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Aspects of the chain and independent store systems

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ASPECTS OF THE CHAIN
AND
INDEPENDENT STORE SYSTEMS

A Thesis

Submitted in Partial Fulfillment
of the Requirements for the Degree of
Master of Arts

By
George James Francois

August, 1921.

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The State University of Iowa.

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FOREWORD

Today the chain-store plan for conveying goods to the ultimate consumer competes with the old orthodox system of marketing. A study of this competition is significant because, first it is most fascinating from the viewpoint of business research, and secondly it offers an opportunity to appreciate the extent and methods of each system. In order to clarify the way in which the chain store plan actually operates considerable space will be purposefully devoted to sketches involving specific chain-store companies. The methods employed in acquiring the back-ground and material for this paper comprised the following:

1. Observation.
2. Reading.
3. Discussional conversation.
4. Questionnaire correspondence.
5. Use of store-experience.
In the procedure of dealing with the competition between the chain-store system of operation and the old orthodox system of marketing it will be profitable first to point out the structural opposition between the two systems, and secondly to indicate the extent and methods of each system.

In marketing there are three distinct classes of merchandise. The first division is comprised of goods for manufacture. The second type constitutes merchandise for equipment or for large-scale consumption. The third class includes that vast list of articles and commodities purchased by the individual or household members for immediate consumption. Since this third class of goods includes the articles and commodities for which consumers make expenditures day after day this class merits special study.

There are two chief types of activities necessary in the marketing of this third class of goods. Professor
Paul T. Cherington has outlined these activities as follows: 1

A. Elementary Activity.

1. Bringing together buyer and seller in a trading mood.
2. Contact completed only after several steps; two common types are:
   (1) Wholesaling and retailing.
   (2) Subdivisions of wholesaling steps.
      (a) Actual contact.
      (b) Artificial contact.
      (c) Indirect contact.

B. Supplementary Activities.

1. Merchandise functions.
   (a) Assembling.
   (b) Grading.
   (c) Storing.
   (d) Moving.

2. Auxiliary functions.
   (a) Banking and credit.
   (b) Assumption of risk.
      (1) Small amount of trade in futures.

3. Sales functions.
   (a) Equipment of sales place.

(b) Personnel of selling force.
(c) Relations with public.
(d) Sales to the consumer by individual transaction in small lots.

Analysis of this outline reveals the activities which occur as the goods pass from the manufacturer to the consumer. These activities have been classified into two types: the first is termed the "elementary" activity and has as its salient feature the purpose to effect changes in ownership of the goods involved; the "supplementary" activities form the second group, and hereunder come the "merchandise" functions, the auxiliary functions, and sales functions.

These activities may be performed by either of the two systems - the orthodox system which is the "regular" route or channel, or by the chain-store system. The "regular" trade channel consists of successive steps including the independent manufacturer, the independent wholesaler or jobber, then lastly the independent retailer. Duncan defines the latter in these words: 1 "The regular retailer is one who keeps his place, i.e., from the point of view of the jobber and manufacturer. He is more or less passive,

doing on occasion desultory local advertising but attending strictly to a retail business. Goods come to him thru the regular channels of trade. He makes his annual or semi-annual trip to the wholesale center for the purchase of his season's supply of goods; or he buys from the "drummers," or traveling salesmen who visit him. In a word he remains true to the type that developed with the older system of distribution." The vital point regarding the "regular" trade channel is that the various stations thru which goods pass are independently owned and operated.

In the chain-store system distribution of goods to the consumer is effected thru a number of stores, these being centrally owned and managed. Duncan describes the plan in these words: 2 "Essentially the chain-store is a department store split up into units. It is to be understood, however, that this applies only to organization. All stores in a chain carry practically the same line of goods."

Structurally the chain-store system opposes the regular trade channel which opposition may be disclosed by diagrams.

\[ \text{Independent manufacturer.} \]
\[ \text{Independent wholesaler or jobber.} \]
\[ \text{Independent local retailer.} \]

Manufacturer.

Amalgamation of wholesale and retail functions in central ownership and management. Restricted activity is left to the retail outlet.

The regular trade channel accepts the justification of the wholesaler or jobber. This is done because he is said to render peculiar services both to the manufacturer and to the independent retailer. P. W. Ivey designates the following services rendered by the middlemen to the manufacturer:¹

1. Establishment of connections with retailers.
2. Grading and classifying of goods.
3. Regulation of the flow of commodities.
4. Freeing of manufacturer from retail credit problems.
5. Analysis of market conditions.

The last service, that of market-analysis, is possibly better executed by the wholesaler or jobber due to his intermediate position in the structural arrangement, to his

¹ P.W. Ivey, Principles of Marketing, p. 32.
specialized organization in the field, and to his unique independence which in itself will seek the best of progressive coordination throughout the successive steps from the manufacturer to the ultimate consumer.

Services rendered by the middlemen to the independent retailer include:

1. Establishment of trade with manufacturers.
2. Assembling, grading, storing, and moving of commodities.
3. Place utility as related to the factors of convenience and time.
4. Credit extension.
5. Analysis of trade and general economic conditions.
6. Suggestions in respect to sales functions.

In this sixth service valuable assistance may be given to the regular retailer particularly in relation to store equipment, store displays, advertising, store-demonstrations, and the store's general business policy. Of course where these suggestions are to occur a constructive and mutual friendship must invariably prevail.

Thruout the regular trade channel, with its successive independent steps, full responsibility occurs at each station. Can the wholesale-station, or middleman then be
eliminated? Many believe by shortening the route from manufacturer to retailer prices may be reduced. P. W. Ivey maintains that the issue of eliminating the wholesaler depends on these considerations.¹

"1. Whether the wholesaler is performing useless functions.

2. Whether the wholesaler is performing necessary functions in an efficient manner.

3. Whether the manufacturer and retailer can perform these functions more advantageously for all concerned."

The third of these points strikes the difference, both structurally and functionally, between the regular trade channel and the chain-store system. The defender of the regular trade channel affirms that the wholesaler is performing useful functions efficiently, and moreover, denies the proposition that manufacturers and retailers can perform these functions more advantageously. The advocate of the chain-store system on the other hand holds that the manufacturers and retailers can accomplish these functions more advantageously. This, in fact, constitutes one of its principles of operation.

¹ P. W. Ivey, Principles of Marketing, p. 32.
Structurally the regular channel of trade provides for the wholesaler and jobber; the chain-store plan does not. The chain-store plan of operation is based upon direct buying from manufacturers and upon a consolidation of wholesale and retail responsibilities; the whole administration, with some duties reserved for the personnel of each retail store, is thus executed by a single, centralized, management.

Having denoted the structural opposition between the regular trade channel and the chain-store system the next chapter will be devoted to an analysis of the independent retail outlets of the regular trade channel.
Chapter II.

INDEPENDENT RETAIL STORES

The regular channel or orthodox system of marketing has always depended upon its independent retail outlets to the consumers. Chief among these retail stores have been the "general-store" and the one-line or specialty store. More recently the department-store has adapted itself to smaller trade areas as well as to large centers whereby another independent outlet has come to be added to the retail stores connected with the established channel of trade. Each of these types will be discussed separately.

The general store, selling a wide variety of goods, was the early supply place of the frontier. Usually one owner and his family conducted the institution for such was its relative importance in early rural life in the United States. This general store with its huge stove and "warming-up" space grew to possess broader characteristics than simply those pertaining to business. Indeed the general-store keeper's place for sales functions was the forum-center for the discussion of both community and national problems.

As the frontier was pushed westward and while the
population continued to multiply and increase from without the general-store has retained its position. Today it is commonly referred to as the "country-general-store." It is generally confined to the smaller town for there is not in such a trade area sufficient business to warrant the establishment of four or five specialty or one-line stores.

The country store due primarily to immediate location possesses some special advantages. Time being a valuable factor to the busy residents of a vicinity many of them prefer to trade at the convenient general-store rather than travel a longer distance to the city or larger town. Secondly the general storekeeper can thru his own independent financial situation, or by utilizing the credit possibilities offered by the wholesaler, extend credit for relatively long periods to his customers. Moreover the general storekeeper's position in the neighborhood affords him ample opportunity to know the financial standing of each resident of his trade area. This same position gives him the chance to know the qualities of each personality with whom he deals. In building-up and retaining good-will surely the "country"-general storekeeper could ask for no more favorable position.

Usually the general storekeeper is an especially active citizen. He does not hesitate to become interested in
or to function in the school, social, political, or religious activities of the neighborhood. By promoting the welfare of the whole vicinity he enlarges his circle of friends, and patrons as well. However his ultimate success and larger service depend on his being able to foresee and overcome the petty prejudices which seem bound to arise from time to time in his community. In most cases where the general store-keeper continues to prosper he is necessarily an active, striving, citizen.

The country-store, however, has inherited certain weaknesses. Restricted and irregular stocks is perhaps the first disadvantage generally tolerated in the general store. To be sure no country store can carry all of the exclusive specialties to be found in the city but it can carry a complete variety of goods in proper quantities dependent absolutely upon the demands of the trading area. Store displays and a practical arrangement of goods have too often been ignored by the country store-keeper. Credit extended to transient workmen has been a source of considerable loss. Moreover a lack of explanation to a momentarily dissatisfied credit customer because of cheaper cash prices in the city has been the reason for much misunderstanding. The general store-keeper need not apologize but he should never fail to explain fully and frankly the irregularities compatible with
competition wherein some services are supplied by some stores and these identical services withheld by other stores bidding for the same trade.

The general store then persists throughout our land as an independent outlet to the consumer. During late years its place of importance has been jeopardized because of the general use of the automobile. The large town or little city, which often is the county-seat, offers many attractive inducements nowadays; these are heralded by the use of improved advertising. But yet the general storekeeper retains his location in the smaller area with some advantages. To insure his relative success, or to increase it, however, the country storekeeper needs to apply his ability more and more; in view of the increased competition surely he needs to acquire the best methods in respect to store-services, store arrangement, store-displays, advertising, credit, buying and selling.

The independent one-line or specialty store is that type which in the main buys from the wholesaler and which specializes in one particular kind of merchandise, i.e., shoes, drugs, groceries, hardware, men's furnishings, women's furnishings of a very limited class. This type of store has evolved with the growth of the community. As a neighborhood grows new demands arise in the supply of even a specific line of goods. The housewives in purchasing groceries de-
mand different prices, different services with the trans-
action, and different brands and grades of a single commodi-
ity from which to select. In this case of one-line store
operation the retailer devotes his entire time to the suc-
cessful handling of but one line of goods. This type of
store is by far the most common throughout this country. In
1918 the retail stores in the United States numbered three
quarters of a million.1 This figure excluded mail-order and
other direct selling firms. Of this number the major por-
tion were one-line or specialty stores. What then are the
advantages of the one-line or specialty store?

In its one-line the specialty store offers the wid-
est possible range of goods consistent with the plan that
there shall be no unmoving goods either on the shelves or
in storage. The specialty retailer becomes an expert in
knowing his goods from the standpoints of quality and util-
ity to the consumer which logically aids him in eliminat-
ing the error of purchasing goods which cannot be sold
readily. His position moreover affords him opportunity to
know the peculiar likes and dislikes of his customers.
These factors combine to promote the exact adjustment of
stocks to demand whereby a rapid turnover of goods is facil-
itated. Furthermore the independent retailer due to his
status of proprietor may advantageously give special atten-

1. J. P. Johnson and associates, Marketing and Merchandis-
ing, p. 206.
tion to personal services; many persons prefer to transact business where the active proprietor may sometimes be a partner to the transaction small as it may be.

Low expenses in operation are claimed for the one-line store. One compilation gives the average cost of doing business in one-line stores as ranging from 17 per cent. for the line of food-products to 26.81 per cent. in the jewelry line.¹

*Groceries........................................... 17.
Vehicles and implements............. 18.44
Variety goods......................... 18.50
Hardware................................. 20.41
Clothing................................. 23.27
Dry-goods............................... 23.05
Shoes......................................... 23.30
Furniture................................. 26.51
Drugs......................................... 24.65
Jewelry....................................... 26.81
Department-store...................... 26.50"

Lesser rent and more efficient labor comprise the two most common factors whereby low expense in operation is accomplished by the one-line retailer.

