The menace of the chains, a discussion of chain store distribution and its serious menace to the manufacturer, whose business success depends on his finding and keeping a market for his product.

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SUMMARY

This book depicts **chain stores** as "powerful, aggressive and ruthless selling organizations." In Chicago alone, **chain** groceries grew from fifty to twelve hundred within a period of ten years. Nationwide, drug**stores** grew from twenty-five to two thousand from 1900 to 1923. Because of their advantageous locations, pricing, and management and distribution practices, this work claims, **chain stores** have taken up 65 percent of the retail market. To survive, manufacturers must rely on advertising, quality, and service to sell products directly to consumers, foster consumer brand preferences, and create consumer demand, thereby returning **chain stores** to their former position as intermediaries in the retail economy.

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The MENACE of the CHAINS

A DISCUSSION OF CHAIN STORE DISTRIBUTION AND ITS SERIOUS MENACE TO THE MANUFACTURER, WHOSE BUSINESS SUCCESS DEPENDS ON HIS FINDING AND KEEPING A MARKET FOR HIS PRODUCT

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FORWORD

TO many persons, the chain stores are the object of suspicion, envy, hatred. To others they are a great boon. To still others they are an active menace that threatens their business life. To everyone engaged in the production or distribution of goods they are one of the most complex problems of twentieth century merchandising.

This book is written to contribute, if possible, new light on a perplexing problem. Its purpose is to point out to the manufacturer the particular menace of the chain stores *to him*. It is written to show the chains in their true light, to analyze their economic significance, and to point the remedy for the serious perplexities for the manufacturer arising from their amazing growth in the past few years.

It is a question now whether or not many manufacturers shall control the market for the things they make, or lose their market to a selling organization, powerful, aggressive, ruthless, whose purposes are diametrically opposed to their own. The

chain stores will live. For the manufacturer it is life or death.

It is hoped that this little book will help clarify the present situation, and discover the way, through better understanding of the problem, to bigger, better, and sounder business.

The MENACE of the CHAINS

Chapter I.

Chain stores are merely *big* stores with multiple outlets.

The big downtown store, by reason of its central location, its prestige, and its aggressive preselling to the consumer, is able to bring its customers to it. The chain stores take the store to the customer.

The chain store is fundamentally sound. Multiple retail outlets and high-pressure selling give volume. Volume gives advantageous buying power and commensurate selling advantages. Size gives opportunity for economical operation and efficient management. The chain stores have matched the mass production of the modern manufacturer with *mass distribution.*

Most retailers, in spite of their rising gorge at the aggression of the chains, secretly cherish the ambition that some day, when they get their one store on a highly profitable basis, they can take the surplus and open another store in another

neighborhood. It is the best way to grow big. If one store is profitable, ten stores will yield ten times the profit.

The whole trend of business in the past two decades has been toward consolidation and the amalgamation of smaller units into bigger ones. In the terrific competition of modern selling, the larger units can compete successfully with each other. But the little fellow is unmercifully squeezed in the battle of the giants.

The origin of the chain store system of merchandising is lost in antiquity. Rome probably had them. Certainly they were a factor in the flourishing commercial cities of the Middle Ages. We have always had chain stores, that is retail stores with multiple outlets to the consumer, in America. Yet in the past twenty years the chains have grown from isolated, loosely organized groups into the dominant single factor in American retailing.

In Chicago there were 50 chain groceries ten years ago. Today there are more than 1,200—and the number is increasing daily.

In Philadelphia twelve years ago the chain stores handled about 10 per cent. of the retail

grocery business of the city. Today they handle more than 65 per cent. of it.

Ten years ago there were 600 chain stores in New York. Now there are 6,500 chain groceries (more than 30 per cent. of all the grocery stores in New York), and they did more than $250,-000,000 business last year. That was more than 65 per cent. of the retail food business in the city.

