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**THE DISTRIBUTION OF
CONSUMABLE GOODS**

THE DISTRIBUTION OF CONSUMABLE GOODS

AN ECONOMIC STUDY

By
DOROTHEA BRAITHWAITE
and
S. P. DOBBS

*Formerly Lecturer in Economics in the Universities of Toronto and
Sheffield, author of "The Clothing Workers of Great Britain".*

With an Introduction by
P. SARGANT FLORENCE
Professor of Commerce in the University of Birmingham.

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INTRODUCTION

A WORD or two must be said of the genesis of this book. As an advanced student in economics at Newnham College, Cambridge, Miss Dorothea Morison, as Mrs. Braithwaite then was, became interested in the problems of marketing. She determined to pursue the subject both theoretically at Cambridge and realistically through interviews and discussions with leading distributors throughout the country. Undoubtedly this fusion of theory with practice was badly needed. Though partly misled by the economist's use of the word "distribution" to mean the distribution of wealth amongst the factors of production, business men were yet, I think, justified in claiming that they found little reference to marketing activities, under the heading of either "distribution" or "production", in economic textbooks. But there was (and is) a corresponding absence of economic reasoning in the books on distribution or marketing prepared by or for business men. Such books describe actual trade practices in great detail, with but little reflection upon their causes, their economic efficiency, or their social consequences.

Mrs. Braithwaite's inquiry, with its distinct economic approach, was therefore followed with the greatest of interest by many of us then teaching economics at Cambridge. Her first work on the subject appeared, after discussion at Cambridge, in the *Economic Journal* for March, 1928, and has been reproduced, substantially in its original form, by Mr. Dobbs in Chapter VII of the present book. By

January, 1928, Mrs. Braithwaite had completed the manuscript on which about two-thirds of the book is based. Her early death in the summer of 1928 was a tragedy for economic research, as it was for her many devoted friends.

The loss of such a promising economist is irretrievable, but efforts could be made to round off and publish the work she left behind. Accordingly Mr. S. P. Dobbs, who also received his economic training at Cambridge, was approached, and consented to bring the material up to date, wherever necessary, and to complete such parts of Mrs. Braithwaite's scheme as had been left unfinished. The manner in which he has discharged his responsibilities is explained in detail in his preface. Besides making substantial additions to the body of the work, he has been exceedingly successful in marshalling at relevant points the more recent statistical investigations which have been made, by himself and others, into such vital questions as numbers of retail selling points, margins of profit, ratios of expenses, and rates of stock-turn. He has also, by summing up and interpreting Mrs. Braithwaite's conclusions in the light of social and ethical considerations, given to the entire book a unity of outlook which is inevitably his own.

A debt of gratitude is due to Messrs. Cadbury Bros. for their public spirit in enabling Mr. Dobbs, who is on their staff, to accept the invitation which was made to him, by relieving him of some of his duties for the purpose. Such disinterested action on the part of a business firm affords much encouragement to those of us who feel that economic science will make little progress unless academic theories can be supplemented by practical business experience. In the matter of contact between the business man and the economist, England is still a long way behind

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P. SARGANT FLORENCE.

UNIVERSITY OF BIRMINGHAM.

September, 1932.

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September, 1932.

PREFACE

PROFESSOR FLORENCE has explained in his introduction the circumstances under which this book came to be written. Having undertaken to prepare Mrs. Braithwaite's draft for the press, I found myself faced with the alternatives of issuing it as it stood, with only minor alterations and additions, or of adding to it material of my own and publishing it under our joint names. Although I should have preferred to confine myself to the rôle of editor, I soon realized that the unfinished condition of the manuscript would rob it of much of its interest, and I have therefore been driven to adopt the second alternative. The book, as it stands, is inspired by and based on Mrs. Braithwaite's work, and incorporates the greater part of it, but I must myself accept responsibility for its present form. I am only too sadly aware that in spite of my additional matter it inevitably falls short of what Mrs. Braithwaite originally had in mind.

Of the text which follows, Chapters V, XIII, and XIV are my own and have no counterpart in the material left by Mrs. Braithwaite, while Chapters I, II, VI, VIII, X, and XI are hers and mine in roughly equal parts. Chapter VII (after the first three or four pages) is almost entirely Mrs. Braithwaite's, being practically a reprint of the article in the *Economic Journal* to which Professor Florence has referred. The rest of the book, that is, Chapters III, IV, IX and XII, is mainly an expansion of her original draft, but with so many changes

in detail that I fear she would hardly recognize parts of it in its altered form.

On one point I may perhaps forestall criticism, by explaining the reason for what at first sight may appear to be a strange omission. I have paid comparatively little attention to the Consumers' Co-operative Movement, and have scarcely mentioned the marketing of commodities by Producers' Co-operative Societies. This is partly because co-operative trading within the framework of capitalistic society does not introduce many new considerations on the purely economic plane; but more because so much has already been published on the subject, by friendly as well as by hostile observers, as to make any additional discussion in a work of this nature superfluous. These may not seem adequate reasons to every reader, but they will at least save me from the charge of mere forgetfulness.

I have to thank the editor of the *Economic Journal* for permission to reproduce what is now Chapter VII. Mrs. Braithwaite would also doubtless have wished to acknowledge the numerous private sources from which she derived information, and in particular those responsible for answering the questionnaire on the subject of advertising which she addressed to a number of different firms and to which she received, in many cases, very useful replies.

Some of the sources on which I myself have drawn are indicated in the footnotes and bibliography, but it would be impossible to acknowledge, or even to remember, all those from which I have directly or indirectly obtained assistance. Special mention must, however, be made of the Interim and Final Reports of the Departmental Committee on the Distribution and Prices of Agricultural Products, commonly known as the Linlithgow Committee, which was

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set up in 1922 by the Minister of Agriculture, as well as of the series of Reports on the marketing of individual agricultural products, which the Ministry has been issuing during the past two or three years. These reports constitute a milestone for the student of marketing methods in this country; and it is only to be regretted that similar information is not available in the case of manufactured articles.

I cannot close this preface without a word of thanks to Mr. R. B. Braithwaite, first for entrusting me with what has proved a most interesting task, and secondly for the assiduous care with which he has gone through the proofs and for the numerous suggestions he has made for elucidating the text at points where it was originally obscure.

S. P. DOBBS.

21 LINDEN ROAD,
BOURNVILLE, BIRMINGHAM.
6th October, 1932.

THE DISTRIBUTION OF CONSUMABLE GOODS

CHAPTER I

THE COSTS OF DISTRIBUTION : AIMS AND METHODS OF THE PRESENT STUDY

THE sphere of economic life indicated in the title of this book is perhaps that which less than any other has received its fair share of attention from serious economists. Treatises on economic principles, where they are not concerned exclusively with the mathematics of the exchange equation, usually have their starting-point and their main centre of gravity within the field of production, and consequently tend to relegate the marketing function to a position of very subsidiary importance. Even from the purely descriptive standpoint, the distributive processes have largely been overlooked ; though not entirely so in America, where much valuable pioneer work has been done.¹ In this country serious study has mainly been confined to the primary markets for raw materials, to the organized produce exchanges, and to the processes of international trade ; and any comprehensive attempt to describe the operations of the million or more individuals who act as the direct intermediaries between the manufacturer or the

¹ E.g. by the Harvard School of Business Administration. See also *The Elements of Marketing*, by P. T. Cherrington. This is an admirable analysis of the economic processes involved in distribution by a distinguished member of the Harvard School.

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importer and the British consumer for the supply of the latter's daily needs has yet to be made. The whole subject has hitherto been left to the publicity expert and the advertising manager, with results which from a scientific point of view are as unfortunate as they are natural.

It is less the intention of the present work to fill the gap in descriptive economics which is thus indicated than to examine in the light of accepted economic principles the structure and functions of the distributive machine. Since our main object is to provide an analysis in the light of which existing methods and institutions may be judged, the treatment may appear to some readers unduly abstract and theoretical. It is hoped, however, that where practical conclusions and criticisms have been made they will prove to be adequately grounded, though for the most part such judgments must await that fuller body of ascertained fact which is urgently needed, but which is only now beginning to see the light of day.

An improvement in the standard of living of the world as a whole, in a manner commensurate with recent advances in applied science and technique, can only be achieved through improvements in organization and administration within one of the three main spheres of economic activity, production, finance and distribution. In the sphere of production the advance of rationalization, with its consequent changes in the structure, size and methods of administration of industrial concerns, has been exceedingly rapid in recent years. In the sphere of finance the latest developments are less encouraging, and indeed there has been something very like a breakdown in the mechanism of exchange and investment. In the sphere of distribution, which is that with which we are concerned,

an intermediate position seems to have been reached. There have undoubtedly been rapid changes in the direction of greater efficiency in both wholesale and retail trading during the present century and particularly since the war ; on the other hand, increasing difficulty and increasing expense is being experienced in disposing of the ever-growing volume of consumable goods which modern methods of production are making available to mankind. The time is therefore ripe for a fundamental study of the whole problem of distribution in the light of first principles, and no apology for the present attempt to define and elucidate a part of that problem seems to be called for.

As we proceed we shall find that our discussion and our conclusions are only relevant to a particular type of economic organization, namely that which in fact exists in the Western world. The leading characteristic of that organization is that it is avowedly based on the principle of free competition, but that this competition is being increasingly hampered by factors which impede its working. If the introduction of such impediments—whether in the form of legal enactment and government restriction, of action by large industrial undertakings to maintain prices at an arbitrary level, or of Trade Union pressure to maintain wage-rates—can be regarded as a step in the direction of what is coming to be described as a “planned economy”, it may be welcomed by all who feel that competitive profit-making provides an inadequate basis for modern economic life. On the other hand, it must be recognized that in the meantime these factors lead to rigidity and maladjustment in the economic machine, and that their direct repercussions on economic welfare are often harmful. The picture of distribution which we shall present

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to the reader is thus largely one of a machine adapted to conditions of free competition which has been thrown out of gear by the breakdown of those conditions ; with the result that competition has either ceased to operate or, more usually, has been driven into unhealthy channels.

Whenever in the pages which follow the reader comes upon a condemnation of some feature of modern distribution he must interpret it in the light of the foregoing paragraph. What is valid criticism in regard to Great Britain or the United States at the present time is not necessarily (though, of course, it may be) valid criticism in regard to a socialist community. In particular the discussion of advertising in Chapter VII, of direct selling in Chapters X and XI and of price-policy in the final chapter would have to be re-written to make it applicable to an industrial system free from individual competition, while the whole of Chapter XIII and many other passages throughout the book are obviously only relevant to certain countries and to a particular epoch.

A very widespread impression prevails that the marketing methods at present in vogue are grossly inefficient, and that if they could only be improved a rapid rise in the standard of living throughout the world would be possible. There is certainly much to confirm this opinion. The number of insured workpeople engaged in distributive trades in Great Britain and Northern Ireland increased from 1,253,980 to 1,874,780 in the short space of eight years between 1923 and 1931 ; the percentage of gainfully employed Americans so engaged increased between 1909 and 1927 from 10.5 per cent to 13.7 per cent ; it often costs as much to convey an article from the producer to the consumer as it does to buy the raw material, submit it to a variety of manufacturing processes,

deliver it to the retailer and defray such incidental expenses as those of packing, warehousing, and supplying credit. Indeed, anyone intimately acquainted with the conditions under which both wholesale and retail trade are carried on cannot doubt that there is much truth in the popular view; and yet there is also much misconception as to the reality and costliness of some of the trader's essential functions. It is easy enough to talk glibly about "profiteering" or "getting rid of the middleman", but it is well before doing so to acquaint oneself with the fundamental causes of high marketing costs and of the nature of the services for which these costs are incurred. We shall therefore have before us the twofold object of setting out and assessing the relative importance of the distributors' activities on the one hand, and of seeing where and to what extent they might be eliminated or rendered less expensive on the other.

The high level of marketing costs which prevails to-day, and which is at first sight so surprising to the uninitiated, is primarily one of the necessary corollaries of our present industrial organization. The main features of that organization are large-scale specialized production, a high degree of geographical concentration of industry, and consequently a wide separation of producer from consumer. The resulting economies in production costs are familiar to all, but they are offset in part, though by no means entirely, by the enormously increased costs of distribution which accompany them.

In the self-supporting village of an earlier day, costs of distribution must have been practically negligible. Most manufactured goods were made to order, so that the producer had no difficulty in finding his customers, no necessity for holding stock after it was made, nor any

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considerable costs in moving his goods to the premises of the consumer. The price of such commodities had in consequence to cover few costs other than those of their manufacture; and yet, because there was little specialization, and production was on a small scale, goods were manufactured at much labour and with great expense, and their final price was high. In the rare cases where distribution costs played a leading part, such as those of imported luxuries, there is no reason to suppose they reached a lower level than they do to-day for comparable commodities. Indeed, the slowness and inefficiency of medieval methods of transportation, and perhaps still more the great risks which the traveller had to encounter, made the cost of imported articles so high as to put them beyond the reach of all but the very wealthy.

The industrial revolution, by concentrating production and increasing the scale of output, led to an enormous reduction in manufacturing costs. At the same time it both enabled and compelled the producer to serve a larger area than that of his own town or village. His customers were no longer at his doors; he had to seek them out and convey his finished products to them. Moreover, he had now to manufacture in anticipation of demand instead of to order, and he had to hold his goods until he could find buyers. He also ran the risk of producing too many goods or goods of the wrong sort.

It is true that the producer does not himself usually have to perform all the additional functions we have outlined, the greater part being more ordinarily undertaken by the wholesaler and retailer. Nevertheless, whoever may be responsible for the actual conduct of the operations—manufacturer, wholesaler, or retailer—it is obvious that it

costs money to transport goods to the district where they are likely to be bought, to establish contact with the actual purchasers, to hold the goods until they are required, and to offer them in a form and under conditions which will attract custom. These are the real costs of distribution, and to these must be attributed the fact that it has become much dearer to sell goods since industry has been localized and producer and consumer have become separated.

If no one else were willing to bear the costs of distribution in the first instance, they would have to be borne directly by the consumer. Failing this, the latter would have to perform the necessary services for himself or to forego them entirely. In actual fact such cases sometimes occur. For instance, industrial concerns often have by-products of comparatively small value, which they sell to purchasers who are willing to fetch them themselves or to pay for the necessary cartage; examples of articles so disposed of are waste-paper, odd lengths of timber, sawdust, etc. The same procedure is often adopted by farmers, landowners and others who are willing to sell such articles as gravel, stone or turf to any applicant who will collect and remove it on his own account. A similar principle, again, comes into play when a rag-and-bone merchant or an old-clothes dealer calls for these articles at private houses. In the last of these cases the purchaser not only bears the cost of transport but undertakes the work of getting into touch with the supplier and informing him of his requirements. A more general case where the consumer rather than the producer takes the initiative and bears the expense of publishing his requirements is that of government departments and other bodies who offer contracts on tender.

The holding of stocks for a considerable period is another

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function which is usually performed by the producer or trader, but which is sometimes taken over by the consumer. Some housewives, for instance, though far fewer now than formerly, buy durable groceries like tea and sugar, and indeed many other more perishable articles, in large quantities; they thus get the advantage of a somewhat lower price, but at the expense of having to provide storage space, and sometimes also at the risk of deterioration if the goods are not used as quickly as had been anticipated.

Examples of the foregoing as well as of all the other functions which normally appertain to the distributor being undertaken by the consumer could be multiplied at will. All we wish to show here is that somebody must perform these functions. To eliminate them at any stage of the chain of distribution is not necessarily to effect any real net saving, though it may, of course, effect such a saving if an inefficient link in the chain is replaced by an efficient one. As far as the consumer is concerned, he usually prefers to pay somewhat more for his commodity rather than undergo unnecessary inconvenience; and indeed the tendency in recent years has been for distributors to take on an ever-increasing range of functions and so to minister to the convenience of consumers at the expense of their pockets.

Cases do occur where the current flows in the contrary direction and where the price which the consumer has to pay consequently approximates to the cost of production more nearly than usual. Thus in the retail coal trade the expense of bagging is considerable, but at the same time necessary when the coal is delivered in comparatively small quantities to private houses. On the other hand,

hospitals and similar institutions with large requirements and ample storage facilities are able to take delivery in bulk ; this enables them to buy at a reduced price on account of the elimination of the cost of bagging from the coal merchant's expense. To take another instance, the success of the multiple shop movement affords perhaps the most striking example of the same principle. The rapid development of these institutions in recent years rests to a large extent on their curtailment of such facilities as credit and delivery, with a consequent reduction in selling prices ; in particular the "Cash and Carry" Stores in America have made this curtailment the keynote of their policy.

These illustrations serve to show how the consumer may at times perform for himself, and at times forego entirely, the services which must ordinarily be rendered by those who have goods for sale. In the main, however, the consumer is a lazy animal who expects to be able to buy goods as, when, and where he wants and who is willing to pay a price which will cover all the necessary costs of ministering to his convenience. These costs under present conditions usually amount to something like one-third or one-half of the final selling price of commodities, and often to considerably more. An extreme example is provided by a well-known typewriter, the cost of selling which is five times that of manufacturing it.

We have said above that these high selling costs are primarily the result of that regional specialization which is the most striking single characteristic of modern industry. Though in the majority of cases the net result of this specialization is to produce such enormous economies in manufacture as abundantly to offset the increase of

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distribution cost, many marginal cases do exist where businesses enjoying all the advantages of large scale production find the burden of selling costs almost greater than they can bear. Such undertakings are not able to compete on more than equal terms with the small man who serves a local market. This, for instance, is the case with bread. The small baker who sells over the counter competes on equal terms with the large producer who serves a wide market, because the high distributing charges which the latter has to face counteract the advantages of mass production. It is none the less true, that though selling costs increase with the area over which customers are distributed, specialization normally affords manufacturing economies more than equivalent to this increase; and that the present tendency for a growing proportion of the consumer's pound to be devoted to distribution and a smaller proportion to production and manufacture is one to be watched carefully rather than to be condemned out of hand.

A further cause of high selling costs must be mentioned. This is the large and, it would seem, increasing demand from the consumer for additional services from the middleman. First, he demands a wide range of choice and wishes to see an enormous variety of goods before he makes his selection. Secondly, he seems to prefer to do his shopping in buildings which provide space, comfort, and even magnificence, and to be waited on by a number of assistants considerably larger than is strictly necessary for attending to his requirements. Thirdly, he often asks to obtain goods on credit, and in recent times, especially in America, to an increasing extent on the hire purchase system. Fourthly, as no one can be an expert judge of all the commodities he has occasion to buy, the consumer

demands that the middleman shall do a great part of the selection and judging on his behalf. Thus the efficient retailer has to grade his goods carefully, and to a considerable extent guarantee their quality. This last function is, indeed, one of the few which has declined rather than increased in importance during recent years. Many are the lamentations that the retailer who once had a skilled knowledge of his wares is now a mere hander out of the branded goods which the manufacturers' advertisements have taught the consumer to demand. None the less, the really efficient shopkeeper must know exactly what he is selling or he will speedily lose his customers' confidence. Even his assistants may have to be trained experts and to act as instructors of the public. A motor salesman, for instance, or a dealer in wireless apparatus, requires a considerable amount of mechanical and scientific knowledge, since many of his customers are completely ignorant of the principles on which the articles they are buying are constructed or even operated. The person in charge of the book department of a large store is often nowadays a University graduate who has to be remunerated accordingly, while even the humble grocer's assistant ought still to be able to display a superior knowledge in the matter of blending teas, grinding coffee, curing bacon, and selecting cheese.