A marked advantage of the one-line store is its adaptability for shifting to new sites. With a relatively small amount of capital a proprietor can set-up in a new location. In the last few years an interesting movement has taken place in respect to grocery-locations. Formerly the vast majority of grocery-retailers crowded into the center-areas thereby confronting higher rents. Today many thriving retail-grocers are doing business at points halfway between the larger town's center and its "limits", along the main in- and out-going roads. This location is favorable not only for attracting town-trade but is also convenient for the agriculturist who encounters difficulty in parking his automobile near the centrally-situated store. Many are the farmers therefore who have resorted to leaving their produce and orders at the way-side grocery on the way to town, and loading in their purchases on their return homeward.

However with its advantages the one-line store has some serious disadvantages. Its trade area is quite definitely limited. Distance obliterates convenience and thereby other stores become patronized. Buying power is often severely limited. Suppose a retailer has but a slow turnover? It is immediately clear that he cannot advantageously avail himself of the discounts possible thru purchasing in
large lots. The one-line store-keeper is restricted in regard to advertising; the media he employs must especially fit his more or less limited territory. Laxity in relation to credit and collections is a common danger-point for the one-line retailer. Conservatism in the adoption of new equipment is another source of loss; on the other hand over-expansion in equipment is sure to endanger the position or status of the store when the whole is judged rigidly from the standpoint of real economic costs.

The one-line or specialty store generally buys wholly from the wholesaler, is usually conducted on the full or complete service basis, and contrary to the chain outlet it is independently owned and entirely operated from within. The third of these points designates the independent store's source of energy; thrift in any store is an essential asset. As a type the independent one-line store has long ago displayed its strength. Today it abounds on every hand, and because of its character the independent one-line store will retain its position as one of the chief independent outlets to the consumer.

The plan of the department-store evidently was first used in France.\(^1\) America however has made tremendous progress in its development. The department store consists of a con-

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centration of many classes of merchandize, each class being sold from a departmentized section of the store's space. The departments range in number from ten to two-hundred depending upon the size of the store and the manner of "departmentization." Over each department there is a department-head who is responsible for the success of his specific department. Over all of the departments is the general management which directs the store policies and coordinates the departments. This arrangement both in structure and administration resembles that of the military army wherein the general staff really comprises a centralized management.

The advantages of the department store merit introduction. In the first instance department-stores because of their large turnovers can buy in large volume thereby receiving special prices and discounts. Department-stores buy from numerous agencies; goods may be purchased from a mill-agent, from a selling agent, from a commission-merchant, from a broker, from a jobber, or direct from a manufacturer. Department-buyers nowadays buy many lines direct from specialty manufacturers.

Specialization in the performance of functions constitutes a second advantage. This intensive application of ability and energy is utilized not only in the separate de-
partment but for the success of the whole store. In the single department there is specialized buying by the department-head; there is also specialized selling supervised immediately by the department-head. All of the departments of a department-store are customarily served by one accounting department, by one delivery service, by one credit department, by one welfare division, by one advertising department, and by one general management. These special departments which serve the whole store aim to perform their respective functions in the most progressive manner; to insure this experts direct the various special departments.

The department-store can provide an efficient general management. Its amount of capital assures this. With a management comprised of men who understand our monetary system and the phases of business cycles it is plain that the department-store holds a position of security. Small independent storekeepers too often depend on hit-or-miss reports concerning economic conditions; this disadvantage is the source of no little difficulty and discomfort especially in periods of deflation.

The department-store can also furnish numerous store-services advantageously. Innovations along this line include:

1. Telephone-booths.
The department store largely because of the unique status of its general management can become an active member of the progressive type of association of stores. An illustration of this kind of affiliation prevails in the case of the "Retail Research Association" with central offices in New York City. Nineteen stores of this country and one abroad comprise the membership. No one of these stores is any way financially related to the others, though they all contribute to a budget which is used for the maintenance of the New York offices and for the furtherance of the purposes of the association. The latter are:

1. The improvement of the method of retail distribution in all of its phases: merchandising, store management and upkeep, publicity and personnel.
2. The furtherance of the consumer's interest thru better service, better merchandise, and lower prices.

3. The use of cooperation and assembled buying to promote the above.

4. The interchange of methods, ideas and counsel.¹

Disadvantages of the department-store include a number of considerations: the required central location in the shopping area often means a very high rent; decoration and display expenditures are costly; excessive advertising and reduction-sales obliterate profits when a virtual inter-department-store "war" occurs; and there is the problem of insuring sufficient service from so many employees who in this case have no or little association with the actual managers of the store.

The future for the department-store appears bright. Today it is to be found in every advanced country of the world. In every leading city a number of these stores compete primarily on the basis of service and goodwill. Berlin has some remarkable department-stores. A famous department-store in Paris had grown-up before the movement began in this country.¹¹ In London the largest store is the Sel-

¹ Wm. Filene's Sons Company, letter June 29, '21.
¹¹ C. S. Duncan, Marketing. p. 346.
Fridge Department Store, a store managed by Americans. New York City has a number of surprisingly large department-stores. In Chicago the Marshall Field and Company store stands out among the group.

Some extracts gathered from "The Store of Service", a booklet produced by the Marshall Field and Company will reveal the immense size of one of these large stores. "Facts about the retail store" include these:

"The gross area of the retail premises is nearly 2,000,000 square feet or over 44 acres of floor space.

"The main building is thirteen stories high and has three basement floors . . . . .

"There are on the retail premises 92 elevators of all kinds that travel approximately 1,000 miles a day and carry 25,000 passengers an hour.

"There are 54 miles of carpet 27 inches wide laid in the store.

"The buildings are protected from fire by 33,000 sprinklers with 60 miles of pipe.

"Fire department consists of 515 men.

"There are normally 9,500 employees in the retail store, although the number has exceeded 14,000 during Christmas seasons.

"Six attractive rooms covering about 100,000 square feet of floor space are devoted to the service of luncheon
and afternoon tea. As many as 3,900 persons may be served at one time."

The Marshall Field and Company good-will it is claimed has been constructed on the ideal of "service." Judging by the size of the store the ideal of "service" has been well utilized.

Department-stores range from the town-store of few departments to the gigantic institution, such as the one just described. The independent department-store has certainly met an economic need; not only has it competed in respect to price but it has pioneered in the field of store-services which after all deserve to be supplied when consumers demand them.

Having explained briefly the independent general-store, the independent one-line or specialty store, and the independent department store attention will now be turned to an exposition of the peculiar features of the Chain-store System.
Chapter III.

THE CHAIN STORE SYSTEM

The chain store system originated from the confused economic conditions which persisted so long after the Civil War.\(^1\) Chain-store organizations developed in order to take advantage of a definite situation wherein certain manufacturers were willing to give significant discounts or "inside" prices to any retailer who could buy in large volume. Dates of establishment of some of the largest chain-store systems may well be disclosed at this point.

Great Atlantic and Pacific Tea Company........1859.
F. W. Woolworth Company.........................1879.
Acme Tea Stores.......................................1887.
Kresge Stores...........................................1897.
Kroger Stores..........................................1884.
United Cigar Stores.................................1901.
Penney Stores..........................................1902.

It is hereby evident that the chain-store system is a relatively modern factor in the distribution of goods. At times the retail-chain failed to spring-up to accept the

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\(^1\) P. S. Ivey, *Principles of Marketing*, p. 73.
manufacturer's reductions whereupon often the manufacturer established his own chain of retail outlets.

Chain stores performing the function of retailing generally develop from three sources. The first source is when a manufacturer, either pressed by unsatisfactory distribution or because he deems the step desirable from a self-sufficient viewpoint, starts a retail-outlet system consisting of retail stores for the distribution of his own manufactured goods. Secondly a wholesaler or jobber may wish to extend into the retailing field and accordingly a group of retail stores becomes managed by the management which heretofore has been strictly in the wholesale or jobbing business. When this transformation occurs usually the jobber or wholesaler turns to merely buying goods for his own retail outlets; in the change he has accepted an amalgamation of functions whereas formerly his objective was simply to supply retail stores which were independently owned and operated. At all events independent retail storekeepers will naturally transfer their trade relations to wholesale or jobbing firms which do not compete in the retail field of operation. The third source of chains is the retailer; a single retailing entrepreneur may inaugurate a chain of retail-stores, or a group of active retailers may promote a corporation for the purpose of conducting a
chain of retail outlets. In the second and third cases of chain operation, which have just been described in respect to origin, wholesale and retail functions become accepted by a single centralized management. The problematic aspects of operation in the two cases are exactly identical, and consequently both may be treated as retailers' chains. Moreover when a wholesaler undertakes to conduct a chain of retail stores he invariably finds the retail sales functions such primary burdens that his enterprise may be viewed from a functional aspect as a retailers' chain.

The manufacturer's chain of retail stores selling direct to the ultimate consumer is generally established for the explicit design of completely controlling a specific product; the manufacturer in this case virtually aims to handle the product without any outside firm's influence or interruption up to that point where the consumer has actually purchased it. Examples of companies employing the manufacturer's chain-plan comprise:

The Library Bureau.

The Browning, King, and Company, which sells its clothing for men exclusively thru its 17 stores.

The Singer Sewing Machine Company.

Huyler's, dealing in candy.

Beacon Shoe Company.
Some manufacturers on the other hand distribute a part of their goods thru their own retail outlets and at the same time dispose of the rest of their goods thru middlemen and independent retailers. A. G. Spaulding and Brothers, manufacturers of athletic goods, employ the two-fold policy. The W. L. Douglas Shoe Company operates a total of 107 retail stores located in the principal cities; in addition to this chain-outlet the company sells to about 9000 independent shoe-retailers. Warner Brothers, manufacturers of "Redfern Corsets", conducts stores in New York City, Chicago, and San Francisco. The L. E. Waterman Company also has stores in New York City, Chicago, and San Francisco. The Sherwin Williams Company operates retail-outlets in many principal cities. The Gotham Silk Hosiery Company conducts two retail establishments in the city of New York; one of these stores is 8 feet wide and 50 feet deep, the other 8½ feet wide and 100 feet deep. These two stores have accomplished as much as a million and a quarter dollars in gross sales in a single year.¹ Some of the officials of the H. Black Company, Manufacturers of "Woolted Garments", conduct the "Tailored Woman Shop" on Fifth

Avenue, New York City. 2

Where companies operate retail stores in a number of the principal cities, and at the same time distribute most of their product thru independent retail outlets, these retail stores conducted by manufacturers have been termed "strategy" stores. The reasons for companies resorting to this type of store-operation include:

1. Competition by other firms is met especially at strategic centers where competition may be very intensive.

2. Distribution of product is effected.

3. The store affords advertising possibilities, particularly is this true when the location attracts both local and transient people.

4. The store becomes a laboratory. Identification of the public's demands and reactions is possible. Data assembled in the "strategy" store, or laboratory-store, can be utilized both in the direction of production and in cooperation with the independent retailers who sell the company's product.

The manufacturer operating his own chain of retail stores faces no small problem. It must be remembered that

the manufacturer is a specialist in adding utilities to raw-materials; the distribution of a finished product, or number of products is a wholly different task. Furthermore to completely control the distribution of a product until the final buyer has purchased it gives rise to many considerations. The chief benefits of the manufacturer's plan of selling his own product include these enumerations set forth by S. C. Lambert:1

1. A Manufacturer should receive a 100 per cent. cooperation in substantiating his consumer advertising from the stores comprising his chain.

2. Retail prices may be lowered in some cases.

3. Any service work demanded by the consumer can be executed more satisfactorily.

4. Substitution can be avoided in a larger measure than in any other manner.

5. The consumer’s tastes and demands may be studied at first hand.

6. The product itself due to this first-hand contact may often be improved.

7. Knowledge of retail costs and management is obtained which can be utilized in dealing with independent retailers.

8. New and strong sales arguments can be perfected.
9. Advertising and displays can be improved.
10. Road salesmen may be trained in these stores.
11. Independent dealers can be secured thru the force of example.