The chains are not growing in the big cities alone. The Great Atlantic and Pacific Tea Company—the "A&P"—operates in many smaller cities and ruins the peaceful sleep of many a local merchant who has grown gray in the service of his community. In 1916 there were 2,800 A. & P. stores; in 1920, 4,500; in 1922, 6,800—and now more than 10,000. The Kroger chain of grocery stores did a business of $90,000,000 last year.

Chain store sales increased 18 per cent. in 1923 over 1922.

There are now more than 45,000 chain grocery stores in the United States, and new ones open their doors in new neighborhoods every day.

Nor is the grocery business the only one in which the chains are rapidly annexing the lion's share. Drug chains are less numerous, but in their communities they are just as powerful, just as aggressive and successful.

In 1900 there were just 25 chain drug stores in the United States. Now there are more than 2,000—and they transacted 20.6 per cent. of all the retail drug business in the United States in 1923, according to the Harvard Bureau of Business Administration.

There are 48,713 drug stores in the United States. The chains number only four per cent. *Yet this four per cent. of the stores do more than a fifth of the total business!*

The trend toward chains is world-wide. Paris has its cafe chain, the Cafes Biards, and the Duval restaurants. England has its chain of 650 Boots' Chemists' Shops and the Lipton chain of 3,000 coffee and tea stores.

In America there are names to conjure with in the world of business: Atlantic and Pacific, Piggly Wiggly, Kroger, Liggett, Penney, Grant, United Cigar Stores, Childs. Or Miller & Wohl, S. H. Kress, Kresge or Woolworth.

Chain stores are sound. The idea back of them is sound. The way business is constituted at present, nothing gets a price reduction so quickly as a big order. No seller is proof against the lure of big orders, because they mean volume production and that means, in turn, lowered production costs. Chain stores enjoy low prices because they buy so much. *And they buy direct.* They have eliminated the middleman between them and the producer. We know of one chain that bought $1,850,000 worth of goods in a single order and paid for it with a single check!

Bigness means efficient management. The scope of the operations of your chain of stores is so great that they can attract to their ranks the same high-grade executive personnel that other big businesses command. They have opportunities for rigid economies, strict management and accounting, and intelligent supervision that smaller businesses do not have. The J. C. Penney Company handles the bookkeeping on its annual volume of $63,000,000 with thirty-three clerks at a cost of less than two-fifths of one per cent.!

These are important, but the fundamental justification for the chain stores and the system they

represent is in the lowered cost of merchandise to the consumer. No business—of any kind—can succeed without the good will of the consumer. The chain stores have it. Individually, and collectively, the private consumer has enthusiastically endorsed the chains. *He can buy at the chains for less.* The lowered costs of distribution effected by the chains have been an important economic saving for the nation.

With the private consumer, from Maine to California, howling lustily for lower prices on the necessities of life, less of the appalling waste between producer and consumer, and increased purchasing power for his hard-earned dollar, the chains have remedied in part a situation which was becoming disastrous for the consumer.

Yet, with all these benefits from chain store distribution, there is a menace of gravest consequence in them for the manufacturer. Later chapters will show it.

The chains have come to stay. Make no mistake about that. He who doubts it cherishes an illusion that is emphatically at variance with the facts.

The reasons why the chains are here to stay are simple and believable:

1. Chain store distribution has decreased the cost of merchandise to the consumer. And it is by, for, and through the consumer that all business exists. *The people want the chains to stay.*

2. The chains are efficiently and intelligently managed. They have the capital to expand almost at will. *The chains want to stay.*

3. The chains are economically sound. They reduce the costs of distribution, by eliminating middle steps and profits.

4. The chains now have the momentum to grow more powerful. They are obeying economic laws. And they are irresistible.

Right now the chains are a disturbing element. But as soon as our delicate economic structure has assimilated these brazen, precocious intruders and we have readjusted our old ideas of doing business to the new order of things, *everyone* will benefit.

Chapter II.

The significance of the chains as a retail outlet for the manufacturer is indicated in the annual volume of their business quoted in Chapter I. If 20 per cent. of the products sold through drug stores in the United States are sold through chain stores, the manufacturer who does not sell the chains has only an 80 per cent. market. If the chain grocery stores sell 65 per cent. of the foodstuffs, as they do in some localities, the manufacturer has less than a 35 per cent. market there, without them.

