1929

Economic significance of chain store development in the United States

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Boston University

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SCHOOL OF EDUCATION

Thesis

THE ECONOMIC SIGNIFICANCE OF CHAIN STORE DEVELOPMENT IN THE UNITED STATES

Submitted by

Francis Joseph Sullivan

(A.B., Holy Cross College, 1928)

In partial fulfillment of requirements for the degree of Master of Education

1929
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The Economic Significance of Chain Store Development in the United States

Introduction

"The Economic Significance of Chain Store Development in the United States" has been chosen as my topic because of its vast importance in the current field of business. There is hardly a single industry which is not ultimately affected by mass distribution.

Due to the colossal scope which all chain stores and their various phases would include, only outstanding chains in significant fields of merchandising will be given major consideration.

A brief history, the progress, present status, and outlook of these chains will present definite relationships based on fundamental economic principles which have been the essential forces in the development.

Chapter II

"A chain store system is a group of scattered stores with single ownership and centralized management."

The technique of mass production was the proper development and control of mechanical power. The technique of mass distribution is the success of chain stores to relate and organize human elements. Every concern which ultimately markets its products to the consumer is vitally affected by the status of the chain store and is deeply

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1 Copeland, Melvin T.; Principles of Merchandising, p. 42.
interested in its future. Since human qualities have been most necessary in developing the chains thus far, the chains may possibly result in the ideal of what can be done in co-operative activity of many trained minds in a business, actuating all its potentialities.

The earliest of all chain stores existed in the fourteenth century. The Fuggers of Ausburg operated these units. The next on record is the beginning of the Mitsui chain system of Japan which dates back to 1643. The Hudson Bay Company, the first American Chain, operated several hundred interlinking trading posts and banks as early as 1750.

Chains in the modern sense started over seventy years ago. When George Hartford, father of John A. Hartford, President of the Great Atlantic and Pacific organization, saw the possibility of linking ocean to ocean with the railroad, a valuable idea struck him. The new transportation lines would help to eliminate the trading posts and the chance for supplying goods from warehouses to small communities would become a reality.

The Great Atlantic and Pacific Tea Company which was started in 1858 by George Hartford, was not only the first chain store in the United States but is today the largest of all chains. The name given this concern was truly descriptive of the vision of what it ultimately would be. When the founder died in 1917, there were three thousand units in the chain, an average gain of over one store per week since its beginning.

In 1879, F. W. Woolworth opened the first successful five and

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1 New York Herald Tribune, February 3, 1929, Magazine Section, p. 2.
ten cent chain system in Lancaster, Pennsylvania. The sales for
the first year were but six thousand seven hundred and fifty dol-
lars. This amount is hardly sufficient to compare with the millions
in its present volume. The outstanding force which made it possible
for the great present day chain of the F. W. Woolworth Company is
that it has increased the purchasing power of the people's money.

In 1912 the F. W. Woolworth Company sought to buy other chains
which included S. H. Knox and Company, one hundred and twelve stores;
F. M. Kirby and Company, ninety six stores; C. S. Woolworth, fifteen
stores, and W. H. Moore, two stores. This pioneer merger showed the
business world that the best way to reap the full benefits of mass
production's economics is through the medium of the chain outlet.
This venture, by the man who saw a million dollars in a nickel, was
fostered because it would enable a more unified administration to
produce a greater efficiency in executing the principles and poli-
cies so characteristic of the present day chain.

J. C. Penny, a farmer boy, from Missouri, started a clothing
store at Kemmerer, Wyoming. He had no selfish motive in planting
the seed of that great present day chain but rather to enable the
poor to buy their clothing at a cheaper price. He perfected in
general merchandising the theory of rapid turnover at a narrow mar-
gin of profit with the resulting possibilities of lowered costs of
manufacturing and distributing. He believed and exercised the prin-
ciple that all employees should be part owners of the chain system.

1 Fortieth Anniversary Souvenir—F. W. Woolworth Co.; Coath, J. Lewis,
1919, p. 2.
J. C. Penny Company is known as the firm with many owners. Like most large successful chains, the Penny Company expanded in proportion to the surplus of all the units in the system.

The early chain stores had a relatively slow progress due to the fact that most folks at this time were dealing with certain stores because of a personal acquaintance with owner. Some owners who showed an independence during this period of success are those who are failing fast because lack of service and price will draw but few customers.

The chain store growth depended chiefly upon the speed with which clerks, managers and executives could be trained and co-ordinated for group action. Because this process was so slow, it is not until after 1900 that the chain as a medium of merchandising on a large scale had attained a place of import in the fields which were established nearly fifty years ago. Since the chain store is the union of man's brains and human elements rather than a solely mechanical machine, capital was not as necessary as had been the case in mass production. Leaders of industry found it much more difficult to control men than machines. Thus the great task was not primarily raising capital but training and educating the personnel of all the stores which made up that respective chain. The position of a store manager needed no great genius but the companies found it best to educate them to fit into their system which was perfected by experts.