The disadvantages of the manufacturer's plan of selling his own product also present many considerations:

1. In many instances suitable retail locations are not to be had. A disadvantageous location is invariably a difficult factor to overcome.
2. Building up good-will has often required a period of long duration.
3. Where community-antagonism has prevailed the building-up of a patronage has been costly.
4. Some manufacturers' chains have been operated without profit, others at a loss; the reason was that some of these very disadvantages were not overcome.
5. Competition with independent retailers who handle the manufacturer's product may occur. In this event the independent retailer may stop purchasing the product sold by the manufacturer's chain. On the other hand the independent retailer may continue to buy small and irregular lots of the product which goods he may backshelf and even
"knock" at every opportunity.

6. Good management of the separate stores becomes a problem in the manufacturer's chain. Especially is this true when the chain extends into new areas.

7. Retail stores of a manufacturer's chain must be more elaborately equipped than the independent retailer's place of business; the public and independent retailers naturally judge the retail store of a manufacturer's chain as a representative part of an institution.

8. Concentration on a single manufacturer's product may cause the whole personnel to fail in observing changing popular demands; this failure invites a loss of trade.

9. Specialization is deserted. Production and distribution require very different types of expert ability and organization.

10. The manufacturer's retail stores must depend upon a single manufacturer's advertising; the independent retailers by carrying 3 or 4 "brands" of a particular product gain from the advertising campaigns carried on by each of the four manufacturing firms.
11 A large sum of capital is required to operate a chain of retail outlets. Could not this capital be better devoted to expansion in production? This diversion of capital in some cases may hinder the production of certain subsidiary articles from which good returns are often derived.

12 The manufacturer in endeavoring to insure a sure outlet for his product may over-expand; this can do no less than endanger the security of his whole enterprise.

Of the entire number of manufacturers relatively few produce a product in the distribution of which complete control may be deemed essential. Furthermore in this limited number of manufacturers the majority are reluctant and hesitant to assume the responsibilities of retailing. That the manufacturer's plan of selling his own product has been successful, however, cannot be denied. The Beacon Shoe Company, with its main offices located in Manchester, New Hampshire, is an example of a manufacturing-firm which today is making a unique success in its operation of retail stores. The particular store observed, one of a chain of 19, is located in the city of Cedar Rapids. Features of this store which have assigned to it a reputation and insured it an increasing patronage comprise:
1. Fair and courteous treatment.
2. Store brightness.
3. Rest-room for women.
4. Toilet.
5. Mirrors.
6. Five-cent shoe shine service.
7. Splendid store arrangement wherein the cash register is placed near the door for the assurance of courtesy as each customer departs from the interior.
8. A perfected use of the "light-house" trademark; these light-houses skilfully placed constitute an attractive and effective means of store and shoe advertising.
9. Each special shoe style displayed in the windows is plainly numbered, insuring ready reference to type of shoe desired by prospective customer.
10. The Store's interior and exterior are extremely attractive. The marked simplicity however in both cases eliminates the patron's suspicion that he must pay for extravagant store decoration.

In addition to these features the salesmen have been carefully selected and thoroughly trained. Service is paramount. During dull times of the year several salesmen re-
sort to going out for business. This means solicitation. Of course extreme care is exercised in respect to the time and place of approach. In each sales-talk very definite features of a particular style of shoe are explained. On leaving the salesman leaves a good book of matches with each possible customer; by means of this book of matches the specific retail-location of the "Beacon-Shoe" is clearly re-iterated every time a new match is used.

With these factors prevailing the retail-store of the Beacon Shoe Company may reasonably expect a steady patronage. Indeed the Beacon Shoe Company has succeeded in the successful operation of its own retail-stores.

Before discussing individually the methods and extent of certain retailers' chains the advantages and disadvantages of the type will be disclosed. And previous to enumerating the advantages accredited to the type a diagram depicting the directness of operation may well be inserted even at the risk of partial duplication.

\[
\text{Jobber} \quad \bullet \quad \bullet \quad \bullet \quad \bullet \quad \bullet \\
\oplus \quad \rightarrow \quad \rightarrow \\
\downarrow \quad \rightarrow \quad \rightarrow \\
\circ \quad \circ \quad \circ \quad \circ \quad \circ \\
\text{Manufacturers} \\
\oplus \quad \rightarrow \quad \rightarrow \\
\downarrow \quad \rightarrow \quad \rightarrow \quad A. \\
\circ \quad \circ \quad \circ \quad \circ \quad \circ \quad \rightarrow \quad \rightarrow \quad B.
\]
In station A of the chain-store system occurs the consolidation of the wholesaler or jobbing functions and many of the retailing functions, excepting those which necessarily can only be transacted within the retail-store itself. Chief among the duties performed in the retail-store is the transaction with the ultimate purchaser. Obviously it is absurd to think of transferring this activity for its completion to any centralized point or management. In fact this activity involving the two-fold utility of time and place is the fundamental justification of the local distributing point which is the retail-store. The method by which the plan of the chain-system endorses the centralization of management in respect to executing, not only the wholesale functions but many of the phases of retailing as well, will be revealed in the course of explaining the advantages claimed for the plan.

In contrast with the smaller independent retailer with whom the chain usually competes the chain-firm possesses the advantage in buying. This however is very questionable when the average chain-firm's capacity in purchasing is compared to that of the exceptionally large department store. Generally though the central management of the chain thru its buying power resulting in large volume con-
tracts is said to occupy a favored position. Because of this unique status "inside" prices, secret discounts, and future "datings" are readily negotiated. Moreover the buyers of the purchasing department have access to the turnover records of the past and also advance estimates on demand, these having come in from the district and store managers. Because of this coordination it is plain that these expert buyers can bargain effectively for the best price to be had on a given grade and volume of goods. Often they can negotiate with a particularly well equipped manufacturer who because of his plant's capacity and because of the large volume of the possible order can logically agree to supply the goods at an especially reduced price. The position of the buying department of the chain furthermore aids its buyers in knowing and learning of the manufacturer's surplus; the chain-buyers are among the first to take advantage of the better prices on these stocks which often must be sold at considerable sacrifice by a manufacturer who has miscalculated the probable demand. While some chain-buyers are restricted, many of them buy from every manufacturing area in the United States and from foreign sources as well. Finally some chains constitute such large distributive agencies that manufacturers come to depend upon them for the
continuous distribution of their goods; oftentimes the manufacturer in order to insure the uninterrupted patronage of the chain makes better and better his terms on his own volition.

The fact that chain systems do not operate to any extent upon a credit basis favors the manufacturers who sell to chain-buyers. The manufacturer therefore encounters no waiting because of credit. Bad debts are also eliminated. Cash comes in to the manufacturer without a delay. Clearly the aggressive manufacturer prefers this for he is enabled to persistently pursue the development of his plant's production.

Specialization has come to be regarded as a foundation-stone of modern industrial achievement. We have already seen how the chain-store plan provides for specialization in respect to buying, the result being a special buying department. Other salient phases of specialization common to chain-operation include these:

1. Site selection.
2. Store equipment and arrangement.
3. Accounting.
4. Displays and advertising.

A paramount problem in the expansion of the chain is the selection of advantageous sites. This activity in-
volves much responsibility for the aspects of the task are both numerous and difficult. Aspects of the task include these:

1. To which city should the chain next extend?
2. What locations are available in this city?
3. Which is the best location from a permanent viewpoint?
4. Can this particular site be leased?
5. What should the specific terms of the lease involve?

It is clear that the very nature of this problem demands that especially capable men be set to its execution; commonly a site-section has been employed by the chain-firm. The United Cigar Stores to facilitate its expansion successfully adopted the innovation of having a separate corporation, a subsidiary company, handle the problem of locations. The selection of sites on the part of this subsidiary company was scientifically effected; the plan involved the statistical and character-as-to-class analysis of all the people passing any location which might be temporarily rated as a possible site. In many cases where a store-room could not be rented the whole building was purchased. In this case the United Cigar Store has taken its location in the building, and the rest of it leased to oth-
er suitable firms. A vital consideration for any store is location, and perhaps the chain-store as a type has exercised more precaution in site-selection than any other kind of store; it is safe to conclude that this provision has been one of the factors most responsible for chain-store success and expansion.

Every early store in a chain has constituted a laboratory for experiment with equipment and arrangement. Clarence Saunders, originator of the "Piggly Wiggly" idea, studied equipment and arrangement in the few stores which comprised his first small chain; it was thru that research that the idea was born. F. W. Woolworth studied equipment and arrangement at his first chance, which was while he was an employee. In June, 1879 he opened his first "five and dime"-store at Lancaster, Pennsylvania. The experimentation in this early store with different equipment and arrangements supplied some ideas which today are fundamental in Woolworth prosperity. Special study of a store's door or doors and windows has required much effort and considerable evolution. Today certain types of windows particularly are recognized. The window logically has come to depend upon and vary with the kind of store. One cannot readily visualize a Woolworth set of windows as befitting the front of a United Cigar Store. Height, width or length, depth,
shape, proportion to rest of front, and painting of certain parts are all considerations which affect the attraction-power of a window. The door obviously should insure accessibility. Convenience is thus the usual factor determining the placement of door, or doors.

Specialization of functions is responsible for standardized accounting in the chain-system. Expert accountants evolve an accounting system possessing features peculiarly adapted to the business in which the particular group of stores is engaged. Coordination is in this manner instituted without delay or friction of parts. Another inherent benefit herewith is the exactness to which the whole retailing personnel must conform; leaks are eliminated for responsibility can be checked.

In large chains centralized advertising and display-materials are generally the rule. For the execution of this plan a special department devotes its entire energy to the formulation of advertising and displays which can be used throughout the whole chain of stores. This is the laboratory idea again. Instead of the hit-or-miss advertising which would result if local store-managers attempted the advertising this task is given to men of special training and experience. It is also true in the case of displays for both interior and window advertisements. The advertise-
ments and displays having been perfected they are sent out to the managers who in turn execute the use of them. Sometimes an individual from the central department may journey to the retail-store for the immediate supervision of some particular campaign, or set of displays. The variety chain-companies particularly employ this means for advertising and displays.

Furthermore specialization is uniquely employed in the chain-store system in respect to executive management. The first and most significant phase of this involves the general management. A chain of stores looks to its general management for its store-policies, for its coordination, and for its smoothness of operation. Recalling that certain functions have been designated to special sections or departments, the major responsibility of directing the whole chain's operation rests with the general management. To this end men of ability devote themselves in order that economic and monetary irregularities may not endanger the success of the company. These executives unhampered by routine can logically perform their functions creditably for specialization has limited them. The second phase of specialization in respect to management is concerned with the manager of the retail-store. In short the chain-store system insists that the local retail manager shall manage his specific store; many responsibilities which he could be as-
suming are executed by special departments of the central management. This release on the one hand makes it possible and imperative on the other that he perform what is left to and for him intensely well. Clearly he is more of a specialist than if he were compelled to attend to endless details; under this arrangement both company and consumer gain for no longer is there a lack of sales-supervision.

Lower prices to the consumer are claimed as an advantage of the chain-store system. Many chain companies operate on a limited service basis and consequently can reduce the final price-marks. To be concrete suppose a chain of retail stores does not deliver, gives credit to no one, affords no conveniences, and operates on the "serve-yourself" style? Non-delivery eliminates labor and "car" expenditures, cash-sales mean that bad debts and the expenses connected with credit and collections will not be encountered, the policy of no conveniences spells savings in respect to general expenses, while the "serve-yourself" idea by reducing the number of clerks saves on labor cost. The possibilities for price-reduction in this manner are apparent. Then too large-scale buying should reflect its significance in the final prices paid by the consumer.

Closely related to the watch-word of "lower-prices" is the claim of lower expense in operation. The same limi-
tation of services affects this consideration. Neil M. Clark remarks concerning the Piggly Wiggly Stores: 

"These stores have an astonishingly low cost of doing business as a rule. The average is from 3 to 5 per cent." However the irregular degree of services considered "lower expense in operation" means little indeed. To contrast the chain-store plan of few or no store-services with the independent store custom of full services is an impossibility. Since the chain-store plan operates consciously to limit its services it seems only fair to say that in the manner in which it operates the chain does bring about a reduction in the expenses of operation.

