation, speaking before the World Motor Transport Congress in Detroit about a year ago, said:

"This fact (the dealer's need for credit) resulted in the appearance about ten years ago (1914) of the first automobile finance company, which was started by men who had been in contact with the industry, realized the need of unusual credit facilities and had faith in it. Manufacturers could not finance these heavy dealers' stocks located throughout the country, because of the enormous investment it involved, and finance companies gradually developed in large number.

"Most of the early transactions were straight loans made by the finance company to the distributor or dealer under chattel mortgages of warehouse receipts for 75 per cent of the cost of the cars to the dealers.

"As production increased and demands for such loans became greater, the finance companies sought assistance of manufacturers upon definite terms and conditions of coöperation which would enable said companies to rediscount their loans with banks and thus expand the use of their capital. The plan involved agreements by manufacturers to repurchase from the finance companies any new cars they might have to take back from dealers, due to their failure to carry out their agreements. Manufacturers accepted this responsibility and thereby strengthened the finance companies with their banks and made rediscounts for strong, responsible companies an easy matter. The companies were greatly aided in expanding their service to dealers and in standardizing the method of operation and the cost to dealers. Manufacturers were better enabled

to maintain uniform production and make prompt collections for shipments."

The development of a plan for financing retail sales of automobiles by dealers to the general public came about as a natural concomitant of the plan of financing dealers. Because the plan permits the customer to pay for an automobile out of income instead of capital, it has increased the number of prospective purchasers by millions.

It is said that 70 per cent of the passenger cars and 90 per cent of the trucks sold are sold on the time-payment plan. Installment selling is so extensively developed in the automobile field that there are reported to be many more automobile financing companies in existence than automobile manufacturing companies.

Ford smashes precedent.—On April 12 word came from Detroit that the Ford Motor Company had adopted a new plan of installment selling which is so radically different from prevailing plans as to have caused a sensation throughout the automobile industry. It has been the general practice among automobile financing companies to require a cash-down payment of 33⅓ per cent of the purchase price and the balance payable in twelve monthly installments. The practice varies according to locality, competitive conditions, make of car, whether new or used, and whether computed on the time or the cash price. Some companies on the Pacific Coast, according to a bulletin issued by the National Automobile Chamber of Commerce, accept down payments of 25 per cent and the balance in installments extending over a period of eighteen and even twenty-four months.

Ford's new plan permits the customer to pay $12.40 in cash (for a roadster), take possession of the car, and pay the balance at the rate of $5 a week. The down payment for the different types of cars varies, and so does the weekly payment. The terms on the touring car are $12.60 and $5; the coupe $20.80 and $10; the Tudor sedan $40.20 and $12; and the Fordor sedan, with balloons, $111.40 and $13. The basis of payment is the delivered price in Detroit, including war tax and handling charges. Down payments vary from 4½ per cent to 16 per cent of the delivery price. In the case of the roadster, the cost of accommodation is 18 per cent; in the case of the Fordor sedan, with starter, demountable rims, and balloon tires, it is 13 per cent.

The basis of the plan is an adaptation of that used by the Morris Plan banks. Two co-makers are required on the customer's paper, who must be acceptable to the finance company. For the present the plan is being used only in Detroit through a local finance company called the Detroit Discount Corporation, which, it is said, is an independent concern not connected with the Ford Motor Company. Whether the policy will be extended to other territories depends upon production facilities. It was reported that during the first three days after the plan

was put into effect, something like 4,000 applications for cars were received. The plan is to be given a month's trial.

With this picture of the present situation before us and every indication pointing to a still greater extension of installment selling in many lines during the immediate future, how is it possible for manufacturers and merchants to tell whether they had best drift with the current or attempt to paddle upstream?

There is pretty general agreement among those who are in a position to speak authoritatively on the subject that installment selling is sound and of economic advantage where the product involved is an article which does not depreciate in excess of liquidation and where it can be repossessed in case of default. It has been condemned in unqualified terms for the selling of such articles as shoes, clothing, jewelry, and luxuries generally. Between these two extremes are a host of borderline products, in which class would come paint, building materials, heating systems, and many other commodities that are unquestionably necessities, but which, when once installed, cannot be repossessed.

Another thing that manufacturers will want to know is something about the cost to the consumer and what is likely to happen from transferring a lot of future business into the present. Besides this, there is the relationship of the dealer to the installment buyer and the finance company. Is it wise to let the dealer drag-net his community with an installment offer on an article of merit—with the advertiser's prestige behind it—and then turn the customers thus secured over to a disinterested party—the finance company—whose relationship will be concerned exclusively with collections?

There are many considerations of moment involved in the proposition which may well cause a manufacturer to give the matter pause. The more important of these considerations will be dealt with in a succeeding article.

Volume of Installment Buying.[10]

Automobiles.—Of a total wholesale value of about $2,328,066,004 for the annual output, the Automobile Chamber of Commerce estimates that 70 per cent is sold on installments. The General Motors Acceptance Corporation estimate is 75 per cent, while another acceptance organization estimates that 80 per cent of motor vehicles are purchased on installments. On the basis of 75 per cent of a retail value of $2,910,082,505 this would mean that the value of the output sold in the installment plan would amount to about $2,182,561,878. Installment buying of automobiles began in 1915, but did not reach great proportions until 1920.

[10] Farmers' Loan and Trust Company of New York.

The retail value of automobiles and trucks, 1913-1925, obtained by adding 25 per cent to the wholesale value, is as follows:

1913	$531,250,000
1920	2,791,159,535
1924	2,910,082,505
1925	3,750,000,000

Since 1913 automobile prices have been reduced about 30 or 40 per cent.

Washing machines.—Of the output having a retail value of $88,000,000, as estimated by the authority consulted, an official of one of the larger companies says that 85 per cent is sold on installments. Another estimate is 65 per cent.

Electric washing machines have increased in value of production by the following amounts:

	Retail Value
1914— 13,000 units	$1,000,000
1920—480,000 units	68,040,000
1924—612,064 units	88,000,000

Vacuum cleaners.—That 65 per cent of the sales of this apparatus are made on the installment plan is reported by a trade association familiar with the industry. The retail value of the output is about $69,000,000 annually.

The retail value of electric vacuum cleaners over the past ten years is indicated as follows:

1914— 44,000 units	$1,300,000
1920— 900,000 units	45,000,000
1924—1,250,000 units	69,000,000

Phonographs.—An authority on this industry states that the percentage of machines sold on installments has averaged from 75 per cent to 80 per cent for several years. The estimated retail value of phonographs was $70,000,000 in 1924.

The retail value of phonographs over a ten-year period is:

1913	$10,000,000
1920	50,000,000
1924	70,000,000

Furniture.—A leading trade paper in this industry states that the "mark-up" on furniture sold on the installment plan is 125 per cent on the manufacturers' "value." On this basis the retail value, or total paid by the installment buyer who purchases 85 per cent to 90 per cent of all furniture, was about $765,000,000 in 1924, and will approximate the 1923 total of $900,000,000 this year.

Pianos.—Of annual retail sales of about $100,000,000 a year, about 40 per cent are made on a deferred payment basis. On lower-priced instruments the percentage of installment sales is greater than 40 per

cent. Reproducing pianos of high price are also largely sold on deferred payments. No authority was willing to state an exact percentage figure that would apply to all sales.

Jewelry.—Of a total of $400,000,000 of annual retail sales a good authority states that 25 per cent is sold on installments, adding that the number of high-grade jewelers who were selling on deferred payments was steadily increasing. Formerly only cheaper jewelry was sold on installments.

Radio apparatus.—While only 13 per cent of radio apparatus was sold on installments in 1923, according to one good authority, the trade papers of the industry assert that as the sale of radio is coming into stronger hands, such as department stores, the percentage sold on deferred payments has increased rapidly. Chain radio shops and others with the necessary capital and experience for installment selling are now marketing apparatus on deferred payments, and this trend is considered necessary, owing to the higher price of improved cabinet apparatus. One estimate of retail value of radio apparatus sold in 1924 is $311,000,000; one in 1925 is $500,000,000.