It is evident that where the consumer demands these extra services he must in the long run pay the price which will cover the cost of their performance. Those retailers who do not perform them may be able to charge lower prices; but in so far as consumers prefer buying commodities under the conditions indicated, a trader who wishes to increase his sales will be forced to incur the

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extra cost of providing the amenities required by his customers and to fix his prices accordingly. On the other hand expert buyers and those who prefer to spend time rather than money on the acquisition of commodities, as well as to shop under less comfortable conditions than they otherwise could, may often succeed in getting things at less than normal prices. In doing so they have to rely on their own judgment rather than on the reputation of the retailer, to find their variety by visiting a number of retailers, perhaps to carry their parcels home themselves, and to pay cash.

Although the services just discussed involve real selling costs, which must be borne by the consumer in the price he pays for his purchases, it does not necessarily follow that the retailers who provide them find that their aggregate selling expenses are any higher than those who do not. In many cases those who fail to comply with the average consumer's demands for additional services find that their turnovers are abnormally slow and that their more aggressive competitors are able to sell at the same price levels as themselves or even to undercut them. The point is that palatial premises, numerous and well-trained shop-assistants, a large choice of goods and similar amenities attract the public more successfully than would a slight price difference. If the reverse were the case the trader aiming at a rapid turnover would rely on the price lever alone to secure it, and the net result would be somewhat lower prices in force in the larger shops than do in fact prevail. We shall come across a similar paradox when discussing advertising. Although the net effect of extensive advertising by a manufacturer may be to reduce his selling prices, in consequence of the economies in production which

may follow a much increased turnover, it cannot be said that the cost of advertising is not a real one, or that it does not enter into the selling price of the commodity.¹ In the same way every kind of expenditure on selling services must be included in the cost of distribution, even if some of it more than pays for itself.

¹ See p. 88, where this point is fully discussed.

CHAPTER II

THE OPERATIONS OF THE DISTRIBUTOR: ESSENTIAL AND NON-ESSENTIAL

It is not an easy matter to draw up a classification of the operations involved in distribution which is at the same time logically satisfying and consistent with the practice of the market-place. In the analysis which follows, all the main and essential functions of any distributive system, whether primitive, capitalist, or collectivist, are provided for. Those functions which are normal features of distribution as we know it in the modern world, but which are not essential to the distributive machine as such, are separately defined.

First, then, among the essential selling operations we may place that of making and maintaining effective contact between buyers and sellers—in other words of finding out about markets and customers, and telling customers about the kinds, the quantities, the qualities and the prices of the goods which are being offered for sale. In a sense, indeed, all the remaining marketing activities are subsidiary to this main business of bringing buyer and seller together, which we may conveniently describe under the collective heading of information.

The cost of obtaining information about possible markets and prospective customers varies enormously according to the type of commodity being sold, the length of time for which it has been on the market, the length of time during which the particular manufacturer has been producing it

or the particular trader handling it, and other factors of a like nature. A newly-established firm marketing a new product, or even an old firm manufacturing or proposing to manufacture one with which it has hitherto had no experience, may quite legitimately spend vast sums on exploring possible markets and finding out individual purchasers; whereas an old-established manufacturer or trader who has been selling the same article for years may spend very little indeed.

Even in the most favourable conditions some expenditure on obtaining information is necessary. Similarly a certain minimum of information must be supplied to customers, if only to the effect that an article is or is not available at the time, at the price, and in the quantity required. More usually a considerable portion of a salesman's time is devoted to the task of supplying information—sometimes indeed the whole of it. The traveller with his samples; the shopwalker with his rolls of cloth of various textures, colours, and qualities; the manufacturer or department store with their catalogues, showrooms and shop windows; all these are busily engaged in supplying information to the buying public. At the other end of the scale, the supply of information merges into advertisement: the two indeed are often scarcely separable, though the one is, whereas the other is not, a necessary and essential part of the business of distribution.

Next comes the sorting, grading, packing, and preparation of goods for sale. At first sight these processes may appear to be exclusively associated with production. Sorting, grading and packing do, indeed, enter into production at many stages, and in the case of such articles as sardines or tinned peas constitute the greater part of the productive

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process; while "preparation" is a term which might be treated as synonymous with production itself. At the same time those who undertake the distribution of finished goods to the consumer almost invariably find themselves compelled to engage in one or more of these activities. The manufacturer who receives an order must sort out the right items from his stocks and pack them for despatch; the retailer who buys goods in bulk may have to subject them to a fairly elaborate process of grading into various sizes and qualities; while, as we shall see later, the cost of sorting and grading often constitutes by far the most important part of the expenses of certain types of wholesalers and other middlemen.

Thirdly, there is the transportation of the finished commodities, directly or by stages, from the producer to the consumer. Heavy expenditure on transport is a necessary consequence of specialized and large-scale production and is peculiarly characteristic of modern industry. It is, none the less, impossible to imagine a society where such expenditure could be entirely dispensed with. Under present conditions, the carriage of finished goods is performed partly by specialized agencies such as railway, steamship and other transport undertakings, and partly by manufacturers and traders who organize their own road transport departments. In so far as the special economic problems to which it gives rise are the subjects of an extensive literature, the treatment it will receive in the present study will be very brief.

Last among the essential distributive operations are those of warehousing and financing stocks of finished goods, together with that of bearing the risk of price-fluctuations in the goods before they are sold. The expense on

account of these activities may be generically described as "holding" costs. They are not necessarily all borne by the same person; in many cases a retailer will hold stocks which are financed by a wholesaler, while the latter may in turn be financed by a manufacturer or an outside institution such as a bank.

Risk-bearing is frequently the function of a special class of professional speculators, though only to a very limited extent in the case of finished commodities. In a period of great uncertainty, due to such a factor as currency instability, a trader in, for instance, dress materials may safeguard himself against violent fluctuations by effecting a transaction in raw wool or raw cotton futures to offset his purchases of finished goods. More commonly, however, he himself shoulders the risk of changes in the value of his stocks after he has purchased them, and protects himself as best he can when prices are on the down-grade by reducing his holdings to a minimum at such times.

Warehousing is sometimes a service which is performed by special companies, though this is more often true in the case of raw materials at the port of landing and elsewhere than of finished commodities. A limited amount of storage must inevitably be undertaken by manufacturers, unless they make solely to order; and by retailers, unless they are merely acting as manufacturers' agents and conduct their business entirely by pattern or specification, or unless, as in such cases as bespoke tailoring and bootmaking, they in turn make only to order. All these exceptional cases are comparatively rare; of the bespoke tailor or bootmaker in particular it may be observed, first, that he is not a retailer pure and simple, and secondly, that he does generally have to undertake some storage of materials—cloth, linings,

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buttons, leather, and so on, if not of finished goods. Many wholesalers and other intermediate dealers are simply agents or commission-men, and are thus not in any way concerned with the storage function. More commonly, however, they too have to take a share in it, if only a small one.

Associated with the four main groups of distribution activities indicated above are certain incidental operations, such as keeping accounts and collecting payments, which might in a sense be regarded as forming a separate category. In the same way a separate heading might be inserted for the actual process of effecting the sale itself: attendance, that is, to a customer's inquiries; settling with him what he wants to buy, in what quantities, and at what prices; and, generally speaking, those parts of a salesman's or shop-assistant's duties which are the indispensable concomitants of each individual transaction. Reflection, however, will indicate that most of these activities can logically be split up so as to fall under one or other of our four main headings; keeping accounts under "information"; effecting the sale itself partly under "information" and partly under "the preparation of goods for sale" or "transportation"; and there is no practical reason for establishing separate categories other than those already provided.

We now come to those distribution activities which are not essential to the process of selling, but which to a greater or lesser extent are, in fact, commonly undertaken by distributors in order to increase their sales. These fall in the main into two categories, both of which are closely related to the expense of obtaining and supplying information, which constituted the first of the essential costs outlined above.

The former category comprises the group of activities variously known as "market research", "merchandising", "sales engineering" and similar expressions; and is in a large degree a growth of recent years. It covers all that elaborate organization set up by manufacturers, large-scale wholesalers and retailers, advertising agencies, the Press and independent "business consultants", which is devised not merely to collect that minimum of information about the consumer and his requirements which is the indispensable preliminary to any selling operation, but so to explore every possible avenue of sale, every conceivable alteration in the type of product or in the terms on which it is offered to the public, as to leave unturned no stone by which the sales of the individual manufacturer or distributor might be increased.

Some of the expenditure on this type of activity doubtless represents a net addition to the utility of the aggregate product of industry; and much of it may, by exposing limitations of the market of which the manufacturer was previously unaware, make possible very considerable economies, both in production and distribution. To the extent that these objects are achieved, the expenditure is socially justifiable and, indeed, desirable, though it is none the less not essential in the sense defined above. On the other hand a large, possibly the greater, part of it results merely in securing for one producer sales which would otherwise have been made by a competitor, or for one product a number of purchasers who would otherwise have spent their money on something else. Where this happens the expenditure is neither essential nor socially desirable, however much it may redound to the advantage of the individual manufacturer.

A broad criterion by which one may judge of the social utility of this class of expenditure is afforded by the extent to which the information to which it leads is made public or kept secret. Where there is publicity, as in the case of the findings of Government departments like the Board of Trade and the Empire Marketing Board, or even of certain industrial associations or public-spirited manufacturers, there is an *a priori* reason for regarding the expenditure as worth while. Where, on the other hand, the information is guarded as a jealous secret, it is not unreasonable to suppose that it will mainly be used to injure a competitor. Moreover there is a serious danger, in the latter case, of widespread overlapping, so that many separate and costly investigations are simultaneously set on foot by individual producers, each leading to substantially identical conclusions and yet each being regarded by the manufacturer concerned as his unique and priceless secret.

The second category of distribution activities which are nearly always undertaken but which are not essential to the process of putting goods on the market are, of course, those relating to advertising in all its aspects and ramifications. Here, again, it may in practice be very difficult to distinguish in borderline cases between advertisement, which is definitely aimed at inducing buyers to spend more than they otherwise would, or to buy one article rather than another, and the "legitimate" provision of information about available supplies which is necessary to enable the buyer to make a rational choice. Thus the cost of preparing an ordinary trade price-list may be regarded as falling within the bounds of legitimate expenditure on the provision of information, whereas an elaborately produced Christmas catalogue, with coloured

illustrations and expensive binding, is obviously ninety per cent advertisement. Nor is advertisement confined to the supply of information, true or false, or even to persuasion by means of the written word or the seductive sample. It may, and generally does, lurk unseen in the extension of any of the "legitimate" types of expenditure on essential distribution services beyond the minimum level which efficiency demands. The polishing of apples or second-hand furniture until one can see one's face reflected in their surfaces; the provision of a daily delivery service to the consumer's door; the willingness to store bulky goods for several months after they have been bought until they are actually required by the purchaser; the extension, such as is afforded by the tradesmen who supply Oxford and Cambridge undergraduates or retired majors in Cheltenham, of credit for an unlimited period; the elaborate paraphernalia of restaurants, lounges, music, flowers, and mannequin parades without which no up-to-date department store is complete; all these are in a sense advertisement.

One note of warning should perhaps be added. All advertisement costs are directed towards increasing the distributor's sales, but all expenditure directed towards that end must not be regarded as constituting advertisement costs. A distributor may try to increase his sales by improving the quality of his wares, or, as we have just indicated, by increasing the services which he supplies in conjunction with them, or by making them more nearly adapted to the needs of the public. The costs of improvements in quality cannot legitimately be considered to be a part of advertisement costs, since they form part of the supply price of a commodity different from the

unimproved variety. Competition by quality and competition by price are different things, although in particular cases it is not always easy to distinguish between them. In the former case the seller tries to furnish the consumer with what he wants, whereas in the latter he tries to persuade the consumer that he wants what the seller can supply. Genuine improvements in quality or design must therefore be distinguished from changes which, in fact, are not for the better, and may even be for the worse, but which the skilful showman can represent as constituting an enormous advance on what was previously being supplied. Such changes are by no means infrequent, as anyone who takes the trouble to inspect in an impartial frame of mind the successive annual models placed on the market by the manufacturers of motor-cars, typewriters, safety-razors, pipes, and countless other articles of daily use may see for himself. Expenditure on these changes may reasonably be described as an indirect advertising cost, and to be made effective must usually, of course, be accompanied by heavy direct advertising expenditure as well.

We shall examine in Chapters III to VI the four branches of the distributing activity which we have defined above as essential, passing on in Chapter VII to a discussion of advertising, "sales research," and sales-promotion. The way will then be clear for a consideration in Chapters VIII to XIII of problems of structure and organization and of the manner in which they influence the cost of the various operations. Our study will conclude with a final Chapter which will be devoted to the special problem of retail prices and their relation to the costs of the entire distributive process.

CHAPTER III

INFORMATION

THE costs of information, like all the other costs both of production and distribution, are ultimately paid for by the consumer in the form of an addition to the final price of his purchase. Direct contact between producer and consumer being nowadays rare, these costs are correspondingly high ; and indeed the business of collecting and giving out information comprises a very large proportion of most distributors' and particularly of most wholesalers' activities. As we have already pointed out, it is from one point of view primarily to perform this function that the whole elaborate paraphernalia of manufacturers' selling departments, large and small wholesalers, and retail shops, exist ; and the remaining activities incidental to marketing are in a sense subsidiary. Though the task is unequally shared by the various parties to the distributing process, all distributors are compelled to devote some of their time to it.

In the case of the manufacturer, information is obtained through a variety of channels. Of these the most obvious, though not always the most important, is his staff of representatives. One at least of a representative's duties is to keep his principals in touch with the needs and requirements of the public, with competitors' activities, and with the probable trend of the market ; but the busy traveller has neither the time nor in general the knowledge to look at the problem of marketing policy from any but his own

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special angle and that of his immediate customers. His reports must be supplemented and checked by the internal sales organization, which is in a position both to collate the information received from the travelling staff and to conduct independent investigations on its own account. These investigations have as their object not only the collection of information which will be useful in formulating general sales policy, but in particular the provision of statistical data on which to base a forecast of future sales. The importance as well as the feasibility of accurate sales forecasting has only won recognition in very recent years ; but it is now the usual practice among efficiently conducted businesses, and indeed affords the keystone of their annual production and distribution programmes. Its utility has already been amply proven, though with the publication of increasingly satisfactory statistics, together with a gradual improvement in the technique of checking statistical knowledge against practical observation, its value in the future may be expected very considerably to transcend that which it already possesses.

Quite apart from any question of accurate sales forecasting, correct information about public demand is, of course, a necessary preliminary to the establishment of any manufacturing business, as well as a condition of its continued existence. It is of as much importance to production as to distribution, and is logically antecedent to both. Nobody is likely to succeed in business without the capacity to form sound judgments about known facts and the ability to translate such judgments into action ; but given these qualities a man's success or failure is likely to be in direct proportion to the extent to which he is well-informed. In the past business men have depended for

information mainly on their own experience, their trade connections and their flair for picking up useful knowledge. With the growth in the size and complexity of business these sources have become inadequate, and are being gradually displaced in large concerns by the systematic collection of facts and their subjection to statistical analysis—in other words by research on lines which to a greater or lesser degree are scientific.

This systematic study of consumers' requirements and of methods of distribution has come to be known as "market research". It means in the first place a careful analysis of one's own sales figures in order to discover what factors, whether operating within the business or from outside, have in the past influenced demand and are, therefore, likely to do so in the future. Price-changes, alterations in terms, the competition of new lines with old, fashion, the variations of the seasons—all these and many other influences may be at work; and it is for the skilful statistician to disentangle their effects. Secondly, market research includes the study on similar lines of any published statistics relating to one's own or kindred trades, as well as to business movements in general, and more particularly to the volume of employment, the level of wages and prices, the volume of bank-clearings, and any other relevant information which is likely to afford a clue to future changes in demand in different areas and in the country as a whole. Thirdly, it involves the initiation of special investigations or deliberate experiments in order to test the strength and weakness of one's products in the public favour, to ascertain the qualities in new lines which are likely to meet with approval and the alterations in old ones which are required to bring them up-to-date, to assess the

relative merits of various methods of distribution, and generally speaking to obtain guidance in regard to any marketing question which can usefully be investigated on statistical lines. There are various ways in which such investigations and experiments may be conducted. Trained investigators may be sent out to interview wholesalers and retailers or members of the public in their own homes ; or questionnaires may be sent out through the post. Manufacturers may set up "laboratory shops" and use them as a means of collecting information about the demand for their own and their competitors' goods. New lines may be launched under controlled conditions or in sample areas and the resulting sales analysed before an attempt is made on the market as a whole. In the result the manufacturer or distributor who makes a wise use of these methods is likely to secure enormous economies in distribution and escape a great deal of avoidable waste.

In practice market research is generally closely associated with advertisement, the more so as it is of particular value in the distribution of branded merchandise. In so far as its sole objective is to improve the quality of a manufacturer's products or to ascertain the most effective method of placing them in the hands of the consumer, it falls legitimately within the scope of the present chapter. On the other hand, where it is used as a direct adjunct in the preparation of an advertising campaign, or even as a means of discovering, or a step to "creating", a new and hitherto non-existing market, it is more properly to be discussed under the heading of advertisement. We shall, therefore, have more to say about this aspect of market research in the chapter on that subject.

Like the manufacturer, the wholesaler must keep in touch

with his customers' requirements. He is, however, more likely to rely on the personal contact with them which he can obtain direct or through his representatives than on any elaborate machinery for statistical investigation ; when all is said and done, his task is mainly to distribute to the best advantage the goods which the manufacturer puts into his hands. The latter is naturally grateful to any of his wholesale friends who keeps him posted with information likely to be of assistance or advantage to either him or them, but he cannot always expect it as a matter of course ; in the last resort he must himself decide what to make, at what price, and in what quantities. On the other hand, the wholesaler not only has to find out which retailers require the various goods he has in stock ; he must also discover from whom the goods wanted by his customers can be obtained. In the matter of obtaining information he thus has a double task, which is reflected in the division of his business into separate buying and selling departments.

What is true of the wholesaler is true to an even greater degree of the retailer himself. He too must study his customers, find out their wants, and pass back the information to the wholesaler and the manufacturer ; but, being in direct and constant contact with his public, he need seldom employ any methods other than those of personal knowledge and inquiry. In the case of very large retailers, department stores for instance, more elaborate methods of discovering the consumer's taste may be employed, but they are not usual. The more important side of the retailer's information-gathering activities is associated with his rôle as a buyer on behalf of the general public. He it is who must know where to get each article his customers are likely to want, whether it is better

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obtained from a wholesaler or manufacturer, and at what price and in what quantities it can be had. This side of the retailer's business becomes increasingly important as the scale of his operations increases; and it assumes perhaps its greatest prominence in the case of the department store.

One type of information which distributors are obliged to obtain requires separate notice; and that is accurate reports as to their customers' credit-rating. In the case of retailers this is a matter of secondary importance. Many of them trade exclusively for cash, while most others do so to a very considerable extent. Where credit is given by a retailer it is usually after personal knowledge of the customer has been obtained, or else, in the case of new customers, where it is felt that to grant it is a fair business risk, the assumption of which will in the long run pay for itself. Bankers' or other references are often required, but it is comparatively seldom that a retailer will have to put himself to much expense merely to find out whether he should or should not grant credit.

The wholesaler nearly always grants his retail customers a certain amount of credit; but here again usually on the basis of his personal knowledge, or, at any rate, on that of his faith in his own ability to extract payments which are not forthcoming on the proper date. Moreover, in many cases he feels, in common, as we have pointed out, with some retailers, that it is part of his legitimate business expenses to run a certain amount of risk in the matter of giving credit.

When it comes to the manufacturer the position is different. Here also custom and expediency nearly always compel some granting of credit; but the geographical

separation between seller and buyer usually precludes the possibility of personal knowledge of the latter by the former. To overcome this difficulty, special institutions have grown up, sometimes as independent undertakings working for profit, sometimes as branches of the manufacturers' associations in particular trades; the task of these institutions is primarily to make inquiries as to the credit-worthiness of traders, though it may also include the recovery of bad debts.