Quick turnover appears as a fundamental principle of chain-store operation. Turnover insures freshness of goods. It has a doctrine, more sales and a smaller margin of profit on each article. It seeks to do business with a minimum of supplies on hand. Excessive stock-carrying is therein recognized as a waste. Few independent retailers appreciate the waste arising directly from over-loading of stocks. Nor is independent, competitive wholesaling conducive to the obliteration of this peculiar evil. Quick turnover moreover can be utilized as a constructive educational point in advertising; this constitutes as exception-

al talking-point or advertising-point for its significance can readily be understood by everyone. When carefully employed it invites permanent goodwill for the firm.

Another advantage of the chain-store prevails in respect to "loss-leaders". The advantage devolves from the reality that most chain-companies operate on a limited service basis. Suppose a chain-retail outlet with a store policy of no services operates on a certain corner, and opposite it is the independent type of retail store supplying full services. Both sacrifice their usual net profit. Yet the "loss-leader" employed by the chain outlet is sold at a lower final price than the "loss-leader" of the independent retailer. The full services of the independent store must be paid-for, thus the final cost-mark is larger to the latter than to the former. Suppose each sold at the cost marked on the invoice when the goods arrived; it is plain that the store operating on the full-service basis would need to expend much more in handling the goods than would the chain-store.

Interchange of goods presents still another benefit inherent in the chain-system plan. Instead of permitting goods which cannot be sold in a particular locality to become shelf-worn and out-of-date they are sent to another store of the chain where they may often be readily disposed of. Thru the accounting system it can be ascertained just
which retail store of the entire chain can best accept the reshipment of goods. Turnover is thereby speeded, and old stock and waste eliminated at the same time.

Finally the single chain of stores due to its comprehensive size and independence may institute a coupon-premium plan of its own, or in bargaining to use a plan devised by some coupon-premium firm the centralized management representing a whole chain of retail stores can request better terms than can the small independent retailer. An illustration of this point will be introduced under the treatment of the United Cigar Stores.

Weaknesses of the chain plan of operation involve a less formidable list of considerations. However from the first the plan has too often been susceptible to premature expansion. Over-expansion is exceedingly dangerous in that good-will grows slowly and large sums of capital are required for the expansion of new stores.

The chain-store system encounters a sharp disadvantage when its respective retail-stores face opposition in their localities. This opposition is restricted to the smaller cities and towns where local prejudices have their roots implanted in tradition, conservatism, and animosity toward the "outsider." Moreover this opposition often receives im-
petus directly or indirectly from certain resident store owners. Sometimes the chain management cannot secure a suitable location; actual leases have even been drawn-up to forestall a chain's entrance. Again this antagonism manifests itself after the chain's store has opened for business; estrangement of the store as a unit and rumors are the usual resorts. However this disadvantage is fast disappearing for the community isolation of twenty-five years ago persists no more. The prevailing idea now is that every business place merits a fair bid for patronage.

The chain-store system meets a serious disadvantage in that the entire personnel in the retail outlet is so far removed from the central management. A good local-store manager must be well-paid, or he leaves the organization. On the other hand since generally he cannot become a part-owner he may become disposed to merely routine conduct; many policies on the part of the central management nourish this mechanical trend. This general weakness of course is being partially overcome at least by conventions, by permitting more initiative, by sales-racing, by bonus-measures, and even by partial ownership in a few cases. Employees have been known to feel that promotion was difficult in chain-store arrangement. This too has been overcome in a degree by "departmentization", and the use of the
bonus-idea. The weekly bulletin or house-organ is a further means for the creation of store-enthusiasm and energy.

Limitation of services, while the policy may gain patrons, also causes others to refrain from trading. The people who demand service go or phone to the retail-establishment where service may be had; undoubtedly the chain-manager would reply that "no one manner of conducting a store can satisfy everyone."

The manner in which the chain-store plan is specifically employed by various chain-companies will be set forth in the following chapter.
Chapter IV.

CHAIN STORES IN OPERATION TODAY

Having briefly analyzed the advantages and disadvantages of the chain-store plan of operation we may now profitably study certain specific chains indicating the extend*and methods of each.

Merchandise which is daily purchased by individuals and household members may be divided into two classes:

1. Convenience and emergency goods.
2. Shopping lines.

The classification has been arbitrarily based upon the manner in which each class is purchased. The convenience and emergency article is bought from a definite store, either because in the daily routine the store's convenience of location becomes recognized, or because at a time which is or seems to be an emergency from the buyer's viewpoint the store possesses immediate accessibility. The shopping lines comprise goods in the purchase of which usually comparison of values is resorted to by the prospective customer. Women especially favor comparing values in respect to articles for their own apparel. The factor of style often caus-
es a particular article to be grouped with the shopping lines. Cost is another factor determining whether a special article will be held to be of the shopping type or of the convenient and hastily-purchased class. Expensive jewelry, furniture, and talking machines obviously are of the "shopping" class.

Chain-stores may be said to sell either "convenience and emergency" goods or to handle "shopping lines." The chain-store plan has progressed distinctly well in its operation in the "convenience and emergency" field and to a less extent in the handling of shopping lines. Geographically the convenience and emergency chain can be either local or extensive; if the stores of a definite chain merely serve one city and immediate area the chain may be termed "local" whereas if numerous cities scattered throughout a territory are served by the chain this chain may be appropriately spoken of as "extensive."

The local convenience and emergency chain is common throughout the United States. This type of chain is usually due to the aggressive personality of some retailer who has been exceptionally active. Commonly in any city there are certain peculiarities in respect to the demands of the people, in respect to advantageous sites, and in respect to trade development. Often a single proprietor spurred on by
exceptional success while under a single roof appreciates the opportunity and in time becomes the owner of a group of stores. The proprietor of this character is generally not merely a business-man but he also enters into the spirit of complete community life. His affiliations with social organizations enlarge his circle of friends. Thru his extra-activities he enlarges and reinforces the friendship and confidence already placed in him. Such an individual capitalizes his early experiences, he utilizes foresight, and is a persistent worker.

An example of the local "convenience and emergency chain prevails in Iowa City. Mr. Fred Racine purchased his first cigar-store in this city in the year 1910. Today Mr. Racine operates four stores; this expansion can largely be attributed to Mr. Racine's knowing and taking advantage of the peculiar conditions and circumstances of this particular environment. The Racine stores depend for their success upon supplying men students of the University and male residents of Iowa City with convenience and emergency goods such as cigars, cigarettes, tobaccos, pipes, fountain-drinks, fountain-dishes, fruit, candy, newspapers, magazines, pool, and billiards. The individuals comprising Racine's patrons desire to trade at clean, well-maintained stores; in order to insure a high standard of cleanliness
at all times Fred Racine exercises extreme care in the selection of janitors. Cleanliness then constitutes one of the paramount factors of Racine success. Store fixtures have been installed with the viewpoint of permanent goodwill; the belief that the best is cheapest and most serviceable over a number of years has dominated the reconstruction of each of these stores. In short the Racine stores invite patronage thru the advantages and services which make them attractive. These advantages and services include:

1. Large-scale and direct buying.
2. Accessible locations.
3. Centralized advertising.
4. Capable use of manufacturer's displays.
5. Quality goods.
6. High standard of cleanliness.
7. Courtesy.
8. Efficient employees.
9. Reasonable and uniform prices.
10. Acceptance of checks.
11. Cash, no credit.
12. Store conveniences:
   a. Score-board.
   b. Telephone.
c. Mirrors.
d. Toilet.
e. Stamp machine.
f. Smoke-lighter.
g. Rest chairs.
h. "Nickel" music.

Mr. Racine in addition to conducting four retail cigar-stores enjoys a first class wholesale business in cigars; he sells to about one hundred stores in the nearby territory. This fact logically strengthens Mr. Racine's buying position. Indeed the cigar-stores of Iowa City at the present time compared with those of six years ago show a marked improvement. Undoubtedly the chief force responsible for the Racine business in Iowa City has been and is the aggressive personality which thru care and courage has dared to accept the possible development in this one specific line.

The Emeis-Hansen Drug Company operating in the city of Davenport illustrates another local chain of convenience and emergency stores. Four stores comprise this group, all possessing accessible locations for they are situated at points right on the most used streets. The management in-
Indeed has taken advantage of the fact that the geographical peculiarities of the city have tended to cause the chief trading area to be concentrated. With one central management for these stores the advantages are marked. For instance in a certain advertisement utilized by this company thirty-three articles for every day use were featured.

In every case of the 33 articles the price was emphasized, while educational exposition was devoted to the explanation of sixteen articles out of the total. Suppose four independent Davenport druggists had wished to advertise, and had each used the same amount of newspaper space? Four times the advertising cost of the Emes-Hansen advertisement would have been needed. The one copy advertised for the four stores because of centralized management. In addition to drugs these stores carry the usual drug-store side-lines. On these side-lines as well as on the purchase of drug-supplies increased purchasing power bears influence.

Located as these stores are, one store can readily borrow from another if necessary; seldom is it then that a customer is disappointed because a store's being out of a specific article. Handling so many convenience and emergency articles and possessing very accessible locations this company has a first-class foundation; with other phases of store operation cared for as have been those of advertising, lo-
cations, and selection of stocks the Emeis Hansen Drug Company can properly make the claim of being, "Davenport's Leading Druggists."

Another local drug chain, carrying convenience and emergency side-lines as well, is that of the Walgreen Company of Chicago. Its slogan, "Drugs with a Reputation," has become very well supported. The company now operates twenty-five retail outlets, the last one to be opened is located at 17 East Washington, opposite Marshall Field and Company. This chain stresses service; a further motto is "Fresh, clean, merchandise of the best quality at unusually low prices." A new and interesting feature of equipment for the retail store adopted recently by the company is a complete refrigeration system for the preservation of all medicinal preparations requiring a low temperature. Special emphasis is placed by these stores on their perfume and toilet selections. The Walgreen Company thru its numerous and choice sites, its buying power, its turnover, its centralized and progressive advertising, and its service to the consumer enjoys a unique position in the vast total of Chicago's retailing. The company has proven that the local chain progressively operated can become a genuine asset to a city.
In the furnishings-for-men merchandise there is a unique local chain in Chicago. This chain of seven stores operates in the "loop," and comprises the Albert Hoefield Stores. Although many men shop for shirts, ties, and apparel-parts the chief idea underlying the operation of these stores is that persons can be sold these and related articles largely from the standpoint of convenience. Men dislike shopping; they prefer a handy store in which at the same time their confidence can well be placed. The Hoefield Stores consequently operate very near to the busiest of intersections where many men and women pass constantly. Store arrangement, windows, and both interior and exterior displays are cleverly employed to attract possible purchasers. Some large plain price-marks conspicuously placed also serve to invite the prospective customer. A small store-room suffices; this is possible thru economy in stock-arrangement. High rent is thus evaded. Cash-sales, quick turnover, progressive selling, inside buying, and centralized advertising comprise further factors which "make-for" the success of these stores.

Groceries have long been classed as convenience and emergency goods. Local grocery chains are common. The Mc
Carty Holman Company of Jackson, Mississippi, constitutes an example of this type of chain. There are ten stores in this group. The management of this company ascribes these features to comprise the chain's means to success: 1

1. Self service on the parts of customers.
2. Direct and large-scale buying.
3. No delivery, phones, or clerks.
4. Cash sales.
5. Best possible store arrangement.

The J. H. Cassel grocery stores, sixteen in number, in the city of Reading, Pennsylvania furnish another illustration of the local chain. J. H. Cassel believes and states the success of this chain to be due to: 1

1. Large-scale buying.
2. Taking advantage of all discounts.
3. Quality goods.
5. Advertising.
6. Quick turnover with small margins of profit.

1'. J. H. Cassel, letter, June 27, 1921.
Leaving the local convenience and emergency chains we find the extensive convenience and emergency chains generally dealing in variety-goods, in cigar-store goods, and in food products. The extensive convenience and emergency chains can therefore be divided into the extensive variety chains, the extensive cigar-store chains, and the extensive food-product chains.

