

merchants. Quite on the contrary, many displays obtainable from manufacturers and wholesalers have in them an individuality far greater than the retail merchant with his more limited facilities could possibly create for himself. In many cases, too, one store may be the only one in a wide area at which the particular line of merchandise is sold.

Then, too, there are some storekeepers so lacking in initiative and ability that they can't create displays of their own. Obviously, for them, any displays at all are better than no displays.

I simply am saying that in the use of displays designed and worked out by someone else, the individual merchant must take care that they do not transcend or destroy his own individuality. This individuality is the priceless asset which distinguishes one merchant from all his competitors.

(A sixth article in this series will appear in the next issue.)

THE CHAIN STORE.*

BY FRANK H. FREERICKS.

My promise to say something about the Chain Store and its present-day extension was made months ago. Even now it may not be my fortune to discuss the subject in a new and interesting manner. It will not be my aim to present statistical figures and research, because the generally recognized condition of to-day will permit that the value of my observations and conclusions be weighed without the burden of figures.

We all know the Chain Store, in its several fields, to be of recent development, not dating beyond the early business life of those who are now just past middle age. In late years it has grown by leaps until it is attracting the serious attention of the business world and of economic research. Those who are engaged in it see only a rightful, commendable exercise of business ability, frequently of superior character, and the use of honest capital, legitimately employed. Those who are engaged in individual retail business and affected by the chain store see primarily a dangerous and unscrupulous form of competition. On the side lines stand a yet small but growing number who are not concerned directly on the outcome and success of either one or the other, but rather give thought and study to the economic life of our country as a whole and to the influence which apparently important changes will have on its future.

It is the people as a whole who will need to decide whether chain-store growth shall go unhindered, and they will do so in the broad aspect of the public good or harm. The people as a whole are just awakening to the fact that the chain store may measurably alter the economic life and even the political life of the country and the well-being of their children and future generations. At present the masses confine their notice of the chain store to the impression that they are buying some things cheaper there, and that, as a rule, they are conducted in an attractive, business-like manner. The people have their own everyday care, and as long as they do not directly appear to suffer, they are satisfied or unconcerned, just as, unfor-

* Section on Commercial Interests, A. PH. A., St. Louis meeting, 1927.

tunately, the most of them are unconcerned about the government under which they live. At present our whole life is said to be in a state of transition, we can hardly keep track of the new and wonderful things and changes which confront us from one day to the other, but the account-taking day will come for us, just as it has come in the life of earlier generations, and with it will come mass reaction and demand.

There are a goodly number who, though doubtful about the desirability of chain stores, take the position that they are here to stay and here to grow; that their future development and growth is a natural trend of the times. Just as well might they hold that the experiment in government as now conducted by Mussolini in Italy, or the Soviet in Russia, is a trend of the times and here to stay and grow. That both Mussolini and the Soviet, or what they represent, will stay and grow if unhindered, is certain, and yet they exist only because the mass of the people concerned have been bluffed to accept them and have not arrived at a point where, sufficiently strong, they will rise against them. In the finale they must prove their worth to be sustained; to accept them as conclusive, simply because they exist and apparently prosper, is folly, and so it is with the chain stores. They must prove their worth to be sustained, and since, admittedly, they are having an increasing effect upon our economic life and thus are bound to influence our national life, we may well give thoughtful study to where their continued growth and expansion may lead. The public, interested in our national life and economic conditions, cannot be concerned simply because the competition of the chain stores is troublesome to the individual dealer. It may be decidedly disagreeable for the individual dealer and his friends, but cannot be controlling to warrant action. In order to merit interference with what some claim to be the natural trend, it must be fairly determined that the chain system is destructive and ruinous; that it will bring such changes as ultimately will mean disadvantage to the mass of people. The real test is, to decide whether ruinous competition and the out-of-proportion use of large capital in retail business will produce results, which will monopolize the retail business of the country for a few.

DO CHAIN STORES TEND TOWARD MONOPOLY? SIZE, A FACTOR.

It is immediately apparent that a distinction must be made between the small, local, individually-conducted Chain, and the one which is corporately owned, machine-like conducted and using capital beyond average individual possession. The small local chain under the direct personal supervision of its individual owner, or largest capitalizer, may be disagreeable enough to its competitors, but it is not and cannot be a public menace. As a rule it is reduced to its integral parts with the death of its organizer. The large, always corporately owned, always machine-like systematically conducted, heavily capitalized Chain, is quite a different proposition. Its personnel is such, that if one executive head passes out, another equally ambitious for still greater growth has been trained to take his place, and the capital investment of stockholders impels an ever greater magnitude and desire for it. It is self-evident that the chain store can endanger our economic structure and public well-being only because of magnitude and consequently only the corporately owned, widely extended and heavily capitalized chain institution, if any, carry the danger of real harm.