The competition offered the early chain from the independent was sufficient to retard its progress to a great degree until the
last decade. Customers were attracted to one store rather than another because of the service given and often because of friendship with the owner.

Expert men in the field of business were focussing their time and money during this period on a method of producing things en masse so that ultimately things could be sold cheaper to the consumer. They realized that the great expense in producing things was causing smaller profits for them and the inefficiency of the retailer was absorbing the profit he might have had. Increased distribution was needed to satisfy in a definite way individual differences. If there was not a rapid turnover in a certain definite standard want there was the danger of overproduction which would be costly to manufacturer and wholesaler.

When the keen minds of business were perfecting mass production, the economies resulting through this process were lost to the consumer because of the neglect of the retailer to operate and control the distribution efficiently. There was an increase in distribution in the same ratio as was the increase in mass production but most independent retailers and some chains failed to notice the economic leaks in their organization.

Although the chain stores started to progress somewhat at the same time that mass production did, yet the rate of growth was much slower. Mass production was getting a start and the chains did little expanding. The first chains did not recognize the problems of distribution. They failed to see the money saved in wise buying.
was being wasted by inefficient distribution.

The real strength and character of a chain store is not alone in shrewd purchasing methods but rather in a unified organization and system directed from a central point. Certain policies and principles formulated and obeyed would enable more efficient merchandising and thus result in a more profitable business. Because of a lack of this the early chain could not effect a sufficiently low price which would seriously hinder the independent retailer. The modern chain performs the functions of both jobbers and retailers but much of the real jobber's expense is eliminated because the chain does not have to sell its goods to its units but merely watches the needs of its units and fulfills them accordingly. The chain does not load up its unit stores with a poor seller as some wholesalers do to the independent retailer at times. The shelf space given an article in the chain is only in the ratio of its sales of that article.

A company that buys products by the tons instead of by the pound can expect a cheaper rate. This great asset enjoyed by larger companies is an important factor in allowing them to sell at so narrow margin of profit, at a great turnover, and thus result in sound expansion. It is the lack of this that makes the business life of the small retailer a battle with added handicaps not shared by large concerns. Buying for cash has given the chains discounts that are hardly ever enjoyed by small independents. The American Stores of Philadelphia has a fund of over two million dollars by taking two per cent discounts on most of their purchases. Such perfection of

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1 Baxter, William J.; Chain Store Distribution, p. 14.
detail is what has made the great chains greater and transferred the trend of business from the small to the large retailer.

Some chains advertise extensively, yet chains of the type of the five and ten have found that advertising helps them little excepting to help a producer to increase the sales of a decreasing brand. They believe their window displays are sufficient to attract public attention. When the choice of a purchase depends on an opinion or mental attitude such as cigars and cigarettes much advertising is necessary.

The chain store advertising in a large city where a hundred stores of that respective chain are located has one hundred possible advantages forthcoming from a single advertisement in the city paper. The advertisements in magazines have a power that is national in scope and may be useful to most stores of the chain. This is a joint expense exerting little influence on the net cost of operation of each single unit in the chain. Department chains do much price advertising. In 1920 Liggett Drug spent eight hundred thousand dollars in advertising. Drug stores usually advertise from one and one half to three and one half per cent of the gross sales.

Sites for chain store establishments are chosen only after scientific research. Agents are sent to the town or city when there is the possibility of starting a new store and an analysis is made of travel, of present stores, of most common routes of foot traffic, and location of depot, postoffice and banks. The choice locations enjoyed by Liggett's, Schute, Woolworth, Atlantic and Pacific Tea Company and all other chains, have not been mere chance but scienti-
fic arrangement.

When a well known chain starts its first store in a certain locality, people at once trade with it because of its reputation in other cities or towns. Its good-will is there the first moment it opens. When an independent retailer opens a new store he must build up a reputation so that he may get the good faith of the people.

The majority of the people which constitute the middle and lower classes gladly trade with the chain stores because of low prices. They are willing to go to the store and carry home their purchases. The chain stores deal with the customers on a strict cash basis and thus the consequent elimination of expenses for bill collectors and bookkeepers. This permits the chain to make the price more attractive with less sales resistance.

Standard brands always appeal to the customers. The chains associate their name with that of a nationally advertised brand. In this way the public are attracted and often the chain sells their own brand if possible. Some chains do little advertising of national brands but rather stand beyond their own private brands. The Kroyer Grocery and Baking Company rarely mentions national brands.