We now turn from the collection to the distribution of information. It must first be noted that the distribution of information genuinely necessary to enable goods to be sold is an activity which is not always easily distinguished from advertising in the ordinary sense of the word. Not only does the manufacturer find that the larger part of his representatives' time is often taken up with the distribution of information (as opposed to actual selling); but samples, catalogues and price lists, as well as showrooms and branch offices, are all directed to the same end. The wholesaler employs similar methods to make his wares known to the retailer; and in addition the mere fact that he keeps an extensive and varied stock of all the leading manufacturers' goods is a means of providing information as to what is available.

In the case of the retailer, it is less easy than in those of the manufacturer and the wholesaler to draw the dividing line between what can properly be described as the distribution of information and the remaining activities associated with the act of selling. This is because his business is normally less highly organized and employs a smaller and far less specialized staff. Nevertheless, it is clear that he does spend much of his time and money

on the dissemination of information. Unless he is a family tradesman who sends out daily or weekly to private houses for the house-keeping orders, he does not usually employ travelling representatives ; but in other respects he follows the lead set by the wholesaler and manufacturer. He may, for instance, issue catalogues, or at any rate weekly or monthly price-lists. His chief method of providing information, however, is by exposing a stock of goods for sale in his windows and on his shelves, and by locating his premises in as prominent a position as the nature of his business can afford. In other words, a large part of his rental may fairly be allocated to information expenses.

Under modern conditions the customers who buy any one manufacturer's goods are generally scattered all over the country, and frequently all over the world ; in the same way the humblest consumer draws his supplies from the four quarters of the globe. Specialized production has separated consumer from producer, and the mutual exchange of information has thus become an essential part of the distributive process. Occasionally the buyer himself defrays the cost of obtaining information about possible supplies, as for instance when he advertises for a second-hand bicycle or a new cook in the classified columns of a daily newspaper. Even in such cases it is equally likely that the initiative will come from the other side—that the cook or the owner of the bicycle will insert the advertisement to which the prospective purchaser will merely reply. A third alternative is provided by the case where the initiative comes simultaneously from both parties, and where both buyer and seller advertise independently. Finally, there is the fourth possibility that the active party in the transaction may be an outside agency, such as a

second-hand dealer in the case of the bicycle and a registry office in the case of the cook.

The cases quoted in the preceding paragraph present the problem of co-ordination in its simplest form. Buyer and seller are each looking for the other, but in order to come together they have to pay the price of information. For any one commodity it is more usual to find supply concentrated and demand scattered than the reverse, so that it is usually the seller in the first place who bears the expense of looking for buyers. But occasionally we find demand concentrated while supply is scattered, and in such cases the buyer may take the initiative in seeking information. For instance, the demand of a Government Department such as the War Office is a composite demand which must be satisfied by a number of manufacturers. In this case the department generally takes steps to get into contact with producers; its Contracts Committee maintains lists of manufacturers and scrutinizes the capabilities of various firms; sometimes it publishes invitations to tender and sometimes it approaches individual manufacturers.

Examples of the foregoing kind are much more numerous, of course, in the case of the supply of raw materials and semi-finished products than of consumable goods; in most industries all manufacturers maintain buying organizations of sorts, and in many cases these are organized on an elaborate basis for the purpose of maintaining contact with innumerable small producers. The marketing of raw materials lies, however, outside the scope of the present study. As regards consumable goods it is comparatively rare to find all the initiative being exercised by the buyer; though where he is a retailer or middleman, and not the

final consumer, he often bears a considerable share of the expense of obtaining information. The final consumer nearly always expects to be supplied with full information without expense or exertion on his part ; except for paying visits to several different shops before making a purchase of certain classes of goods, such as women's clothing, the more expensive sorts of foods and luxury articles generally, he takes no active steps to inform himself of the possible range of choice from which he may satisfy any particular need. When a housewife wants meat, she goes to her butcher and relies on him to supply the best quality at the price she is prepared to pay ; if she finds that the meat from the shop she regularly patronizes is always tough she naturally takes her custom elsewhere, but she does not—usually—visit three or four shops in search of a particular joint. When a man wants socks or collars or shirts he goes either to his regular haberdasher or to a shop selected at random, and does not, like his wife when she is buying stockings, wander from department store to department store before making up his mind.

The growth of the practice of branding goods with widely advertised trade-marks, the increasing ignorance of the general public as to the proper standards by which to judge what they are buying, an increasing reluctance to waste time in mere "shopping" when orders can be given over the telephone or by post, side by side with a steadily increasing congestion in the main streets of large towns, which makes shopping anything but a leisurely and pleasant pursuit, are among the factors which are still further increasing the desire of purchasers to be spoon-fed in the matter of information. Some tendencies acting in a contrary direction are, it is true, at work, particularly the

increasing leisure of the poorer members of the community, together with a growing desire, largely no doubt stimulated by advertisement, to get "value for money"; but on the whole it seems clear that the balance is the other way.

In the case of very valuable goods, such as ships and locomotives, the manufacturer can establish personal contact with all those who are the ultimate purchasers of his products, owing to the fact that the number of customers is strictly limited. Very few such articles, however, come within the category of consumable goods. In some cases where the product is of a durable and comparatively expensive character, such as a sewing machine, a vacuum cleaner or an encyclopædia, the policy of direct sale is adopted, but it involves either a large army of agents, perhaps combined with the setting up of actual retail shops in a number of towns, or else very lavish expenditure on catalogues and newspaper announcements which is seldom justified by results. The direct sale of less valuable articles, whether through the manufacturers' own shops, as in the case of boots, chocolates, drugs or tobacco, through the mail-order channel, as in the case of certain brands of cigarettes, wines and jams, or through house-to-house canvassers, as in the case of a well-known brand of brushes, as well as of a host of minor "gadgets" such as knife-sharpeners, potato-peelers, rust-removers, etc., is also a method which has often been tried. How far it has been successful, and under what circumstances, will be discussed in a subsequent chapter. More normally it is through the channels of wholesaler and retailer that information as to demand reaches the seller and information as to supply reaches the buyer.

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For the general run of commodities, customers are scattered over a wide area and the individual purchase is so small that an impossibly complex organization would be required to enable the manufacturer to go direct to the consumer. It is only the retailer who can get in touch with individual members of the public. By the name on his shop, by the display of goods in his window, and by the answers of his assistants he announces to his customers that he has a supply of goods corresponding to their particular demand. He thus provides them with information as to what goods are available, and a substantial portion of his expenses is attributable to this provision of information. His shop might be smaller—only sufficiently large to store and prepare his goods; it might be obscurely placed in a side street; he might dispense with plate-glass windows and window displays; he might reduce the number of his assistants to the minimum necessary to attend to customers' requirements without any give-and-take of information; but if he adopted any of these courses he would fall short in the matter of announcing what supplies are available to the public, and would in consequence soon fail to attract any customers at all. The services which he renders by these methods are equivalent to those rendered by the hawker when he goes from door to door. The costs of either are really to be defined as information costs; though in the one case they appear in the form of rent, investment in stock and fittings, wages, and many other ways, whereas in the other they take the form almost exclusively of personal earnings.

Just as the retailer must get into touch with individual members of the public who are in need of consumable goods, so must the producer discover which retailers are

willing to buy his products and—a very important point—which are in a safe financial position to do so. For the small producer the cost of acquiring this information direct through his own organization is normally too great. Even for large producers, who can afford to sell a considerable portion of their output direct to the retail trade, it is seldom economical to rule out other channels of distribution as well. This is particularly the case where, as happens with most of the trades supplying the housewife's daily needs, the number of small retailers is very large, and the value of the average purchase made by each is consequently very small. Most staple commodities, moreover, are stocked by several classes of retailers as well as by general stores, and it is difficult for the manufacturer without a detailed knowledge of local conditions to discover all those who would be willing to buy his goods. The danger of bad debts is also considerable, unless, in default of local knowledge, expensive investigations can be undertaken. Consequently a third party, the wholesaler, commonly makes his appearance and finds that a profit can be made from acting as intermediary between producer and retailer.

Like the retailer, the wholesaler has other functions to perform besides providing information. For instance he holds goods for considerable periods, transports them to convenient points and divides and sorts them in preparation for resale. But sometimes these other functions of the wholesaler may be dispensed with ; the one of providing the producer with information as to the available outlets for his goods is of primary importance. On occasion the wholesaler may never handle the goods at all, but merely act as a broker between producer and retailer ; in such

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cases it is clear that the commission he receives, or the difference between the price he gets from the retailer and the price he gives to the producer, is purely and simply a price paid for the service of information. Certain large producers are, it is true, able to sell their goods without the mediation of the wholesaler, and many large retailers are able to buy direct from producers, but the work usually done by the wholesaler cannot by these means be eliminated. The producer who sells direct to the retailer has to do the wholesaler's work himself and has to enter its cost into the price which he gets from the retailer.

Thus, whether goods are sold through the ordinary wholesaler-retailer channel, or whether they pass directly from producer to retailer, or whether they go direct from producer to consumer without any intermediary, their price must always include some allowance for the cost of obtaining and giving information. Either the producer himself incurs the expense of finding, in each locality, the retailers who can afford him an outlet for his goods or the consumers who will buy them direct ; or else the greater part of this expense will be undertaken in the first place by the wholesaler, who will recoup himself by selling at a higher price than he has paid to the producer. In this latter and more usual case the cost of information will be made up of the expenses which the producer incurs in establishing his connection with wholesalers, those of the wholesaler in linking up with the retailer, and those which we have seen the retailer must in turn undertake if he is to make his wares known to the ultimate purchaser.

We have hitherto confined the discussion to those aspects of information costs—and they are the more important—which fall under the head of " selling expense ".

It must, however, be remembered that both wholesalers and large retailers incur considerable expenses in the way of buying commodities and that these all form part of the information costs associated with the process of distribution. The type of retail undertaking whose buying organization is the most highly developed is the department store. These stores not only send out buyers to producers and wholesalers both at home and abroad to select their stock, but they frequently appoint agents in important foreign centres to keep in constant touch with current fashions and current opportunities. In this way American department stores in the Middle or Far West have resident agents in New York, as well as in such foreign cities as London and Paris. Most usually the principal buyer in each department is its chief official; to such an extent, indeed, has this been the case in the past, that many stores have been justifiably criticized for allowing policy to be dominated by a buyer's rather than a salesman's mentality. Chain stores, again, naturally maintain a central buying organization, through which all purchases are made, though in their case much of the progress made in recent years has been due to the fact that it has been the salesman rather than the buyer who has ruled the roost. The amount of this buying expense of course varies according to the type of organization, but it is frequently considerable. In an investigation into the costs of wholesale grocers conducted by the Harvard Bureau of Business Research in 1922, the average buying expense was found to reach a figure of 2.5 per cent of total turnover, while in 1924 the buying charges of large department stores in the same country amounted to 3.3 per cent. Thus while the producers' distribution costs consist largely of the expense

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of seeking out retailer demand, those of wholesalers and retailers also include that of seeking out supply; and consumable goods accordingly have to bear a double set of costs of obtaining information.

One of the best examples of the difficulties and expense of obtaining and supplying information is afforded by the marketing of vegetables. This is a trade where there are two main types of producer: the man who grows vegetables, sometimes but not always on a large scale, in a specialized area and the very numerous class of small growers who sell their produce in their own locality.

The small grower who lives on the outskirts of a town may sell his produce direct to the consumer; for him the problem of information is of insignificant dimensions. He may keep a retail shop or hold a stand in the market-place or hawk his produce from door to door. In any case he is in direct touch with his customers; he can personally announce to them the supply which he has available at the moment, and he is in a position to know the nature of their demand. The expense to which he is put in getting into contact with buyers is limited to the expense of keeping his barrow, stall, or shop in the public view.

The case of a grower in a specialized area is very different. He grows his vegetables in the locality most suited to their production, and thereby reduces his production costs, but he normally lives far from the area where his produce is consumed so that he is obliged to keep in contact, directly or indirectly, with distant markets. Moreover, since vegetables are both perishable and subject to wide fluctuations in supply, this contact must be a daily one. It is in most cases an impossibility for the producer himself to maintain a connection with the individual

consumer or even the individual retailer without neglecting his main function of growing the vegetables. Certain producers in specialized areas do indeed attempt to sell direct to consumers in different parts of the country. Similar attempts are made to market fish from ports like Grimsby, tweed from the Hebrides, butter, eggs, home-made jams, and many other articles, most of which are produced on a small scale. Such attempts are seldom successful; besides the trouble and expense of sending small parcels, there is the difficulty of finding out the individuals who will buy and the fact that, even when they are found, the information it is possible to give is not always complete or up-to-date. The consumers cannot inspect the goods before purchase nor can the producer keep in constant touch with their exact needs. In consequence growers more usually resort to other methods for discovering their customers.

The usual channels of distribution to which vegetable growers in specialized areas resort are the large distributive markets which have been established in all important centres of population; and most notably Covent Garden, which caters not only for London, but for much of the provincial trade as well. To these central markets come dealers from many parts of the country in search of a supply which they may themselves offer for sale at the smaller local markets. The grower who lives at any distance from a large market usually employs a commission agent to make the best bargains there on his behalf. Such an agent's sole function is to put the grower in touch with the wholesaler, to whom he sells the produce on consignment. The wholesaler may dispose of the produce on the spot or he may reconsign it to a smaller market in

another part of the country ; in either case his function is mainly to direct supplies to the places where they are most wanted. Very frequently the same process is repeated once again before the produce finally reaches the retailer ; for, after being reconsigned to the smaller market, it may be purchased by yet another wholesaler in order to supply the needs of retailers in surrounding districts who are unwilling or unable to attend regularly at the market. In this way, as many as six intermediaries may sometimes be interposed between the grower and consumer. The main function of each is to direct produce to the points where it is wanted, because his predecessor in the chain of distribution has been unable, through lack of information, to consign it to them direct.

In this costly way is information provided. The cost is not confined to the commissions of the intermediaries, though these often amount in the aggregate to something like 12 per cent, and in extreme cases 25 per cent, of the final price ; it usually includes heavy transport, packing and handling expenses on account of produce being taken from market to market, which would not have been incurred if information could have been obtained in any other manner. Moreover if at any stage an intermediate dealer finds that he has misjudged the market, a portion of the produce will either have to be sold off at ridiculously low prices or destroyed, and the loss on this account must be further charged under the heading of information costs.

Fortunately, the case of vegetables is peculiar in various ways. The majority of growers work on a small scale and, in Great Britain at any rate, there is little organization among them. Market information is needed at once because the produce is highly perishable. Furthermore both demand

and supply are irregular, so that information must be not only immediate but continuous; for any given consignment it is not sufficient to establish connection with the market once and for all; constant attention is necessary until the whole consignment has been disposed of, by which time the next is probably well on the way. Similar conditions prevail for perishable fruit and flowers, for which the channels of distribution are almost identical with those for vegetables; but in most other trades the need for information is less urgent and the means of acquiring it are more highly organized.

An extreme example in the other direction is afforded by the consumers' co-operative movement. Here the contact between the buyers, which are the retail societies, and the seller, which is, as far as the larger part of the retail societies' total turnover is concerned, the Co-operative Wholesale Society, is very close indeed, and information is correspondingly cheaply provided. Since the Wholesale Society's customers are confined to the ranks of consumers' societies, and since in turn the latter feel themselves under at least a moral obligation to deal with or through the C.W.S. for most of their purchases, there is comparatively little need for either to spend large sums in search of markets or sources of supply respectively. It is true that the retail branches have to keep their customers informed about supplies and prices in the same manner as any other shop, but here too the link between seller and buyer is closer than is normally the case in private trade. Most co-operative members automatically patronise their local branch, at any rate for certain classes of goods. This may or may not be due as much to a sense of loyalty as to any real advantage which they derive in the way of lower prices or superior quality,

but its result is certainly to make less necessary the heavy expenditure on high rents, the display of merchandise, the issue of price lists, and other methods of broadcasting information which the ordinary retailer has to adopt if he is to be successful.

One further point which should be mentioned is the peculiar importance of information in the case of new commodities. Suppose a manufacturer recognizes some unsatisfied need on the part of the public, and produces an article to meet it ; it is no use doing so unless he makes the existence of the new commodity and its adaptability to his customers' requirements widely known. This can only be done by means of some form or other of advertisement. In the present chapter the question of information has hitherto been discussed as though advertisement did not exist. Actually of course, this is to-day the most widely used method of all for conveying information to the consumer, the retailer, and often even the wholesaler. But it has been pointed out earlier that advertisement usually goes much further than merely informing the consumer where he can best obtain the goods he wants to buy. Its commonest and avowed aim is to alter those wants in the direction of persuading him to buy what the producer wants to sell. As such it does not constitute one of the necessary and inevitable distribution services, and its cost is not one which forms an indispensable part of the final price of commodities. For these reasons, which will be developed at length in a later chapter, it is necessary in theory, though doubtless extremely hard in practice, to divide advertisement into two classes—namely, advertisement which is merely one of the alternative ways of providing information, and advertisement which aims less at directing the consumer to the means of satisfying his

wants than at directing those wants themselves into a particular channel.

The first sort of advertisement is an effective and legitimate way of providing information, and is often a cheaper way than any other. In the case of new commodities it is certainly quite indispensable. It is also an obvious necessity in the case of commodities which only come on to the market in irregular quantities or at irregular intervals, e.g. where furniture or old books are being sold by auction or where a special consignment of some luxury article like cigars, wines or oriental carpets is received from abroad. The practice adopted by large provision stores of publishing weekly lists of prices in the Press is similarly justified as a mere means of supplying information. It cannot be argued that the main object of this practice is to deflect customers' purchases to foodstuffs from some other article; though it is no doubt true that there is a definite intention to attract custom from other shops, and to this extent such advertisements serve other purposes than that of providing information.

The second sort of advertisement, which is the more familiar one, and which aims at deflecting demand from one channel to another, is not a necessary part of selling and therefore does not come within the scope of the present chapter.

It is not an easy matter to form even a rough estimate of the total cost of the service of information in typical instances. This is partly because the service is performed under many different guises and by many different parties and partly because of the virtual impossibility in so many cases of disentangling the cost of information proper from that of advertising. Some indication may however be

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derived from the examples which follow. In certain trades, notably, as we have already seen, the sale of vegetables and other agricultural produce, commission salesmen are employed as selling agents by the producers. These commission agents do not buy outright as do ordinary wholesalers; their function is merely to find customers (either wholesalers or retailers) and to make the best bargains they can on behalf of their clients. Their earnings may consequently be considered purely as payments for information. In the case of poultry, eggs and vegetables, the commission salesman receives about 5 per cent of the price at which he sells. Similarly the payments made to auctioneers may be regarded as constituting the cost of information at the particular stages of the distribution process at which they are employed. These payments vary considerably; thus for the sale of cattle auctioneers generally receive some $1\frac{1}{2}$ per cent of the price realized, whereas for old books or furniture the figure is often as high as $12\frac{1}{2}$ per cent. In the coal trade the factor's margin for expenses and profits appears to be about 4 per cent of the price at which he sells. In the case of articles sold through wholesalers who perform other functions besides those of obtaining and giving information, it is perhaps legitimate to assume that the portion of the wholesaler's expenses attributable to "direct selling costs"—as opposed to "indirect selling costs", storage, transport, etc.—may be properly ascribed to the service of information. These costs are in the main made up of travellers' salaries, commissions and expenses. They vary widely from between 2 per cent and 3 per cent of the wholesaler's selling price in the case of groceries to 8 or 9 per cent in the case of motor equipment.