THE PROBABILITY OF REAL HARM.

The greatness of our country beyond doubt is found in the fact that there was equal opportunity for all. From the early days, every person with brains and energy has had his chance. That has been, and is, the safety valve for contentment and happiness, which all have been given the assurance that they may pursue. True, all do not aspire to own and conduct their own business; all, by no means, are fit to do so, but many do and are. In the past, they have been able to satisfy that desire, and since, reasonably, it must exist proportionately in the same number of people, what will the future mean to them if the chain store continues unhindered. Brains, energy and fitness combined with an amount of capital or credit heretofore needed to engage in retail business, is without hope against the buying power and dictatorship of unlimited capital used on a large scale. It may be claimed that there is always room at the top and also that there yet remains equal opportunity, notwithstanding.

To revert to an earlier illustration, in that sense it is equally true that all have an equal opportunity to aspire to the position of a Mussolini. In the olden days all had the opportunity in like manner to hope to become autocratic princes and kings, but remoteness of realization was the ever-growing cause for forcing a change. The ownership, control and conduct of the enormously extended large chain-store systems, and their ever increasing growth and greater magnitude are not primarily serving to satisfy the exercise of God-given brains and energy. It can be only an innate desire for power and possession out of proportion, and only the return from the use of out-of-proportion capital which spurs the owners of large chain systems to ever add to their number. They would be masters of all with whom and with which they come in touch. The future of our country depends primarily, as is the case everywhere, on what are termed the middle classes; while, presumably, we are without classes, yet, the people who elsewhere constitute those classes also carry our future. The retail merchant and those who in the past have been able to become retail merchants, if they so desired, and the farmer, constitute the very backbone of our national existence and governmental structure. Over one million of our people are now engaged in retail business on their own account. It may be fairly estimated that even at this time, one-fourth that number, in addition, could be engaged in retail business on their own account, if it were not for the large chain systems. About 250,000 people are now denied the opportunity of individual enterprise, and if the present growth of the chain system continues unhindered, what will remain of the individual retail merchant fifty years from now? There will be but few. It is proposed to meet the onslaught of the ever-growing chain system by coöperation among individual dealers, but coöperation may thus be extended to produce the same objectionable result. Coöperation is a child of late years, and has been a wonderful help, but coöperation as now proposed to meet the chain system, in order to be successful, is bound to be brought to a point where the individual ceases to be his own master, and the doer of his own deed, and, then will also crush out individual initiative and freedom of action.

The claim is made that the use of unlimited capital in retail business by chain stores is truly a natural development, that it is of great benefit to the public, that it prevents waste, that it eliminates the useless middle man—that in sum the benefits secured for the public thereby greatly outweigh any possible detriment. It does

not matter much whether the chain store is a natural development, because many things naturally develop which are not good. The public benefit claim, if upheld, must be found in lower cost. That the chain store is responsible for practically one-third of all retail sales being without profit and a good part at heavy loss will not be questioned and its leadership in that respect is not offset by the fact that now the disease is general, but it may be seriously doubted that there is public benefit on that account. Let us grant for the moment that by reason of one chain store two thousand families together save \$10,000 or even \$20,000 per year in the cost of merchandise. Is the economic value of such saving equal to the independent livelihood of only three individuals, conducting their own business, maintaining their families and employees and their families, paying rent and sharing in the general upkeep of their community. Rather, it may be well asked, what is the net loss to the general public? The sale at cost or below is a bait, particularly with the chain store. It serves as an inducement for the making of sales on which profits are out of proportion and on goods which the public frequently does not need. I am inclined to believe that a chain-store patron would spend less per year in order to supply all of his wants, if he limited his purchases to the individual store. It should be added that if the sale of merchandise at less than cost for advertising purposes may at any time be justified, the offer to sell dollar bills at eighty-five cents would be equally good and merit governmental approval. The elimination of the middle man is by no means an unalloyed benefit. The middle man has always served a good purpose. Without him the public can never be assured that its wants will be filled. Without him, progress, new venture, the supply of new and improved merchandise will be appreciably lessened, and many a valuable new product will not come to public notice and use. Without him, and if the chain store reaches the goal it desires, there will be the few executives of such systems who may arbitrarily determine what the public may eat, drink and generally use. Even now, the chain store decides that the public may have Jones' Pepsin and not Smith's. As a public benefactor, the chain store can hardly hold the limelight, unless it be in the imagination of its owners. The chain store, with its intensified turnover and sales, could not exist but for large profits on goods, the cost of which the public does not know; goods largely manufactured by it or over which it has more or less exclusive control and on which the ordinary profit and advertising expense of the manufacturer is eliminated. In the final analysis, it can hardly be claimed that the elimination of the profit of independent manufacturers and wholesalers and the earning of their employees is compensated for by enabling the chain-store owner to flourish and, incidentally, cast doubt upon the value of all merchandise which he sells at cost or less. Much might be added in further proof that public benefaction does not come from the chain store, but it hardly seems necessary and the executive head of every chain-store system fully appreciates, as does every business man, that he is in business for profit.