The manufacturer who does not sell the chains is facing a vanishing market.

The chains are an indispensable market. Without them no one can secure representative distribution. Distribution is the inevitable first step in selling. The consumer cannot buy the goods until they are put where he can get them.

To fight the chains, to belittle them, to ignore them, to underestimate their power or their future development are alike fatal. The lasting successes of the present and future will be based on a

complete understanding of the chain store system, and a willingness to meet them at least half way.

But strong as the chains are, secure as they may be in the fundamental economic soundness of their mission, they have a weakness, an Achilles' tendon, where the manufacturer can strike and pierce their armor. He can conquer their menace. The very rock of public good will upon which the business of the chains is built is the very same rock upon which the manufacturer can build. He can prosper and grow with them and through them and in spite of them. The method is discussed in the next chapter.

Chapter III.

Chain stores sell on price. Therefore, they buy on price. Anyone who has ever stormed the citadel of the chain's purchasing agent knows that he is shrewd, keen, calculating, close and stonily independent.

The great spread of their business, in communities of all classes, in cities and towns, has given them a tremendous amount of recorded experience upon which to base their buying. Guesswork is eliminated. So, too, are the rhetoric of the irresistible salesman. They have scientific, correlated data that is unanswerable by opinions, and as far as they care, infallible. From this vast experience they buy—usually at their own price.

Quality is secondary to price and turnover when you sell the chains. The chain store is not primarily interested in the intrinsic merit of goods it is offered. It is interested solely in the carefully pre-determined profit possibilities and the opportunity for quick turnover.

The chain store is perfectly willing to crucify the manufacturer it buys from in its own competi-

tive fight with other chains and the independent retailer. Any saving in price goes into the competitive battle. If the manufacturer is beaten down to a price that leaves him no profit whatever, that is his own misfortune.

This relentless insistence on price, this utter willingness to beat the manufacturer down to an actual cash loss, is the supreme menace of the chains. If you don't want to sell at their price, some one else will. Take it or leave it.

Refuse to sell the chains, you have a vanishing market. Sell them, and you face a disappearing profit.

We have emphasized this price situation because it is poignant to many manufacturers who have splendid products, but no market—because the market is controlled by the buyer of the product instead of the maker.

There is another side to chain store buying. Price comes first. But the chain store wants to buy goods that its millions of consumers want. They want quick sales, quick turnover, quick profits. Their narrower margin makes these things imperative.

There are certain products which the chain store must buy, regardless of cost. These are the products which enjoy such a steady and universal consumer demand that the chain store cannot afford *not* to carry them.

There are many excellent products on this favored list. Every chain store, wherever it is, whatever its business methods may be, *must* sell them. For example: Heinz food products, Shredded Wheat, Campbell's Soups, Prophylactic tooth brushes, Palmolive soap, Ivory soap and Crisco, Lux, Colgate's tooth paste, or Pepsodent, or Pebeco, or Kolynos, Cream of Wheat, Postum, Kellogg's Corn Flakes, Post Toasties—and many others. In different localities, certain local products have the same distinction, such as Pittsford Pies or Taggart's Bread in Indianapolis.

These and the others like them are the *must* list. By experience the chain store knows that if it disappoints the consumer when he calls for one of these he will walk right across the street where he *can* get it. And he will transfer his patronage there, too. Lose a customer on a 15-cent package of breakfast food and he will go elsewhere to buy

$2.00 worth of bacon, sugar, flour, coffee, soap, and canned goods.

The strength of the chains in buying is the tempting volume they can offer the manufacturer. Theirs is a strategic position. They have the whip hand. It means nothing to them if they force the manufacturer to sell at a ruinous price. They can do this on unbranded, unknown, un-named goods, whose maker turns them out into the world without his name.