The examples which have been quoted give some

illustration of the cost of information at one stage only in the distribution process. In order to make an estimate of the total cost of information we should have to know what proportion of the retailer's expenses should be included under this head and what are the manufacturer's expenses for getting into touch with the wholesaler, as well as for maintaining an organization, if he does maintain one, to carry out market investigations and to forecast the probable future volume of sales. Part of the cost of "market research" as has been pointed out, is not an indispensable distribution expense, but part of it undoubtedly is. While it is difficult and indeed impossible to make any accurate estimate of the retailer's information expenses, since these depend largely on the view taken of the extent to which his mere existence constitutes an information service, it would probably be not unfair in most trades to place the figure between 5 per cent and 10 per cent of the retail price. In the case of the manufacturer the range of variation is again wide, though a somewhat smaller proportion, say 3 per cent to 6 per cent of the wholesale price, would perhaps normally apply.

Adding all these figures together, it seems doubtful if the cost of information at all the various stages of distribution often amounts to less than 10 per cent of the final price of most commodities; in exceptional cases the figure would be very much higher.

CHAPTER IV

THE PREPARATION OF GOODS FOR SALE

THE operations which will be discussed in the present chapter are somewhat heterogeneous, and where they are performed by the manufacturer or producer may with almost equal logic be assigned to production as to distribution ; but since, in fact, one or other of them has generally to be performed at each stage of distribution they fall to be examined in the present study. They include such activities as dividing, sorting and reassembling, grading, cleaning, packing, and otherwise preparing goods for sale to the final consumer.

For the most part goods are produced, and in the first instance marketed, in bulk and must therefore be divided up into small parcels to suit the needs of consumers. This, in the last resort, is the retailer's business ; he has to provide his customers with the exact amount demanded ; and a large part of his own time or of that of his assistants is devoted to this end. If, for instance, he is a grocer and buys sugar or rice in bulk he has to weigh it out into 1 lb. packets and wrap it up in readiness for sale to the public ; if he is a draper he must measure the lengths of material his customers ask for ; and so on. But though the final measuring and packaging always devolves upon the retailer, most of the work of sorting, subdividing and wrapping consumable products may be, and under modern conditions often is, undertaken in the earlier stages of distribution. The retailer has seldom nowadays much to do in the way of

grading his wares ; where goods are not already graded and standardized when they leave the manufacturer or producer, it is for the wholesaler to attend to the matter. The chief exception to this rule is the case of perishable goods. Here, however meticulous the preliminary grading by the wholesaler may have been, the retailer is forced constantly to re-sort and re-grade his stock. He may have to do this as frequently as several times a day in the case of fruit or fish, while the careful tradesman may candle his eggs every morning. The cost of such work is properly charged under the heading of the present chapter, though of course any loss on account of spoilt fruit or stale eggs would be set down as part of the cost of holding stocks for sale, which in our analysis is treated as a separate category.

We may next pass to the share of the sorting, grading, packing and similar activities which falls to the producer or manufacturer. It is clear that, after making his goods, the manufacturer must always defray certain further expenses in the way of sorting them, dividing them into the quantities demanded by his immediate customers and packing them up in preparation for dispatch. These operations are usually performed in the packing-room or warehouse, and their costs are recognized by the manufacturer as true distribution costs. On the other hand, another class of expenditure which is essentially similar, and which is increasingly in evidence at the present time, is generally, and from one point of view rightly, classified as part of the cost of production rather than of distribution. Since, however, it takes the place of expenditure which would otherwise fall on the shoulders of the retailer or the wholesaler, we propose here to treat it under the latter heading. Many groceries, medicines, and sweets are now done up by

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the manufacturer in the small quantities required by the final consumer. For a very long time past the same has been true of countless other small articles like buttons, drawing-pins and pen-nibs, though many of these can still be bought loose if required. Some of these things are fixed to cards or placed in paper containers or cardboard boxes, others are in tins, others in bottles; in any case, they are all delivered to the wholesaler or retailer ready counted, weighed, or otherwise measured, and packed so as to be available for immediate sale. The containers are often unnecessarily elaborate and expensive; indeed, a primary cause of the recent great increase in the practice of making up goods in these standard packages is the advertisement value to the manufacturer which the signed containers create. To the extent that such extra costs are involved, they are evidently to be assigned in the main to advertising rather than classified as a true selling expense. But where the practice is merely a means of saving inconvenience to the retailer and the consumer and in securing greater cleanliness and freedom from handling, its cost is properly charged to selling; often it not only means greater convenience but also a net economy.

Whereas the actual process of packing, whether performed by manufacturer or retailer, and whether the goods are in the first place merely packed in bulk or put into small separate packages, must be regarded as a part of distribution, the case is different when we come to consider the cost of the container or wrapper itself. Is this production or distribution? ¹ Many large-scale manufacturers of

¹ There are, of course, border-line cases, e.g. a box of chocolates is different from a box of drawing-pins. In the case of drawing-pins the box is clearly an accessory and chargeable to distribution, but in that of the

foodstuffs and other consumable goods make their own boxes, tins, wrappers, or other containers; in such cases the departments concerned are among the most important in the entire works. This is true, for instance, of the tobacco and cigarette factories of the Imperial Tobacco Company, of Messrs. Lever Bros.' soap factory at Port Sunlight and of Messrs. Cadbury Bros.' cocoa and chocolate factory at Bournville. Indeed, at this last, the largest building on the premises is the one devoted to card-box making, which includes separate sections for card-cutting and printing; apart from this building, there is a subsidiary factory of quite respectable dimensions, where wooden packing-cases are manufactured, and an important tin-box department for making cocoa tins. If these various containers were not made by the firms themselves, they would have to be bought from outside. But whether they are bought or made on the premises, logic, if not business practice, would seem to dictate that their cost should be attributed to distribution. The articles they contain could equally be sold in bulk, and indeed were so sold in the not remote past, to be packed into smaller quantities by wholesalers and retailers. In the case of many cheap and moderately priced products, particularly in the field of foodstuffs and household necessities, a not inconsiderable part of their total cost to the manufacturer is due to the expense of making or buying these containers and of packing the products into them.

Like the manufacturer, the wholesaler must bear his share in grading, sorting and packing his wares. In many cases, chocolates it is really an essential part of the finished article. The loose chocolates by themselves would be differently regarded by the consumer, and perhaps rated at a considerably lower value. The boxing is then part of the production cost of the thing known as "a box of chocolates".

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indeed, these activities occupy the greater part of his attention. In the grocery trade, for instance, the number of individual "lines" carried by the average wholesaler runs into many thousands, bought often from several hundred different manufacturers. Any individual order from a retailer will only be for a comparatively small number of these different lines, and its execution will certainly involve much sorting, dividing and repacking. A similar state of affairs prevails in the hardware, drug, stationery and fancy goods trades; here, as in grocery, the individual items of the wholesaler's stock are often of small value, but there is an enormous variety not only in the articles themselves but in the design and quality of each of them. The large national wholesalers not only grade and sort the merchandise in which they deal, but very frequently repack it, or have it repacked, under their own brands¹; these firms may be compared in this respect with the manufacturers who pack their products in small containers ready for immediate sale. Small wholesalers, who operate only in the immediate vicinity of the town where they are situated, are seldom so ambitious; they would not derive much extra advertisement value from using their own brands in a limited area where they are, in any case, well known. Nevertheless, they have to unpack and repack most of the goods which they handle. Not the least expensive part of the average wholesalers' business is his "broken package room" where orders from retailers, in quantities smaller than the manufacturer is prepared to pack separately, are made up.

¹ In other cases, as we shall see, they go as far as to manufacture their own goods, but that is not an activity with which we are concerned in this chapter.

In certain food trades there exist specialized types of wholesalers whose principal function consists in buying different grades and qualities and blending them in proportions which will provide an article acceptable to the consumer. A rather unfamiliar figure of this kind is the butter blender, who buys in bulk butter of different qualities, often from different countries—such as Ireland, Australia, Denmark, Finland, Russia, and elsewhere—and mixes them so as to make a uniform product. Better known are the tea-blenders of Mincing Lane, while similar specialists exist in the coffee and other trades. Sometimes it is rather hard to distinguish operations of this kind from manufacturing as usually understood. For instance, the preparation of cigarettes and pipe-tobacco generally entails a blending process; but this is nearly always performed by the manufacturer and may then reasonably be regarded as merely incidental to the manufacturing operations as a whole. Most retail tobacconists, however, stock one or two “special” mixtures of their own blending; similar activities on the part of tobacco wholesalers are perhaps less common.

Grading, sorting and kindred operations by the wholesaler assume particular importance in the perishable food trades, especially fruit and vegetables. These last two articles, especially the finer varieties, need very special care in handling if they are to reach the consumer in good condition. Not only must they be graded according to quality, and carefully packed in suitable and sometimes relatively expensive containers, but they often require to be cleaned or otherwise dressed before they are in a condition to be exposed for sale. Some of this work is performed by the grower, where this is possible without damaging

the article, but often in a rough and ready manner. Potatoes, for instance, are usually received in a condition where they must be freed from earth and submitted to additional grading. Other vegetables, for instance, leeks, celery, cauliflower, radishes—the list could be extended further—must be trimmed and tied into bundles. Soft fruit, like strawberries and raspberries, must obviously be carefully packed by the grower himself, but even in such cases it is not uncommon for the wholesaler to sort out the finest specimens into little punnets and sell the others in larger baskets at a lower price.

Other notable examples where grading is usually the function of the wholesaler are cheese, eggs and grain. Yet another obvious example, entailing very considerable expenses of preparation and grading, is that of meat. Here the producer is the farmer who sells the live animal which has to be slaughtered by the wholesaler or his agent. The meat must be separated from the bones and offal, the carcass must be dressed, cut into joints, and finally weighed. Some of these services, particularly the last two, are most commonly performed by the retailer, but it falls to the wholesaler's lot to carry out the remainder.

There have still to be considered certain miscellaneous cases where particular types of retail traders undertake a larger share in the preparation of goods for sale than is customary at their stage of the distributive process. The most obvious of these is that of the retailer who is at the same time a producer or craftsman, such as the tailor or boot-maker who makes to measure. This type of producer-retailer was more characteristic of the pre-industrial era than he is of modern times, but he still survives where considerations of taste or art or fashion are more important

than those of mere cheapness. The position here is quite clear ; only that portion of the retailer's activity which is concerned with selling his products is chargeable to distribution expense. In cases of this kind, goods are made entirely or mainly to order ; new customers are obtained chiefly through the recommendation of old ones, and, once found, are generally retained for long periods ; the initiative in any transaction comes almost invariably from the purchaser ; costs of packing and delivery usually form an insignificant proportion of the entire value of the goods produced ; and consequently distribution expenses as a whole are exceptionally low.

Similar considerations to the foregoing apply to repair work, where it is the trader's sole or main business ; indeed, the jobbing watch-repairer, the cobbler, and the "invisible mending" establishment are hardly retailers in the ordinary sense of the word. Repairs and alterations undertaken as a subsidiary process in order to make goods saleable are obviously to be classed under the heading of distribution rather than production. This is true of the alterations department of an outfitter who sells clothes ready-made but is prepared to make slight alterations to make them fit the purchaser ; and of the repairing work undertaken by a dealer in second-hand furniture.

A somewhat different category from the preceding is furnished by the various branches of the catering trade. Tea-shops, cafés and restaurants may possibly be regarded as retail establishments, but they have exceptionally heavy charges in the way of preparing food for sale ; in fact, these charges frequently, if not usually, exceed the original cost of the food itself. It is not fair to regard such costs as true distribution expenses,

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comparable with those of handing bread or cakes over the counter; and it would be unreasonable to have regard to their magnitude in making an estimate of the normal ratio which distribution expenses bear to the total cost of goods bought at retail by the public.

The various forms of grading, packing and preparation generally which we have been discussing may be the work of any of the parties engaged in distribution, but it makes little difference to the consumer by whom they are performed. In the long run he must pay a price sufficient to cover their cost. Such costs vary widely. For commodities ready packed in containers, for dry goods like clothing and drapery, for durable goods which are easily handled and for goods of high value in relation to their bulk these costs are small. The percentage cost, for instance, of packing a fur coat or a diamond ring, even if the latter requires a case costing two or three shillings, is obviously inconsiderable. For perishable goods and for those which vary widely in quality, on the other hand, grading and packing costs may add appreciably to the final price. As an example, the initial cost of dressing potatoes, which has to be borne by the grower, amounts to something like 5 per cent of the price he receives; in addition to this both wholesaler and retailer may again sort, grade and further prepare the potatoes, so that finally the consumer will pay *1d.* per stone or more for these services alone. Meat, being a more expensive commodity than potatoes, is relatively cheaper to prepare for sale; but the cost of slaughtering and dressing it may be estimated at from 1 to 2 per cent of the final price.¹ In the case of poultry the retailer may do the

¹ Linlithgow Committee, *Interim Report on Meat, Poultry and Eggs*, pp. 80-2. (Cmd. 1927.)

plucking himself or he may buy his birds ready plucked ; if he elects to do the latter he will usually have to pay some 75 per cent to 80 per cent of the price at which he can sell the plucked poultry, whereas if he undertakes the plucking himself he need not pay more than 70 per cent—in other words, 5 per cent to 10 per cent of the final cost may be attributed to plucking. Pastrycooks and confectioners must often spend considerable sums, amounting even to 5 per cent of their sales turnover in exceptional cases, on cartons in which to pack fancy cakes. Chemists incur expenses of somewhat similar magnitude in the purchase of bottles for dispensed medicines. Altogether we may estimate the expenses discussed in this chapter at a figure which varies between practically nothing and about 10 per cent of the final selling price of consumable goods, but which perhaps usually lies between 1 per cent and 5 per cent.

CHAPTER V

TRANSPORTATION

THE two most obvious characteristics of modern methods of production, as compared with those of the past, are the separation in space between the place of production and the place of consumption and the separation in time between the moment of production and the moment of consumption. The consequences of the former characteristic will now be discussed ; while those of the latter will be left for consideration in the following chapter.

It is a commonplace that modern industry is the child of improved means of transport ; or, rather, that the development of large-scale production and of cheap and rapid communication have gone hand in hand, each stimulating and being stimulated by the other. The economics of transportation in its physical aspect lie outside the scope of the present study ; all we shall here consider is the relation of the transport operation to the other phases of distribution and to the structure of the distributive machine.

Among the first questions which confront anybody about to enter the field of production or manufacture is that of the locality in which his activities are to be carried on. In many cases this is settled for him by considerations not mainly connected with the problem of transport, but in others this problem will be the deciding factor. It has, of course, at least for the manufacturer, a double aspect ; on the one side there is the cost of assembling the raw materials and on the other that of distributing the finished

product. Similarly, for the wholesale distributor, the relative merits of propinquity to the point of production and to the point of sale must be weighed in the balance. For the retail distributor, on the other hand, the ruling consideration will normally, though not always, be that of accessibility to the public, so that for him the problem of location is less complicated.

The scale of a business undertaking is no less fundamentally important than its location. Here again the cost of transport may play a leading part, particularly in countries like America, where distances are very great. One of the chief economies to which such mergers as the formation of United States Steel Corporation have given rise has been the possibility of eliminating cross-freights by filling orders from the nearest available plant.¹ Less important than the elimination of cross-freights, but of particular interest to those manufacturers of consumable goods who set out to sell direct either to retailer or consumer, is the consideration that the manufacture of a wide range of products at the same factory may lead to economies in transport costs by increasing the size of the typical consignment to each customer. A similar advantage may be secured by a wholesaler who handles a highly diversified range of commodities, provided they are all of a kind stocked by a particular type of retailer.

To embark at length on a discussion of the elements which determine either the location or the scale of industrial or commercial undertakings would obviously carry us too far afield, and we may therefore turn to certain

¹ The example quoted relates to an industry supplying producers' rather than consumers' goods, but similar advantages accrue from the extension of control over a number of separate producing units in any industry.

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factors more closely within the immediate province of our study. Of these perhaps the most obvious is that the relative importance of the cost of transport varies more widely than that of any of the other expenses connected with distribution. With some commodities, though less noticeably, perhaps, in the case of consumable goods than of raw materials, transport is by far the largest element in the entire cost ; this would be true, for instance, of building materials used in the construction of an observatory on the top of Mont Blanc. With other commodities, transport costs, as such, are practically negligible ; this is true of precious stones, cigars, and many expensive luxuries. It is therefore not possible to postulate, as it is with some of the other costs of distribution, even a wide range within which the ratio which transport costs bear to the final price of the commodity normally falls.

More important for our present purpose than the amount of the transport cost is the effect which this cost has on the division of function between manufacturer, wholesaler and retailer, and on the internal organization of each distributor's business. Where it is small, its effect is, of course, negligible, but where, as is usually the case, it is of appreciable importance, the cost of transport may have far-reaching consequences. More, perhaps, than any other of the costs of distribution, it depends on the number of hands through which the commodity passes and on the size of the individual transaction. Whereas the cost of information, for instance, or that of holding stocks, may not be much affected by a lengthening of the distributive chain, the cost of transportation, unless some of the intermediaries are mere agents who do not actually handle the goods, is invariably increased, often in practically direct proportion.

Again, it is an almost certain rule that transport costs will vary inversely with the size of each consignment.

When the number of intermediaries becomes at all large, the first of the two foregoing factors becomes of cardinal importance. Replacing one intermediary by two, or two by three, is often on balance an economical procedure; but after this, the large number of journeys, and frequently cross-journeys at that, on which the article has to go before reaching the consumer makes it necessary to examine very carefully the real need for the additional middlemen. At the other extreme, when there are no middlemen, the very small scale of each transaction between manufacturer and consumer makes it exceedingly likely that transport costs will be unduly high; unless, indeed, as often happens in such cases, the manufacturer builds up an organization whereby he can dispatch his goods in large consignments to a number of distributing points, and there breaks bulk and assembles the individual orders of his customers. With the increase in the practice of direct sale, either to the retailer or to the consumer himself, this question of establishing distribution depots has become of great importance.

For the manufacturer who sells his entire output to a small number of wholesalers, for the local wholesaler who only distributes to retailers in the surrounding district, and for the retailer himself, the transport problem presents few terrors. Such a manufacturer will normally hand over his goods to be transported by a third party, whether railway company or water or road carrier, and will only be concerned to obtain the most favourable rates and the speediest service. The wholesaler is more likely to effect delivery himself, though he, too, may employ an agent.

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The retailer will frequently not undertake a delivery service at all, though if he does so, he is likely to find it a costly business.¹ His customers, however, are usually aware of this, and consider it only natural that they should have to pay for the convenience in the form of a higher price for their purchases.

Excluding dealers in fruit, vegetables and other perishable or easily damaged commodities, whose transport costs are bound to be heavy under any system of distribution where consumer and producer are widely separated, the distributors to whom the cost of transport gives most cause for anxiety are manufacturers who sell direct to the retailer, and large national wholesalers in the same position. These are the traders who find it necessary to set up distribution depots as an alternative to selling through local wholesalers.

The question of whether it is desirable to set up depots, and, if so, where and how many, is of course bound up with the degree to which the rates charged by the carrier taper for large amounts and long distances.² In practice these rates, as is well known, have come to be based on the principle which is somewhat loosely defined by the phrase "what the traffic will bear", the general effect of which is to exaggerate the tapering in the matter of distance,

¹ In America the cost of this service is said to average at least 1 per cent of the total sales among grocery shops; for other classes of retailers the figure would often be considerably higher.