If, in fact, it be true that the public derives no ultimate benefit from the chain store; if, in fact, it be true that an extension of the large corporately-owned, chain-store system lessens opportunity for the people to independently engage in business on their own account, in pursuit of happiness; if, in fact, it compels an ever-increasing number to always be satisfied to work for someone else; if, in fact, it means to increase the power of a few and place the wealth of the country more and

more in their hands, so that eventually all will have to live at the dictate and pleasure of such few; if it will do any or all of these things, then indeed is the chain store a menace to the public and our form of government. The public need only to know this in order to put a stop to the so-called natural growth and development of the chain-store system. Concerted action by the one million independent retail dealers, properly applied, can educate the American people within two years, so that the output of the large corporately-owned chain will be limited almost entirely to the sale of about that one-third of their present turnover which is made at a loss.

ABSTRACT OF DISCUSSION.

Jacob Diner said that the masterly and logical paper afforded him pleasure, that Mr. Freericks had presented the paper without bias, clear and definite as to facts. The author had referred in a general way to a number of items which the chain stores do sell at a loss. From the commercial reports in the New York papers, sales seem to indicate that about 30 to 33 per cent of merchandise is sold at a loss of over \$2,000,000. On the balance of the merchandise, which is owned or controlled, there is a profit of approximately \$14,000,000. One can readily see how a loss of \$2,000,000 on standard items can be afforded when it is made up four or six fold on the merchandise which is sold to the public under the guise of standard articles but which are owned or controlled products and absolutely without control as to costs and profits. There are now very few independent grocers, cigar and candy dealers and this indicates a like passing of the individual pharmacist unless something is done to stop the development of the chains.

W. Bruce Philip stated that at the Stanford Summer School this year the growing problems of the chain stores were discussed; one of them, the chain-department store. In other words, in every large city there will be large department stores, operated as a chain; namely, large department stores in various large cities which, instead of being operated independently, will be operated as a chain as a matter of economy reducing overhead, anticipating selling and increasing volume. The result of the discussion was that the department store overhead is increasing sufficiently to absorb discounts; stores are going out of business. A large number of retail stores never should have been called stores and never, as a real service to the public, should have existed. The keynote to success and the future success of the small merchant is personality plus knowledge and willingness to serve.

E. L. Newcomb remarked that the seriousness of the situation is reflected by approximate figures. In his opinion it was not exactly known what the total volume of business of the individual retail pharmacists is nor the total amount done by chain stores. Statements have been made in figures which seem to him approximately accurate—estimating total volume of drugs at \$1,205,000,000 annually and of this amount all chain stores in the drug field are doing slightly over \$200,000,000, or about 20%. He referred to some rather interesting observances that had been made during the past year and some equally interesting admissions by chain-store organizations; in one instance a chain-store proprietor reported that the most serious menace to continued development of chain stores is the trend of the individual merchant to adopt chain-store methods plus personality and service mentioned by Mr. Philip. The individual druggist if he can purchase supplies on the same basis as the chain store (which is rarely the case), and uses chain-store methods, such as business plus personality, will be successful in maintaining his business. He stated further that during the past ten years it has been brought out on a number of occasions that the wonderful success and development of the chain store has been due to securing supplies at far less cost than possible for the individual merchants. He believed these facts should be more widely known so that this unfair discrimination in wholesale prices may not prevail; if it does, he said, "it will mean in time possibly the downfall not only of retail merchants but of many wholesale firms and of many manufacturers. It works to the disadvantage of the larger group in industry."

Denny Brann said he understood that while the chain-store systems continued to open new stores they are withdrawing their stores in many places.