A summary of the above figures for 1924 shows the following:

	Retail Value		*Value Sold on Time Payments*
1. Automobiles	$2,910,082,505	75%	$2,182,561,878
2. Washing Machines	88,000,000	75%	66,000,000
3. Vacuum Cleaners	69,000,000	65%	44,850.000
4. Phonographs	70,000,000	80%	56,000,000
5. Furniture		Approximately	765,000,000
6. Pianos	100,000,000	40%	40,000,000
7. Jewelry	400,000,000	25%	100,000,000
8. Radio	300,000,000	13%	39,000,000
	$3,937,082,505		$3,293,411,878

Installment Buying.[11]

Buying on the installment plan has developed to a point that makes it a serious economic factor in this country. Although it is impossible to calculate accurately the amount of business transacted under this method, it is estimated by several authorities that at least $4,000,000,000 of part-payment is outstanding—one-fifteenth of the entire national income. There is to-day hardly an industry in which purchase by the installment plan does not play an important part.

There was a time when the dollar-down, dollar-a-week proposition was concerned only with small merchandise of inferior grade. Now, a house can be bought and furnished on the installment basis. Seventy-five or 80 per cent of all automobiles are purchased in that way. In a

[11] Anonymous.

recent investigation by the Federal Trade Commission of 556 furniture companies, only 13 did business strictly for cash.

The tremendous increase in part-payment transactions is largely a development of the past two years. Although in use by furniture dealers for several seasons, the idea was popularized by the automobile companies in the stress of intense competition in that industry. The enormous motor sales of the past year would have been impossible without the installment method of buying. According to A. R. Erskine, President of the Studebaker Corporation, about 75 per cent of the expected $3,000,000,000 of retail sales for passenger cars this year will be sold on credit.

The situation has resulted in the development of the finance company to discount these installment sales for the manufacturer and dealer. There are now about 1,400 installment companies which have this function. Their business has increased sensationally; their number has increased considerably more than 100 per cent in the last two years.

The record of the companies has been unusually successful. Experience shows that their notes constitute a very desirable speculation. The risk is distributed over a large number of loans, of not more than a few hundred dollars each; and losses on unpaid notes are estimated to be less than 1 per cent.

In this way credit has been made easily available to the individual in his personal transactions. "Installment buying," says Herman Waldeck, Vice President of the Continental & Commercial National Bank in Chicago, "is merely an extension of the use of credit by modern business." Unquestionably it has resulted in higher standards of living for the American public and in an increase in industrial production. The fact that default of payment has so far been negligible and that sales of merchandise since January have been of exceptional volume indicates that the installment plan has been a success. On the basis of the past year's record the installment plan reveals little for criticism.

There is a danger, however, in the too generous use of these credit facilities. A vast purchasing power, normally not expressive until next year, has been made economically available this season. Cash, that would have been used for purchases next spring, for example, is already under obligation; which gives rise to the question, will the installment plan drive us in a vicious circle whereby we are forced each year to utilize the future to meet our present needs?

The obvious danger comes in times of great panic and depression, which might result in an inability to meet maturing obligations and in the taking over by the credit companies of second-hand articles. As the National Hardware Association points out, "the temptation under installment buying is to purchase far beyond the power to liquidate

and at prices necessarily much higher than those regularly prevailing."

The solution of the problem does not lie in a general prohibition of installment selling. Extension of credit to the individual with proper safeguards is just as legitimate as extension of credit to a corporation. The present highly developed industrial era demands mass consumption, which means that credit must be available to consumers as well as to producers and distributors.

The solution is one of wise restraint in the use of a legitimate business function. The installment method must not be regarded as an opportunity to buy beyond one's means. It does not take the place of the consumer's capital, but provides against the sudden disturbance of a large amount of it. If the installment plan is to serve both the industry and the consumer, the American public must use it conservatively and with judgment; and the finance companies must be guided by sound banking principles in the extension of their credit.

Chapter XXX

AN EFFICIENT MARKETING SYSTEM

The Essentials of an Economic Marketing System.[1]

1. To be economic there must be the lowest possible amount of wastage in the product under consideration, of time, of money, and of human energy. The product wastage, if present, may be due to careless methods of handling, arising either from ignorance or from lack of proper equipment, as storage facilities and refrigeration facilities in the handling of perishable products. Waste of time, money, and human energy may be due to needless duplication of effort, unnecessary delay in moving a product, or in employment of too many, too few, or inefficient workers at any or all stages of the marketing process.

2. To be considered as economical the marketing methods must return to each individual connected therewith a fair profit for time, money, or energy invested. The second factor on close examination is seen to depend on and merge into factor number one; since if, in the bridging of any step between producer and manufacturer, the individual concerned therewith is himself lacking in knowledge of the most efficient methods, or if he employs inefficient labor or too little or too much labor his net returns are thereby decreased. This decrease may or may not reduce his net income to a point so low as to make him no adequate return on his investment. This is also apt to be the case if his function is unnecessary, since the other parties concerned will tend to take over or absorb his activities to such an extent that the apparent demand for his services will become non-existent.

3. No method is economic which allows any individual or group of individuals to extort a monopoly charge for the services which he or they render. In other words, taking this factor in connection with factor number one, we get the proposition that an economic marketing method contains no unnecessary step between producer and consumer, or producer and manufacturer, or manufacturer and consumer, as the case may be, and that the individual or individuals connected with the making of each step receive a fair, and only a fair, wage for the part he or they play.

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[1] Bohannan, C. D., and Campbell, D. P., "A Preliminary Study of the Marketing of Burley Tobacco in Central Kentucky," Bulletin No. 202, Kentucky Agricultural Experiment Station.

Criteria of Marketing Efficiency.[2]

Two points of view must be kept in mind in an attempt to analyze marketing efficiency. Such analysis may be directed from the point of view of the individual entrepreneur, or of particular classes of business men. This is commonly called the private point of view. Other analyses are carried out by investigators who are not interested in increasing the profits of individual firms or of particular classes of private business organization. They take what, for the lack of a better term, we may call the social or public point of view. Their aim is to study the social significance of marketing. In so far as they have any definite aim in mind other than the scientific search for truth, it is to determine how marketing can be carried on in such a way as to improve the economic status of the community as a whole. To such, marketing appears as a great mechanism for bringing goods from producer to consumer. This mechanism functions imperfectly at times and involves expensive processes. Consequently, it is worth study in order to determine whether it can be made to function more effectively and more economically.

Thq specific lines of research and even the immediate aims of those who take this latter point of view frequently, perhaps usually, coincide with those who are interested only as individuals, or as the representatives of a large class of enterprises. But whereas those with the individual perspective are interested because they seek a means to increase individual profits, these latter are interested in individual success only in so far as it tends to the development of a more effective and a more economical distributive organization. This point of view is chiefly in mind in the following discussion. In the last analysis, this brings those of us who are individualistic in tendency to the point of view of the consumer. For the social end of marketing, as of production, is to gratify the wants of consumers as effectively and as economically as possible. And so it is from the point of view of the investigator who sees marketing through the consumer's eyes that the criteria of marketing efficiency are now approached.

Distributive service, effectiveness of.—What, then, are the criteria for determining the efficiency of our market organization, and of the particular institutions of which it is composed? First among these must be considered the effectiveness with which the distributive service is rendered; then, the cost at which this service is performed, understanding cost to include actual money expenses plus whatever profits are made by those engaged in marketing, whether they be producer, consumer, middleman, or functional agency. And, finally, there must

[2] By Fred E. Clark, Proceedings of the Annual Convention of the American Economic Association, March, 1921.

be considered the effect which this cost and these methods of performing this service have upon production and consumption. In other words, to determine the efficiency of our market organization we must answer such questions as these: Does the scheme meet our needs? Do we pay more for the performance of this service, even though it is well done, than we should? What effect does our system of market distribution have upon production and consumption? If the system is effective but costly, it is inefficient. So is it inefficient when it is cheap but ineffective. And even though the mechanism as devised results in the effective and economical distribution of commodities, it is not efficient if it exercises an unfavorable influence on either production or consumption.