This modern means of distribution on a large scale has been made possible since the chain stores have committed themselves to a policy of selling what the public demands. The real demand for any commodity is the quantity which buyers will purchase at a specific price. Chains spend thousands of dollars to experts who study

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1 Copeland, Melvin T., Principles of Merchandising, p. 332.
the changes in society which will effect a definite demand. The
wants of the customers are stimulated by aggressive merchandising
methods. In this way larger amounts are sold. National advertis-
ing does away with local demand to a certain extent but the sugges-
tions and opinions of customers in certain localities are sometimes
instructive to help to suit the definite demand in that respective
locality.

Highly paid men do extensive research to try and correctly
anticipate the wants of the consumer. It is with success in this
that the chain is able to effect economies which result when the
flaw of merchandis meets the definite demands of the consumer. The
large chain because of its superior organization and administration
is able to afford to pay for the services of highly trained experts
in buying, selling, financing, and choosing exceptional sites for
new stores. The expense of such services can not be had by the
small independent retailer because the amount of his business does
not warrant the investment. Such an expense to a chain system is
joint and the advantages are shared by each and every member of
that chain.

Chapter III

At the close of the late war, the buying power of money in
the United States dropped nearly fifty per cent.¹ The average per-
son with only ordinary financial means was forced to spend his money
more wisely and more economically. The workingman's home was the

¹ World's Work, January 1929; C. W. Steffler, p. 83.
first to feel the shock. The low prices of the chains became most attractive to the housewife. Heretofore service was sought by the average home with the extra price because of conveniences only secondary. But when the chain store prices were recognized by especially those who had to save because of necessity, the demand for service fell beneath the slashing of prices.

The chains wield great merchandising influence. At present most chain stores are located in densely populated areas. The people who criticize unfavorably the chain stores are usually those who do not know what social and economic needs the modern chain is filling. The unemployment of 1920 and 1921 resulted in a class who were forced to save of dire necessity. This gave great impetus to those chains which dealt with the necessities of life. Consequently, it is only natural and logical that the grocery chains grew by leaps and bounds. From 1895 to 1920 the great middle class and lower class had insisted on service but from 1920 on they were glad to forego this for price.

Better transportation is making more flexible and more speedy the function of distribution. The worry that was formerly shared by manufacturer as regards getting his output into the market at the definite time of demand has been lightened by better freight service, motor vans and good roads. The railroad rates have been cut down and a more efficient operation has increased their net returns. Central warehouses permit supplies at short notice. Short hauls of supplies

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1 Baxter, William J., Chain Store Distribution and Management, p. 2.
<table>
<thead>
<tr>
<th>Year</th>
<th>Twenty Seven Grocery Chains</th>
<th>Five &quot;Five and Ten&quot; Stores</th>
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<tr>
<td>1919</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1920</td>
<td>146</td>
<td>120</td>
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<td>1921</td>
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<td>123</td>
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<td>1922</td>
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<td>227</td>
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<td>1927</td>
<td>389</td>
<td>249</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Nine Drug Chains</th>
<th>Three Cigar Chains</th>
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<tbody>
<tr>
<td>1919</td>
<td>100</td>
<td>100</td>
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<td>1920</td>
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<td>132</td>
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<td>1921</td>
<td>123</td>
<td>132</td>
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<tr>
<td>1922</td>
<td>127</td>
<td>128</td>
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<tr>
<td>1923</td>
<td>144</td>
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<td>168</td>
<td>141</td>
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<tr>
<td>1926</td>
<td>196</td>
<td>154</td>
</tr>
<tr>
<td>1927</td>
<td>221</td>
<td>154</td>
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</table>

1 1928 Chain Store Retail Trade Indexes, Federal Reserve, Base Year 1919 = 100.
is usually done by trucks owned or hired by the chain. Some stores have a complete stock turnover more than once a month. Chains have been centered in cities and large towns up to the present time but are now spreading to suburbs and towns because of increased facilities of transportation.

Nearly every element of business is today concerned with the problem of distribution. Business everywhere seems to tend to concentrate in larger units. There is no doubt that the great increase in chain store sales does not necessarily mean prosperity but rather a shifting of business from the small to the large store. Where the chain stores open new units, some show little gain of sales per store but rather an increase in aggregate sales because of new links in the system. The five and ten cent store field have little or no competition from independents because it is impossible for a single store not connected with a chain to give variety and values obtained in the five and ten cent chain store field.

Mass buying of consumer has aided the low price which he rightfully deserves. The chain store is an institution which is the result of the evolution of economic forces and is a necessity to society. The chain is filling a great need today especially in the grocery, drug and clothing fields.