Under the extensive variety chain type we recognize some extremely unique and well-known companies. The list includes:

1. Metropolitan, "5 to 50 cent" stores.
2. S. H. Kress.
4. Mc Crory's.
5. F. W. Woolworth Company.

The importance of these companies in supplying individual and household needs with variety-articles is disclosed by the following compilation indicating their recent annual gross sales:

<table>
<thead>
<tr>
<th>Year</th>
<th>Metropolitan</th>
<th>Kress</th>
<th>Kresge</th>
<th>Mc Croy</th>
<th>Woolworth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>$- - - - $</td>
<td>$10,776,597</td>
<td>$- - - - $</td>
<td>$5,395,059</td>
<td>$66,228,072</td>
</tr>
<tr>
<td>1914</td>
<td>- - - -</td>
<td>11,897,989</td>
<td>16,097,394</td>
<td>4,929,184</td>
<td>69,619,609</td>
</tr>
<tr>
<td>1915</td>
<td>- - - -</td>
<td>12,429,590</td>
<td>20,943,301</td>
<td>5,613,988</td>
<td>75,995,774</td>
</tr>
<tr>
<td>1916</td>
<td>- - - -</td>
<td>15,059,683</td>
<td>26,396,548</td>
<td>6,787,117</td>
<td>87,089,271</td>
</tr>
<tr>
<td>1917</td>
<td>- - - -</td>
<td>17,633,100</td>
<td>30,090,700</td>
<td>7,831,509</td>
<td>98,102,857</td>
</tr>
<tr>
<td>1918</td>
<td>2,758,206</td>
<td>21,160,111</td>
<td>36,309,513</td>
<td>9,607,251</td>
<td>107,179,411</td>
</tr>
<tr>
<td>1919</td>
<td>8,305,585</td>
<td>25,244,131</td>
<td>42,668,061</td>
<td>11,487,046</td>
<td>119,496,107</td>
</tr>
</tbody>
</table>

# Due to inflation, increases in the annual gross sales expressed in dollars, do not necessarily represent proportional increases in the volume of goods handled.

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Although relatively new the Metropolitan "five to fifty cent" stores are already widely distributed. In January 1921 there were 130 in the chain, 29 of which were located in New York, 16 in Wisconsin, and 18 in Pennsylvania.¹ The

S. H. Kress and Company on January the first, 1920, operated 144 stores, the major part of which were located in the southern and southeastern sections of the United States. The S. S. Kresge Company, originally established in 1897 by S. S. Kresge conducted 179 stores on the first of May, 1920. All of these Kresge stores were confined to the territory north of Richmond, Virginia, and east of Lincoln, Nebraska. The McCrory stores today include 155 retail-outlets situated in the eastern and southern states. The F. W. Woolworth stores began in an extremely humble way in Lancaster, Pennsylvania, in the year 1879; at the beginning of 1920 there were 987 Woolworth stores in the United States, 94 stores in Canada, and 81 in England.

The success of these extensive variety chains has been due to their ability to utilize the advantages claimed for the chain-store system. In short, the Woolworth Company has been a consistent path-finder in the operation of this type of chain; in consequence of this fact reference to Woolworth's will be employed from time to time. Without exception these companies have selected sites with extreme care. In but few cities is the retail-store of the exten-

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2 Ibid. p. 929.
3 Ibid. p. 920.
4 Ibid. p. 1014.
5 Ibid. p. 2086.
sive variety chain disadvantageously located. Sometimes
due to leases these managements encounter difficulty in
acquiring the most suitable store-rooms for their occupa-
tion. However these stores seem intent with dogmatic pur-
pose on getting established in the busy parts of the cities.
An example of these variety chain-stores crowding togeth er
along the same street and into one block is found in the
city of Joliet, Illinois. For the express design of clar-
ity a drawing of the locations along that particular street
will be employed.

<table>
<thead>
<tr>
<th>One-line Stores</th>
<th>Specialty shops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Store</td>
<td></td>
</tr>
<tr>
<td>Book Store</td>
<td></td>
</tr>
<tr>
<td>Photography</td>
<td></td>
</tr>
<tr>
<td>Millinery</td>
<td></td>
</tr>
<tr>
<td>Cloak and Suit Store</td>
<td></td>
</tr>
<tr>
<td>Specialty Stores</td>
<td>Specialty Stores</td>
</tr>
</tbody>
</table>

$x$ Metropolitan Candy Store.

$x$ Kresge Store.

$x$ Woolworth Store.

Department Store.
The drawing reveals the active bid for trade by these variety-chains. The two department stores on opposite corners logically attract many shoppers; the path between is a busy "midway," nor have the chain-companies missed this very point. The whole number of stores on both sides of the street cause this block to be an exceptionally busy one, each store in fact helps the other to succeed.

This seeking of the better location is persistently carried on by these stores. In 1918 the F. W. Woolworth Company after much analysis established a "5 and 10 cent store" on Fifth Avenue, New York City. That the company did not blunder was verified when on the first day 45,000 persons passed thru at least a part of the new store.1 Recently in Cedar Rapids a sudden change of location occurred. Previous to this the Kresge Store, the Black and Hansen Store, and the Woolworth Store occupied a fairly busy area on First Avenue. In recent years however shoppers have more and more taken to concentrating in the Killian - Denecke part of the business area. A site on the way between the Killian and Denecke department stores was chosen as the new Woolworth location.

1. Woolworth Fortieth Anniversary Booklet. p. 22
In addition to effecting the change of location the new store affords two entrances, one on a north-and-south street, the other on an east-and-west street. The corner-room is occupied by a specialty store. Possibly this clever re-making involving the utility of two fronts will even prove more desirable than a less-favorably situated corner location. At any rate the store is enjoying a splendid patronage for persons are attracted into the store from two of the busiest streets in the entire shopping area.

These variety chain-companies have always aimed to take advantage of large-volume purchasing. Thru their vast distributing capacities they have grown to such positions in purchasing power that they take the entire productions of some manufacturing plants. Especially may this be asserted concerning the Woolworth Company. All of them however buy in large quantities and gain from discounts and special prices. A distinct feature of variety-chain managements is their cooperation with manufacturers. Their buyers go to a particular manufacturer and negotiate with him. He is aided in his calculations, he is informed of popular demands, he learns directly points which when applied to the product help to sell it, and this direct dealing moreover establishes a better spirit of mutual regard.

The variety chains sell for cash. No credit of
any nature is allowed. Bad debts, the cost of collections, and the cost of maintaining credit accounts are all eliminated by this cash policy.

Accounting systems are standardized. Each company evolves a peculiarly adapted system to which its whole chain of stores conforms. Thru effort the accounting forms have become simplified. This accounting devised by experts facilitates the smooth operation of the whole chain. The general management, the special-departments directly under the general management, and the local store managers depend on the accounting system day after day; its place in successful chain-store operation has been recognized from the very first.

Departmentization in the chain variety-store promotes displays and decreases labor costs. This manner of store arrangement provides for the assembling of goods into departments, or sections, each section constituting an open display of related articles. In this way a single clerk can sell many articles with little rushing to and fro. The plan moreover is formulated on the idea that the goods so displayed will sell themselves. There is no need then for exceptional sales ability on the part of section-employees. Their chief duties become wrapping and taking the cash or making change in the transaction.
Further than utilizing their interior space for displays the variety chains resort to a most skilful use of store-fronts. The windows extend both low and high and to an average depth. This insures an exceptionally large display of goods in each window. With experts working at centralized points on new devices of appeal and attraction it is no wonder the variety fronts become known to all. This means of advertising has come to constitute the sole method of store-advertising employed by several companies, and it is one of the most-used methods of store advertising availed of by all of the variety-chains.

These extensive chains appoint men of ability to executive positions. It has been said that chains make overhead an investment. Concerning this vital point the editor of Printers' Ink says:1 "Many persons seem to think that the executive overhead of the chains is an expense that small independent retailers escape. This is not true. The executive overhead of the successful chains is not an expense at all. It is an investment. The high priced brains, the finely running system and the vast experience represented in the executive overhead is what makes these organizations succeed. . . . . It is the ideas of the executives that make this possible. The expense that they incur is

thus absorbed many times over in the vastly increased sales
that they impel." Moreover George H. Bushnell, secretary
of the Penney Company, once made this explanation about the
cost of overhead: "We charge each one of our stores a
fixed percentage on sales each month for the maintenance of
our three offices. This takes care of rent, all salaries,
including officers' and all traveling expenses incurred by
these offices. The percentage charged last year was one
and two-fifths per cent. This reimbursed us fully for dis-
bursements enumerated above, and covered the expense of
maintaining our accounting department for over one hundred
and ninety-seven stores." Although the illustration just
employed sets forth data in respect to a chain of depart-
ment-stores it clearly reveals what can be achieved in re-
spect to chain overhead. It is plain thru the records of
the variety-chains that they can afford and do employ real
executive ability. Consider for a moment the Woolworth or-
ganization. In 1919 there were eleven district offices.
Their locations and number of stores under each were:

Number of Stores

<table>
<thead>
<tr>
<th>Location</th>
<th>Number of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boston</td>
<td>115</td>
</tr>
<tr>
<td>Manhatten</td>
<td>128</td>
</tr>
</tbody>
</table>

(Continued on next page)

<table>
<thead>
<tr>
<th>City</th>
<th>Number of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilkes Barre</td>
<td>119</td>
</tr>
<tr>
<td>Atlanta</td>
<td>60</td>
</tr>
<tr>
<td>Buffalo</td>
<td>118</td>
</tr>
<tr>
<td>Chicago</td>
<td>128</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>73</td>
</tr>
<tr>
<td>St. Louis</td>
<td>84</td>
</tr>
<tr>
<td>Dallas</td>
<td>50</td>
</tr>
<tr>
<td>San Francisco</td>
<td>72</td>
</tr>
<tr>
<td>Toronto</td>
<td>91</td>
</tr>
</tbody>
</table>

With such an organization clever men are selected from within for advancement and later to occupy some of the most important positions. Indeed the general management of a chain system has little need to want; executives may be had from both without and within. Thus it is seldom that the variety chain is exposed to insecurity because of poor executives.

Lower expense of operation, lower prices, and quick turnover have been pursued by each of the variety chains. To the realization of each and all of these the whole system of each company is coordinately devoted. In view of the competition between these separate companies no one of them dares to lag.

---

The extensive variety chain has certainly fulfilled a real economic need. It has promoted large-scale production of countless small articles which thru no other means could be sold as cheaply as they are today. It has moreover established a ready market to which any hurried housewife can hastily turn and select just what she desires. In some variety stores she can select from 3500 different articles. And for the customer who seeks refreshment there is either a fountain, or luncheonette. Assuredly American homelife has benefited directly by the rise of the extensive, variety, chain of stores; the success of these chains has been due to their overcoming as far as possible the disadvantages and utilizing with increasingly better methods the advantages inherent in the chain-store system of operation.

Cigar-store systems constitute the second class of extensive convenience and emergency chains. An interesting and thriving chain of cigar-stores, operating largely in the state of Iowa, is the Martin Stores. This chain includes thirty-one stores, about twenty having been built-up from the main office at Davenport, and the rest from the office in Waterloo. One reason for the maintenance of two offices is for the purpose of direct buying of certain brands of cigars and tobaccos; in this manner goods are purchased
direct from manufacturers by the Waterloo-office thereby eliminating a situation wherein the Davenport office would have to purchase certain goods from jobbers who are also extensive retailers in the more south-eastern territory in which Davenport is located. These stores extend within the area limited by the cities of Decatur, Davenport, Sioux City, and Kansas City. The stores retail cigars, cigarettes, tobaccos, pipes, candy, magazines, newspapers, soft drinks, lunches, and a few sundry articles. Special features descriptive of these stores include:

1. Courtesy: "The customer is always right."
2. Quick turnover.
4. Centralized purchasing.
5. Very accessible locations.
6. High standard of cleanliness.
7. Convenient store arrangement.
8. Attractive interior and window displays.
9. Cash sales.
10. Store conveniences:
   a. Telephone service.
   b. Score-board.
   c. "Smoke" lighter.
   d. Clock, official time.
The Martin Stores developed from a small store. Here again the advantages of busy intersections have been profitably employed. With so many men interested in athletics, and still others interested in getting their cigars, cigarettes, candy, and newspapers in a hurry the basis for Martin success becomes clear. Behind this chain, however, has stood a personality; without this energy, this centralization of buying and assembling, combined with progressive retailing at advantageous points, could not have gone on, nor would it exist as it does today.