The weakness of the chains, the rift in the lute, *for the manufacturer*, is that he can force them to carry his goods *at his own price* with the powerful bludgeon of a consumer demand that will not be denied. That means when he offers them branded goods—goods which bear his name, and for which he has created a *brand preference* with the consumer. The consumer can make or break the chain, the manufacturer or anyone in between by giving or withholding his buyinig.

Chapter IV.

There are three ways the manufacturer can sell the chains: (*1*) Price, (*2*) Quality and service, (*3*) Consumer demand. In these three things are bound up the success or failure of his business.

If the manufacturer is willing to surrender his market to the domination of the chains, to be a spineless producer of nameless goods for other people to buy at their own price, he can sell *on price.* It is dangerous business. Sell one order on price, and another, and another—presently the chain is buying practically the entire production, because the manufacturer has no incentive to seek for new markets when he has one big one. Gradually the price is reduced, because the chain appreciates the fact that they are the sole customer and can force lower prices. The manufacturer has played into the chain's hands. They control him. He has lost his original market. He cannot rebuild it out of the profits from his chain store sales, because there are no profits left. The end is in sight.

It is barely possible to sell the chains on quality and service. They do buy good merchandise, but

the quality is not the first consideration. They do buy where they can get good service, but their own vast warehousing facilities make service a minor consideration. So the two ancient business standards, quality and service, are slipping.

The manufacturer can take a different course. He can go over the chain's head and sell his product direct to the consumer, relegating the chains to their proper place as *his* middlemen, his *own* points of outlet to his *own* consumers. He can sell the consumer—that is, create and maintain their good will for his product, foster consumer brand preference for his brand, build an actual consumer demand for the thing he makes. This plan costs money. Money invested in advertising. But it is the only way to be independent.

Consumer demand—brand preference—gives the manufacturer the whip hand over the chains. They must have his product. It costs them invaluable good will and money *not* to have it.

True, the chains are inveterate substituters. One chain is notorious for its confirmed policy of substitution of their own private brand for the manufacturer's brand the customer asks for. They invariably quote attractive prices on branded, ad-

vertised goods, and quote a lower price on their own private brand right on the same shelf—their own private brand which they have wrung from some helpless manufacturer at their own ruinous price. They do this because by shrewd buying they can sell their own brand at a lower retail price and higher profit. But in spite of this pernicious practice the branded goods have shelf room and sell in enormous quantities because many customers refuse to be trifled with. They know what they want—and get it. Most consumers have a brand preference acutely enough developed that they will pay the higher price for the brand they prefer.

Can you imagine the chain store with the courage, or foolhardiness, or lack of wisdom, to try to force a substitute for Shredded Wheat? The hold of Shredded Wheat, and many other products of similar distinction, on the buying habits of the American people is too strong to tolerate substitution.

In fact, with an adequate consumer demand built up for a product, it isn't necessary to sell the chains. They buy of their own accord. They buy from *necessity*.

The easiest, most economical and most effective way to build consumer demand is with consumer advertising.

Chapter V.

No article is really *sold* until the consumer has exchanged his own money for it for his own personal use—and is satisfied with his purchase. "Selling" the jobber or the retailer is merely putting the product where the consumer can get it. It is merely one step in distribution—not in selling.

No manufacturer or wholesaler can expect a dealer to push his line. There are too many lines. There are too many manufacturers begging and pleading with the dealer to give their products a little extra push. There are too many of them who bribe him with extra discounts, display allowances, or hidden concessions. And even then the product that is pushed by an importunate retailer is never really *sold*. Because next week the retailer may be pushing a competitive product with equal enthusiasm! People don't react to the dealer's insistent recommendation like they used to in the old days when the dealer's word was their buying criterion. It used to be that unbranded goods were universally accepted on the dealer's

recommendation alone, or because they were wrapped in his particular shade of paper, or tied with his distinguishing twine. But not any more. The public suspects a longer profit (and consequently less value) on lines that the retailer pushes aggressively.

Dealer good will or enthusiasm can never again "make" a product.

The short cut is to go straight to the consumer—with advertising. It is cheaper. It is more effective. It really builds a market. Properly done, it is practically foolproof and infallible.