It is evident that the first two criteria—service and cost—must usually be studied as one problem, although the emphasis of a particular investigation may be upon service, or upon the actual money cost, or on the trade or speculative profits involved in the performance of the service. The last criterion, the effect of the market organization upon production and consumption, involves some most interesting and illusive considerations. Considerations which the business man and the economist learned to appreciate only when the Great War magnified their difficulty and increased the need for their immediate solution. The price-fixers in particular had these problems before them.

Technical efficiency.—Most of the problems we meet, perhaps all of them, raise broad questions of technical efficiency. One group of problems centers about the purely mechanical elements involved in transportation and storage. Among these are problems concerning the effectiveness of the facilities for shipping and warehousing, and concerning the mechanical equipment and physical layout of our markets. The difficulties caused by poor country roads, limited railway facilities, congested terminals, and ill-planned wholesale market areas raise such problems. One of the greatest problems we have to face in the market for agricultural products is found just here. How can we retain the advantages derived from concentrating at these central markets the forces of demand and supply which operate over a wide area, and at the same time eliminate the disadvantages of the physical congestion of the market plants which arises from the resulting tendency to force an enormous supply of actual goods through these markets.

Trade efficiency.—Another group of problems concerns the methods by which title to goods is transferred from producer to consumer. Here are raised a host of questions of the most vital importance. Among them are those which relate to the efficacy of our market news service, upon which we depend to keep demand and supply in equilibrium; those which relate to the adequacy of our price system properly to correlate the various factors in production and marketing; those which

relate to the legal protection of the parties to an exchange; those which relate to the great costs involved in our modern methods of buying and selling, including the costs of standardization, inspection, and grading when these are present, the increased costs of bargaining when they are absent, and the enormous costs of demand creation; and here, likewise, center the problems which arise from the presence of market risks and the necessity for market finance.

These two groups of problems concerning the technical efficiency of our market machinery, one arising out of what may be called the purely mechanical efficiency of the plant, the other, out of what may be called the trade efficiency of the system of bargaining, are the problems which bear directly on those criteria of efficiency which are based on service and cost.

Production and consumption, reaction to.—More difficult of analysis but no less important is that group of problems which relates to the reaction of the existing market institutions, mechanical and trade, upon production and consumption. This group includes the question of the effect of the use of standard grades, when it results in improved products and increased stability of income to producers. And here may be considered the effect upon production which occurs when the market organization secures to the producer what he considers to be a "just share" of the final selling price of his produce. Here is raised the whole gamut of questions concerning the results on production and consumption of market competition and of the effects of particular railway rate structures, basing points, postage stamp rates, commodity rates, rates based upon a compromise between value of the product, weight, distance, and the competition of other carriers and of outside markets. Here, likewise, can be considered the effect of our finance and warehouse methods upon the production of perishable and seasonable commodities, as well as the reactions to large market areas which have increased the growth of large-scale and specialized production.

Turning to consumption, we find for investigation the tendency for modern distributive methods to make available to consumers a large variety of commodities and the tendency of modern selling methods to create in the mind of the consumer a demand for variety, quality, service, style, and seasonable goods.

Most of the criticism of modern marketing is really pointed directly or indirectly at our competitive régime as it now functions. Even the important problems of the physical efficiency of transportation, and of the physical congestion of central market areas, are very closely bound up with the conditions of competition in a régime of private property. Most of the proposed remedies and reforms, which are of more than particular application, propose to eliminate our present competitive system, or they involve proposals leading to an increase in existing forms

of control on the part of the government, or to an introduction or enlargement of the control exercised by producers and consumers through some form of coöperation or combination among the members of these classes.

For example, it has been shown that demand and supply are not properly related. As a consequence there occur what we popularly call periods of over and under production. These may occur in many lines at a single time and result in a general paralysis of business, or they may be found with particular products or in particular markets, as when there is a larger supply of apples than the market demands or an excess supply of perishable fruit dumped into a particular market on a Saturday afternoon. It is contended, likewise, that the system is so developed that often the physically best or physically nearest producing areas are kept from supplying their logical markets, because no adequate means of contact are established or because transportation rates are constructed with a view to bringing distant areas into a more favorable competitive relationship. Again, consumers are so played upon by the competitive efforts of merchandisers that they are held to have developed extravagant and unwise demands. It is further contended, and often proved, that of a given price at a given time the producer (and in particular the farmer) gets too small a share. Or it is held, conversely, that with the producer receiving a particular price the consumer is forced to pay more than he should, or again that the producer may have goods to sell and the consumer may desire to purchase them, but the market machinery fails to bring about an exchange.

Two causes are, of course, given for the large spread between producer and consumer—inefficiency of method and the opportunity for withholding too large a margin of profit by the various intermediaries involved. Either, when true, may be caused by the failure of our competitive régime to develop good methods and to keep prices down to a necessary margin of profit.

Other wastes, which in some cases can be placed at the door of the competitive régime, but which more often perhaps are due to a failure to develop effective and economical mechanical equipment, are those involved when it does not pay producers to harvest and market products, when products deteriorate en route to market or after reaching it, and when products occasionally are allowed to perish, even when they have gone well on their way to the final consumer, because it does not pay those who hold them to carry them further.

Competition, desirability of.—It is evident from these illustrations that the criticisms now leveled at the market organization hit at the heart of our competitive régime—the effectiveness of our price system. Economists in general hold that economic progress is greater under a régime of competition than it is conceivable it could be under

any other known or proposed. Briefly, they hold that the best men and the best processes and policies evolve, and that goods and services that are wanted are produced most effectively and most economically. As applied to marketing this means that the most efficient firms will survive, that the best channels of distribution and the best methods of selling will prevail, and that commodities in amount, kind, and quality demanded will be placed upon the market. Finally, as regards price and cost, competition will reduce price to costs, including a reasonable (socially necessary) profit, but keep it up to a point which will insure the required production. This ideal comes very far from being realized, particularly when conditions are changing so rapidly that attempted solutions of problems of production and marketing are often out of date when they are evolved. In consequence, the process of selection when working through price is, for times like the present, slow and expensive. For competition is slow to weed out the inefficient producers and distributors, and their methods. But the advocates of the existing system, while recognizing this, hold that it is the best scheme of production and distribution which has been devised, and argue that many of the proposed remedies, such as socialism, the use of combinations tending toward control of particular kinds of production, whether by manufacturers or agriculturalists, even by consumers, will bring evils greater than are these wastes of competition.

Competition, abandonment of.—We have, however, long since reached a point where a large group of investigators take it for granted that the competitive régime imputed to the classical economist's mind is and must be supplemented or abandoned. We have not yet reached a point where the schemes for abandonment as a practical program need seriously be considered. But there is, perhaps, a dominant feeling to-day that, while we may depend upon competition to maintain and increase private efficiency, that is, the efficiency of the individual entrepreneurship, something more is necessary to bring about a proper correlation between individual activities, particularly between the efforts of producers or consumers of specific products, and so to promote general efficiency. As an eminent investigator put it some time ago, "effort within individual or industrial units is carefully planned, between them it is planless."[3]

Two types of activity are suggested and in use: governmental assistance, such as is rendered through the crop estimates, and private coöperation as expressed in the combination movement and in consumer and producer coöperation. Both of these can avail to:

1. Improve market news.
2. Limit or increase production, as the condition of the market demands.

[3] W. C. Mitchell, "Business Cycles."

