THE CHAIN AND INDEPENDENT DRUG STORE SITUATION AS REVEALED BY THE CENSUS OF AMERICAN BUSINESS.*

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In the Capitol at Washington, in state legislatures, in schools and colleges, in the daily press, in magazines and trade journals, the subject of competition between chains and independents is a topic of frequent and earnest debate, study and discussion on the part of legislators, manufacturers, wholesalers and retail distributors, and perhaps most important of all, consumers.

The independent merchant may no longer sit back and calmly be consoled with platitudinous and "pollyanna" remarks to the effect that consumers do not want to buy at a chain store and all the independent has to do is to follow a set of golden rules such as employing personality, giving service, displaying merchandise, keeping his store clean, etc. If it were that simple, a former President of the United States, presaging a threat to the security of the independent merchant, would not have remarked less than ten years ago: "The foundation of American business is the independent business man. We must maintain his opportunity and his individual service." It was at this time that a former Cabinet officer, alarmed by the situation that seemed to confront the independent, remarked:

"The present position and future prospects of the retailer, particularly the small independent operator, unquestionably constitute one of the most vital questions now before this country. It is fraught with momentous issues, with great possibilities of broad social improvement, and on the other hand with stark alternatives of possible misfortune for many thousands of our citizens."

These things that were being said ten years ago are still being said; for the need for them still exists, as evidenced by figures recently released by the U. S. Bureau of the Census based upon the Census of Business for 1935, which show that chain stores of all types enjoyed 22.8 per cent of total retail sales during 1935 as against 20 per cent in 1929, a gain of 2.8 per cent. On the other hand, independents accounted for only 73.1 per cent of total retail sales in 1935 as against 77.5 per cent in 1929. No doubt facts such as these moved Col. Charles H. March, member of the Federal Trade Commission, to remark about two months ago before an assemblage of retail grocers gathered in Boston:

"We were nourished by the philosophy that ability, courage and honesty reaped the glittering prize of business independence. To-day most of us in industry work not for the Government, but for entities quite as impersonal and frequently as remote. The giant monopoly has snared most of us on its pay roll and the old order of the independent proprietor is fast fading away."

Col. March is not sure that independent merchants in this country, in view of monopolistic trends, "will long continue to maintain their independence."

To cloud the horizon a new type of competition has recently entered the field, and that is chain store organization that has adopted a new policy of leasing drug and cosmetic departments in department stores.

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The second type of competition that seems to be causing even greater alarm in the trade is the so-called super markets. According to trade journal reports:

"Six months ago there were approximately 2000 super markets in the United States; to-day there are more than 3000 with 75 per cent of the new establishments equipped with drug departments.

Then there is a third type of competition, although it does not differ widely from existing types, and in fact already exists in many cities and towns, and that is the local chain.

I do not agree with some authorities who feel that the growth both in number and sales volume of chains has been arrested and that the early advantages of the chain are disappearing.

In this connection, Hugh M. Foster, in *Printers' Ink* for April 1937, said:

"The chain-store business reached its peak about 1929. Then it ran along at an approximate level to 1931 and dropped rather sharply in 1932, with a further drop in 1933. The rise with the general recovery began in 1935 and continued on an increased upward slant throughout 1936. There is, therefore, a reasonable prospect of a new peak in the next year or two which may well exceed not only that of 1929 but also that of 1936."

The biggest mistake that independents can make is to be too independent and under-estimate the chain. This is particularly true of drug chains which have had and are having a house-cleaning. For example, a few years ago it was generally admitted that drug chains did not cater to prescription business. That statement does not hold true to-day and can best be illustrated by the prescription record of a chain with approximately 120 stores in the Middle Atlantic area that in 1932 filled a total of only 270,000 prescriptions but in 1935, as a result of systematic prescription department promotion, increased this business to 540,000 prescriptions. Last year they added another 100,000 prescriptions, making the total 643,000. Based on figures compiled for the first 7 months of the current year, this chain will probably fill 750,000 prescriptions in 1937. Furthermore, over 50 per cent of the managers of this particular chain are registered pharmacists. This chain recognizes the importance of employing only the highest grade registered pharmacists. They pay registered pharmacists beginning salaries of $45.00 a week.

I believe you will agree with me that this is a real achievement—a record that any druggist, chain or independent, would be proud to equal.

Statistics, though generally regarded as dry, are nevertheless essential for the rational conduct of any business, whether it be national in scope or confined to the cross-roads.

Let us then examine some of the Census of Business statistics for 1935 and see what they tell us about drug stores.

The Bureau of the Census figures show that chain retail stores of all types decreased from 148,000 units in 1929 to 127,000 units in 1935, while independent units increased from 1,376,000 units in 1929 to 1,474,000 units in 1935. We must examine all the facts, however, to obtain the complete picture. This situation is probably the result of the closing of unprofitable chain store units due to chain store taxes and other causes and the concentration of business in larger units.