Records of the Federal Reserve Board show that grocery chains operating 29,958 units in October 1928, showed an increase in volume of twenty and one tenths per cent over the corresponding period of

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The Great Atlantic and Pacific Tea Company

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td></td>
</tr>
<tr>
<td>1914</td>
<td>$31,299,124</td>
</tr>
<tr>
<td>1916</td>
<td>76,430,565</td>
</tr>
<tr>
<td>1918</td>
<td>125,993,564</td>
</tr>
<tr>
<td>1919</td>
<td>151,691,919</td>
</tr>
<tr>
<td>1920</td>
<td>194,645,959</td>
</tr>
<tr>
<td>1921</td>
<td>235,303,887</td>
</tr>
<tr>
<td>1922</td>
<td>202,433,531</td>
</tr>
<tr>
<td>1923</td>
<td>246,940,873</td>
</tr>
<tr>
<td>1924</td>
<td>302,889,369</td>
</tr>
<tr>
<td>1925</td>
<td>352,093,342</td>
</tr>
<tr>
<td>1926</td>
<td>Estimate 420,000,000</td>
</tr>
</tbody>
</table>

1927 although the increase in number of units was but five and five tenths per cent. Walgreen Drug chain sales has averaged over ten thousand dollars increase yearly for the past five years. This chain has recently opened several stores in New York and has already started a price war with the Liggett chain.

The most rapid growth of the chain store has taken place in the grocery, drug, five and ten, dry goods, tobacco and confectionery lines. There have been several outstanding causes for such marked progress in these respective fields. There is a great definite demand, very little fluctuation in times of depression, all are convenient for the "cash and carry" type of merchandising, the turnover is very rapid and because of the latter little capital is necessary. All the above mentioned fields may be classed as necessities excepting candy and tobacco and yet these may be classed as semi-necessities. The standard quality of the goods with a definite demand enables chains to make quick turnover. The average grocery chain requires only about thirty five hundred dollars per store. This is due chiefly to easy access to quick supplies from warehouses.

Although drug chains sell many necessities and convenience goods yet they carry many specialties. The latter causes additional capital and the average chain drug store has an investment of forty to fifty thousand dollars. Likewise clothing stores carry many specialties which necessarily retard the speed of turnover. The location of a chain drugstore should determine whether or not the stock should be largely convenience articles or shopping goods. If the store is located in a large apartment it would seem logical that the
Annual Sales and Number of Stores

F. W. Woolworth Co.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
<th>Number of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>$50,841,547</td>
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</tr>
<tr>
<td>1911</td>
<td>52,616,124</td>
<td>596</td>
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<tr>
<td>1912</td>
<td>60,557,768</td>
<td>631</td>
</tr>
<tr>
<td>1913</td>
<td>66,228,072</td>
<td>694</td>
</tr>
<tr>
<td>1914</td>
<td>69,619,669</td>
<td>737</td>
</tr>
<tr>
<td>1915</td>
<td>75,995,774</td>
<td>805</td>
</tr>
<tr>
<td>1916</td>
<td>87,089,271</td>
<td>920</td>
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<tr>
<td>1917</td>
<td>98,102,857</td>
<td>1,000</td>
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<td>1918</td>
<td>107,179,411</td>
<td>1,039</td>
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<tr>
<td>1919</td>
<td>119,496,107</td>
<td>1,081</td>
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<td>1920</td>
<td>140,918,981</td>
<td>1,111</td>
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<tr>
<td>1921</td>
<td>147,654,647</td>
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<td>1922</td>
<td>167,319,265</td>
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<tr>
<td>1923</td>
<td>193,437,448</td>
<td>1,260</td>
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</table>

1 Copeland, Melvin T.; Principles of Merchandising, 1924, A. W. Shaw, New York, p. 35.
shopping items should be given chief consideration. If the store were located at a train terminal, convenience goods would be in demand and consequently, the stock would be planned accordingly. Novelty merchandise entails added capital and specialities also tend to make the investment of a drugstore between thirty or forty thousand dollars.

The progress of the five and ten cent store chains has been second to the grocery field. The variety of goods and the values have made it impossible for any small dealers to have any real success. F. W. Woolworth is the leader of such chains in the United States. The high wages during the war gave a great opening to a variety store which before had a slow progress. When readjustment took place at the close of the World War, the average buyer found that the values offered in the five and ten could not be duplicated by the independent. To the poor classes, a sacrifice of quality was gladly made to obtain a certain article that would be good enough to get along with. Since 1913, Woolworth has doubled their number of stores, Kresge has trebled theirs, McCrory doubled theirs and Kress added about a fourth to their 1913 total.

The confectionery chains stress a single brand. This is due to the great competition of candy chains and the most effective way to attract people to a certain chain is by advertising a special brand. Folks usually buy candy wherever they are when they want it and the chains such as Fanny Farmer and many others are trying to

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1 Baxter, William J.; Chain Store Distribution and Management, p. 113.
educate the public that they have the best. Locations for such stores are usually near theaters and other such places.