3. Improve the physical efficiency of central markets.
4. Improve transportation rates and efficiency.
5. Increase the standardization and the grading of products.
6. Bring about the elimination of unnecessary middlemen.
7. Control excessive profits.

In any criticism which may be made the investigator must be careful properly to balance the service rendered against the cost. Too often the former is forgotten. If the consumer demands great service he must pay. Criticism should be leveled at him rather than at those who render the service or at the market system. That is, the consumer should be criticized unless the very activities of those who render the service, or of others back of them, tend to increase the demands of the consumer for service. And even then the critic must be certain that the service itself is a bad thing or less desirable than something which has to be foregone, or that it is inefficiently performed or allows undue profits to be accumulated.

Market organization.—If there is a wide spread in price between producer and ultimate consumer, if 50 per cent or more of the final price of an article is the marketing cost, this does not necessarily indicate either inefficiency or excessive profits. On closer examination it may be found that neither of these things is present, that the service is actually costly, even though it is well performed. Or it may be found that what is done warrants an investigation not of the market but of human desires, or of modern large-scale methods of production and demand creation, or of the nature and effects of modern railway rate structures. It is evident that the relative cost of marketing most commodities has been on the increase of late and that relatively more individuals and more capital are so engaged. In so far as this is a result of modern conditions in production and consumption, our investigation should start there. But in so far as our modern distributive system has reacted to bring about these conditions in production and consumption we return whence we started, and our field is the market organization.

Any investigation of market efficiency should start with certain things clearly in mind. Just so long as we have large-scale production and specialized producing units and production areas, just so long as consumers congregate in small areas far removed from the source of the products which they demand, and just so long as we possess wants which can be gratified only with products from remote sources, or products perishable physically or commercially, just so long we must have large markets and so, a large market organization. And the larger our producers become, the more we develop specialized production and production areas, the more our consumers congregate and the more numerous their desires become, the more important, and probably the

more costly, the market machinery will be. That is, we must recognize for example that the benefits of specialization in production are in part offset by the increased costs of distribution. And this refers not merely to the cost of physical storage and delivery, but to the increased cost of financing, to the increased cost of the greater market risks which must be borne, and to the increased sales effort which the large producer feels that he must make in order to minimize these market risks. We soon reach in some industries a point where the increased costs of distribution—particularly transportation—offset any advantages of large-scale production. It may be that society will some day reach a point where it must consciously balance against such increased costs of marketing not only the advantages of large-scale production, but the advantages of further specialization by producing areas, and the pleasure the consumer derives from variety and service, just as individual consumers are constantly doing.

Reducing the Cost of Distribution.[4]

The outstanding problem of our distribution system can easily be summarized in one question.

Can we reduce the margin between our farmer and manufacturing producers on one side, and our consumers on the other?

I am convinced that we can. I believe that it can be done without reduction of wages or legitimate profits. I believe that in doing so we can make the greatest contribution to the improvement of the position of our farmers and that we can make a contribution to lowered cost of living. I believe it can be done by voluntary coöperation in industry and commerce without governmental regulation. It can be expedited by an extension of the friendly assistance of the government agencies in organization and information.

These possibilities lie in the elimination of waste. I have hesitated to make so general a pronouncement until I felt that we could clearly demonstrate not only the existence of such great wastes but also demonstrate from actual experience the practicability of their elimination and the method of doing it.

I wish at once to make it clear that, in speaking of waste, I do not mean waste in the sense of willful waste, but economic waste, which is the natural outgrowth of a competitive system. I do not mean the waste that any single individual can correct by his own initiative, but the waste that can find remedy only in collective action.

[4] An address by Hon. Herbert Hoover, Secretary of Commerce, delivered before the National Distribution Conference, at Washington, D. C., January 14, 15, 1925.

The kinds of waste that cause costly losses may be roughly catalogued as follows:

1. Waste from the speculation, relaxation of effort and extravagance of booms with the infinite waste from unemployment and bankruptcy which comes with the inevitable slump.
2. Wastes from excessive seasonal character of production and distribution.
3. Waste caused through lack of information as to national stocks, of production and consumption with its attendant risk and speculation.
4. Waste from lack of standards of quality and grades.
5. Waste from unnecessary multiplication of terms, sizes, varieties.
6. Waste from the lack of uniformity of business practices in terms and documents, with resultant misunderstandings, frauds, and disputes.
7. Waste due to deterioration of commodities.
8. Waste due to inadequate transportation and terminals, to inefficient loading and shipping and unnecessary haulage.
9. Waste due to disorderly marketing, particularly of perishables, with its attendant gluts and famines.
10. Waste due to many links in the distribution chain and too many chains in the system.
11. Waste due to bad credits.
12. Waste due to destructive competition of people who are in fact exhausting their capital through little understanding of the fundamentals of business in which they are engaged.
13. Waste due to enormous expenditure of effort and money in advertising and sales promotion effort, without adequate basic information on which to base sales promotion.
14. Waste due to unfair practices of a small minority.
15. A multitude of wastes in use of materials, in unnecessary fire destruction, in traffic accidents, and many other directions.

These wastes are not the small change of industry and commerce. There is scarcely a step in this accomplishment of squeezing out waste which does not interpret itself in millions of dollars of annual saving.

As these wastes are enumerated they may seem to be of main interest to manufacturers and distributors. But in the end the public pays the bill. It is either charged into the consumers' price of goods at one end, or subtracted from the wages of producers of raw materials, such as miners and farmers, at the other end.

I am disposed to agree with the recent report of the Engineering Council that they amount in many lines to 25 or 30 per cent of the cost paid by the consumer or producer of raw materials.

The reduction of waste means that a considerable part of our population who are busily employed in this unnecessary motion can be directed towards the production of other commodities and thus their

addition to the national standard of living; it means a lowering in cost of living; or it means more goods for the same money. To our workers it means less labor, more time for recreation, and no attack upon wage levels; to our farmers it means an increased proportion of the consumers' dollar as the returns which he receives from his produce are subject to the deductions of the cost of marketing. If we decrease these costs by the elimination of the waste in them we increase the return to him. To him it also means enlarged domestic consumption. Moreover, he participates also in the benefits as a consumer. To our industrial and commercial men there is an increase in stability in business and a sounder foundation under our entire business fabric. The elimination of waste is a total asset. It has no liabilities.

These are the wastes which have grown naturally into our economic system. They can only be corrected by coöperative action. Such action can be built up first by investigation and information, second by conference of the producer and consumer in his various representatives and agreement to abide by the principles laid down.

Our economic system has developed marvelously as the result of individual initiative. We must preserve that. But there is also the initiative of the trade or group which we must equally develop if we are to perfect this system. It will not undermine the initiative of the individual—it will support it.

Our merchant spirit has seen a great evolution into service during this last score of years. The merchant to-day earnestly gives service with this goods. He is concerned with the service which his goods perform—he is concerned with the good of the community. What we need now is to extend this spirit of service by the group as a whole.

Possibilities of Improving Marketing through Better Organization.[5]

The problem of marketing organization may be approached from two points of view: one we may call, for want of a better term, *inter-unit* organization, the other *intra-unit* organization. The first has to do with the number and type of the marketing units between the producer and the consumer, the division of marketing functions between these different types of agencies and their relation to each other. Intra-unit organization, on the other hand, has to do with the internal organization of each of the several types of marketing organizations.

There are three aspects of intra-unit organization that should be distinguished. First, there is *economic organization,* which includes the combination of production factors, the proportion of the investment in site, buildings, equipment, supplies, and other production factors, the

[5] By H. Bruce Price in the *Journal of Farm Economics,* Vol. 5, pp. 129-146.

relation of the various expenses to each other or to total expense, the choice of the grades of the factors of production, and the size of the business unit. Second, *business organization* or *organization for operation,* which includes the division of responsibility, the assignment of tasks and functions, lines of authority, and the like. And third, *financial organization,* the arrangements for financing, and the provisions for distribution of earnings, the lack of time and available information on business organization and financial organization prevents any discussion of them, although they might logically be included in an analysis of individual marketing units. The discussion, therefore, is limited to the economic and inter-unit organization aspects.