² Since we are not concerned with the technique of transport we need not enter into the problem of whether the distributor should perform the physical operation of delivery himself or entrust it to an outside agency, typically a railway company; and we have assumed in the discussion that, as is still nearly always the case for distances beyond a radius of fifty to one hundred miles from the central point, he, in fact, adopts the latter method of procedure.

and perhaps to minimize it in the matter of size of consignment. There are, in fact, certain well-recognized centres of distribution up and down the country, so that the practical problem of where to locate one's depots resolves itself into balancing a limited number of alternatives ; but in theory the problem is highly complex. On the one hand it is desirable to send the goods from the factory or central warehouse to the depot at the lowest rates obtainable. For very large factories and for certain kinds of goods " car-load " or even " train-load " lots may be possible ; but for many others such large quantities at a single consignment will not be within the bounds of possibility, and for these there may be little advantage in shipping bulk quantities in excess of a certain quite moderate amount. In any case the desirability of sending very large consignments at a time may, and the intrinsic cost of operating each extra depot will, impose a limit on the number of depots. On the other hand, it is desirable that as large a proportion of the total journey from factory to consumer should be made at the cheaper rate applicable to bulk consignments ; particularly in view of the fact that this rate itself tapers rapidly with increasing distance. This favours the location of the depots at points as near the final consumer as possible, and consequently a multiplication of their numbers. The importance of eliminating backward journeys operates in the same direction. For instance a Glasgow manufacturer supplying the whole of England south of the Trent from a London depot would have to face a heavy bill for double freight on deliveries in the Midlands ; if he opened an additional depot in, say, Birmingham, he would escape the greater part of this expense.

It may be interesting by way of illustration to indicate

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some of the trades in which the system of depots has been most fully developed in Great Britain. A substantial number of manufacturers of goods which, either because they are fashionable or perishable, are bought in small quantities and at fairly frequent intervals, hold stocks in two or three centres in different parts of the country—London for instance for the South of England, Manchester or Leeds or Newcastle for the North, and Glasgow or perhaps Edinburgh for Scotland. Sometimes a larger number of centres may be included—Bristol or Plymouth for the West and South-west, Birmingham for the Midlands, and so on. In the clothing trades London, Leeds, Manchester, and Glasgow are the most usual centres for such branch warehouses, though the remaining towns which have been mentioned, as well as such others as Nottingham, Leicester, Sheffield, and Cardiff, are also frequently selected. Similarly in the leather trade it is common to hold stocks in at least three important towns; often in several more. Most conspicuous among the industries which have organized distribution depots are naturally those which sell their products direct to a large army of retailers. Examples are provided by the manufacturers of tobacco, confectionery, biscuits, tea, soap, beer, and indeed almost any commodity in respect of which the use of trademarks and branded lines and national advertising is common; several well-known firms making products of this kind have organized distribution depots in as many as a dozen or more important centres, from one or other of which the entire country is served.

Considerations similar to those which determine the policy of the manufacturer who has already decided to sell direct are equally applicable to the advantages and

disadvantages, so far as the cost of transport is concerned, of passing commodities through the hands of a middleman rather than direct from producer to consumer. There is the same interplay between the advantage of effecting the initial stage of distribution in as large consignments as possible on the one hand and the disadvantage of multiplying the number of separate handlings and of introducing the unnecessary expense of backward journeys on the other. The problem is, however, rendered more complicated by the additional consideration that the wholesaler can assemble and deliver to his customer in one consignment the products of a number of different manufacturers, so that in the result the average size of the retailer's purchase is increased. No general conclusions as to the balance of advantage and disadvantage can therefore be drawn; each case must be decided by the relative strength of the particular conflicting factors involved.

A determining consideration will often be the relative size of the order placed by the average wholesaler, the large retailer and the small retailer respectively. These sizes must be set against the quantity-limits to which the various scales of freight-charge imposed by the railway companies apply. It may often happen that the upper and lower limits are such that the orders of the average wholesaler and the average retailer from one manufacturer come within the same scale of charges. Where this is the case the intervention of the wholesaler is obviously disadvantageous, since it introduces an extra set of loading and unloading costs, besides involving a certain number of backward journeys. In other cases the wholesaler's order is likely to be so much larger than the retailer's that

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a lower freight-rate is obtainable and the solution is less obvious. In the extreme case of the very small retailer of the type who obtains all his slender requirements from a single local wholesaler there is of course no question that direct shipment of minute orders from a large number of manufacturers would be impossibly expensive.¹

¹ See also pp. 226-7, below.

CHAPTER VI

HOLDING AND FINANCING STOCKS

THE expenses involved in holding stocks may be divided into three groups, namely the cost of providing warehousing accommodation, the cost of financing stocks, and the cost of bearing the risk of loss—whether through accident, deterioration or changes in value.

The nature of warehousing costs is obvious and requires little special comment. In cases where specific warehouse accommodation is provided these costs can easily be distinguished in practice ; on the other hand where most or all of the stock is kept on the shelves of a retail shop the cost of warehousing forms part and parcel of the rental value of the premises and only a rough estimate of its amount can be made. Other things being equal, it will depend on the physical nature of the goods which have to be stored. Commodities which are bulky, perishable or of such a kind as to require special attention or handling are obviously particularly expensive to store. Many foodstuffs, for instance, have to be kept in refrigerators, or at an even temperature ; furs need cold storage ; jewellery must be kept in strong rooms ; furniture is bulky and takes up considerable floor space. Such considerations add to the physical cost of warehousing.

Financing costs arise from the fact that until the commodity is bought and paid for by the ultimate consumer some person in the chain of distribution has paid for it and has not himself received payment. He is therefore losing interest on his money, or, if he bought the goods with borrowed money, he has to pay interest for it. He must continue to do this until he can sell the goods either

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to a middleman or to the ultimate consumer. Thus during the whole period which elapses between production and ultimate consumption, interest charges are being incurred ; moreover, the further the commodity has travelled from the manufacturing end of the process the greater is its capital value and hence the greater the magnitude of the interest charges which it must bear.

The costs of risk-bearing relate both to the physical risk of loss, accident or deterioration and to the financial risk on account of possible changes in value. The goods may be destroyed by fire or injured in other ways, or if they are perishable they may, and often do, spoil during the holding period. Certain of these risks, particularly those which are due to some definite accident, e.g. fire, can be covered by insurance, in which case their cost is represented by the premium payable to the insurance company. If the dealer prefers not to insure he will still have to charge for his goods a price sufficient in the long run to cover the occasional losses in which he is likely to be involved. The risk on account of possible changes in value is less easily covered by insurance. Such changes are frequent, and, though at times they bring windfall gains, at others they make it quite impossible for the dealer to market his goods at a profit. To bear them is one of the principal functions of the entrepreneur—be he producer or merchant—and his profits are in great part the payment for bearing them. Since, however, the business man requires a higher payment for holding stocks where the risks, owing to fluctuations in demand, are great, it seems logical to classify such payments as part of the costs involved in holding goods for resale.

It is clearly impossible to hold stocks of very perishable

commodities for any length of time ; thus milk, fish and daily newspapers must be sold to the consumer almost as soon as they are received by the distributor. Apart from articles thus debarred on account of their perishability, there are certain classes of goods for which the necessity of holding stocks does not arise. This is the case with any goods made to the immediate order of the customer : bespoke tailoring and bootmaking are the most obvious examples. The retail trade of the middle ages was mainly in commodities of the latter type, but in the modern world such articles are the exception rather than the rule. Over by far the greater part of the field of retail distribution stocks are purchased by the shopkeeper in advance of demand and held for a longer or a shorter period before being sold to the final consumer. Over-estimation of demand on the part of producers, middlemen or retailers tends to lengthen this period, while rapid turnover at any stage of distribution tends to shorten it. It is indeed in the possibility of shortening the holding period that the most hopeful way of reducing selling costs and hence retail prices seems to lie. A realization of this lies at the back of the policy of " hand-to-mouth buying " which has been one of the most notable developments in the field of distribution in recent years. That such a realization is by no means complete, however, is revealed very clearly by a number of investigations which have been made into the operating methods and expenses of retailers in the United States,¹ and, on a more limited scale, in Great Britain.²

¹ By the Harvard School of Business Administration and other agencies.

² By one of the present writers (S. P. D.) for the Confectionery Trade. See *Operating Expenses of Retail Confectionery Shops*, privately printed for the Manufacturing Confectioners' Alliance.

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The period which elapses between the completion of goods at the factory and their sale to the ultimate consumer is made up of the time during which the producer holds the goods, the time during which the wholesaler holds them, and the time during which they remain in the retailer's shop. The proportionate length of these periods varies according to the nature of the commodity and the manner of its distribution, but from the point of view of final prices it is the total period which is important. It follows as a corollary that "hand-to-mouth buying" is only of value to the community at large when it means a shortening of the holding period as thus defined. If it merely means that the retailer buys from hand to mouth while the wholesaler or the manufacturer keeps correspondingly larger stocks to satisfy his customers' more frequent demands, there will be no net saving. Alternatively hand-to-mouth buying on the part of retailers or wholesalers may, instead of causing the manufacturer to hold larger stocks himself, lead him to produce in smaller lots and in a less efficient and more costly manner ; or lastly, it may involve a genuine economy for all concerned. We will not discuss at any length those increases or decreases of one party's holding period which merely lead to corresponding adjustments elsewhere, but content ourselves with pointing out that at one extreme the producer assumes the function of the merchant in holding reserve supplies while at the other extreme large retailers dispense altogether with the service of the wholesaler and themselves hold stock in reserve for considerable periods.¹

The length of the holding period at each stage of distribution depends on the rapidity of turnover, which

¹ This latter often occurs, for instance, in the case of butter and meat.

in turn is determined by the ratio of the average size of the stocks held to the total sales. Were it not for the necessity of holding reserve stocks, each distributor might keep—let us say—no more than a day's supply on hand ; and commodities would not remain in his premises for longer than that period unless he had over-estimated the amount which he could market in a day. This suggestion is obviously an extreme one ; considerations of economy in buying and transporting goods in reasonably large lots would modify it a good deal, even if demand were perfectly regular and no reserve stocks whatever were consequently required. In the case of very perishable commodities, such as milk and soft fruit, it is, however, in exact accordance with the facts. For such commodities volume of turnover is sacrificed—by necessity—to rapidity of turnover, because it is physically impossible to hold over a store from periods of large supply to periods of short supply. Though the holding period is very short, the risks of holding are great ; the distributor loses in volume of turnover and the consumer in fluctuating prices through the impossibility of holding reserves.

The necessity for holding large reserve supplies of non-perishable commodities arises from two causes : irregularity of supply and irregularity of demand. Supply is irregular in the case of things which can only be produced at certain seasons, for example almost all agricultural products. In default of other sources of supply, stocks of such commodities must obviously be held from one harvest to another. The position has been modified by such improvements in transport as those which now enable Great Britain to receive shipments of South African oranges in the summer and Australian plums in the winter, and to obtain wheat

from one country or another at almost all seasons of the year ; but for many agricultural products it remains substantially unchanged. Causes of irregularity of supply, other than seasonal variations, include failures of large firms, strikes, lockouts, shortages of raw material, and indeed any circumstance, apart from changes in demand, which tends to obstruct or slow down production. Producers and dealers protect themselves against possible shortages arising from these causes by holding reserve stocks, so that in case the stream of goods coming from the factories is delayed for a period, they may still be able to meet the demands made on them by their customers.

Even if supply were perfectly regular, some holding of stocks would still be necessary because of the inevitable irregularities which exist in demand. These may be due to changes in the consumers' buying power, to fluctuations in taste and fashion, or to the preference of the average purchaser for buying durable articles like clothing or furniture at one season of the year rather than at another. It is, for instance, a matter of common knowledge that tailors and dressmakers are busiest in the spring and early summer, confectionery shops in the weeks just before Christmas, chemists in the winter, suppliers of photographic material in the summer—and so on. Where seasonal fluctuations are predictable, supply may sometimes be adjusted so as to avoid piling up stocks. Such adjustments, however, can rarely be made complete, and producers, if not retailers, must generally accumulate supplies in advance of the rush season. This is an important factor affecting the holding period in certain trades. Even if demand is relatively constant from one season of the year to another, fortuitous variations from day to day or from

week to week are found to occur in every trade. Such variations can never be accurately foreseen, and dealers who do not wish to lose custom through inability to fulfil orders must be careful to keep sufficient supplies on hand.

Quite apart from the demand for capital goods, where the fluctuations are most violent of all, variations in demand are much greater in some trades than in others. Some demands are more sensitive to changes in general prosperity, as for example those for most kinds of luxury goods, while others are more subject to seasonal influences. The most constant demands are those for staple commodities in daily use and of small value, but even for these no accurate predictions of demand can be made and fair-sized stocks must consequently be kept on hand. Each individual seller, faced with this uncertainty of demand, must hold reserve supplies. The degree of irregularity of demand is greater for the individual trader than for the market as a whole; from which it follows that the actual sum total of stocks which may reasonably be carried by all the traders in the market is considerably greater than would be necessary if these stocks could be pooled. It is generally true to say that the smaller the scale on which a dealer works, the greater the irregularity with which he has to contend. It will be maintained in a later chapter that the number of dealers actually in existence in almost every trade and at every stage of distribution is grossly excessive for full economic efficiency; the present consideration adds considerable weight to this view.

There are two classes of retail trade where the disabilities of the small dealer are particularly evident; namely, trades in which each individual's purchase is made at infrequent intervals and those in which the purchaser

must be offered a wide range of commodities from which to choose. For commodities which each individual buys at infrequent intervals, the dealer cannot expect a regular demand unless he has a large enough market to make up out of many infrequent purchases a constant stream of orders. If we compare, for instance, the sale of sugar with the sale of boots, each conducted on a moderate scale in a small town, it is obvious that the ratio of stocks to sales must be very much greater in the latter than in the former case. A grocer's customers may buy sugar as often as once a week, whereas a bootmaker will seldom be visited by the same customer more often than twice a year. In a given week the bootmaker with a limited number of customers will hardly be able to make out of these infrequent purchases a regular stream of demand for all the lines he stocks. He must therefore keep a considerable stock on hand—amounting perhaps to five or six months' supply—in order to be in a position to satisfy the demand whenever and in whatever form it may happen to come. The grocer, on the other hand, may expect reasonably steady weekly purchases by his customers and will therefore be able to work on a much smaller stock-basis.

In the case where the customer must be shown a large selection of goods before he makes his choice the retailer has to hold a number of styles, makes, and perhaps sizes of each commodity. He will hope eventually to find a purchaser for every article in his stock, but it is clear that this stock must at any given moment be very large and that unless he has a great number of customers he will only be able to get rid of it gradually. Even a large department store finds it necessary to sell off periodically quite a number of articles at a loss, as the only alternative to keeping

them on hand until they either deteriorate or go out of fashion. The necessity of keeping a large choice of commodities has probably been reduced somewhat of recent years, especially in America, by the increase in standardization which has taken place ; turnover is obviously more rapid with highly standardized commodities than it can be where a large number of makes must be held in order to suit individual idiosyncrasies.

The cases referred to in the two preceding paragraphs are similar in that, where the retailer works on a moderate scale, he can seldom secure a sufficient number of customers to clear quickly a stock which must necessarily be held if he is not to lose custom. Where we have the two conditions combined, as in the case of boots, clothes or jewellery, the ratio of stocks to sales is likely to reach its highest point. In such cases even very large businesses have to work on a fairly high stock ratio ; shops in small towns and villages, as well as those small shops which custom and goodwill retain in business in large towns, in spite of the competition of big stores, find it necessary to maintain stocks sufficient to last for periods up to a year or more.

We see, therefore, that the irregularities of demand and supply which exist in the market as a whole are intensified by the fact that the market is split up amongst individual traders, and that in order to secure as large a turnover as possible all traders must hold reserve supplies sufficient to cope with the irregularities of demand among their own special customers. Quite apart from this, the desire to capture the trade of other dealers may prompt them to keep more stocks than would otherwise be necessary. On the other hand, the desire to reduce costs prompts them to keep their stocks as low as possible. The

most efficient traders are those who can secure rapidity of turnover without a sacrifice in its volume, that is to say, those who carry as little stock as is consistent with the ability to meet any reasonable demand. Rapidity of turnover will, therefore, vary between individual traders according to their success in striking this balance. Between one trade and another it will vary according to the irregularities of demand and supply of the commodities dealt in, and also, of course, according to their perishability. Turnover will be slow, and the holding period correspondingly long, where supply is seasonal or otherwise subject to variations, where demand is seasonal and supply cannot be adjusted, where the individual's purchases are made at infrequent intervals, and where a large selection of commodities must be kept on hand. Turnover will be more rapid where these conditions are reversed, as well as in perishable commodities. Where the chief obstacles to an increase in the rate of turnover are the infrequency of the individual purchase or the need for a large selection, an increase in the size of the business unit is likely to be beneficial ; but in other cases the rate of turnover is much the same for small businesses as it is for large.

Very little published information is available with regard to rates of turnover in either retail or wholesale trade in Great Britain. On the other hand, the investigations which have been made in America ¹ in recent years provide ample illustration of the points which have been made in the foregoing discussion. At the same time trading practices and conditions vary considerably as between the two countries, so that it would be unwise to assume that

¹ By the Harvard School of Business Administration and similar agencies.

the American figures would be in any way exactly borne out by similar investigations in Great Britain.

Amongst wholesalers the most rapid turnover shown in the United States¹ was that of grocery wholesalers, which averaged 5·9 turns a year; that is to say, these wholesalers held their stocks on an average for two months before passing them on to the retailer. Wholesale druggists showed a stock-turn of 3·9 times a year, which is equivalent to a holding period of three months, while wholesale dealers in motor-car accessories and in dry goods each showed a holding period of three and a half months. The slowest period was shown by jewellery wholesalers, for whom it averaged nearly five months and often extended considerably longer still.

Apart from the trades in very perishable commodities, which were not included in the investigations, the most rapid rates of retail turnover were those shown by the chain stores, headed, somewhat surprisingly, by the rate for tobacco chains, which reached the astonishing figure of fifty times a year, representing a complete stock-turn approximately once a week. Chain grocery stores came next with a stock-turn forty times a year, or once in nine days, and chain drug stores some way behind with twelve turns a year, or one a month. These unusually high rates for chain stores are no doubt partly accounted for by the efficiency of their management and the scale on which such undertakings are conducted. For the successful chains wide experience and careful experiment determine the size and position of each branch and the appropriate ratio of stocks to sales. The most important factor, however, in enabling the chains to reduce the size of their

¹ Harvard figures.

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stocks to a minimum is the policy of dealing only in a limited range of highly standardized commodities, supplies of which can be rapidly replaced, as they are needed, from headquarters or from other branches. Many of these shops, indeed, confine themselves almost exclusively to their own staple brands.

Next to the chain stores, though a long way behind them, the retail shops with the highest rates of turnover were grocers and confectioners. These are trades in which high rates of turnover might be expected. Demand, apart from seasonal variations in the demand for confectionery and fancy groceries, is pretty regular, while all forms of confectionery, as well as certain lines carried by grocers, are fairly perishable. The grocer's goods are mainly staple commodities needed by everyone, for which demand is far less subject to changes in general prosperity than is that either for luxuries or for durable articles like boots and clothing, whose purchase can be postponed for a period. Moreover, the average purchase is small in value and is made at frequent intervals. It is true that the grocer, in particular, carries many different lines of goods, often far too many for full efficiency, but he does not, like a boot-maker or jeweller, have to carry a large number of alternative commodities; for each line there is a considerable degree of standardization. The actual average rate of stock-turn shown for grocers was ten times per annum, or once every five weeks; for confectioners it was somewhat slower—about once every five and a half weeks.

The slowest average turnover, among retailers as among wholesalers, was that of jewellery, which was less than once a year. This is a commodity subject to all the conditions on the side of demand which tend to make turnover slow

and the holding period a long one. Apart from slow changes in fashion, it is indefinitely durable ; it is a luxury article and therefore the demand for it is highly sensitive to changes in general prosperity ; and it is bought at infrequent and very irregular intervals. In order to secure a single purchaser the retailer must offer a very wide selection of goods, since, except in very cheap jewellery, there is little standardization and each individual customer must be separately suited.