Most chain systems are the evolution of a few stores with their founder as the directing influence. Those speculators who have entered the chain field to make money and have little knowledge of its nature have usually been unsuccessful. The narrow margin of profit demands adequate methods, merchandise control, and skill of management.

Chapter IV

In 1914 there were twelve thousand eight hundred and fifty one independent retailers who went into bankruptcy. They failed owing one hundred and sixty six million. At that period mass distribution through chain outlets on a large scale was only beginning. In 1927 there were sixteen thousand and eight two independent failures who owed two hundred and twenty eight million, one hundred and ninety four thousand dollars. The fact that chains do only fifteen percent of the mercantile business shows clearly that the chains are not directly responsible for the small retail failure. It is caused rather by forces within which are unscientific and unbusinesslike. Poor buying, improper management and inefficient merchandising are some of those failings of the small merchant which are bound to result in failure.

The United States Census Bureau through its Census of Distribution showed explicitly the condition of the small retailer's business by a survey in 1928. It showed that there are many retailers
in the country who are barely making a living for themselves and who tend to increase the cost of living for others. A like study was made by Professor Palmer at the University of Nebraska. In his survey he found that out of two hundred and two retailers that he studied and analyzed, that fifty nine per cent of those who had sales less than thirty thousand dollars a year, and forty per cent of those having sales ranging from thirty to sixty thousand dollars were operating at a loss. It is evident that local wealth can not be conserved with such a state of conditions existing.

The independent retailer sustains many losses because of a slow turnover. The following are some of the effects of a slow turnover:

(1) Capital tied up in stock
(2) Interest on inactive capital
(3) Depreciation of goods
(4) Losses on markdowns
(5) Extra salaries
(6) Handling charges
(7) Rent and storage
(8) Insurance
(9) Stagnation

**Annual Rate of Turnover by Independents**

<table>
<thead>
<tr>
<th>Merchandise</th>
<th>Per Year</th>
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<tbody>
<tr>
<td>Grocery</td>
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</tr>
<tr>
<td>Drugs</td>
<td>2.3</td>
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<tr>
<td>Tobacco</td>
<td>5.0</td>
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</tbody>
</table>
In a study completed in May 1928 it was found that in eleven cities, twenty eight per cent of the retailers annually did less than five thousand dollars worth of business each and eighteen per cent of this same group of retailers did between five thousand and ten thousand dollars. It was found that forty six per cent of the total number of stores in operation in these eleven cities did only five per cent of the total business. In these same cities the chain units made up only fifteen per cent of the total number of stores. It may be deduced from this that the number of stores in any community does not necessarily mean that it is prosperous.

The Harvard Bureau of Business Research has found from analysis that where the independent grocery retailer spends one dollar for the purchase of merchandise from the wholesaler, the chain store pays only eighty eight cents. This bureau also found that the average independent has operating expenses that amount to seventeen and three tenths per cent of his sales. Dr. Paul H. Nystrom, Professor of Marketing at Columbia, who is an authority on merchandising, has made an investigation for the United States Chamber of Commerce and found the average chain has operating expenses of only fifteen per cent of the sales. Dr. Nystrom also found that the chain's average profit was but two and seven tenths per cent whereas that of the independent was one and eight tenths per cent of his sales.

The average chain grocery store does twice the volume of business that the average independent does. Thus the operating expenses lessened in ratio to increased volume of sales.

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1 United States Bureau of Census, 1929.

2 Harvard Bureau of Business Research, 1929.
The chief function of any retailer is to keep his cost of sales as low as possible to allow those who uncovered this wealth to retain as much as possible. The real worth of any community is produced by the factories, farms, mines, forests and fisheries in that section and to keep that place prosperous and happy the merchant should not take too much of that wealth from it. It is because of the failure to do this that even today in this supposed prosperity many men and women are without proper food and clothing.

Aims of a Model Chain Store

(1) Our purpose is to make easy for the public to buy.
(2) We display those goods most wanted by customer.
(3) The customer is always right.
(4) Sales determine the counter space given to an article.
(5) We never force sales.
(6) We have only one or two non-selling employees to a store.
(7) If a store is not paying, we drop it.
(8) We grade up standard selling practice in all our stores.
(9) We use improvements and suggestions of salespersons and customers.
(10) Practically our whole organization is built from the inside.