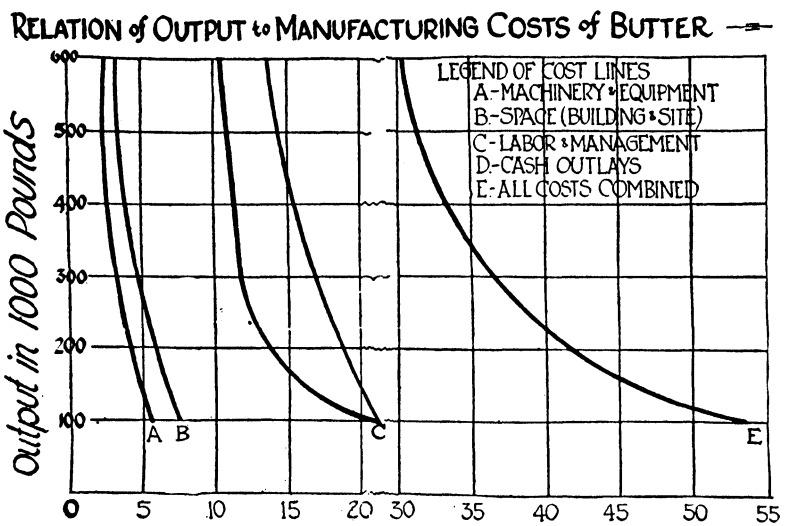
Marketing units, internal organization of.—Needless to say, scientific interest in the internal organization of marketing units is of such recent origin that little headway has been made in accumulating a body of information that can be used. Such data as are available, however, show a great diversity of conditions under which middlemen operate and a consequent wide range in their volume of business and costs. A study of the organization and management of 88 creameries being made by the Division of Agricultural Economics of the University of Minnesota in coöperation with the United States Bureau of Agricultural Economics shows, for example, a variation in output of 44,000 to 880,000 pounds of butter and a variation in cost from 8 cents per pound of output for the smallest to 1.5 cents per pound for the largest creamery. Similarly 47 of the 50 retail grocery stores of Fargo reported by the North Dakota Agricultural College have average monthly sales ranging from $654 to $8,905 with margins varying from 9.0 to 36.4 per cent of gross sales.[6]

Output, cost per unit.—An examination of the figures on p. 773 brings out the fact that there is a wide variation in costs per unit of output. Moreover, there appears to be a rather definite relation between each of these costs and the volume of business; as the output increases, the cost per unit of output declines, indicating that the larger creameries realize the economies of large-scale production when increasing the size of their business. Of the four costs, machinery and equipment, space, labor and management, and supplies and miscellaneous cash outlays—that of machinery and equipment—shows the smallest absolute change with variations in output; machines and equipment can be installed in such small units, for the most part, that the economies of fuller utilization of the equipment already installed are relatively small.

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[6] Johnson, Alma K., "Fargo and Its Grocery Stores," Special Bulletin No. 18, North Dakota Agricultural Experiment station, April, 1920.

Labor and management, cost of.—The labor and management costs are the most elastic. This is especially true of the creameries with less than 200,000 pounds of butter output which are obliged to employ a high-priced buttermaker and manager who can furnish most of the labor and all of the management no matter whether the output is 100,000 or 200,000 pounds. To increase the output within these limits does not require the employment of a proportionately larger amount of high-priced labor; cheaper help rather can be employed to furnish the additional labor. As the output increases above 300,000 pounds, the labor and management costs decrease less rapidly. This is because higher rates are paid for management as the managerial responsibilities increase with the growth of the business. The larger creameries, it is true, use a larger proportion of unskilled labor; but this only partly offsets the increased management cost. Similarly building costs do not vary at the same rate with variations in the volume of business.



Cost In Dollars Per 1,000 Pounds of Butter.

Factors that affect costs.—The next step in the analysis is to explain the factors affecting each of these costs. Every cost is the product of two factors, the number of units of the element used and the cost per unit. Since these two factors do not necessarily vary at the same rate for changes in butter output, it is important to know the relation of each to the volume of business. In the case of the creameries, for example, the labor per unit of output varies between different-sized creameries much more than the rates per hour.

These various relations of cost to the size of the business are valuable

tests that may be applied to a given marketing enterprise. (It should be pointed out that this is the point where most cost studies stop.) However, if the analysis of costs is made complete, all of the conditions affecting costs should be taken into consideration and, if possible, measured. Seasonal fluctuation in the output of creameries, for example, is a cause for differences in the utilization of plant and equipment. The creameries receiving over 11 per cent more of their annual butter-fat supply during their heaviest month than during their lightest month, after full allowance is made for differences in output, use on the average 5.5 more square feet per thousand pounds of butter than the creameries receiving less than 8 per cent more of their milk supply in their heaviest than in their lightest month. Seasonality also has the important effect of making the average price received for butter higher for those creameries that utilize their plant more nearly at full capacity the entire year, since they market a larger proportion of their product during the fall and winter months when the price of butter is highest. Probably a better illustration is that of churns. Twenty-eight creameries using only one churn of 1,000 pounds capacity report output of butter ranging from 59,000 to 245,000 pounds. Obviously, there are some maladjustments of equipment.

If the results of such an analysis are to be applied to a given sized unit to determine the best amounts of the different elements to use, it is desirable to know not only the average cost but also the varying amounts of the elements used by other marketing units having the same output. Undoubtedly there will be a wide distribution of space, labor, equipment, and other elements, representing many maladjustments both in amounts of the elements and their grades of efficiency. Thus, office space for 400,000 pound creameries varies from 30 to 300 square feet. In fact, it is possible that there will be no perfectly organized firms; probably all of them will be found to be using too much of one element and too little of another to give the most economical-sized unit.

Data for more strictly marketing organizations show that the problem of analysis is similar to the foregoing. Data collected by the North Dakota Agricultural Experiment Station for 47 of the 50 retail grocery stores of Fargo show that the total expense varies from 22.2 per cent of gross sales for stores having less than $1,500 of monthly sales to 10.5 per cent for those having over $6,000 of sales (see table following). Labor and maintenance expenses per unit of sales decrease with the size of the business. Labor cost, which is the largest single item of expense, varies from 15.1 per cent of gross sales for stores selling less than $1,500, to 5.6 per cent for stores of the largest group. Space expenses vary somewhat irregularly with the volume of business. Delivery and miscellaneous expenses per unit of sales have an inverse relation to each other when compared on the basis of the size of the business. The stores of

the group $3,000 to $4,500 have the highest delivery costs and the lowest miscellaneous expense per unit of sales. Like most cost studies, this study gives no information as to the causes for these variations in costs.

RELATION OF SALES TO COSTS OF OPERATING 47 FARGO GROCERY STORES IN PER CENT OF SALES[7]

Monthly Sales	*Total Costs*	*Labor*	*Space*	*Maintenance*	*Delivery*	*Miscellaneous*
Under $1,500	22.2	15.1	2.7	1.2	2.2	1.0
$1,500-3,000	16.6	10.1	2.1	.7	2.8	.9
$3,000-4,500	14.3	7.9	1.8	.5	3.5	.6
$4,500-6,000	13.4	7.0	2.0	.5	2.8	1.1
Over $6,000	10.5	5.6	1.8	.3	1.4	1.4

Both the creamery and retail store data show generally decreasing costs with larger output. Professor Macklin's study of the Madison retail grocery stores indicates a similar relation.[8] Apparently, the optimum-sized unit has not been reached. It should be pointed out, however, that transportation, an important factor in determining the size of a business, has thus far been omitted from the analysis. In the case of creameries, the transportation costs are usually borne by the patrons. Therefore it is only by using available information about density of butterfat production in a given locality, the frequency of deliveries, the amount of butterfat per delivery, the mode of transportation, and the time consumed, and by applying this information to a given community that its importance to the creamery can be ascertained.