A sidelight on the effect of standardization, apart from other factors, is afforded by the case of felt hats. In the men's trade, where there is a considerable degree of standardization, the turnover of the American retailers investigated averaged as much as six times a year, or once every two months ; in the women's trade where there is very little or none at all, the rate was only 3·1 times a year, or about once every four months.

A striking contrast with the chain-store figures is furnished by those for department stores, where the average stock-turn was only 2·4 times a year, or once every five months, for stores with annual sales below \$1,000,000, and 3·7 times a year, or once every fourteen weeks, for those with annual sales exceeding \$1,000,000. It is true that these organizations operate on a large scale, though their sales of any particular class of goods seldom approach in size those of any of the leading chains. On the other hand there is far less standardization by department stores and, above all, a very wide choice is offered to customers. It should also be borne in mind that the chains to which the unusually high figures which have been quoted apply are those operating in goods in which the turnover even of the ordinary retailer is relatively rapid, whereas department

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stores deal more particularly in clothing, furniture, and similar articles in which turnover is slow. Even, however, when allowance is made for this discrepancy, by comparing the turnovers of the individual departments of a large store with those of chains operating in the same line of goods, the difference in rate remains very notable.

When considering the average rates of turnover given above, one should, of course, bear in mind that there are enormous variations between individual shops in the same trade. Thus in the retail drug trade the rate of stock-turn varied from a minimum of 1.1 times to a maximum of 7.4 times annually. In the grocery trade (apart from the chain stores) the extremes were under 5 times and over 20 times a year respectively. For department stores the lowest figure was under 2, the highest 7.9. These variations are partly due to variations in class of trade between one establishment and another; but to a greater extent, no doubt, to the varying efficiency of individual traders.

It is interesting to compare the foregoing figures with what is known of conditions in Great Britain. The information available is admittedly meagre, but it has proved possible to compile the table on p. 79 which is based partly on investigations undertaken by Mr. W. R. Dunlop and partly on similar investigations made by one of the present writers.¹

The British and American figures are broadly similar, though there is some tendency for the former to exceed the latter. In view of the limelight which has been concentrated on the importance of improving the efficiency of retail distribution in America in recent years, this discrepancy is perhaps not surprising.

¹ S. P. D.

DURATION OF RETAILERS' STOCKS IN CERTAIN TRADES IN GREAT BRITAIN

<i>Trade.</i>	<i>Average duration of Stocks.</i>
Fish	1 day
Fruit	2 days
Meat	2 days
Cheap Millinery	3-6 weeks
Grocery	6-8 weeks
Confectionery	6-12 weeks
Ladies' Fashion Goods	6-12 weeks
Tobacco	13 weeks
Boots and Shoes	20 weeks
Furniture	20-30 weeks
Jewellery	1 year and upwards.

Further light on the question of variations between individual shops is furnished by a recent investigation of the retail confectionery trade in Great Britain. In this trade it is the usual practice for the representatives of the larger manufacturers and of wholesalers to call on their retail customers about every four weeks to collect orders. The retailer must guard against running short of any particular line in the interval between one call and another, though in view of the facilities afforded by modern transport agencies for rapid delivery there should be no real difficulty in obtaining emergency supplies at short notice in case of need. Bearing these factors in mind, and allowing for the fact that the average retailer must, for the sake of being able to offer a large and varied selection, keep in stock a certain number of slow-selling goods, an all-round average duration of five to six weeks for the stock of a normal confectionery shop would seem to be ample; there is, of course, a special reason in this trade for keeping stocks at the lowest possible level owing to the danger of goods going stale. The investigation showed that a certain number of shops do succeed in keeping within the suggested limits, but that the vast majority hold far larger stocks—

sufficient to last them twelve, fifteen, and in extreme cases twenty to thirty weeks. From the point of view of the retailers concerned, such stocks are highly uneconomic, while from that of the consumer they constitute a real danger that goods which are definitely out of condition will be offered for sale. As long as such conditions prevail, and there is evidence to show that the confectionery trade is in no sense exceptional, the policy of "hand to mouth buying" can only be regarded as having achieved a very partial success.

Putting together the various figures we have quoted and omitting perishable foodstuffs at one end of the scale and such exceptional articles as jewellery at the other, we would seem to get an average retail rate of turnover varying between about four and nine times a year. In other words the retailer's holding period varies roughly between six weeks and three months. Wholesalers sometimes keep larger and sometimes smaller stocks than retailers in relation to turnover, more usually perhaps nowadays larger¹: with the exceptions already mentioned, their normal holding period is probably between two months and four. Manufacturers, like the other parties to the process of distribution, also have very different practices both between different trades and between one firm and another in the same trade. Taking all things into consideration, it is safe to say that, except where conditions of perishability or extreme fashion changes make it impossible, the average total time which intervenes between production and sale to the final consumer is seldom less than six months and may often amount to a year or longer. For groceries, however, it is frequently as low as four to five

¹ See also Chap. VIII, p. 128.

months; while for jewellery it is perhaps most often between eighteen months and two years.

It is not possible to give any reliable estimate of the extent of warehousing costs in any type of retail trade, because these costs are in the main paid in the form of rent, the amount of which is affected by numerous other factors. On the other hand a recent American report¹ gives an indication of the cost of warehousing in various wholesale trades. The figures vary from 1·09 per cent of the selling price in the case of dry goods, where turnover is comparatively slow but storage exceptionally cheap, to 3·52 per cent in the case of drugs, where turnover is rather more rapid but storage unusually costly.

Given the amount of stock and the length of the holding period, the cost of financing stocks depends on the prevailing rate of interest. A few examples may be quoted from the report referred to in the previous paragraph. In department stores whose annual sales are \$1,000,000 and over, with an average turnover of 3·5 times a year, interest charges averaged 1·9 per cent of total sales; in the jewellery trade, with a stock-turn of less than once a year, they averaged 4·9 per cent of sales; in drug stores, with a stock-turn of about three times a year, 3·1 per cent of sales; in grocery, with a stock-turn of ten times a year, 1·1 per cent of sales.

The cost of risk-bearing, the third component of holding costs, depends on the durability of the commodity and on the dependability of demand. When goods are perishable or likely to deteriorate during the holding period, the risks are high and the holder must ask a price sufficient to cover them. The trade in which losses on account of perishability

¹ *Report of National Distribution Conference, Washington.*

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is greatest is perhaps that of the fruiterer and greengrocer, where they amount often to between 5 per cent and 10 per cent of the total sales value.¹ Confectionery is another article which easily spoils; here the loss is usually between 1 per cent and 2 per cent, though careless handling of stock and unsatisfactory methods of storage may easily drive it up to double these figures, or even more. In the case of eggs, the retailers' loss from cracked and broken eggs appears to average about $2\frac{1}{2}$ per cent, while even coal merchants lose about 1 per cent through having to sell broken coal at a reduced price.

Where demand is irregular or uncertain, and especially where it is subject to changes of taste and fashion, the risk involved in holding goods for resale is greatly increased. Where, on top of this, the holding period is a long one, the position is particularly serious. This is often the case with jewellery, as a casual inspection of half-a-dozen jewellers' windows in times of trade depression will reveal. The best example, however, of heavy losses on account of goods going out of fashion is that of women's, and to a less extent men's, clothing. It is impossible for a retailer to foresee changes of fashion with any certainty; and on account of the necessity of offering a wide selection of goods, equally impossible for him to sell out completely before the end of any particular season: He thus finds himself left every six months or so with expensive stocks for which there is no longer a satisfactory demand, and which must be sold off at quite unremunerative prices in order to make way for the next season's goods. The extent

¹ Linlithgow Committee, *Interim Report on Fruit and Vegetables*, p. 63. (Cmd. 1892.) The figures quoted include losses on "re-selection", i.e. the necessity of placing produce in a lower grade if it is not sold within a short time, as well as on "unsold goods".

of such marking down is, as every woman knows, sometimes quite phenomenal—amounting to as much as 50 per cent or 75 per cent of the original cost in extreme cases, and in the case of “remnants” even more. Consequently the cost of risk-bearing is one of the principal items in the expenses of a fashionable modiste or milliner or department store; the prices charged for those articles which are actually sold during the season must in the long run compensate the retailer for the loss on those which have to be cleared off at “bargain” prices.

There is one final point to mention before leaving the subject of holding costs; that is the question of credit. In so far as manufacturers and wholesalers sell to retailers on credit, as they usually do (the terms of payment varying from cash on delivery to as long as two months' credit), the total holding period is not increased and the initial cost of holding is merely transferred from one link in the distributive chain to another. But in so far as retailers give credit to the final purchasers these costs are increased through an extension of the holding period. Part of the costs of course cease at once, namely those on account of warehousing and risk of deterioration; on the other hand, the cost of financing continues, while a wholly new risk—that of not receiving payment at all—is introduced. That such costs are not negligible is shown by the considerable discounts offered for cash down by furnishing houses accustomed to trading on credit or instalment terms, as well as by tailors and other retail traders. It is also shown by the disparity between the prices charged for identical goods by “Cash” grocers such as the chain stores on the one hand and family establishments, which usually allow monthly or even quarterly terms, on the other.

CHAPTER VII

ADVERTISEMENT AND SALES PROMOTION

ADVERTISEMENT has already been defined for the purpose of the present study as comprising all that part of a distributor's activities which is not required for the purpose of satisfying existing demand by placing goods within reach of consumers, but which is designed to increase that demand by inducing consumers to buy more. Whether the intention is to increase the demand for the commodity as a whole, or to transfer demand from competitors' products to one's own, is immaterial; in practice both these results are usually aimed at. We have already pointed out how impossible it is to draw a rigid distinction between advertising which is merely an alternative way of providing information and whose cost is therefore to be regarded as a "true" selling expense, and advertising which aims at increasing or creating demand. Moreover in a world which is ruled by competition a certain element of advertising is inseparable from any attempt to sell goods at all. Even the monopolist must advertise to attract attention to his products; even in a completely socialized community the government trusts would have to use the same weapon, if not to increase the demand at least to maintain it at its existing level. This difficulty of isolating advertisement from the other activities which distribution involves has often, and from the point of view of the individual distributor quite reasonably, been used as a

reason for abandoning the distinction altogether. So far as he is concerned, any effort or expenditure designed to increase the sale of his goods is justified so long as its cost is not disproportionate to the increase so achieved ; and, even from the point of view of the public, it is of little moment whether the cost of commodities is increased because of advertising in the narrow sense or because the ordinary apparatus of selling—catalogues and commercial travellers and credit facilities and the rest—is conceived on too extravagant a scale. In logic, however, the distinction is clear enough ; and since there can be no doubt that in fact advertising and other forms of “ sales promotion ” involve in the aggregate an enormous volume of unproductive expenditure, as well as a certain amount which is genuinely productive of economic utilities, it has seemed desirable to treat them as a separate and non-essential function. As we shall see, however, this by no means implies an attitude of unqualified condemnation.

In addition to the cost of printed advertisements, advertising expense includes that of window displays, gift coupons, competitions, “ free offers ” and any other devices exclusively aimed at attracting buyers who would not otherwise be induced to purchase. It also covers that proportion of the normal outlay on the provision of information, including the salaries and commissions of travelling salesmen, the printing of catalogues and price-lists, and so on, which is in excess of what can reasonably be regarded as sufficient for the mere purpose of making known one's goods to those who are already anxious, or at least willing, to buy them. It is obviously impossible to lay down any exact criterion by which this proportion may be determined, since it must mainly be a matter of opinion. At the same

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time we may say roughly that where a commodity is marketed through the ordinary wholesaler-retailer channel there is a *prima facie* case for considering all expenditure on advertisement as an advertisement cost, and not as a "true" selling cost; and that where the commodity is sold direct by the producer to the retailer any expenditure above what would normally be paid to the wholesaler for his function as broker may be considered as an advertisement cost.

At this point we may usefully add a few words to what has already been said about market research in Chapter III. This comparatively new technique is nowadays recognized by all efficient large-scale distributors, and particularly by those selling branded goods of their own manufacture, as one of the most important weapons for maintaining and increasing sales which they have at their command.

We have already seen that in one of its aspects market research is as much concerned with production as with distribution—for one of its principal objectives is to determine what are the best types of goods to place on the market and how existing products may be improved. In another aspect its use may be regarded as being directly incidental to efficient distribution and ranking with the other means of making contact between seller and buyer which we have discussed under the general heading of "information". A great deal of the "market research" which is now being conducted, however, is purely subsidiary to advertising in one or other of its many forms, and would be useless for any other purpose than to lay the foundation of a sound advertising policy. Inquiries into the relative drawing power of various types of "sales appeal", into the reasons why one brand is popular and

another not, into the possibilities of diverting sales from a competitive product to one's own, and so on, are mainly of this nature; and it is with such inquiries that the market investigator is much and rightly concerned. If carefully and scientifically conducted, and followed up by judicious advertising, this kind of research is likely to be extremely fruitful to the manufacturer, though from the point of view of the public it may entail a great deal of waste. We are not so much concerned here with the technique as with the economics of distribution, and we need not therefore discuss this matter further; but the reader should bear in mind that the advertising expenditure which forms the subject-matter of the remainder of this chapter includes the cost of any "market research" with which such advertising may have been associated.

Advertising expenditure, as we have defined it, aims at increasing sales by affecting the mind of the consumer.¹ By various appeals it induces him to change his subjective valuation of the commodity. In technical language the marginal utility of the commodity is increased and its demand curve raised. Consumers are persuaded to buy more of it at the same price, the same quantity at a higher price, or even in some cases more of it at a higher price. It is evident that such expenditure cannot properly be called part of the "true" supply price of the commodity, but must rather be regarded as a sum arbitrarily added by the seller to the "true" costs of production, which sum he can subsequently extract from the consumer because its expenditure has

¹ Some advertisement is addressed by producers (and occasionally also by wholesalers) to the retailer and not to the consumer. Such advertisement attempts to persuade the retailer of the "saleability" of the advertised commodity.

increased the valuation which the latter sets upon his products.

For these reasons it cannot be said in any useful sense that the price of advertised commodities tends to equal their true cost of production ; it tends rather to exceed this cost by the amount which the producer thinks it worth while to add in the way of advertisement costs. It is true that advertisement, by leading to an increase in the scale of production, may affect the cost of manufacture and the " true " selling costs, and that the final price of the commodity may therefore be lowered, although the total supply price includes the cost of advertisement. That does not affect the point that the sums spent on advertisement are not on a par with other costs and cannot be considered as part of the ordinary costs of production and distribution ; and this is the justification for according them separate treatment in the present study.

It may here be objected that advertisement costs are payments for service as much as are the " true " selling costs—namely for the service of education, which bears fruit in the new valuation of the commodity arrived at by the consumer. If the claim be granted that advertisement raises the standard of life and educates the public by increasing their wants and pointing out to them the use and desirability of the advertised commodities, it can be argued that advertisement costs are as much a part of the " true " cost as are any of the other selling expenses. The claim is unfortunately one which it is difficult to sustain in its entirety. How far is advertisement educative in any genuine sense ? How far does it put before the consumer such detailed and truthful information as will assist him in arriving at a correct judgment—a judgment, that is, where

the relative valuations which he puts on different commodities correspond closely to the relative satisfactions which he will in practice obtain from them ?

In a world without advertisement the consumer would be ignorant of many commodities which would satisfy his needs ; he would not know all the uses and properties of others, and he would be blind to the merits of many. Some commodities he would undervalue through ignorance, whilst others he would overvalue through custom or prejudice. But in a world where sales are largely obtained by means of advertisement, are his judgments likely to be more correct ? Does advertisement offer him such truthful and reasoned information that his valuations correspond more closely than they otherwise would do to the satisfactions obtainable from commodities ? Taking into consideration the entire field of distribution, and making due allowance for those who practice as well as preach " truth in advertising ", he would be a bold man who would venture a positive assertion that it does. We shall see later how advertisement can persuade the consumer to prefer one make of a commodity to other makes of equal quality, and to pay more for it ; and how it can often induce him to buy inferior goods. Arguing from these results there seems no reason to suppose that advertisement assists his judgment ; and a study of advertisements leads to the same conclusion. Advertisements are not written to help people make a reasoned choice of commodities ; they are written with the object of inducing them to buy particular things, and they naturally exaggerate the uses and merits not only of a particular commodity but of a particular make of the commodity. Moreover, the vast majority of advertisements do not confine themselves to pointing out the uses of commodities ; they make

their appeal not to the reason, but to the emotions, of the consumer. Suggestion, reiteration, attractive illustration—these are all devices to induce him to buy the article without making comparisons and calculations. They certainly do not assist his judgment as to the relative satisfactions to be obtained from different commodities or as to the relative satisfactions to be obtained from commodities and leisure.

A possible exception to this conclusion is the advertisement of inventions or of new commodities. It is undoubtedly true that advertisement has brought popularity within a short space of time to some useful articles which, without it, would have taken much longer to penetrate into common use. Striking examples of these are vacuum cleaners, safety razors, gramophones and radio sets. In these cases advertisement has certainly performed an educational service. But if we take into account all the new commodities introduced by advertisement, it seems very doubtful whether over the whole field any such service has been performed. If some of the new commodities advertised are more adapted to the needs of consumers than those which they replace, others are less well adapted; while still others differ little from the old but are able (by virtue of advertisement) to command a higher price. On the whole, therefore, it hardly seems necessary to make an exception of the advertisement of new commodities, though in particular instances there may be a strong case in its favour.

If we accept the views just expressed, we are left with little ground for saying that advertisement, which causes the consumer to entertain a set of judgments different from those which he would have entertained without it, is performing an educative service in any true sense of the

word. We are left with still less ground for saying that the costs of such advertisement are of the same economic nature as true selling costs; they are manifestly of quite a different nature. When a consumer buys an advertised commodity, part of the price which he pays represents the cost of manufacture, part the cost of selling, and part the cost of persuading him to make the purchase. Now while the first two parts make up the "true" cost of production of the commodity, the last part—the advertisement cost—may be considered as adding an artificial value to the goods concerned. It makes up, as it were, the supply price of an immaterial commodity which may be called "reputation". Consumers who, by advertisement, are induced to increase their purchases of advertised goods do so because the marginal utility of the commodity has been raised for them; or we may say that with the original commodity they are persuaded to buy this new immaterial commodity—reputation. The cost of creating reputation becomes part of the price of commodities and forms a considerable proportion of what are ordinarily called selling costs.

There are two ways in which the final price realized may be made sufficient to cover the cost of advertising in addition to the true costs of production and selling. On the one hand the advertisement may be so successful in increasing the demand for the commodity (together with its manufactured reputation) that the consumers are induced to pay a price high enough to cover the extra cost; or, in technical language, the demand curve for the commodity plus its reputation may be raised by an amount at least equal to that by which the cost curve, considered as being made up of "true" costs plus advertising costs, has been raised. On the other hand, the

advertisement, by increasing the scale of output, may so reduce production costs and true selling costs that the economies from these two sources may cover, and more than cover, the expense of the advertisement. Thus advertisements and advertising campaigns fall into two important divisions—those which raise prices and those which do not. From the social point of view the effects of the two types are widely different.