Consumer advertising goes clear over the heads of the middlemen and the retailer straight to the ultimate consumer—the real market. It is convincing. It is the most powerful single sales tool in modern merchandising. It is sales insurance.

Consumer advertising opens markets and maintains them in spite of all and sundry aggression of competitors. For example, take Kotex, a new and revolutionary product. It came on the market full-fledged, with advertising straight to the consumer, and set aside intimate, personal habits as old as the race. The advertising built the market. It maintains it. Its domination of the market is

so complete that the cost of successfully introducing a competitor would probably be prohibitive. It is now supreme in its field.

Granting the inherent merit of the product, the biggest single element in the success of Campbell's Soups, Coca-Cola, Camels, Palmolive, Victrola, Congoleum, Gillette, Postum, Kellogg's, Aunt Jemima, Sun-Maid, Sun-Kist, Heinz, Beech Nut, Jell-O, Pepsodent, Kodak, Cream of Wheat, Old Dutch, Uneeda, Del Monte, Prince Albert, Gold Medal, Van Camp's, Colgate's, Crisco, Wesson's Oil and Snowdrift, and fifty others, has been the everlasting advertising, the continuous, uninterrupted, straight-to-the-consumer *selling* that has overcome all obstacles. A recent survey of housewives in New York showed that 56 per cent. bought on brand—only 22 per cent. on *price*.

No one shall ever control the market for Post Toasties except the maker of Post Toasties. In every city and hamlet in the United States you can buy Campbell's Soups. Colgate's have practically 100 per cent. distribution throughout the United States.

Because these products are advertised to the consumer, no retailer, or group of retailers, *any-*

where, is strong enough to attempt to do business without them. Nor foolish enough to try!

Consumer advertising stabilizes price. That, too, is beneficial. Consider some article which is advertised in some community, or one of the trade areas surrounding a metropolitan center, or nationally, at a certain price. The consumer is sold on the product and the price, satisfied with the value it gives him. Suppose the price is 25 cents. The independent retailer can sell the product at 25 cents and everyone is satisfied. He cannot charge more than the advertised price for it, because he would quickly be tripped up and charged with profiteering. The chain store can sell the same product for 19 cents. To the consumer this is an indication of the superior value-giving ability of the chains. He knows the article is *worth* 25 cents, because the manufacturer has told him so. Buying a 25-cent article for 19 cents is a good buy.

Advertising helps stabilize the minimum price for resale by the retailer, too. Indiscriminate price cutting by retailers is dangerous to the success of a product of wide distribution. But advertising creates a demand the retailer is anxious to

fill (at a profit). When the dealer cuts prices so low they lead to suspicion on the part of the buyers, the manufacturer can threaten to stop selling the retailer, and because he has a genuine demand for his product he can frighten the price-offending retailer into line. *And because the retail price is stabilized by advertising the manufacturer's price is stabilized too.*

The manufacturer cannot be beaten down to a non-profit price because he has the solid rock of consumer good will, brand preference, to build upon. His market is steady. The peaks and valleys of production are ironed out because the demand is steady. The cost of manufacture is reduced. Selling costs are decreased. His business is insured.

Consumer advertising is an investment co-ordinate in importance with the initial investment in real estate, building and machinery. One is an investment in equipment that slowly and surely depreciates through its inevitable amortization. The other is an investment in a living, growing market—in the one thing that makes the plant useful. There is nothing so melancholy as a big plant, equipped to make a good product in

quantity, idly wasting away for lack of *a market* for the thing it makes.

A man who has a market and no factory can easily find a factory to make his product for him. A man who has a plant and no market must slowly and surely build one. There is only one way to do it.

Some few products are conceivably not advertisable. If careful, expert analysis shows that a product is *profitably* advertisable, the course is clear. Facts *first*—then consumer selling.

To summarize: The chains *must* buy merchandise their customers want. The chains are an important and are becoming the principal market. To sell the chains, and do it *profitably*, the manufacturer must have consumer demand, brand preference, for the thing he makes. Advertising is the only thing that will create it and maintain it.

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