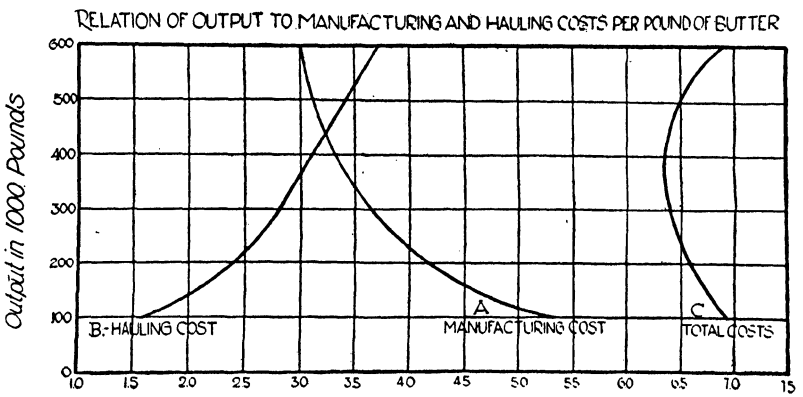
A typical community in Minnesota is therefore selected having an assumed butterfat production of 2,000 pounds per square mile. With this density, the radius of the area from which a creamery of varying capacity must obtain its butterfat varies from 3.5 miles for 100,000 pounds to 8.8 miles for 600,000 pounds of output. Multiplying the average length of haul by the cost of transportation per mile, and adding to this result the cost of labor and time consumed gives the average total cost per haul. This cost divided by the butter equivalent of the butterfat of a single delivery gives the unit cost of hauling. A 50-pound can of cream was assumed as the hauling load in this case. However, farmers go to town to deliver cream and for other purposes at the same time; hence, only part of the expense can properly be charged to hauling cream. This introduces a serious difficulty into the problem. Let us arbitrarily assume in this case that half of the trips to town with cream are for the sake of the cream.

[7] These data are derived from information given in North Dakota Experiment Station Special Bulletin No. 18, April, 1920.

[8] Macklin, T., "What the Retailer Does with the Consumer's Dollar," Wisconsin Agricultural Experiment Station Bulletin 324, January, 1921.

The next figure gives the transportation costs under these assumed conditions for creamery outputs of different sizes. When these costs are combined with the cost of manufacture, a new cost relation to output is obtained in which the optimum-sized creamery is 300,000 pounds, instead of 600,000 pounds, the most economical size when transportation is not included as a cost factor. If the amount of cream assumed for each delivery were 100 pounds instead of 50 pounds, the transportation costs would be reduced by one-half, and the 500,000-pound instead of 300,000-pound-creamery would be the least-cost combination.

This brings out the important point that marketing units, whether proprietary or coöperative, are supplementary to the farm or factory, and that their size and organizations are dependent in part upon the conditions under which the organizations which they serve operate. A 600,000-pound creamery may be able to manufacture butter cheaper than its 200,000-pound competitor, but the time and equipment of the dairyman may be too valuable to travel an additional four miles to take advantage of the better price, and so the small creamery persists. Similarly, the grain farmer may find it worth while to patronize the smaller grain elevator which operates on a larger margin in preference to the larger elevator which is located farther away. The small community grocery store, less efficient in terms of cost per unit of sales than its big downtown competitor, likewise persists because consumers demand quick service.



Cost Per Pound of Butter In Cents.

Since a recital of these relations would merely impress one with the importance of analyzing all the factors in the economic environment, attention can now be directed from the method to its application.

Marketing efficiency, improvement in.—The improvement in marketing efficiency that may be expected to follow the setting up of such efficiency standards depends partly upon the attitude of business

managers, and partly upon the mobility of organization. Before applying them, managers will in many cases need some cost data for their own business. Some of these costs, such as transportation, for example, can be obtained only at great difficulty. This, however, does not make cost standards useless. The manager of a country elevator by knowing that he is employing too much labor may effect a partial reorganization of his business even though he has no statistical measure of his efficiency in selling grain. In short, all of the relations in the complex of a business enterprise need not necessarily be measured before any reorganization is made.

A rather large class of middlemen, however, can be expected to readjust their businesses only when forced to do so by competition. And the reorganization of business concerns on a large scale must of course come about slowly. A wholesale produce concern cannot afford to abandon its plant and equipment merely because the plant is too large or the equipment unnecessarily expensive. It may be more economical to continue to realize something on the investment during the lifetime of the plant rather than to abandon it for a new, although better, establishment. New concerns, or those with obsolete elements, are of course more fortunately situated; but these comprise only a small proportion of middlemen at any given time. They are nevertheless sufficiently numerous to account for the gradual reorganization of the retail and wholesale establishments to larger units that takes the place as a city grows or as the market expands. This has undoubtedly made possible the increases in the size of the creameries, live-stock shipping associations, and potato-shipping associations that have occurred in the Northwest during the past decade.

The slow, often imperceptible, progress that marketing organization makes through internal reorganization is probably chiefly responsible for the lack of interest taken in this aspect of the distributive mechanism. It is small satisfaction to producers or consumers to know that at some future time some economies may be realized if the laws of supply and demand are permitted to grind themselves out. What they demand is action. The commission merchants in a live-stock market may know that one-half of them could market the live-stock handled by the existing number at the present time and do it on a small margin with a profit to themselves. Yet which of the dealers will go out of business? The margin taken from the value of the live stock is the same for each. The difference in selling efficiency may be so small that each receives a volume of business sufficiently large to permit him to remain in business on the uniform margins charged. Each wishes that some of the others would get out of the market, but is unwilling to make the change himself. And so they all continue until some unusual circumstance forces a readjustment of the number of middlemen to the market re-

ceipts. Having such considerations in mind and witnessing a large number of middlemen at the different steps in the marketing process, each taking a bit of the consumer's dollar as it goes back to the producer, the producer's and consumer's attention is attracted by plans for changing the external rather than the internal relations of marketing units.

Cost accounting method.—The cost accounting method of marketing analysis, however, may be a valuable guide in reorganizing the inter-unit marketing relations. Dr. Taylor, in his paper on "The Objective of Cost Accounting in Agriculture," has pointed out the value of comparing the costs of different types of marketing agencies performing similar services to determine the relative advantages of the different types.[9] But may we not go even farther and use this method to compare the efficiency with which specific services are rendered at different steps in the marketing process by undertaking a series of parallel cost studies at the principal marketing stages between producer and consumer; such studies, for example, as would indicate the relative cost of storing potatoes on the farm, at the local market, and at the terminal warehouse, or such as would show the comparative costs of cleaning grain at the farm, at the local elevator, at the terminal elevator, and at the mill? There are doubtless many maladjustments in the division of marketing functions between the different types of marketing units and between the units at the different stages in the marketing process. In the absence of any cost studies that would throw light on the problem, it is impossible to ascertain the extent of the maladjustments. In some instances they are probably greatly impairing marketing efficiency; in other cases they are probably not responsible for materially higher costs. Under any circumstances, studies that makes possible a comparison of the costs of rendering marketing services lay the foundation for a rational reorganization of the inter-unit marketing relations.