The independent retailer has failed to recognize the decisive line of division between price merchandising and service merchandising. The chain sells on a price basis whereas the independent retailer sells on a service basis. When a chain opens in a new community it will immediately obtain trade. Some of this trade will

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1 H. T. Parsons, President, F. W. Woolworth System, July 1925.
be received from the former customers of the independent retailer. If there are too many small retailers in that section, the weaker will be the first to fail. The cause of these failures can not be directly blamed on the chain but rather because of the weakness of the small retailer to compete with other independents.

There are certain fields of merchandise where the chain has made little or no progress. Hardware, jewelry and perishable food products are some of the most noticeable who thus far have few, if any chain outlets.

Chain meat markets are as yet comparatively few since local supply often has to be used. Perishable foodstuffs offer no attraction to chain stores because the uniformity of the stock is lost when the retailer has to supplement his stock with local produce. Generally speaking the chain is not investing in those fields where there is a slow turnover or where there is a probability that uniformity of stock might be lost.

A chain that is successful has accomplished it only because it supplies a want that is definite and demanded by the masses of the people. It is because of this fact that the volume of chain store sales has increased so rapidly.

The chains in a broad sense have recognized the moral obligation that rests upon it as far as community and civic affairs are concerned. They realize it is a sound investment for them to take part in local business organizations and welfare work.

The Great Atlantic and Pacific Tea Company is a typical of what the real large chain has seen wise to do. This company annually places a definite fund at the disposal of each manager in
each store. He is supposed to allot his fund wisely and in a worthy manner in his locality. The general policies of chains is to donate funds to local welfare work and induce their local representatives to take an active interest in merchants associations. It is natural that some neglect this duty. Many chains offer excuses which appear to be merely selfish defenses containing little that is convincing. Some chains claim their managers are incapable of distributing a fund wisely. These chains do not deny the fact that they owe some help to local welfare work but rather would make it seem a difficult task to spend a few dollars for some obvious need. Some chains claim they give freely to charity at the home office.
<table>
<thead>
<tr>
<th>Number of Cities</th>
<th>Stores operated Member in Chamber of Commerce</th>
<th>Per cent of Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>49</td>
<td>21</td>
<td>43</td>
</tr>
<tr>
<td>26</td>
<td>25</td>
<td>96</td>
</tr>
<tr>
<td>20</td>
<td>17</td>
<td>85</td>
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<tr>
<td>58</td>
<td>12</td>
<td>21</td>
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<tr>
<td>18</td>
<td>2</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>24</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>22</td>
<td>0</td>
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<td>13</td>
<td>0</td>
<td>0</td>
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<tr>
<td>7</td>
<td>1</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>5</td>
<td>83</td>
</tr>
<tr>
<td>11</td>
<td>5</td>
<td>45</td>
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<tr>
<td>19</td>
<td>0</td>
<td>0</td>
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<tr>
<td>5</td>
<td>5</td>
<td>100</td>
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<tr>
<td>12</td>
<td>2</td>
<td>16</td>
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<td>12</td>
<td>9</td>
<td>75</td>
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<tr>
<td>11</td>
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<tr>
<td>12</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>25</td>
<td>9</td>
<td>36</td>
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<td>5</td>
<td>31</td>
</tr>
<tr>
<td>26</td>
<td>22</td>
<td>84</td>
</tr>
<tr>
<td>10</td>
<td>5</td>
<td>50</td>
</tr>
</tbody>
</table>

1 Printers' Ink, January 19, 1928, p. 93.
Chapter V

It is clear that the chain has numerous advantages over the small retailer. The former has a stronger financial organization, a multiplied efficiency in operation, a greater buying power and a highly standardized selling system. The difference between the chain and the independent retailer in purchasing methods is a difference of degree rather than of kind.

Chain stores are able to effect some economies because they buy directly from manufacturer. This large-scale buying direct necessitates the chain store to assume duties of retailer and wholesaler too. The salesman and clerks in stores need no great ability due to highly organized system. The high rate of turnover enables a low margin of profit. It is the lack of this asset that greatly handicaps the independent retailer.

The chain system of retailing has the following advantages because of this rapid turnover:

1. Capital is very active.
2. Little depreciation.
3. Less insurance to pay.
4. Less salaries and wages to pay.
5. Less storage.
6. No mark down sales
7. Fresh up to date stock.
Turnover

(Complete Stock Turnover)

<table>
<thead>
<tr>
<th>Stock</th>
<th>Annual Rate of Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco</td>
<td>50</td>
</tr>
<tr>
<td>Grocery</td>
<td>40</td>
</tr>
<tr>
<td>Drugs</td>
<td>12</td>
</tr>
</tbody>
</table>

The mere fact that a business is large does not necessarily mean that it is highly efficient but the chances are that a chain is large because it has been efficient.

This quality in this system of merchandising is the foundation upon which modern industrial progress has been reared. The perfecting of a detail in business is often that margin by which a business has reached real success. The period of extreme depression following the late war took its toll with little mercy of those manufacturers, wholesalers, and retailers who had neglected this major consideration, efficiency.