The Schulte Retail Stores Corporation constitutes another extensive cigar-store chain. Throughout the year of 1920 this chain consisted of about 200 stores situated in most of the large eastern, middle-western, southern, and south-western sections of the United States. The chief cities in which these stores are conducted include New York, Brooklyn, Philadelphia, Washington, Albany, Bridgeport, Detroit, Dallas, Rochester, Columbus, Atlanta, Camden, New Haven, New Orleans, and Springfield. Factors employed for the successful operation of the Schulte chain include:

1. Centralized buying.
2. Store accessibility.

(Continued on next page.)
4. Quick turnover.
5. Courtesy.
6. Service to patrons.
7. Store arrangement.
8. Skilful interior and window displays.
10. Ownership of three cigar manufacturing places.

This Retail Store Corporation owns all of the stock of the Mutual Profit Coupon Corporation which obviously gives the management of the cigar-store chain an independent freedom in respect to its campaigning by the coupon-premium plan.

The United Cigar Stores Company is the largest extensive chain of cigar stores. In addition to cigars, cigarettes, and tobaccos it has recently taken into its stock some sundry lines conveniently purchased by men. The company was incorporated in July, 1912, in the state of New Jersey. In 1920 it operated over 1200 stores in various parts of the United States. The sales of the United Cigar Stores have grown from year to year. The amount of business accomplished by this single company can be best depicted by giving the gross sales for a number of years:
The original store of this vast chain began in 1901, and its sales for the first day amounted to $7.62.

In operation the individual retail store of this chain presents the latest in standardization of equipment, displays, and economy in arrangement. Every store's site is carefully selected. Courtesy and service are invariably capitalized. The stores are made clean and bright by the use of tile floors and interior decoration of the neat and simple type. Reasonable prices and quality-goods are always certain. Recently three new steps were undertaken for the purpose of increasing sales. These comprise:

1. Premiums have been included in the coupon-premium plan for use by women; these especially adapted articles become presents for the ladies.

2. National advertising has been adopted as a policy.

3. Sundry merchandise, as already referred to, such as gum, candy, cards, and safety razors have been added to each store's stock.

The progressive character of this company's management is directly reflected in the significance of each of the new steps just enumerated. Few companies have profited by large-scale buying as has the United Cigar Stores Company. All of these factors enumerated have combined for the success of this company's operation. Gross sales of over 80 millions in one year clearly indicate what organization and progressive methods can achieve. Yet all of this structure and distribution has been constructed in less than twenty years.

A final consideration in relation to the United Cigar Stores Company is its extensive utilization of a coupon-premium plan. This has already been spoken of. With each standard purchase a customer may avail himself of a coupon or certificate. These he exchanges at regular exchange-stations for premiums. The catalogue explaining the premiums contains these descriptions on page nine:

<table>
<thead>
<tr>
<th>Article</th>
<th>Certificate</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Article)</td>
<td>(Number)</td>
</tr>
<tr>
<td>Williams' Liquid Shampoo</td>
<td></td>
</tr>
<tr>
<td>Cleanses the scalp and leaves the hair soft and fluffy...... 35</td>
<td></td>
</tr>
<tr>
<td>Williams' Vanishing Cream</td>
<td></td>
</tr>
<tr>
<td>Cleanses and protects the skin. Is unique in its smooth consistency... 18</td>
<td></td>
</tr>
</tbody>
</table>
Other descriptions were:

<table>
<thead>
<tr>
<th>(Article Number)</th>
<th>(Certificates Required)</th>
</tr>
</thead>
<tbody>
<tr>
<td>232</td>
<td>Man's Watch - Open face.</td>
</tr>
<tr>
<td></td>
<td>Twelve size - Seven jewel,</td>
</tr>
<tr>
<td></td>
<td>Elgin Movement. Twenty-</td>
</tr>
<tr>
<td></td>
<td>year gold-filled case....1300</td>
</tr>
<tr>
<td>914</td>
<td>Bracelet Watch............1300</td>
</tr>
<tr>
<td>141</td>
<td>Lady's Umbrella........... 800</td>
</tr>
<tr>
<td>820</td>
<td>Double-Boiler Capacity 2 quarts..175</td>
</tr>
</tbody>
</table>

The coupon-premium plan executed by the United Cigar Stores discloses the manner in which a vast chain can readily utilize this device so advantageously. The advantage over the small independent retailer is marked. It is obvious that both managements, the management of the United Cigar Stores Company and the management of the United Profit Sharing Corporation in this case, recognize the distinct benefits to be gained thru mutual cooperation in maintaining this particular coupon-premium plan at its very 'best.

The third extensive convenience and emergency type of chain is the extensive chain selling food products. Examples of the extensive grocery chains are known to everyone. Three of the smaller extensive grocery chains will first be described.
The Red Ball Stores Company with its headquarters in Des Moines operates nineteen stores, twelve of which however are located in various parts of Des Moines. Features underlying the success of these stores include:¹

1. Self-service.
2. Cash and Carry plan.
3. Quick turnover.
4. Purchasing in large quantities.
5. Direct Buying from manufacturers.

The Basket Stores Company, with its main offices in Omaha conduct fifty-three stores. Lincoln and Omaha are the chief cities included in its operating area. The basic ideas on which this chain operates comprise:²

1. Cash sales.
2. Self-service in respect to delivery.
3. Large-scale and direct buying.
4. Quick turnover.
5. Reduction of overhead expenses.

The Quaker Maid Company operates sixty-four stores from its main offices in Louisville, Kentucky. The advantages of this company in its plan of operation consist of:³

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¹ Red Ball Stores Company, Letter, June 28, 1921.
² Basket Stores Company, Letter, June 29, 1921.
³ Quaker Maid Company, Letter, July 8th, 1921.
1. Every-day economy price plan.
2. Certain billing features.
3. Closing of stores daily between one and two o'clock.
4. Promotion is made a "paramount issue" for employees.

Among the largest extensive grocery chains in the United States the following companies may be enumerated:

- The Kroger Grocery and Baking Company.
- Jones Brothers Tea Company.
- American Stores Company.
- Great Atlantic and Pacific Tea Company.
- Piggly Wiggly Stores.

The Jones Brothers Tea Company was incorporated in 1916 in New York. It represents an amalgamation of the Globe Grocery Stores, Grand Union Tea Company, the Anchor Pottery Company, and the Jones Brothers Company. The Jones Brothers Tea Company with its general offices in Brooklyn operated in 1920 no less than 360 stores primarily in the eastern and northeastern parts of the United States. "The Anchor Pottery" manufacturers most of the premiums used by the retail-stores in their execution of a coupon-premium plan. Gross sales for the company in recent years were:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1917</td>
<td>$13,252,060</td>
</tr>
<tr>
<td>1918</td>
<td>15,832,697</td>
</tr>
<tr>
<td>1919</td>
<td>22,231,382</td>
</tr>
</tbody>
</table>
The Kroger Grocery and Baking Company began its first stride in 1884 when B. H. Kroger invested the sum of $372 in a humble store on Pearl Street, Cincinnati.¹ In 1902 the gross sales totaled $395,000. At the end of 1920 this company was rated the third largest grocery-chain in the United States. At that time the company owned and operated 1005 retail outlets, 780 of which primarily retailed groceries, and 225 sold principally meat and meat products. In the course of its development in order to facilitate the retailing of goods the company engaged in considerable manufacturing. As a consequence seven bread-baking plants, two cracker bakeries, and four cake bakeries are now operated. Control of some meat manufacture is also exercised.

The Kroger stores are operated on the quick turnover basis. The general principles of chain-store operation have been employed to advantage with the result that gross sales have increased annually.¹¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$12,555,719</td>
</tr>
<tr>
<td>1917</td>
<td>$23,342,367</td>
</tr>
<tr>
<td>1918</td>
<td>$25,851,250</td>
</tr>
<tr>
<td>1919</td>
<td>$34,550,000</td>
</tr>
</tbody>
</table>

Historically The American Stores Company has comprised one of the largest amalgamations of retail stores in the United States. In March, 1917, the company incorporated in Delaware. Previous thereto these stores constituted five separate chains, each individually and independently operated. These chain systems were:

The Robinson and Crawford Company.
The Bell Company.
The Childs Grocery Company.
George M. Dunlap Company.
The Acme Tea Company.

Concerning this amalgamation Mr. Garnault Agassiz, writing in 1917, expressed the following statement:¹

"For purposes of greater efficiency and wider public usefulness, the five great chains have been merged into a single organization under the name of the American Stores Company, for no one of these companies has any structural weakness, the consolidation having been the immediate result of a common recognition on the part of the various interests involved that a common management would be to the advantage of all and to the public as well." Duplication existed because then the five chains contended among themselves. The managements could readily appreciate the possi-

bility for saving if consolidation could be brought about. In numerous sections each chain had to maintain a store, not because each did a flourishing business but because each had to be individually aggressive in the strenuous competition that was going on. Commonly a section which formerly had five stores could be served by three after amalgamation had been effected; thus two managers, two rentals, two lightings, two heatings, and two cashier-salaries could be saved and actually transferred to new territory. Transportation from the ware-houses involved another duplication under the separate organizations. Five sets of trucks crossed and re-crossed each other's territory then. The amalgamation resulted in a scientific distribution of goods from the warehouses, and an actual saving in labor, wear and tear, repairing, gasoline, lubrication, and even in the number of trucks employed. Reductions were further made by a consolidation of managements, and in respect to advertising. Suppose five chains should advertise in a certain area. Under the amalgamation one advertising copy came to function whereas formerly five were used. The saving was four-fifths of the advertising costs previously expended.

Under the new arrangement of a single centralized management all of these chains continue functionally not as units but as one comprehensive whole. In 1919 there were
over 1150 stores in the system, all operated on the "cash and carry" plan. Clerks however are employed to assemble the orders, and here the company stresses the value of courtesy. The American Stores Company is today especially well-known and patronized in the states of Pennsylvania, New Jersey, Delaware, and Maryland. The gross sales for 1919 presented a creditable gain over those of 1918.¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td>$62,315,465</td>
</tr>
<tr>
<td>1919</td>
<td>$76,401,889</td>
</tr>
</tbody>
</table>

The Great Atlantic and Pacific Tea Company, incorporated in May, 1916, in New York took over the assets and business of the company by the same name incorporated in 1901. The business originally began in the year of 1888. The method of the retail-store has generally been that of a "service-station"; often its type has been termed the "one-man store" in which one individual is the clerks, salesman, porter, cashier, and manager all at the same time. In recent years some of these stores have grown beyond the "one-man" stage in their operation. However the Great Atlantic and Pacific Tea Company system continues to operate on its original basis involving:

1. Large-scale buying.
2. No delivery.
3. Cash sales.
4. Quick turnover.
5. Accessibility of location.
7. Standardization of equipment.
8. Low expense of operation.
10. Courtesy.
11. Displaying of goods with price-marks.
12. Price-advertising.

That the Great Atlantic and Pacific Tea Company has been exceedingly successful can be appreciated from the fact that in 1920 it owned or controlled 4600 retail outlets, and its gross sales in recent years amounted to the following:

1918 ...................... $ 125,993,564.
1919 ...................... 151,691,919.
1920 ...................... 194,646,959.

Of all the extensive grocery chains perhaps the "Piggly Wiggly" has experienced the most phenomenal growth.

The plan was perfected by Mr. Clarence Saunders who after improving it obtained a patent thereon. The "Piggly Wiggly" stores are "cash and carry", selling the best known brands of standardized groceries on the self-service principle.

The customer enters the store which is generally about 25 feet wide and 50 feet long thru a turnstile. From a handy rack he takes a basket which he uses while in the store. Along the two sides of the store are the rows of shelves conveniently constructed where are ranged in packages and containers of varying sizes, everything commonly sold in a grocery. Standardized brands of all types of food are arranged together in their own section, and a swinging price is attached to every section or compartment. There is no clerk, the purchase is being made as the customer places the articles he wishes in the basket. There is no delay. In passing down one aisle and up the other every compartment of the store is conveniently passed. Having selected his goods the customer passes in front of a paying station where a cashier makes out a ticket on an adding machine, collects the amount of the purchase and transfers the articles to a paper bag. The customer files out thru the turnstile and the basket is again placed in the rack by the cashier.
Unique features of "Piggly Wiggly" operation constitute:

1. Cash sales.
2. No clerk-service, except a cashier-clerk.
3. No delivery.
4. Quick turnover.
5. Persistent price advertising.
6. Complete display of goods.
7. Service to many at the same time.
8. Accessibility.
9. Low expense of operation.
10. Large-buying power.

