

DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

Readers are invited to submit comments, criticisms and suggestions regarding the material which appears in this department. The Editor also will undertake to answer questions regarding general problems of business management. Letters of general interest will be published, but the writer's name will not be revealed without his permission.

THE CHANGING EMPHASIS IN THE STUDY OF DISTRIBUTION COSTS.

BY PAUL C. OLSEN.

In 1922 a joint committee of the United States Senate and House of Representatives, officially titled the United States Congress Joint Commission of Agricultural Inquiry, made a monumental report. Overcoming difficulties which in the beginning seemed insuperable, the Commission collected facts which permitted the calculation of distribution costs for many important agricultural commodities. In addition, it calculated the share of these costs which were incurred by the producers themselves, the various wholesale distributors involved and the retail outlets through which these commodities finally reached the consumer.

When these studies revealed that one-half to two-thirds the price the ultimate consumer paid for important products of the farm and orchard was a payment for distribution costs, the popular opinion of the extortionate and unconscionable profits of the "middleman" seemed to be confirmed. Popular opinion always has inclined to the idea that when a retailer buys an article for sixty cents and sells it for a dollar, he has made forty cents clear profit.

Incidentally, it is betraying no secret to say that there were and are thousands of retail and wholesale distributors who hold the same opinion. What kind Santa Claus or other good fairy pays the rent and other costs incident to the conduct of these wholesale and retail businesses, I am unable to say.

One great value of this report of the Congressional Joint Committee, therefore, was its revelation to consumers and distributors alike that the tremendous spread between the price producers received for agricultural products and the prices ultimately paid by consumers was not caused by extortionate profits obtained by wholesale and retail distributors, but rather by the costs of admittedly necessary distributive activities. Freight, for instance, and the costs of refrigeration and storage. In fact, this Congressional survey revealed that the total of all the profits obtained by wholesale and retail distributors was so small that their entire elimination would have little or no effect on the price paid by the ultimate consumer. (Admittedly there are wastes and inefficiencies in the distribution of almost any product, but competitive conditions in distribution are such as not to permit, for long, extraordinary and unusual profits. In fact, competitive conditions tend even to enforce a considerable degree of distributive efficiency in order to permit any profits at all.)

* Lecturer on Business, Columbia University and Philadelphia College of Pharmacy and Science.