Mr. Charles Dunn, counsel for both the American Grocery Specialty Manufacturers Association and the National Association of Retail Grocers, sent a lengthy telegram to the National Chain Store Association in the convention at Memphis last October and declared: "I believe that the principle of chain store retailing is economically sound, and, in due application, progressively works for the constructive improvement of the retail business as a business; that in its elementary economic conception the chain store is but a natural, logical and inevitable evolutionary development of retailing, directed to introduce scientific merchandising into
it and make it more effective to all concerned; that the success
of the chain store is basically due to its economic soundness;
that the permanency of the chain store is beyond question, and the
only economic question is how far it will go and how it will e-
volve."¹

Dr. Paul H. Nystrom of Columbia has estimated that all chains
in 1928 did approximately six billion two hundred million, or fif-
teen per cent of the total volume which he estimates at forty one
billion.²

In 1926 the same professor made an estimate that all chains
did four billion, eight hundred million for that year which was
twelve per cent of the total volume of forty billion. Thus a gain
of twenty six per cent is shown in favor of the chain with only two
and one half per cent increase in the total retail business as a
whole.

Various Outlets of Merchandise in 1926 and 1928

<table>
<thead>
<tr>
<th></th>
<th>1926</th>
<th>1928</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>6.6</td>
<td>6.5</td>
</tr>
<tr>
<td>Chain Stores</td>
<td>4.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Mail Order Stores</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Unit Stores</td>
<td>25.5</td>
<td>25.2</td>
</tr>
<tr>
<td>All Other</td>
<td>1.5</td>
<td>1.7</td>
</tr>
</tbody>
</table>

(Units in terms of billions) 40. 41.

² Chain Store Age--January 1929, p.. 27.
Professor James L. Palmer, Professor of Marketing, Chicago University has made an estimate that the total chain store volume today reaches nearly ten billion.

This would be much higher than twenty per cent of the total retail volume. The average of Nystrom's and Palmer's estimates would be seven and one half billion which would be about eighteen per cent of the country's retail trade.

The merchandising achievements of chain stores is a most successful system of distribution the result of years of study, experiment and scientific analysis to produce the largest number of sales with the least sales resistance. It would seem better for the gradually sinking independent, who is inefficient and failing, to join a chain if possible. The independent retailer has many advantages over the chain system but these are not as essentially important as the advantages that the chain holds over the small retailer. The outstanding advantages of the single merchant is that he can be on the job and direct, and give personal advice.

The contact with customers made should advance him and increase chances of additional sales providing he has a likable personality. What the chain stores try to do through the mail, the single store does with personal contact from the owner.

Most of the present day chains are of the retail type which operate their own warehouses and perform the functions of the wholesaler. There are also a few manufacturer's chains which producers control themselves as a means to sell to the consumer their own manufactured goods. In such a case we have the chain as manufacturer,
wholesaler, and retailer. This system is employed by the Louis K. Liggett Drug Company which has a controlling interest in the United Drug Company. The Regal Shoe Company is likewise operated.

Warehouse efficiency is a chief influence in a chain system. The directors of the chains realize that low prices are here to stay. Because of this it has been found necessary by them to increase the efficiency of their warehouses. Thus various time savers will be installed to effect a faster delivery of goods to fill the orders of the unit stores. An excellent example of the modern chain store warehouse operating is that of the First National Stores, Inc. located at Somerville, Massachusetts. This single warehouse supplies seventeen hundred stores. The fact that twelve hundred of these stores are within a twenty mile radius of Boston, it gives exceptional opportunity for service to member stores at a relatively low cost for transportation.

The installation of this center of supply has saved from twenty five to thirty per cent in transportation.

The year 1928 has been the most successful year in all chain store history. The Hahn combine, which is the largest consolidation in any chain system, will share the assets enjoyed by other chains. Mr. Lew Hahn, former editor of Women's Wear and executive secretary of the National Retail Dry Goods Association, for ten years, was in an excellent position to become acquainted with the leading depart-

1 Chain Store Review, Hahn Chain, p. 5.
ment store owners in this country. He saw that only in a chain system under central control could these various associations render the most valuable service.