Coöperative marketing associations, federation of.—Needless to say, the principal changes in inter-unit marketing organization are now being effected through the federation and integration of farmers' coöperative marketing associations. Unfortunately, few data that can be used to compare the efficiency of these organizations with other types of middlemen are available. A comparison of commissions charged is about as far as one can go at the present time. Such a comparison seems to indicate that there are some small economies in large-scale coöperative marketing. The Farmers' Union live-stock commission associations by handling a large volume of live stock at the Missouri Valley markets have operating costs from one-half to two-thirds the regular

[9] Taylor, H. C., "The Objective of Cost Accounting in Agriculture," *Journal of Farm Economics*, April, 1923.

charges. The Central Coöperative Live-stock Commission Association, a federation of 380 live-stock shipping associations in the South St. Paul market area, by handling 20 per cent of the live stock marketed in South St. Paul during its first year's business operated at a cost of $9.29 per carload of live stock, or at approximately two-thirds the regular commission charge. This was made possible on a volume of live stock valued at over $17,000,000. The net earnings of $86,000, when reduced to a carload basis, were $6.60, only five cents per hundredweight for a carload of live stock weighing 15,000 pounds.

These savings are probably representative of the savings that are realized or that may be realized by the coöperative commission and wholesale marketing of staple farm products at the central markets. Their effect upon the individual live-stock producer is obviously insignificant when compared with the efficiency of the service rendered. The savings of the coöperative live-stock commission companies are lost if a sacrifice of even five or ten cents per hundredweight in the price is made to the volume of business. Whether the savings are real, or only apparent, as maintained by competitors, probably depends largely upon the efficiency of management. In any case, they can never be large, because of the narrow margin upon which the product is marketed at the terminal market.

The limited opportunities for reducing the terminal selling charges of agricultural products has therefore resulted in emphasizing the rendering of marketing services. This tendency is probably most strikingly illustrated by the California Fruit Growers' Exchange and the Minnesota Coöperative Creameries Association, this latter a federation of 400 of the 645 Minnesota coöperative creameries, which have thus far omitted the selling function entirely. And even such organizations as the Prune Growers' Association, the Burley Tobacco Growers' Association, or the American Cranberry Exchange, which sell their members' products, direct their efforts more to the distribution of their products than to increasing the volume of selling.

The services that can be rendered more efficiently by such organizations than by local coöperative associations or by other middlemen vary with different commodities and with the conditions under which the products are marketed. The larger volume of business may give the central marketing association an advantage over its competitors in sorting and grading or in utilizing surplus and by-products. The federation of Minnesota coöperative creameries, by shipping butter in carloads, saves about one-half of one cent per pound over less than carload shipments. Large-scale marketing appears to have realized some important economies in financing on the Pacific Coast and in the South, although there are apparently no such important savings of this sort

among the associations in the North Central States. The economies of large-scale storing are probably unimportant.

The important service which these associations may render is rather the better adjustment of supply or demand, or both, to the market. For most agricultural products, the control of supply is more important than the control of demand, since most farm products handled by producers' associations are not suited to advertising and sales campaigns. Professor Macklin in his recent book indicates that only 26.1 per cent of agricultural products are consumption goods when they leave the farm.[10] The remainder are goods that must be used in further production before they are ready for consumption, and so probably cannot be economically advertised by the farmers' marketing association. To what extent demand can be created for the 26.1 per cent that are consumers' goods remains to be seen. Some notable success has been achieved in advertising fruits, although experience is too short and too limited to indicate how soon the point of saturation in the market may be reached. Something can probably be accomplished in advertising some of the other products making up the 26.1 per cent, although obviously not all of them are adapted to national or large-scale selling campaigns because of the nature of consumers' demand.

Experience seems to show that much more can be done through federated activity in adjusting supply to the market. This may take the form of maintaining a comprehensive system of news collection and directing the products to the markets that need them most. It may consist of holding products, such as cheese and wool, for which there is not a continuous market, until they can be marketed to better advantage. Or it may consist of directing the seasonal flow of products to market in an attempt to stabilize the price over a period of time. Obviously, the opportunities for improvement vary with different commodities and with different markets. Much more may be expected of associations marketing fruits, vegetables, and other products marketed through decentralized markets than for those marketing the great staple products, such as wheat and cotton, whose marketing mechanism is much more sensitive to changes in supply and demand conditions.

Something may also be accomplished in the control of quality. Probably in no other respect are the local coöperatives falling so far short of their possibilities, and it should be noted that private buyers are making little headway. Closely associated with this problem of quality is the better and quicker adjustment of production to demand which may be realized through federated activity by bringing the producer into more direct relationship with the consumer or with a later stage in the marketing process. Experience in coöperative marketing is edu-

[10] Macklin, T., "Efficient Marketing for Agriculture," p. 268.

cational. It familiarizes the producer with the problems of marketing and teaches him the demands of the market for kinds and qualities of product. To be sure, there may be no immediate readjustment of production; it may require time to impress the value of establishing a reputation for a product upon the producer; in other instances, it may require the time and expense of a reorganization of production. A federation can surely assist in this reorganization. The confidence which coöperators have in their own enterprise makes them more willing to accept advice as to the proper breeds and varieties to produce than when dealing with privately operated agencies.

As an example of this, one of the chief aims of federated dairy organizations is to improve and to standardize the quality of dairy products by educating managers of cheese and butter factories in the best methods of production and preparation for market. Probably slower progress, however, must be expected in the standardization of products whose conditions of production cannot easily be controlled.

Commercial agriculture makes production a community problem. This does not mean that it is no longer a matter of concern to the individual producer. It means, rather, that he has a new problem that is common with other farmers producing for the same market. What affects the machinery that markets the product of one producer affects the prosperity of all. If reputation for marketing a product of a given kind and quality is desirable, it must therefore be obtained through common action. This must come through central direction. Private middlemen do not furnish the directing force that is necessary to accomplish the result in all cases. ' Possibly the very nature of competition is an obstacle to it. This appears to be the case if we may judge from the common practice of middlemen at local markets of paying or tending to pay a flat price irrespective of quality, a practice which encourages the production of inferior and less desirable products.

High-grade management, scarcity of.—A discussion of marketing reorganization would not be complete without some reference to the scarcity of high-grade management as a limiting factor on more efficient intra-unit and inter-unit marketing. Among the individual marketing units the larger organizations appear to be more efficient than the smaller. But it is conceivable that some small establishments are already too large for the available management and that larger returns per unit of factors other than management would warrant a reduction in the size of the unit.

In the field of integrated and federated marketing the question of delegation of management is of great importance. As the business grows, management becomes differentiated and must be delegated. This is a more important factor for coöperative marketing associations than for others, either because the farmer or consumer owners are not favorably situ-

ated for maintaining close control, or because they do not have sufficient knowledge to exercise the function themselves. The result is that the advantages credited to coöperative marketing associations where efficient management is assumed do not always materialize in practice.

In conclusion, it should be pointed out that progress in the better coördination of the activities and functions of our marketing agencies is also being worked out through private and public agencies. As a result of the economic reorganization of individual units, a new type of middleman appears here, another disappears there; a new function is assumed by one, and abandoned by another. Trade associations affect a better coördination of their members, although it is not always in the public interest. Nor in all cases do they prevent needless waste. The produce exchanges in our live-stock markets do not prevent the useless feeding of live stock that are about to be driven to the slaughter. The wasteful duplication in the distribution of milk that is estimated to double the cost of a unified system continues. Some one replies that coöperation is the solution. But coöperation has only added another middleman in both the milk and the live-stock markets. To give the producers a monopoly of the market is no solution of the problem for the consumer who views the producer in the same light as the independent distributor. In such cases the evidence points to the need of some outside, impartial agency to supplement individual and associated activity if the wasteful duplications and misdirected activities of the present marketing organization are to be eliminated.

Discussion by R. M. Green

Kansas State Agricultural College, Manhattan, Kansas.

The very able paper just presented called attention to two points that are of particular importance to the intelligent direction of marketing investigations and to attempts at improvement in farm marketing.

First, in the discussion of the internal organization of a single business unit, a creamery, attention was called to the difference in size of the most efficient unit, when manufacturing costs alone are considered, and when, in addition, transportation costs are involved. This instance emphasizes in a single direction the very great importance of economic background to any very sharply delineated cost-picture of what efficiency is. It is just this thing that often makes the modifying circumstances disclosed by the general questions in an economic schedule of almost equal importance with the statistical data bearing directly on the point at hand.