Cutting across these two divisions two further distinctions must be noticed; namely, advertisement which is competitive within the trade, and advertisement which is not competitive within the trade but which aims at increasing the total demand for a particular commodity. Advertisement which has the latter aim in view is usually conducted either by a group of producers or by a single producer who enjoys a considerable degree of monopoly. This form of advertisement, which is non-competitive within the trade, has recently become of increased importance. Many monopolists now find it worth while to advertise; and co-operative advertising is now undertaken by a number of producers' associations. Sometimes these campaigns of associated producers result from the rivalry of other industries; for instance, the American Face Brick Association had a co-operative campaign because their industry was threatened by propaganda advocating the use of lumber throughout the building of a house. Other associated campaigns have been undertaken to lengthen the selling season. The Greeting Cards Association and the Walnut Growers' Exchange both conducted campaigns to extend their sales beyond the holiday season. In other cases co-operation has arisen merely from the realization that advertising can increase sales not only by transferring them

from one producer in the trade to another, but also by greatly increasing the total consumption of a commodity. This has been the case with the "Eat More Fruit" and "Eat More Fish" campaigns in Great Britain.

In addition to this form of advertisement, non-competitive within the trade, it sometimes happens that advertisement which is competitive in aim is not so in effect. Often the advertiser gains more from increased consumption than from the diversion of his competitors' business. Indeed it happens occasionally that an advertiser increases not only his own sales but those of his rivals as well. For instance, the manufacturer of a health product says that his sales increase whenever his rivals conduct an advertising campaign; and the advertisements of vacuum cleaners are said to have increased the sale of brooms and carpet sweepers. On the other hand, not all the advertisement of monopolists must be included in non-competitive advertisement, as sometimes the advertisement of a monopolist aims at increasing the demand, not for the whole of his output, but for those of his brands which are the most highly priced or which are the most profitable. Thus from 1903 to 1910, when the American Snuff Company had an almost complete monopoly of snuff in America, they concentrated their advertisement on pushing the sales of their more expensive brands.

In practice, competitive advertisement may often fall into our second division of advertisement—that which does not raise prices. It will do this by bringing increasing returns to one producer (at the expense of some of his rivals) if the optimum size of business is larger than that which he would have obtained without advertisement; for it is often possible to attract customers by advertisement

where they would not be attracted by lower price. On the other hand, some advertisement which is not competitive within the trade may fall into our first division of advertisement—that which raises prices. This fact is sometimes obscured in those cases where the advertiser accepts a lower profit per unit in order to pay for advertisement ; it is argued that the advertisement is paid for out of profits and not out of the pocket of the consumer. This, however, is not really the case ; what actually happens is that by accepting a lower rate of profit per transaction and spending the balance on advertisement, the producer is able to gain a larger total profit from his increased turnover. The demand curve is raised by advertisement and the cost curve (including advertisement costs and profits) remains the same as before, so that a greater amount of the commodity is sold at the same price per unit. If the advertiser had obtained the increased sales without advertising, he could have sold his goods at a lower price and still have made the same total profit as he does when he spends money on advertisement. The fact that in many cases he cannot increase his sales by offering his goods at a lower price, while he can increase them by advertisement, is merely further evidence that competition by advertisement is more effective than competition by price. The consumer, who through advertisement is persuaded to buy what he would not have purchased at a lower price, has to pay for the advertisement—not in a price directly raised but in one greater than it need have been. He is in effect purchasing reputation.

Thus, the question of whether advertisement is or is not competitive has little bearing on the effect of that advertisement upon price. All that can be said is that competitive

advertisement is probably the more expensive of the two, since the advertiser has to create a reputation in the face of the advertisement of rival brands. Moreover, direct competition with rival producers of the same commodity tends towards a cumulative increase of advertising expenditure.

There is a more fundamental reason why, apart from the question of increased costs, the division between "competitive" and "constructive" advertisement is not of the first importance. This reason is that, taking production as a whole, all advertisement is competitive. In order that he may buy more of an advertised commodity the consumer must buy less of something else. The shift in demand brings about a shift in production such that the national dividend is made up of an increased amount of that commodity whose marginal utility has been increased, and of the reputation created for it by advertisement, and a decreased amount of the commodities from whose production resources have been drawn to provide both the increase and the advertisement. We may, however, imagine the case in which all commodities are advertised so successfully that all subjective valuations are increased. Obviously they cannot all be increased with regard to each other or with regard to money, for this would have no meaning; but they might all be increased with regard to leisure—that is to say, that the balance between marginal disutility of effort and the marginal utility of commodities might be so altered that people would be induced to put forth rather more effort in order to obtain more commodities. It would follow that the national dividend would be increased and the increase would be made up of the extra commodities produced, together with a great deal of the immaterial commodity—reputation.

Of course it is not really possible that advertisement could raise all marginal utilities by the same amount ; so that in this, as in other cases, the ratios of exchange between commodities would be altered by advertisement, and consequently the distribution of resources between various productive enterprises would be varied too. But it may well be that advertisement, by continually bringing to people's notice the uses and merits of a number of commodities, has so increased their wants that the balance between the disutility of effort and the utility of goods has been altered.

We may conclude, therefore, that all advertisement is competitive, either between commodities or between commodities and leisure. It follows that the distinction which is of importance to economic welfare is the distinction between advertisement which is paid for directly by the consumer in a higher price and advertisement which brings such economies as to pay or more than pay for its cost.

Let us first consider the cases where there are no reactions on the cost of producing the commodity, or where the economies from the larger output produced with advertisement are insufficient to cover the cost of the advertisement. In such cases the result of the advertisement is that the cost of production of the commodity is raised by the amount of advertisement costs (or by that amount less any economies), and that the demand curve for the commodity, or if the advertisement is entirely competitive, the demand curve for a particular brand of the commodity, is raised by an equal or greater amount.

If the advertisement is wholly competitive, the same amount of the commodity is bought as before and a greater total sum is spent upon it. The result of the advertisement has been merely to transfer demand from one producer to

another, while, because of his expenditure on advertisement, the prices of the successful producer are greater than those of his competitors. The consumer is willing to accomplish this transfer because he prefers to buy, not the commodity only, but also reputation. Thus, where competitive advertisement brings no (or insufficient) economies in other costs, some of the country's resources are diverted from the production of ordinary commodities and services to the production of this immaterial commodity—reputation. The national dividend is made up of rather fewer other goods and services and rather more reputation than would have been the case had there been no advertisement.

If (and this is much more usual) the advertisement is not wholly competitive within the trade, the increased sales of the advertising firm come not only (or possibly not at all) from the decreased sales of its direct competitors, but from the increased purchases of that particular commodity by the public. Then, since we are still considering cases where advertisement does not bring economies, the total sum spent upon the commodity is increased in greater proportion than are the sales. A larger amount of the country's resources are devoted to its production than before, in addition to resources (amounting to the cost of advertisement) which are directed to the creation of its reputation. This comes about because the marginal utility of the commodity plus its created reputation has been increased, and therefore the ratio of exchange between the advertised commodity (plus its reputation) and goods generally has been altered in favour of the advertised commodity. Consequently resources are diverted from other uses to produce the commodity and the reputation.

Where advertisement has brought about such a shifting

of resources and a greater production of the advertised commodity, we are bound to say that the national dividend has increased, because the shift has taken place in order to produce a set of commodities which advertisement has induced people to consider more valuable than those which were previously being produced. Economics only takes into account the fact of subjective valuations as shown by the prices paid, and does not consider whether these valuations are justified. If people think that the set of commodities produced by the new distribution of resources is more valuable, then it is more valuable, so far as the economist is concerned, and the national dividend is increased. Whether, however, economic welfare is increased by the redistribution is a different matter. If the new set of valuations produced by advertisement are more nearly correct than the old, then it may be worth the community's while to direct some of its resources to the creation of reputation in order to bring about a grouping of resources corresponding to the new set of valuations. If they are not, as seems more probable, the community loses in two ways. It loses, first, by the production of a set of goods and services (other than reputation) which are less adapted to its needs than those which would otherwise have been produced; and, secondly, by the diversion of resources to the production of reputation. Therefore, unless reputation itself is of social value (and we shall put forward arguments to show that it is not), there is reason to suppose that advertisement which does not bring economies equivalent to its cost is directly harmful to economic welfare.

The case is different when we come to consider the second way in which the cost of advertisement may be

covered ; that is, where economies in other costs (resulting from the larger output) cover or more than cover the cost of advertisement. In such cases there is no diversion of resources from other uses to the production of reputation, since its cost is covered by economies ; and the effect of the advertisement on economic welfare depends upon whether the new set of commodities produced as a result of advertisement is more or less adapted to the needs of consumers than the old. Obviously economic welfare will be increased if the total cost of producing the larger amount of a commodity sold with advertisement is equal to or less than the total cost of producing the amount which would have been produced without advertisement. This, however, is extremely unlikely to occur ; and it is probable that with advertisement a larger total sum will be devoted to the purchase of the commodity than would have been the case without advertisement. There will then be a transfer of resources from other uses to the production of the advertised commodity. If we consider that the new set of valuations resulting from advertisement are less likely to be correct than the old, the consumer may or may not benefit from this transfer. He will benefit from it so long as the excess of the total price paid for the amount produced with advertisement over the total price paid for the amount produced without advertisement is no more than the total utility of the additional units. In other words, since with the new demand curve some units are produced at a price exceeding their utility as shown by the old demand curve, the consumer will gain so long as the total amount of the excess is less than the saving on the original units together with the consumer's surplus on those additional units whose price is less than their utility.

Where economies in other costs exactly balance the cost of advertisement, the price will be the same with advertisement as without it, while a greater amount of the commodity will be produced. In this case all the additional units will have been produced at a price greater than their utility as shown by the old demand curve, and, if the old set of valuations is correct, the consumer will lose. Where, however, advertisement brings about a considerable reduction in price, the consumer is very likely to gain; since even a small reduction in price over the whole output is likely to offset the loss on those units which are produced at a price greater than their utility, unless this loss is very great.

In practice it appears that considerable price reductions have in many cases resulted from the increased output which advertisement has made possible. Indeed it is probably true to say that advertisement has played a great part in facilitating the production on a large scale of many semi-staple commodities and in rendering possible the economies of standardization and mass production. In addition to increasing the scale of output there are various other economies which may be brought about by advertisement. First, advertisement tends to introduce a considerable uniformity in demand; variations necessary to suit special tastes are thus reduced, and a higher degree of standardization is made possible. Secondly, advertisement may sometimes be used in such a way as to adjust the demand for a commodity to the supply available at the factory. Thirdly, there are various important economies in "true" selling costs which may result from advertisement and which, in some cases, may of themselves be sufficient to cover the cost of advertisement.

These economies are particularly concerned with the cost-

of providing information, but include some others as well. In so far as printed or other advertisements induce the consumer to inquire voluntarily for a particular article or a particular brand, the retail distributor is to that extent relieved from the necessity of bringing it to his notice; indeed it is a common and a legitimate argument of manufacturers who engage in extensive national advertising that they have simplified the retailer's task. Moreover, in addition to the greater ease with which he can dispose of advertised lines, the retailer, and indeed the wholesaler and manufacturer, may find that stocks will be cleared more rapidly, so that there is an economy in holding costs as well as in information costs. On all these counts considerable economies may result from advertisement, and in consequence considerable price reductions. In such cases there is a great probability that the immediate effect of advertisement will be to produce a set of commodities which will yield a greater total satisfaction than those which would have been produced without advertisement.

We may conclude that, whereas advertisement which raises price is directly harmful to economic welfare, the direct effect of advertisement which lowers price may in many cases prove beneficial.

Where the increased output of the advertised commodity comes about through increased effort (whether or not the price is raised by advertisement), there need be no withdrawal of resources from other uses. In such cases the national dividend is undoubtedly increased by the advertisement, but we are left doubtful whether the re-valuation of leisure and commodities brought about by advertisement is any more likely to be beneficial than the re-valuation of commodities discussed above.

The indirect effects of advertisement remain to be considered. These are of particular importance in that the success of advertisement is based upon its power to restrict competition, and that its use brings great changes into the conditions which determine value. Under conditions of perfect competition producers would gain nothing by spending money on advertisement, for those conditions assume two things, first that the demand curve is fixed and cannot be altered directly by producers, and secondly that since producers can sell all they can produce at the market price, none of them could produce (at a given moment) more at that price than they are already doing. In practice, of course, there is no such thing as perfect competition, and even where advertisement is absent these assumptions are never completely fulfilled. But in a world where advertisement is widely used they cease to correspond, even remotely, to the facts.

In the first place, people's minds are such that their valuation of commodities can be considerably altered by advertisement; by spending sufficient money, producers can raise the demand curve, either for a group of commodities, a single commodity, or a particular brand of a commodity. In the second place, the prevalence of advertisement makes it increasingly difficult for a manufacturer who does not advertise to find purchasers for his goods, even though he produces the standard quality at the market price. A manufacturer who does not advertise may be able to quote a price to wholesalers as low as, or even lower than, that of his competitors and yet be unable to obtain a market for his goods. This has come about because price and quality by themselves have ceased to be effective methods of competition. Wholesaler, retailer

and consumer no longer buy in the cheapest market, in reliance on their own judgment of quality. In buying to sell again, wholesaler and retailer have first to consider "saleability"; and they find that the consumer buys, not the cheapest goods of their kind and quality, but those for which a reputation has been created by advertisement. Advertisement affects the consumer's judgment of commodities and his desire for them to a degree which it is hard to realize. We find that, on the one hand, he will often fail to buy goods which are offered below the market price if they have not been brought to his notice and if their merits have not been dinned into his ears by advertisement; while, on the other hand, his consumption can be enormously increased by advertisement, even though the advertised product may be more expensive than an unadvertised variety of the same commodity. Goods for which a reputation has been created can be sold even if their price is above that of similar goods in the same market. Goods whose name is unknown may be unable to find a market, even though in price and quality they compare favourably with the advertised commodity. Consequently, the problem for the manufacturer is becoming less and less the amount that he can produce at a given price and more and more the amount that he can sell. The amount that he can sell depends largely on his ability to create a reputation for his product, and the price of many commodities is therefore made up not only of manufacturing and true selling costs but also of the cost of creating reputation.

In almost every trade to-day we find that such advertisement costs are incurred. A few manufacturers spend money on advertisement in order to increase their sales,

and their rivals are forced to follow suit. If they do not do so, their goods may be cheaper than the advertised goods (since their price does not include the cost of creating reputation) and yet they may be unable to attract consumers. Frequent examples of this anomaly may be found; we will quote a few.

The manufacturer of a health product which is very widely sold spends considerable sums on advertisement. His selling price is 14 per cent above that of one of his rivals who makes smaller profits and advertises very little. Both firms have been established for some time; the manufacturing costs of the two are not widely different, and there is little to choose in the quality of their products. Nevertheless the manufacturer who does not advertise sells practically nothing outside his immediate neighbourhood; his annual sales amount to little more than the amount which the advertising manufacturer sells in eight days.

A well-known soap-flake which is a branded article costs £150,000 per year to advertise. The price of two unadvertised soap-flakes is considerably less (one of them by more than 50 per cent) than that of the advertised product. Chemically there is absolutely no difference between the advertised product and the two unadvertised soap flakes. Advertisement alone maintains the fiction that this soap-flake is something superfine. If the advertisement were stopped, the product would become merely one of a number of soap-flakes and would have to be sold at ordinary soap-flake prices. Yet the success of the undertaking, from the producer's point of view, may be seen from the fact that this product brings in half a million net profit per year.

A manufacturer of shoes found that though the shoes which he produced were ten to fifteen shillings cheaper than X shoes—a widely advertised brand—and were of as good a quality, his sales were far below those of the X brand. When he consulted an advertising expert, he was recommended to add ten shillings to the price of his shoes and to spend his own portion of the increase on creating a reputation for them.

Examples such as these could be multiplied indefinitely. Reputation restricts competition between goods which may be dissimilar only in name, by attracting the attention of the consumer to the advertised commodity to such an extent that he ignores the prices and merits of other similar commodities. In other cases we find that the advertised commodity is, indeed, superior to its rivals, but that advertisement induces consumers to bear a difference in price out of all proportion to the difference in quality. For example, Bayer's Aspirin was before the war an advertised proprietary article.¹ Aspirin is a trade name for acetyl salicylic acid, which before the war was sold in bulk for about 2s. per lb. The price of Bayer's Aspirin was about 18s. per lb. (less various discounts). It is extremely improbable that the extra care with which Bayer's Aspirin was prepared entailed a difference in cost at all proportionate to the difference in price between the proprietary article and the commodity sold in bulk.

Advertisement can only effect this restriction of competition where the advertiser can establish before the public the identity of his commodity and connect it in their minds with his advertisement. The diversion of demand from the advertised commodity to its rivals—known in America

¹ *Report of Standing Committee for the Investigation of Prices.* (Cmd. 633.)

as the "substitution evil"—is the greatest difficulty with which the advertiser has to contend. Probably in no case can the diversion be completely eliminated, but it can be greatly reduced by the use of brands and trade marks. These devices aim at securing for the advertiser the main benefits of his advertisement, for branded goods can be brought to the public notice and identified in a way which is not possible with goods sold in bulk. They have an individuality such that the reputation created is connected in the consumer's mind not with the commodity only but with the brand. It is for this reason that the increase in advertisement has been accompanied by a great increase in the number of branded goods, trade marks, and proprietary articles.

A growing number of goods which were formerly sold in bulk are now sold as branded goods and are advertised nationally. Tobacco, groceries, drugs, sweets, paint, are a few of the more obvious examples. Such commodities can be put in distinctive packages, branded and labelled in such a way that their individuality can easily be established. With goods sold by the yard or with ready-made clothes this is less easily accomplished, but even with such things producers are now attempting to make their brand or trade mark a distinctive feature of the commodity. By these means they are able to tie up their advertising with their own products, and to ensure that, when they incur advertisement costs, the increased demand will be directed not to the commodity as a whole but to their own particular make of the commodity. Thus, if their advertising is successful, they are able to secure for themselves a partial monopoly based on reputation, which it is not possible to secure when goods are sold in bulk.

With bulk goods, retailers and wholesalers buy in the

cheapest market, and, though ruled to a certain extent by their connection with particular manufacturers, are prepared to deal with any producer who can offer them a cheaper source of supply. This is exactly what the manufacturers of proprietary articles wish to avoid; they maintain quite truly that the manufacturer of bulk goods is competing with others on the basis of manufacturing cost alone, so that the moment somebody else can make goods cheaper than he can he loses his business and is left with no selling organization and no reputation.

This attitude shows very clearly the object of the manufacturer of branded goods: he hopes by national advertisement to establish for his brand such a reputation that the consumer will demand, not the commodity in general, but the particular make of it to which reputation is attached. The result is that competition from other brands or from an unbranded variety of the commodity is indirect. Unbranded goods may be offered more cheaply, but they are looked upon as other commodities, substitutes perhaps, and not as the same commodity at a lower price. So long as the consumer insists on the commodity plus the reputation, and so long as the producer succeeds in tying the reputation to his own products, a partial monopoly is established against which competition by price alone is ineffective.

As an increasing number of manufacturers in all trades resort to the advertisement of proprietary articles, each market gets split up into a number of these reputation monopolies, and it becomes more and more difficult for a manufacturer who does not advertise to find an outlet for his goods. Moreover, the position of the successful advertiser is strengthened by the fact that reputation is

costly to create, and becomes progressively more costly as an increasing number of manufacturers resort to advertisement. The louder the chorus which already assails the consumer the more difficult and expensive does it become to bring any particular appeal to his attention. In any trade the manufacturer who succeeds in creating a reputation obtains a certain monopoly advantage; and his rivals, finding the difficulties of marketing enhanced, have in their turn to incur advertisement costs. Since they have to create a reputation in the face of one already established, the probability is that their advertisement costs will be heavier than those of the original manufacturer. This will again react on him and tempt him to incur still more considerable expenditure. Thus the process is cumulative and the amount spent upon advertisement tends continually to increase. This tendency is accentuated by the fact that a growing number of producers in all trades are adopting the use of advertisement. A manufacturer who wishes to increase his sales by advertisement has to compete not only directly with those in his own trade who have created reputation monopolies, but also indirectly with all those in other trades who, by their advertisement, are bidding for the attention of the public. As an illustration of the increasing cost of advertisement the estimates of various national advertisers are of interest. They quote figures varying from £25,000 to £40,000 as the annual cost of a "fair degree of publicity" which before the war could have been obtained for £10,000.