Until January, 1920, these stores were operated by private owners who paid the Piggly Wiggly Corporation a royalty on their gross sales for the use of the name and plan. On the first of May, 1921, the Piggly Wiggly Stores, incorporated in September, 1919, owned 353 stores out of the total of 540. The leasing of the name and plan continues but eventually the Piggly Wiggly Stores will probably own the entire number. The sweep of this new style of store can be realized when it is known that today there are 66 stores in Chicago, 35 in Memphis, 33 in St. Louis, 16 in Nashville, 14 in Milwaukee, and 11 in Indianapolis. On May tenth of this year 575 Piggly Wiggly stores were being
operated in 180 cities. Sales for the six months of 1920 totaled the sume of $11,443,753.¹

Having discussed a representative number of companies operating in each class of extensive convenience and emergency chains we can now turn to a consideration of those chains which handle shopping lines.

Chains selling shopping lines are far less numerous than those handling convenience and emergency goods. Especially are there few local chains which sell shopping lines. However the Ed. Schuster and Company Stores of Milwaukee constitute an example of the local chain which sells shopping lines. These three department-stores have developed from a very meager beginning. A spirit of progressive growth however has characterized this enterprise from its outset. The stores are operated on a full-service basis. Courtesy is capitalized whenever possible. Permanent goodwill is the impelling motive underlying every Schuster policy. Each employee is made to feel his responsible and significant part in the organization as a whole. In respect to the ideal of constructive cooperation between employer and employees the Schuster Company has been among the pioneers. The Schuster band has long enjoyed a reputation.

A skilful use of the coupon-premium plan has aided the growth of these stores. Another interesting policy utilized by the Schuster management is that in the department-sections of its larger sale-bills the pictures and names of the various department-heads and clerks are featured; thru this means acquaintance and confidence are instilled into the prospective customer's conception of Schusters'. Large-scale buying, interchange of goods, centralized advertising, and choice sites have been further factors in the expansion of the Ed. Schuster and Company business.

Of the extensive chains selling shopping-lines four department-store companies and one company handling men's clothing will also be considered. These companies are:

The Mc Allister Stores Company.
The Graham Department-Store Company.
The May Department Store Company.
J. C. Penney Company.
Syndicate Clothing Company.

The Mc Allister Stores Company, with its main offices in Chicago, operates twenty-three department-stores principally in the smaller cities of northern Illinois. A representative of this company made the following state-
ments about the stores of this company: "Our most successful stores are located within a few miles of Chicago where competition is keen and the least efficient stores are in towns where there is little competition. In order to operate these stores successfully we find it necessary to train every manager ourselves and this is the only reason why we have not 100 stores instead of 23. The average man wants to be a big buyer and a big advertiser with the result that he makes no profits. This office centralizes and standardizes the buying for all the stores putting the retail prices on every article offered and changeing such prices according to necessity. This insures a fair profit to the store and fair treatment to customers. Our stores all carry the same articles, the same numbers, and follow what we call our standardized lines of merchandise. Provision is made in all cases for the larger stores to have a better selection but still adhering to the same principle." The chief factors constituting the successful basis of operation for this company are believed to be:

1. Centralized buying.

2. Centralized management.

3. A balanced stock at all times.

(Continued on next page.)

4. Cooperation with every retail manager.
5. Uniform prices.

The Graham Department Stores Company with its general offices in Ottumwa, Iowa, sells general merchandise. Forty-two stores are at present supplied thru this single management; these stores are primarily located in the small cities and larger towns of northern Missouri and southern Iowa.

Features of operation employed by this company include:

1. Large scale and direct purchasing.
2. Cash sales.
3. Standardized methods in retailing.
4. Each store is made a vital factor of its respective community.

The May Department Store Company was incorporated in June, 1910, in New York. It has in the course of its amalgamation and growth acquired ownership of the Shoenberg Mercantile Company of St. Louis which business was started

in 1879, of the William Barr Dry-goods Company of St. Louis, of the May Company of Cleveland and the May Company of Denver both of which began operation in 1899, and of the M. O'Neil and Company Department-Store of Akron, Ohio. The Boggs and Buhl Department-Store of Pittsburg was also purchased in 1912 for the sum of four millions - but the company sold this store again in 1915. Today this company operates centrally-situated department-stores in the cities of Akron, Cleveland, Denver, and St. Louis. The importance of this company's operation can be realized by a record of its recent gross-sales:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$23,309,802</td>
</tr>
<tr>
<td>1917</td>
<td>30,347,482</td>
</tr>
<tr>
<td>1918</td>
<td>35,631,660</td>
</tr>
<tr>
<td>1919</td>
<td>41,179,261</td>
</tr>
<tr>
<td>1920</td>
<td>57,962,444</td>
</tr>
</tbody>
</table>

The origin and development of the J. C. Penney Company can be gained thru a small sized hand-bill which has been distributed by the Penney retail-store. At the top of this hand-bill stands the arousing headline:

"THE TRAIL THAT WAS BLAZED FROM A WYOMING TOWN"

One reads on, and learns,

"Back in 1902 he started. Many said: It cannot be done. But he did it.

"Inspired with the idea that a fair, square, and above board service to the people would win, he established a little store in a town on the Wyoming frontier.

"A few hundred dollars was his capital. With high ideals and steadfast purpose he started his store in a shambler building of 25 by 45 feet floor space.

"The Golden Rule was his policy. He was content with small profits. One cash price to everybody. All prices marked in plain figures. No so-called sales. No premium baits. No fancy fixtures. No deliveries. At that time these were pioneer and revolutionary business methods.

"This man was then 26 years of age. He was married; had two children. Even with the household cares his good wife managed to do much to help that little store succeed. The beginning was small. The outlook big.

"Already a trail of unbroken faith has been blazed to 297 thriving towns. That first store in Kemmerer, Wyoming, is the mother of its namesake in this town. From that humble beginning you today are continually benefiting by the service you receive from this nation-wide institution."

Another type of advertising used by the Penney Stores
may be illustrated by a particular copy conducted by the Penney Store in Clinton, Iowa. In addition to enumerating price features this copy set forth that "a nation-wide institution of 312 stores can better serve the consumer."

To support this contention the following points were carefully expounded in respect to the way in which savings were assured:

"No bad accounts.
No collection expenses.
No middleman's profit.
Direct and large-scale buying.
Quick turnover with small margins of profit."

Obviously these definite points would arouse the calculating, thinking, type of prospective customer.

New Penney managers are trained in the established stores. An established store-manager exercises every care in cooperating with those employees directly under him for from them comes the new store manager with whom the established manager becomes a partner in the operation of a new store.

Penney Stores sell men's clothing, women's clothing, dry-goods and shoes. Indeed the Penney-Company's growth has been consistent. The Penney retail stores are located in all the western states and have recently pushed eastward
into Pennsylvania. The company's executive offices are now on Fourth Avenue, New York City. Gross-sales for recent years have amounted to the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1916</td>
<td>$8,415,000</td>
</tr>
<tr>
<td>1917</td>
<td>14,880,000</td>
</tr>
<tr>
<td>1918</td>
<td>21,338,104</td>
</tr>
<tr>
<td>1919</td>
<td>28,783,965</td>
</tr>
<tr>
<td>1920</td>
<td>15,850,874</td>
</tr>
</tbody>
</table>

The Syndicate Clothing Company is a chain of seven stores selling men's clothing and furnishings. These stores are located in Oneida and Illion, New York, and in Davenport, Creston, Iowa Falls, Marshalltown, and Cedar Rapids, Iowa. These stores sell quality-goods, and in fact cater to the more-able-to-pay trade in their communities. Naturally the stores stress service and courtesy. Large-scale buying constitutes one of the company's principal factors of advantage. Then too its single store-policy marks the culmination of a wide retailing experience. Although centralized advertising cannot be employed by this company in its strictest sense nevertheless its best advertising men are designated to the task of effective advertising. The operation of this

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company has proven successful from the first; in this state the Syndicate Clothing Company asserts itself to be "Iowa's Greatest Chain Stores for Men."

In the enumerations just completed the aim has been to depict the operation of certain specific chain-companies. Obviously no attempt has been made to complete the impossible task of discussing every chain system now in operation but rather certain representative chains have been classified, and their extent and methods set forth as these could be from the sources that are available. Having considered both local and extensive convenience and emergency chains and one local and five extensive chains handling shopping lines it appears evident that the filed of chain-store operation as a whole has been adequately described. From this point we will turn to some brief conclusions.
Chapter V.
CONCLUSIONS

Today as never before the orthodox or regular system of marketing and the chain-store plan of operation are in open opposition. One finds considerable writing from the independent retailer's point of view which sounds a note of alarm against the chain's underselling. However this alarm is usually the sudden outcry to a startling experience. Perhaps never before have these particular retailers faced such a persistent type of retailing as conducted by the chain-store manager. The customary fact is these retailers have been dormant in their isolation, and thru adopting progressive merchandising and methods the more capable of them have little to fear. The unfit cannot continue in business anyway from an economic viewpoint.

However let us analyze this competition thruout the steps of the marketing process. Manufacturers are free to sell to whomever they wish. These manufacturers moreover appreciate that their commercial policies must be such that buyers will turn to them repeatedly. Each manufacturer's production must pass thru the channels of distribution with regularity, and in direct competition with the goods of other manufacturers. Since a single manufacturer is so depend-
ent he naturally conducts his whole commercial policy with the aim of retaining a particular buyer as a regular customer. The tendency for competitive bidding for goods and competitive selling of goods by manufacturers however bears influence; this is the long-time economic viewpoint which thru the aspects of free enterprise tends to effect an equilibrium in price adjustment. This long-time equilibrium in price prevails even when the buyers are of a single type; logically when the buyers come from oppositional types in the field of distribution less divergence from the average will ensue. The problem of a manufacturer's selection in respect to his particular channel of distribution resolves itself into the following considerations:¹

1. The character of the product.
2. The Volume of business.
3. The size and character of the market.
5. The problem of credits.

A manufacturer by the nature of his product and the fact that both wholesale-buyers and chain-buyers have come to him must decide on one of the two systems. Naturally the manu-

¹ C. S. Duncan, Marketing, p. 331.
facturer selects that system which seems to promise most as a permanent outlet for his goods. P. W. Ivey says:¹ "Because of the possibilities of wide and more unobstructed distribution, if the chain is a large one with stores well distributed over the country, it may be a more desirable customer than the wholesaler, and because of this greater ability to market manufacturers' products, it may receive even lower prices than those quoted to wholesalers." On the other hand suppose the chain to be small and selling comparatively little merchandise? It is clear that the advantage in price will rest with the wholesaler. Quantity of purchases, character of the organization, and the factor of "cash or credit" constitute the main considerations either favoring or handicapping a particular firm engaged in distribution.

Taking into account the wholesaling or jobbing functions we find that these must be performed by some agency. In the orthodox system of marketing these functions are executed by the independent wholesaler or jobber who restricts his activities to these specific functions. In the chain-store plan these functions are a part of the complex duties of the central management. In the former there is provision

¹. P. W. Ivey, Principles of Marketing, p. 75.
for distinction from the entrepreneur-aspect between independent wholesaler and independent retailer, in the latter there is not; furthermore in the wholesaler's or jobber's station there is a definite limitation of functions whereas in the management station of chain operation both wholesaling or jobbing and many important retailing functions are performed by a single management.

In the retail-outlet the orthodox plan provides for an independent retailer whose success depends upon his own initiative, energy, and methods. The retail store of the chain however is directed by a central management and its employees, including the manager, function to the stimulation of salaries. Due to a balancing of advantages and disadvantages goods can be generally handled with equal economy by one form of retail-outlet as by the other.