Hahn Department Chain

Jordan Marsh Company
C. F. Hovey Company
L. S. Donaldson Company
The Bon Marche
The Golden Rule
The Rollman Sons Company
Herpolsheimer Company
Litche, Goettinger Company
O'Neil Company, Inc.
Quackenbush Company
The A. Polsky Company
The Morehouse-Martens Company
The James Black Dry Goods Company
Riedge and Guenzel Company
The Meyer's Company
The L. H. Field Company
F. N. Joslin Company
The Muller Company
A. E. Troutman Company
Louis Samler Company

Boston, Massachusetts
Boston, Massachusetts
Minneapolis, Minnesota
Seattle, Washington
St. Paul, Minnesota
Cincinnati, Ohio
Grand Rapids, Michigan
Dallas, Texas
Baltimore, Maryland
Paterson, New Jersey
Akron, Ohio
Columbus, Ohio
Waterloo, Indiana
Lincoln, Nebraska
Greensboro, North Carolina
Jackson, Michigan
Malden, Massachusetts
Lake Charles, Louisiana
Greensburg, Pennsylvania
Lebanon, Pennsylvania

1 Chain Store Review, January, 1929, p. 3.
The Welber Company                   Columbus, Ohio
Wright-Metzler Company               Connellsville, Pennsylvania

The buying power, goodwill, sales research, interchange of
statistics, executive ability and centralized finance of the en-
tire chain will be at the disposal of each respective unit. Some
of the stores of the great Woolworth chain have met with failures
in certain unsuitable localities. Because of the failure it was
costly to the company yet the Woolworth Company have never had a
bad year. The few stores that lose are offset by the hundreds
that are successful. Likewise, because the Hahn Chain has made a
wise choice of its member stores, they are well distributed, geo-
graphically, extending from Boston to Seattle and from Greensboro,
North Carolina to Dallas, Texas.

Chapter VI

To predict absolutely the future of the chain is impossible
because of the chances offered both the chain and the small retailer.
Should the small retailer remain to be lax in efficiency and fail
to keep up with changing conditions, he will soon find himself out
of a position. The probability is that eventually chain will com-
pete against chain with the independent store making only a fair
progress in the background. Consequently, each respective chain in
their fields will compete with his fellow chain. For both to re-
sort to underselling in the extremem to kill off the other would be
suicide for both. The chains will most probably give out service on a scientific basis. Since the spread of chains has been mostly restricted to densely populated areas. When the limit in volume of "cash and carry" has been reached, further expansion there will cease until there has been a sufficient increase in population.

The continuance of the chain's rapid progress is certain for several years. The extent of success gotten by co-operative buying associations will be the dominant factor in giving the chain real competition. Since the stronger asset of the chain is efficient distribution and not mass buying alone, it seems the small retailer will be judged by a "business selection", of the "survival of the fittest", and the lesser independents will drop out of view in the order accordingly to their respective weakness. Thus their downfall will not be directly due to their inability to cope with the chain but with their fellow independent retailers because of internal weakness. The small retailers can with proper cooperation and organization save themselves. If this is done they will enjoy successful business but can never hope to equal the typical chain store. In short, the small retailer must face squarely the facts and then set out to solve the problem. If the small retailer wish they could join the chain and enjoy the profits of a modern institution that is powerful and resourceful. They could retain their old customers both to the advantage of the chain joined and to themselves.

The degree of success which the chain store will attain in competition with other chains will ultimately be determined by the
effectiveness of the management. The chain which will be the most
successful is the one which can install and perfect a method of
control which will be accurate, economical and simple. Future ex-
pansion will be in the South and West. This is due chiefly to the
increased facilities of transportation. At present the majority of
small towns which comprise most of those sections are as yet sup-
plied by mail order houses.

The wholesaler is going to be the independent merchant's
buying specialist. It is in this way alone that the independent
can wage successful competition against the chain machines. It
would be to the best interest of the wholesaler to sell to the in-
dependent dealer at the lowest possible price to enable the small
man to compete with chains. If this can not be realized, the
chain will soon be dictating more than at present to the manufac-
turer and wholesaler. If the independent retailer and the whole-
saler work together in this way the advantages of large buying
power of the chain store will be reduced to a minimum.

The future of the wholesaler will be one in which he will
give help to the independent as the chain helps its stores. If
there is a mutual appreciation of wholesaler and small retailer of
what they can do in united effort, the future competition of the
chain will be much greater. The small retailer has recognized
the strong points of the chain and in his own small business he
can see only his weaknesses. Initiative and self-interest on
the part of independent with co-operation with wholesaler will almost parallel the chain's great organization with its hired managers.
Summary

The chain store has reached a marked position in the field of merchandising. It has made itself felt by the independent. Such a sound, scientific and up-to-date institution has an unlimited future. Although the form of the chain system has been perfected by experts, yet the reality of the chain is that present economic forces have created a demand for such a type of merchandising. The chain may expect keen competition from the independent because of the latter becoming better acquainted with the possibilities that can be given it by the wholesaler. Certain chains have made faster progress because of the definite demand for certain articles has lessened the sales resistance and it is in those respective fields that the chain has specialized. The grocery, drug, and five and ten cent stores are the most developed.
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