Second, in the discussion of what was termed inter-unit marketing organization, the purposes of coöperative organizations in the marketing field were said to be: (1) to reduce marketing costs; (2) to secure

better marketing service; (3) to establish superior marketing contacts. This discussion will be confined to a brief consideration of the utility of these three purposes from the standpoint of improving farm marketing. The likely effect on the producer of possible savings was very well brought out in the paper just read.

Organization methods in marketing, improvement of.—Coöperative efforts among farmers in the marketing of their products have demonstrated the possibility of some improvement through savings by the use of better organization methods. A saving of ten cents a bushel on the 110 million bushels of Kansas wheat that goes to market represents the large sum of eleven million dollars. Were this saving to be divided among ten or twenty companies, there would be a strong inducement for each to effect the saving. When this sum is divided among the 75,000 wheat-growers in Kansas the inducement to each one to exert very much effort is weakened unless the saving of every penny is necessary for the farmers' very existence. Without going further into this phase of the question, it is safe to say that in Kansas those farmers who are in a bad condition financially are so bad off that possible savings from improved marketing methods will be but one small contribution to an improvement in their condition. The majority of Kansas farmers do not seem to be in such financial condition. Profits are, therefore, likely to be a keener incentive than savings. This is in no way a belittlement of farmers' efforts at coöperative marketing. It only emphasizes the likelihood of greater possibilities in the second and third purposes enumerated above, namely, in better service in the markets and in the establishment of closer contact with buyers and sellers.

Radical changes in methods may be far from beneficial if it is not known how the product to be marketed or the market to which the product goes has influenced and shaped the method used. I have in mind an instance of a mill located in a certain midwest county. This mill consumes a quantity of wheat equal to a large portion of that produced in the county. In this instance, as in many others, where a complaint of method seems justifiable, practically all of the wheat in the vicinity of this mill is shipped out of the county and wheat ground by the mill is shipped in from other parts of the state. This is apparently a great waste in marketing. However, the president of this company explains that they have tried grinding the wheat bought in the home county, and laboratory, and baking tests have shown it to be of inferior quality. Aside from the matter of private business, there would be a greater economic loss if this mill should have persisted in using a home product and destroyed its own market so that it would finally have had to quit grinding wheat. In this case, what is apparent, is the effect of a cause more deep-seated.

Changes in marketing methods, such as some coöperative organiza-

tions have been able to bring about by combination and federation, have effected a saving. Larger volume of business has cut down overhead expenses and enabled operation on a smaller margin of cost. This matter was admirably presented in the paper just read.

In the case of the grain elevator the matter of distance of haul is a factor that works against large volume of business. Even in this assembling business, looking at the matter from the standpoint of the elevators, they are merchandising service. Certain large coöperative elevators in Kansas last year were handling wheat at a cost of from two to three cents a bushel under that of some of the smaller coöperative elevators. This was because they were handling something like 285 thousand bushels of grain each, in 16-thousand-bushel elevators. Whereas, the smaller companies were handling around 123 thousand bushels in the same size elevator. However, if a farmer is very far from market and an elevator company sees fit to extend him better service by building an elevator closer to him, the difference of a few miles in haul is enough to shift his trade. In most sections of Kansas the customary charge for hauling wheat beyond a certain minimum distance is one cent a bushel per mile. This chance for elevators to sell service to farmers tends to multiply the number of elevators and decrease their volume of business. It is a condition analogous to that of the small suburban neighborhood store that exists because of the particular service its location enables it to offer.

While it is well to keep in mind the importance of improving methods of marketing by instituting savings through improved organization it should not be forgotten that other prerequisites to such improved methods are, better knowledge of the product to be marketed, and a better knowledge of the markets to which the product is to go. Especially is this true with staple farm products where the marketing of the raw product is more of a trading operation than a processing or manufacturing operation. For instance, in the local elevator business, while costs are of some concern, the main requirements are to get business, and get the best price possible for the grain sold. That is, give as pleasing service as possible and know the market to sell on as nearly as you can know it. The plant organization is so simple and free from departmentalization that salesmanship is of more importance than industrial engineering. Each particular product, and each producing and market center has its own peculiar problems. Substantial improvement usually grows out of a little more or less of this or that. There is no prescription good once and for all.

In studying ways and means of improving the machinery for marketing farm products, the emphasis has frequently been laid upon coöperating or not coöperating. So much has this been the case that conservative administrators in agricultural colleges have sometimes hesitated

to build up a market department, whose chief work would, as they conceived it, be that of promoting coöperative companies.

It appeals to the speaker, that it is at just this point that marketing departments of colleges can be of smallest service. The essence of the coöperative relationship is that of harmonious personal and community relationships. The imperfections of human nature more than imperfection of the markets are its vital problems. That is nearer the field of the sociologist, than to that of marketing. It is something that will have to be left largely to the initiative of the peoples directly concerned.

Knowledge of product, need of.—On the other hand, the speaker believes that much more emphasis can well be put upon a study of products themselves for those characteristics that make them more readily marketable, and upon careful analysis of the markets to which these products go. Certainly where the objective is to get wheat to a market, the admonition to get understanding applies no less with respect to the wheat and the market than with respect to the particular machinery of transfer. The possibilities in a service organization that analyzes particular markets and market conditions are large. Ability to get better prices sometimes justifies higher selling costs than the average. The positive or price side of the farm market is as rich in possibilities for service and for investigation as the negative or cost side. The establishment of superior marketing contacts in any such manner will insure better marketing service.

Programs of Reform as Regards the Middleman.[11]

The familiar hope is to "eliminate the middleman" either in part or in whole. Various devices have been used to accomplish this. Briefly, we may set them down as:

1. The department store which aims and claims to eliminate the wholesaler or jobber by buying in quantities from the manufacturer.
2. The multiple system of chain stores which have the same hope of economy as the department store.
3. The mail-order house which has the same objective economies as the department store and also goes more extensively into manufacturing its own goods in some lines.
4. The manufacturer of specialty merchandise, such as branded shoes or candy, who sets up his own retail stores and "eliminates" the independent wholesaler and retailer.
5. The coöperative factory which is owned by the workers in the enterprise, eliminating the monopolistic capitalist owner.
6. The coöperative store, factory, and plantation in which the consumers own the local retail distributing stores, the wholesale distribut-

[11] Ingersoll, W. H., "Can the Middleman be Eliminated?" *Marketing*, January, February, March, 1920.

ing warehouses which supply the retail stores, and the factories and sources of raw materials and have as their paid employees the producers in the factory and on the farms. This system "eliminates" all middlemen and the manufacturer and theoretically makes the consumer his own producer and middleman.

Various combinations of these devices are found in actual practice in numerous lines of trade. Some department stores own manufacturing shops where they make for themselves the goods for some of their most important departments. The chain store and mail-order concerns often do some of their own manufacturing. Specialty manufacturers frequently eliminate the wholesaler by selling direct to the retailers throughout the country, or partially eliminate him by selling in the larger towns, leaving jobbers to cover the country villages. Retail stores sometimes join in subscribing funds to operate their own factories to make some of their more important merchandise requirements.

Only three avenues of hope lie before us in effecting a lower cost in things we buy, if we except, as outside of our present study, the cost of production. These three avenues may be described as:

1. Eliminating unnecessary *labor* in the customary method of distribution.

2. Eliminating unreasonable or unearned *profit* customarily exacted in the process of distribution.

3. Increasing the *efficiency* of the distributors.

To distribute goods produced in quantities in a factory or on a farm at one point so that they may be accessible to multitudes of individual consumers scattered over a continent involves several inevitable steps or stages as will be shown, and all efforts to reduce the number result merely in a change of form without intrinsic gain or in the substitution of less direct and more expensive means.

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