Both systems have developed naturally under the freedom of *laissez faire*. The fact that both have been able to grow and persist is sufficient economic justification for their operation. Up-to-date the competitive opposition between the two systems has produced some beneficial results from the consumers' points of view. Each system in turn insures that the other must be performing its functions creditably since they both bid for the same trade.
In some parts of the country chains have been generally operated on the limited-service basis, and the independent retail-stores on a full-service plan. Commonly persons are disposed to either expect store-services, or to perform the immediate cash payment and the delivery of goods as well. A person may be readily converted however from one style of purchasing to the other. These very features of the sales-transaction constituted one of the phases of the extremely interesting and intensive competition between the two systems which occurred in and near Philadelphia in recent years. In 1918, 2100 independent grocery stores of this particular area, reinforced by 24 wholesaling or jobbing firms, united into the Community Stores Company for the purpose of repelling the advance of the American Stores Company. The primary aims of this organization were as follows:

1. To feature standard, advertised, trade-marked goods.
2. To maintain standard and sane prices.
3. To continue telephone and delivery service without adding to cost of merchandise to consumer.
4. To protect member-stores against cut-throat competition.
5. To teach modern methods of merchandising.

The manner in which the American Stores Company conducted
its centralized and price-featuring advertising was considered in the last chapter. To meet the American Stores Company's offensive the Community Stores inaugurated a centralized, large-scale advertising campaign. Its advertising copies were of this general type:

COMMUNITY STORES

We serve - You save

2100 GROCERS

in Philadelphia, Camden, and suburbs have adopted the Community Store plan to promote real store service and bring greater economies to you. You will find one of these stores in your neighborhood.

The Housewife is entitled to the convenience of delivery-service, telephone orders, and every other store privilege - these will be provided by every grocer displaying the Community Store sign.

1. Real Store Service.
2. Delivery of orders.
3. Reasonable Prices.
4. The Purity of every article.

"It's Easy to Buy at a Community - Store."

Thru such alert competition the people of Philadelphia and vicinity are today in a position where they can buy just as they wish, where courtesy prevails, and where a fair margin
of profit constitutes an invariable rule.

This description has disclosed a general means whereby one of the most advanced, large, and most progressive chain companies has been met on the basis of frank and open competition. Of course the independent retailer could not afford to wait; his sensible part was to improve his position both thru collective and individual effort.

Moreover the independent retailer himself, acting with discretion, can compete successfully with chain-outlets. He however must be a progressive; among the possibilities clearly open to his utilization are these:

1. A good location.
2. A modern storefront.
3. Good window displays.
4. Skilful buying.
5. Cleanliness.
6. Well-kept interior displays.
7. Convenient store arrangement.
8. A well balanced stock at all times.
9. Use of both educational and price advertising.
10. Use of loss - leaders.
11. Use of careful explanations when irregularities occur.
13. Rendering prompt and full services.
14. Personal supervision of employees.
15. Care in credit extension.
16. Attention to quick turnover.
17. Becoming a leading constructive citizen.
18. Entrance into a buying syndicate.

The competition now going on between the two systems is of the nature of a process of selection. P. T. Cherington remarks:¹ "On the whole the greater part of retail distribution still is performed by what is known as the regular retailers. Their competition between themselves and with these other forms of retailers has yearly grown more spirited. Old methods have persisted, expensive traditions have survived, but over any appreciable space of time it is evident that the process of natural selection is going forward and that the fittest who survive are those who come nearest to filling the needs of the consuming public and who do it with the least waste." What is each system doing then today in order that its position may be strengthened?

In the orthodox system improvements are being advanced. First of all an intensive cooperation on the part

¹ p. T. Cherington, The Elements of Marketing, p. 221.
of the manufacturer with the independent wholesaler and independent retailer is in progress. The manufacturer realizes that he can aid his distributors and he is doing so by national advertising, by interior displays, by demonstrations, by attending conventions, by bettering his product, and by more progressive business policies. Moreover the wholesaler and jobber have adopted an increased efficiency basis of operation; to accomplish this idle stocks have been eliminated, decreases in overhead have been effected, and some consolidation in respect to branch operation has occurred wherefrom savings have resulted. Wholesalers' conventions are held regularly; here the wholesalers discuss their problems. At a meeting of the executive committee of the New York Wholesale-Grocers Association a member disclosed his firm's policy of cooperation with their independent retailers in respect to certain "loss-leaders." The plan simply involved concentration of effort upon certain goods which for the advertised time were sold without profit to either wholesaler or retailer. In this manner the chain store's advertising of "lower prices" was equaled, and in many instances even better prices were featured; as a direct result of this policy inter-store competition was transferred in a large measure to such phases of retailing as services and person-
ality wherein the independent store-keeper normally possesses the advantage. Wholesalers also have turned their efforts to advertising; both newspaper and store media are now common. Finally the independent one-line store, the independent general store, and the independent department store have all awakened to the increased competition of the present day. Each one is evolving in order to sustain itself, and its type as well. The chief possibilities open to each of these independent outlets have already been enumerated. Of these possibilities the buying-association is an especially modern structure. Its success depends upon numerous considerations: first of all it must possess a stable financial organization which means that structurally and financially there must be equitable responsibility in not only getting under way but also in the maintenance of smooth operation; goods should be generally purchased and sold for cash; capable management must be provided, and particularly efficient buyers must be selected; the membership of the company must be comprised of reasoning, responsible, and intelligent retailers who by the way should be especially devoted to the utility of cooperative effort; no over-supply of stocks can be permitted but on the other hand adequate stocks both seasonal and staple should constitute one of the essential
duties of the management; and furthermore a practical policy of turnover should be employed in order first that all goods will be fresh for the consumer's use, and secondly in order that no merchandise will accumulate and become immovable because of falling prices or any other contributory reason.

In New York State and in the neighboring Atlantic coast states the buying company has become common. Here where the chain-firms are especially strong the retailers have moved to protect themselves. Realizing that the buying syndicate often resorts to direct purchasing the wholesaler's position becomes jeopardized. Fearing the worst some wholesalers have become specialty-wholesalers or jobbers, and some have actually turned to specialty manufacturing. In other instances the wholesaler has undertaken to operate retail stores thus virtually transferring his allegiance from one system to the other.

On the other hand the events now taking place in the chain-store field of operation are likewise important. From the study of firms operating on the chain-store principle certain facts have been ascertained. In the first case the local convenience and emergency chain can be successfully operated by a single personality. It is moreover
clear that aggressiveness must comprise one of the basic characteristics of any management which is to succeed in the operation of several stores in a single community. Any chain encounters obstacles; but in addition to overcoming local prejudices it can be said that the success of the local convenience and emergency chain depends upon the directing management's ability to utilize not only the advantages claimed for the chain-store plan but also the specific possibilities of a particular city environment in respect to demand, sites, and the development of an enlarged good-will.

In the extensive distribution of variety goods the F. W. Woolworth Company, S. H. Kress and Company, Kresge Company, the J. G. Mc Crory Company, and the Metropolitan Stores as a group exercise nothing short of a leadership; in this specialized field of merchandising variety goods are not handled as subsidiary-articles but as the primary-goods, on the turnover of which the companies virtually depend for their success. Because the independent store system was content to handle variety-goods largely as subsidiary articles the program inaugurated by F. W. Woolworth met with a unique success. Naturally others have followed the pioneer. In building-up these large chain-systems hand-
ling variety goods these companies must be given credit for their consistent utilization of these factors:

1. Direct and large-scale buying.
2. Cash basis in both buying and selling.
3. Quick turnover of goods.
4. Accessibility of sites.
6. Interior arrangement and displays.
7. Reduction of over-head expenses.
8. Efficient centralized management.

In the extensive cigar-store chains there is discerned another accomplishment of organization brought to reality within the last twenty years. The Schulte and United Cigar Stores are now the largest of all "cigar-store" firms. Accessibility, service, large-scale and direct purchasing, quality-goods, cash sales, and cleanliness have constituted the essential factors of chain expansion in this specialized line of retailing. In this type of operation cigars, cigarettes, and tobaccos with some additional side lines have been established as goods significant enough to be handled by real specialty stores. The task of educating the men smokers to this special store was readily effected.

In the distribution of food-products however the chain system and the "regular" marketing system oppose each
other most sharply. The illustration which occurred in and near Philadelphia is but one example. Among the companies leading the extensive chain-grocers' offensive are these:

Jones Brothers Tea Company,
American Stores Company,
Kroger Grocery and Baking Company,
Great Atlantic and Pacific Tea Company,
Piggly Wiggly Stores.

That the majority of these chain managements are aware of the difficulties involved in the competition between the two systems can be concluded from the fact that in September 1920 a "National Chain Store Grocers' Association" was formed. Among the officers of this organization these chain-grocers may be enumerated:

C. F. Adams, President,
John T. Connor Company,
Boston, Mass.

B. H. Kroger, First vice-President,
Kroger Grocery and Baking Company,
Cincinnati, Ohio.

Samuel Robinson, Second vice-President,
American Stores Company,

Henry Kohl, Third vice-President,
National Grocery Company,
Jersey City, New Jersey.

The objects of the association comprise the following:

"First: To promote a feeling of fellowship and goodwill among its members, and on broad and equitable lines to advance the welfare and best interests of the Chain Store Grocery industry of the United States;

Second: To oppose improper methods and illegitimate practices imimical to the right conduct of business that honest and open competition may prevail;

Third: To promote and encourage harmonious relations among members in order that food products may be placed in the hands of consumers at the lowest possible cost;

Fourth: To assist in the enactment and enforcement of Federal and State Pure Food laws, which in their operation will deal justly with the rights of consumers and the trade;

Fifth: To foster the adoption and enforcement throughout the United States of uniform laws upon commercial subjects;

Sixth: To distribute useful information tending to educate members with respect to the practical and economical features of their business;

Seventh: To have business conducted upon lawful lines and the correction of evils imimical to the proper conduct of the Chain Store Grocery Industry;

Provided, that in the efforts of the Association
to accomplish such ends, no action shall be taken that will tend in any manner to fix or regulate prices or in any way operate in restraint of trade."

With such a development it can be logically expected that modifications will be effected in the distribution of groceries by the systems now engaged in the function.

In the handling of the "shopping lines" the chain plan of operation is far less adapted. It is rare that a local management dealing in shopping lines aims to operate a group of stores; the reason is that this management prefers to increase the size, reputation, and good-will of a centrally situated store. In this policy the management assures itself of more security. Concentration retains the innumerable responsibilities usually under a single roof. Extensive chains selling shopping lines moreover face some peculiar disadvantages. Articles of style and high-prices cannot be readily trusted to salaried managers and employees. Individual ownership and independent enterprise here clearly possess the advantage. Where chains have succeeded in handling shopping lines modifications have usually occurred. The J. C. Penney Company for instance has succeeded in part because of a standardization of medium-grade goods consumed by middle-class purchasers to whom utility is paramount.

Then too the Penney Company provides for a form of retail
partnership. That chains dealing in shopping lines will prevail more generally some day is likely. However the evolutionary transition to that reality will require both time and countless experiments.

These considerations it seems reveal the competitive status as it actually exists today. Concerning the future too much cannot be said, if safety is to be recognized, especially when prophecy is as difficult as it is in this field. However that the chain-store plan has been successful is no longer questioned. In view of the gross-sales of some of the chains one can properly wonder what the plan will eventually introduce? Is there to be a series of amalgamations since one amalgamation invites another? There has been an opinion ventured that the chain-plan invites ultimate monopoly. However at least for many years the accuracy of this opinion cannot be determined; before such a stage can ever be reached first the orthodox system of marketing must be defeated and eliminated, and secondly there would need to be an obliteration of the competition between the various chain-store companies as each pursued its individualistic bid for success.

Government supervision of retail-store operation is moreover very unlikely to occur; the problem as to who shall and who shall not operate stores apparently is to continue to be decided by economic laws.
However the community's interest should be expressed in economic competition. Each individual who purchases goods should be interested in the type of citizen and the kind of economic structure he nourishes. Men in business and business structures are variable in their significance to the community. In order to insure the best possible community in which to reside each citizen owes himself and those about him the responsibility that his influence will be directed to the advancement of men and business structures which will give the most to the community and country from no less than a permanent viewpoint of permanent welfare.
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