There were 3744 drug chain units in the United States in 1935; 3107 with and 637 without fountains, or, roughly, 5 with fountains to one without. In 1935, chain drug stores did a total of $316,807,000. Over $273,000,000 of this amount was for chains with fountains. While the total number of retail drug stores in 1935 was considerably less than in 1929, this loss was suffered by independent drug stores, for we find that the number of drug chain units increased from 3513 units in 1929 to 3744 in 1935. The study also shows that the tendency is for drug chains to add fountains.

Independent drug stores continue to do a smaller share of the total retail drug business. In 1929 they accounted for 81.2 per cent of the total; in 1935, 74 per cent and in 1935, 71.1 per cent. Conversely, chain drug stores accounted for 18.5 per cent in 1929; 25.1 per cent in 1933 and 28.8 per cent in 1935. In 1935, facts were collected for drug stores with and without fountains. The figures cited are for drug stores with fountains, which account for the bulk of such stores. Over 38 per cent of the independent drug stores in 1935 did an annual business of less than $10,000, and over 16 per cent did a business of less than $5000. In fact, less than 4 per cent of all the independent drug stores did an annual business of over $50,000. In contrast with the independent drug stores, we find that over 64 per cent of chain drug stores did a business of over $50,000. Incidentally, drug stores without soda fountains show 54 per cent of all drug stores doing less than $10,000 a year. Drug stores with fountains received $121,000,000 from the sale of meals and from fountains during 1935, accounting for 6.8 per cent of the total sales of meals for the whole country. The drug store as a whole apparently has little to worry about as far as credit sales are concerned, for the Census figures show that during 1935, 92.1 per cent of the retail drug business was done on a cash or c. o. d. basis as against approximately 68 per cent for all retail stores.

Among the numerous facts ascertained by the Census Bureau during the conduct of the Census of Business for 1935 was that 19.8 per cent of all drug store employees are women as against 30.5 per cent for all kinds of retail stores. This ratio is about 2 per cent higher in drug stores without fountains. The Census Bureau also tells us that in 1935 there were 608 negro drug stores, or slightly over one per cent of the total. Of these 608 negro drug stores, 298 had soda fountains.

The average operating expense for all drug stores shows a tendency to increase. The figure for 1929 was 22.8 per cent, and for 1935, 23.7 per cent. The percentage would be considerably higher if services of proprietors were included. For example, in 1929 instead of 22.8 per cent, expenses would have been 27.11 per cent. For comparison with the Bureau of the Census chain store expense figures, we have those taken from the Federal Trade Commission reports which cover the period 1913–1930 and show all types of chain stores had an operating expense of 24.25 per cent in 1913 followed by a lower ratio for 16 years and then an increase upward to 24.15 per cent in 1930.

There is no lack of statistical evidence relative to the operating expense of chains and independents in drug and other fields. In fact, the Census of Distribution for 1929 showed that chain store expense was approximately one-half of one per cent greater than average drug store expense. If, then, the chain does not operate more economically, does it buy at lower prices than its independent competitor? According to the Federal Trade Commission figures, it does. Their final report states that much larger proportions of chain than of wholesale accounts are found in the higher allowance brackets (15 per cent and up).

The question arises, were these larger discounts granted by manufacturers because the chains were, on the average, much larger than the wholesalers, or were they granted because of the superior bargaining power of the chains? Manufacturers grant lower discounts for both these reasons. Some chains have the capacity to buy in unusually large quantities, considering the particular trade. And it is equally true, according to the Federal Trade Commission, that chains have forced down the offered price below the cost of manufacturing the merchandise and handling the order as specified by the chain buyer.

Many chains contract for a large quantity of merchandise, receiving a good quantity discount on the basis of their needs for an entire year, and then require small frequent shipments and billings to individual stores. Although the cost of making one large sale is less, the actual cost of preparing the shipments, sending them out of the warehouse, billing and collecting may be just as much as, if not more than, the cost of handling the accounts of smaller independent competitors, especially wholesalers who buy in car lots.

Other statistics of an unofficial but what is believed to be a reliable source tell us that every year changes in the retail drug field exceed 17 per cent. In 1936, 10,974 drug stores underwent significant changes—changes filled with importance to every branch of the drug trade. For with them come profits—or losses. For example, 4750 new drug stores were opened in 1936 but 2285 went out of business and 880 others changed their location. New management took place in 3059 drug stores. The retail drug trade shows a surprisingly uniform rate of new drug stores—succession, removals, retirements and like changes.

Recognizing the importance of the consumer's good-will, the chains through the "Institute of Distribution," 570—7th Avenue, New York City, have prepared such booklets as (1) "33 Questions and 33 Answers Important to Your Pocketbook," (2) "Taxes That Soak Mr. & Mrs. Consumer," and (3) "Chain Store Manual." In these books they tell the consumer what chain stores mean to the United States. They tell them, for example, that chain stores purchase 5 billion dollars worth of merchandise annually from domestic manufacturers, that they spend $454,000,000 in rent and $200,000,000 for advertising and $419,000,000 for freight and $983,000,000 to their employees and $173,000,000 for state and local taxes and that they save their patrons annually $776,000,000.

If you will agree that the figures regarding chain store sales, purchases and expenditures for rent, advertising, employees' salaries, etc., enumerated are very impressive especially when brought to the attention of the reading public, yet they do not seem so significant when you are made aware that in 1935 there were 1,474,000 independent retail merchants employing 2,839,000 employees or three times as many as the chains, with a pay-roll not including proprietors' salaries of $2,559,000,000, or more than two and a half times that of the chains. In addition, independent retail merchants had other operative expenses amounting to $829,000,000. This sum was spent for rent and such other expenses as insurance, light, heat, telephones, taxes, water, interest, legal fees and was circulated in various channels which vitally affect the incomes of the consumers of this country. The Bureau of the Census statistics also tells us that approximately 57,000 independent druggists, and an additional 1,417,000 independent merchants who, it is alleged, make most of their purchases from 177,000 wholesalers, doing an annual business of approximately $43,000,000,000 and employing 1,278,000 employees, nearly 19 per cent of whom are women, pay these employees $2,049,000,000 in salaries.

An editorial in the August 1937 issue of a leading drug-trade journal points out that the public fails to realize the comparatively high operating expenses of a retail drug store unless such matters are clearly and forcefully brought to their attention. It is stated:

"They are matters which must be explained to counteract the propaganda of price-cutters who are doing their best to arouse consumer objections to fair trade laws by raising the cry of high prices."

The editorial concludes with a statement to the effect that

"Retailers individually and collectively must undertake the education of the consumer in fair trade and that the movement must not go down under consumer pressure which is aroused because the consumer does not understand all the pertinent facts."

Evidence that independents are recognizing the necessity of educating the consumer is at hand. Pharmacists in New York State have formed what is known as the Fair Trade Committee of the New York State Pharmaceutical Association. The Committee plans a survey to determine how retail prices on drugs and cosmetics have been effected by the Feld-Crawford Act, New York State's Fair Trade Law. Chairman John F. O'Brien, of the Fair Trade Committee of the Association, is chairman of the Survey Committee. Serving with him are a number of prominent executives of drug wholesale, pharmaceutical and toiletry manufacturing fields. The price study is prompted, it was pointed out, because of charges made that the

Fair Trade Law had increased prices. Proponents of the law, however, have just as stoutly maintained that there have been no increases.

Retail druggists are not the only independents forming protective organizations, for we read of the formation of another New York State Association, the purpose of which is to conduct a state-wide campaign against "unfair competition" from chain stores. The organization is known as "The Empire State Independent Retailers and Wholesalers Association" with offices at 11 East 42nd Street, and a membership of approximately 200 made up chiefly of retailers and jobbers in the grocery industry. The Association states that Samuel Untermyer is acting as special counsel and that under Mr. Untermyer's direction studies are being made of anti-chain store legislation throughout the country with an idea of incorporating sections from different state laws into a statute for New York. Victor H. Lawn, Executive Secretary of the new group, contended that "Every time a chain store opens in a neighborhood, four independent dealers have been put out of business." In addition to national legislation a number of state pharmaceutical and other independent retail merchants' associations in various states are endeavoring to enact anti-chain store legislation of the Louisiana type.

Apparently the Robinson-Patman Act and the Miller-Tydings bill will not mark the end of enacted and proposed legislation designed to aid the independent. On August 2nd, Representative Wright Patman, of Texas, co-author of the Robinson-Patman price discrimination law, announced that he is drafting a bill to prohibit a company from owning stock directly or indirectly in retail stores or banks in more than one state.

The voluntary chain idea does not seem to have possessed the same attraction to retail druggists that it has to retail grocers and it would seem that they might advantageously study the method of operation.

The "voluntaries" have demonstrated their value as a highly efficient agency, enjoying in addition a protected position under various state store tax laws. Interest in this type of organization grows among the corporate chains as they are pressed increasingly by hostile state laws.

While independents and those sympathetic to their cause are endeavoring to improve the position of the small business man, friends of the chains are not remaining inactive and we read that "Manufacturers who sell to chain stores, particularly those of the variety type, are being urged by the newly organized American Manufacturers' Institute, with headquarters at 200 Fifth Avenue, New York City, to join in a fight against "unjust" taxation of chain stores. The new organization claims to be independent of chain stores' interests and states that its purpose is to fight discriminatory taxation and to work with governmental agencies in the planning and development of further social and economic programs free from burdensome taxation and unreasonable group demands.

In the final analysis, perhaps the most important phase of the chain *versus* independent store is the social side of the question, and this is the phase with which the consumer is vitally interested. Merchants large and small must be willing to step aside in the public interest if they cannot compete with the stronger competitor who conducts his business honestly and fairly. They must remember that the consumer's interest is greater than their individual welfare. It is up to the independents to tell the consumer their side of the story.