Thus the indirect effects of advertisement are the weakening of the forces of price and quality as effective methods of competition, and the establishment of reputation monopolies whose strength is constantly accentuated

by the mounting cost of advertisement. These indirect effects are likely to be more harmful than the direct effect of advertisement on prices, because where the advertiser establishes a reputation monopoly the difference between the price of advertised and non-advertised goods is not limited to the cost of advertisement. Consequently, even where advertisement lowers costs, the consumer may not get the benefit of the reduction, or may get less than the full benefit.

While the general trend appears to be towards an increase in the number of proprietary articles and the extension of reputation monopolies, it is interesting to note the growth of a movement in the opposite direction. This may be observed in the policy of certain large-scale retailers. These firms prefer to deal in non-proprietary articles which they purchase themselves on the open market or which they have manufactured for them. In these purchases they rely on their own judgment rather than on the reputation manufactured by producers. Working on a large scale they are specialists in buying, and their aim, like that of the purchaser of bulk goods, is therefore for cheapness and quality rather than for reputation ; in this way they tend to restore competition between manufacturers and to oppose the monopoly of branded goods. They do not altogether dispense with reputation as a factor in marketing, but it is their own reputation on which they depend ; this reputation is one of the means by which they are able to secure volume and rapidity of turnover. On the whole, however, they base their appeal to the public more upon the price and quality of their goods than upon the reputation created by advertisement. Moreover, when they do advertise, they aim at creating the reputation of the

shop rather than that of particular commodities, and in doing so they do no more than is done by most large retailers. Those retailers who sell branded goods are just as active in advertising their own establishments, so that in their case a double set of reputations is involved, a double set of advertisement costs incurred, and a limitation of price competition introduced at two stages of distribution. In buying goods, such retailers are influenced more by reputation than by price or by quality, while in selling they rely partly on the reputation created for the goods by the manufacturer and partly on the reputation which they themselves create for their house. On the other hand, those who make a practice of selling non-proprietary articles rely, in buying, on price and quality, and in selling, on their own and not on the manufacturers' reputation. Thus the importance of this movement away from branded goods on the part of large retailers lies in the fact that, at one stage of distribution at least, it restores competition and opposes the reputation monopolies of producers.

While advertisement on the one hand tends to stimulate the growth of monopoly, on the other it changes the monopolist's problem. The restriction of supply is no longer his sole method of obtaining a price per unit higher than that which would have been brought about by competition (without advertisement). Advertisement enables him to raise the demand curve; and, though he will not produce as much as would be produced with the new demand curve under conditions of free competition, his production will be greater than that which would be produced under conditions of monopoly without advertisement—and it may possibly be greater than the output under conditions of free competition without advertisement. It can be

proved, if we make the assumption that advertisement raises the demand and supply curves by constant amounts throughout (and the former more than the latter), that the monopolist gains by advertising, and that the maximization of monopoly revenue with the new demand curve entails an output greater than that which would have been brought about by the maximization of monopoly revenue with the old demand curve.

While, therefore, the monopolist gains by raising the demand curve rather than by restricting supply without raising the demand curve, what is the consumer's position? On the assumption that his old valuations were more correct than his new ones, it is obvious that, when the price fixed by monopoly with advertisement is not lower than the price fixed by monopoly without advertisement, the consumer loses, since the total utility of any additional units produced as the result of advertisement must be less than the price paid for them. For the price which would have been fixed by the maximization of monopoly revenue without advertisement would have been equal to the utility of the last unit then produced, and the utility of any additional units must be less than this and therefore (where the price is now lowered) less than the price paid for them. One cannot say in general whether the maximization of monopoly revenue when advertisement is used is likely to entail a price higher than that brought about by the maximization of monopoly revenue without advertisement.¹

¹ With the above assumptions it can be shown that, where the demand and supply curves are straight lines, the price appropriate to monopoly with advertisement will certainly be greater than the price appropriate to monopoly without advertisement, unless the downward slope of the supply curve (measured by the tangent of the angle) is greater than half the downward slope of the demand curve.

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In those cases where the price fixed by maximizing monopoly revenue with advertisement is lower than that appropriate to the maximization of monopoly revenue without advertisement, there is a possibility that the consumer will be better off under the former arrangement. He will be so if the reduction of price on the original units together with the consumer's surplus on those units which (under monopoly without advertisement) would not have been produced at all, is greater than the loss on those units which are being produced at a price higher than their utility. This is the more likely to occur the greater the reduction in price and the more elastic the demand curves. It would appear, therefore, that monopoly with advertisement is likely to be more harmful to economic welfare than monopoly without advertisement, unless a considerable reduction in cost accompanies the increased output of the advertised commodity. A reduction even greater than this would be necessary before monopoly with advertisement would be more conducive to economic welfare than competition without advertisement. For the consumer only gains by monopoly with advertisement if the price fixed is less than the price appropriate to free competition, and then only if the loss on the units produced at a cost greater than their utility is less than the reduction of price on the marginal units together with the consumer's surplus on such additional units as are sold at a price less than their utility. Such a reduction seems very unlikely to occur.

These conclusions assume that the monopolist always adjusts his output in such a way as to obtain the maximum monopoly revenue which is theoretically possible. In practice, of course, the monopolist often accepts less than

this ; and the advertising monopolist in particular will hesitate to fix his prices at an exceedingly high level, since the very existence of a reputation monopoly is dependent on opinion. This limitation lessens the probability that monopoly with advertisement will be more harmful than monopoly without advertisement, but it still remains likely that monopoly with advertisement will be less conducive to economic welfare than competition without advertisement. This last point is of the greater practical importance, since the choice between the two forms of monopoly is less frequent than the choice between competition and reputation monopoly. Indeed, the latter problem is one which confronts us daily ; for all advertisement tends to check competition in the ordinary sense and to establish reputation monopolies.

When an advertiser has secured a reputation monopoly, it does not, of course, necessarily follow that he can oust all competitors from the market. This does sometimes happen, and the concentration of output in the hands of a single producer may come about as the result of successful advertisement. It is more usual, however, to find the market for one commodity split up between two or more reputation monopolists. Since advertisement can increase the total demand for a commodity, the amount sold by each is not limited by the extent of his rivals' sales. Nevertheless, the existence of rivals tends to a cumulative increase of advertisement expenditure on the part of each monopolist ; and the probability that the consumer will gain from the economies accompanying increased output is thereby reduced. In this way advertisement tends to substitute a form of competition which is harmful to the consumer for one which is beneficial to him.

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In conclusion we may discuss briefly whether reputation itself confers any benefit on the consumer; whether, in fact, he is any better off with a commodity for which a reputation has been created than with a commodity of equal quality without reputation. The advocates of advertisement put forward two arguments to show that he is. First, they claim that, when the reputation of a brand has been established, the consumer has the assurance that in asking for that particular brand he will always obtain a uniform and standard product, no matter from what retailer he makes his purchase. This is true, and is certainly of some advantage to the consumer. The second and more important argument seems more doubtful. Advertisers maintain that reputation is a guarantee of quality. They say that it is not worth a manufacturer's while to stake his name and spend his money on advertising an article of poor quality. There are three rejoinders to this argument. First, reputations have, in fact, been created for very inferior goods; and, though such reputations have usually been short-lived, this has not prevented the manufacturers from reaping a considerable profit before the commodities have been found wanting by consumers. Secondly, the argument is based on the assumption that in the long run the consumer is a competent judge of quality. Unfortunately, in the case of great numbers of goods, his powers of discrimination are very limited, and he can only detect gross differences in quality. Though it is probably true that he will not long continue to buy a positively worthless commodity (except in the case of patent medicines), there is little reason to believe that he will find out if some widely advertised commodity is below the market standard or is made of inferior ingredients. It

therefore appears that reputation offers a very slight insurance against the risk of getting a bad article. The third rejoinder is this. Whereas in buying branded goods with a reputation the consumer gets (for what it is worth) the manufacturer's insurance, if he buys unbranded goods from a reliable retailer he gets a similar insurance. Since good retailers buy with discrimination as to price and quality and hold themselves responsible for the goods which they sell, their bulk goods offer to the consumer about as good a guarantee of quality as does the reputation of the branded article.

For these reasons reputation does not seem to offer to consumers advantages commensurate with the subjective valuations put upon it nor advantages sufficient to outweigh the harmful effects of advertisement which have been discussed above.

CHAPTER VIII

THE TRINITY OF TRADE : PRODUCER, WHOLESALER AND RETAILER

WE have reviewed in some detail the various services which the parties to the distributive process perform and the costs to which these services give rise. The next question to consider is the manner in which their performance is divided between the producer, the wholesaler, the retailer and any other selling agents who may be involved as middlemen.

Some goods pass through many hands before they reach the consumer, while for others the entire service of selling is undertaken by the original producer. Both these cases are, however, somewhat unusual. The normal channel of distribution for consumable goods has traditionally been what the Americans call the "Trinity of Trade", consisting of the producer, the wholesaler or "jobber" and the retailer. Although this arrangement has to some extent broken down in recent years, it still holds for a very large part of the field of distribution. In certain cases the wholesaler, or even the retailer, extends his function backwards, undertaking production on his own account; in others the producer reaches forward. Where either of these things happens, the number of distributors is reduced. This may mean that fewer selling services have to be performed altogether; or it may merely mean that one party undertakes the whole process which is elsewhere split up between a number of distributors, without making any

effective reduction in the amount or the cost of the services which are necessary to transfer goods to the consumer.

We may conveniently begin by examining the ordinary three-party arrangement, leaving for later consideration the cases where the number of distributors is either larger or smaller than this figure. Before the great extension of advertising, nobody would have questioned the fact that this was both the normal and the most satisfactory method of distribution. There are still many trades where it is almost invariably practised, and it persists to some extent in nearly all. It is fair to say of most trades where more than two distributors are concerned in addition to the producer himself that they are less well organized than is usual, or else that they have some special feature which necessitates more than the average amount of selling services and selling effort. On the other hand, where the number of distributors is reduced below the normal figure, the commonest explanation is that either the producer or the retailer works on such a large scale that it is economical to dispense altogether with the wholesaler's services; but an almost equally likely one is that the manufacturer finds this a convenient means of pushing the sale of his goods against those of his competitors. We shall see also, towards the end of the present chapter, that even where the services of the wholesaler are retained, it is becoming more and more usual for some of his original functions to be transferred to one or both of the remaining parties.

In order to observe those once typical conditions from which modern methods of distribution tend to deviate, we will first consider examples where the wholesaler still plays the chief part, where, that is, as merchant, he takes the

whole initiative in selling. These cases are less frequent than they were. A century or less ago the merchant used to dominate the trade in many industries to an extent which is now unknown. Often he both organized and financed production, so that the producers working to his order became practically his employees. This state of affairs still exists in isolated instances, but there are no longer whole trades of which it can be said that they are in complete dependence on the merchant. Nevertheless, trades still survive where the great bulk of the producers confine themselves somewhat narrowly to production and leave to the wholesaler the whole initiative in disposing of their products; while there are others where, if this is not the normal practice, it is yet the manner of distributing a great part of the product. The wholesaler most commonly retains this position of importance in the sale of bulk goods which are manufactured on a small or moderate scale and which are neither proprietary nor branded articles, and in whose disposal advertising to the consumer consequently plays little or no part. Among the more obvious examples of such goods are the commoner kinds of glass and china, hardware, textile fabrics, and dry goods generally; but the declining dividends of some of the great city dry goods merchants bear eloquent witness that even in these trades the wholesaler's position is by no means unassailed.

We have now to inquire how, under this traditional method of distribution, the selling services whose costs have already been considered are divided between the three parties concerned. Something on this topic has already been said in earlier chapters, but the matter will here be dealt with in greater detail.

In the trades under present consideration the producer's share of the selling costs is seldom very large. He must obviously bear the cost of packing and of transport to the wholesaler; but since bulk goods are usually unpacked, sorted, divided up into smaller lots, and repacked by the latter, the methods of packing adopted by the producer are neither elaborate nor costly. Of course, even in these trades wholesalers do deal in goods which are put up by the manufacturer into small parcels suitable for immediate sale to the retailers, without further unpacking and repacking; in such cases the wholesaler's packing and sorting expenses may be considerably reduced, while there is a corresponding increase, though not necessarily one of equal amount, in those of the producer. On the whole, however, the trades where the wholesaler retains a predominant position are those where the manufacturer produces in bulk and leaves to the wholesaler the task of dividing up the goods and packing them into parcels of the size required by the retailer.

Where the wholesaler takes a leading part in distribution, the producer is not usually responsible for holding large reserve supplies. He may, as is often the case in certain sections of the hardware trade, have a contract with the wholesaler for delivering a fixed quantity of goods over a given period. He may, again, make specifically to the wholesaler's order; this is the practice of manufacturers of cotton piece-goods, who issue patterns and designs to the wholesale trade and produce quantities of each design selected according to the latter's requirements. In yet other cases, notably once more in some branches of the hardware trade, the wholesaler contracts with the manufacturer to take his entire output over a specified period.

Under each of these three methods the manufacturer is relieved of the necessity of holding stocks in reserve. All he has to do is to store his finished goods until he can complete an order or assemble a large enough quantity for delivery to the wholesaler.

Even in the absence of contracts of the kind indicated in the preceding paragraph, producers of standard goods which are sold to wholesalers in bulk are not often under the necessity of keeping large finished stocks at the factory. The wholesalers' buyers call to place orders at regular intervals; and though production may take place in anticipation of these orders, the stocks will only reach considerable dimensions if a mistake has been made in estimating future demand. Wherever the wholesaler takes a really important part in distribution, the manufacturer concentrates most of his energies on production; and the function of holding reserve supplies is shared between the wholesaler and the retailer.

Finally, under this system of distribution the manufacturer's outlay on obtaining information is likely to be small. He need only get into touch with a limited number of wholesalers, each of whom is usually in a large way of business; after which the initiative in placing orders commonly rests with the latter. This is specially true where, while the wholesalers in the trade are few and large, the manufacturers are numerous and individually small, and must therefore be sought out by the wholesalers if regular supplies are to be maintained. In some cases, notably in the sale of agricultural products, but also in that of manufactured articles whose production is highly localized, the parties come together at a local market or exchange. The cost of information is then determined by that of

bringing the goods and the buyer and seller to market, and is divided between the two parties.

Some large producers do, it is true, normally take a prominent part in effecting co-ordination by sending out travellers to call on all wholesalers interested in their particular commodity, and they often issue special catalogues for the use of the wholesale trade. This is the usual practice among those manufacturers who rely mainly or substantially on a direct approach to the retailer, but who also find it expedient to sell their wares to the wholesaler for distribution to shops doing a small turnover. The wholesaler under these conditions is relieved of a great part of the work of assembly, though it does not necessarily follow that the total cost under the heading of information is reduced ; it may merely mean a transfer of function from the wholesaler to the producer. Which method is the more economical depends largely on the relative sizes of the producers and wholesalers concerned. Where there are a great number of small producers in a limited area it would clearly be uneconomical for each of them to send travellers to call on perhaps not more than fifteen or twenty wholesalers ; but where each producer works on a very large scale and their total number is correspondingly small, it may not be any more costly for them to take the initiative than for the wholesaler to do so.¹ It should be added that where new producers, whether large or small, are just entering the field, it is nearly always necessary for them, whatever subsequent reliance they may intend to place on the wholesaler, to take the initiative in making trade contacts and in finding the most suitable outlets for their goods.

¹ See also p. 233.

In one particular greater expense is likely to be involved where the manufacturer seeks out the wholesaler than where the reverse position obtains. If the seller goes to the buyer in order to persuade him to buy what he has to sell, an element of advertisement is almost inevitably mixed up with the service of information. The seller naturally enough tries to induce the buyer to take his own goods rather than those of some rival producer, and in order to gain his end it will only be businesslike of him to importune the wholesalers with travellers or with printed matter. These persuasive activities on the part of the producer may considerably augment the cost of co-ordinating demand and supply. Where, on the other hand, the initiative is taken by the wholesaler, his purchases will in all probability be determined solely by considerations of cost, quality or convenience. It may, therefore, frequently happen that the total distribution costs could be reduced if the producer allowed himself to be sought out by the wholesaler, but that, in fact, he prefers to take the field on his own account, and, by canvassing the wholesale trade, to push his goods at the expense of those of his competitors. The position is very similar to that which will be described later on, where manufacturers sell direct to retailers, not because they are thereby effecting a net economy, but because they hope by this procedure to secure a competitive advantage.

If co-ordination is mainly effected by the producer, the most important single element in his information costs will be the number of wholesalers on whom he finds it necessary to call. Some small manufacturers are content to rely on a single wholesaler to take over their entire output. Even large manufacturers sometimes contract to hand over their entire output over a given period—say, six months or

a year—to one wholesaler. On the other hand, a manufacturer who wishes to have his product sold throughout the country will often be well advised to seek out every single wholesaler in the trade, large or small, with a view to persuading him to handle his goods.

The number of wholesalers such a manufacturer would have to discover varies widely from one trade to another. In the drug trade, for instance, he would be faced with a list of at least five hundred; but a great number of these operate on a small scale, being situated, perhaps, in minor provincial towns, and serving the needs of very limited areas. The great bulk of the drug trade is monopolized by some twenty large-scale wholesalers, each of whom has customers throughout the British Isles, and it would in many cases be quite sufficient for the manufacturer to confine his attention to these important firms. In the drapery trade there is a small group of very large scale wholesalers, whose headquarters are in London and whose connection extends over the whole country; but, in addition to these, there is a considerable number of more modest establishments with limited clienteles and restricted turnovers. These small provincial wholesalers are, however, tending to die out, and indeed even the larger houses are feeling the pinch of department-store and manufacturer-direct-to-retailer competition very severely. In the ironmongery trade the decay of the small wholesaler or "factor" is also in evidence, and such of the business as still passes through the wholesaler at all is now mainly in the hands of factors who do business throughout the country; the typical retail ironmonger of medium size can confine his dealings either to the manufacturers themselves, or to two or three of these large factors.

On the other hand, in the confectionery trade small wholesalers are still to be found in every town, while merchants with more than a local reputation hardly exist. This is also true of the tobacco trade to very nearly the same extent and for very similar reasons. These reasons are that all but the very small retailers and those for whom confectionery or tobacco is only a side-line nowadays buy from the larger manufacturers direct, and that although these very small retailers are extraordinarily numerous, only a fraction of the total turnover is in their hands; so that it would be almost as difficult and costly for a national wholesaler, as for the manufacturer himself to enter into direct dealings with them. In the grocery trade the position is an intermediate one. There are several large city firms serving a nation-wide market, but most provincial towns of any importance as trading centres can also boast of two, three, or even four local grocery wholesalers who do business on a small scale with the little shops. Writing in 1912, Mr. Paul Cherrington said that there were two thousand five hundred grocery wholesalers in the United States, though, of course, many of these would be specialists and many would do a purely local trade. The size of the country, the importance of the grocery trade, and the variety of products dealt in, account for this very large number, but it certainly creates a formidable problem for the American manufacturer who wishes to maintain contact with every possible wholesale outlet in the grocery trade. In this country it would probably be unnecessary to keep in touch with more than a hundred wholesalers at the outside; often, indeed, fifteen or twenty would be sufficient to secure an entry into all the more important retail shops. The smaller producers, for

whose output a proportion only of the retail shops would provide a satisfactory market, do not need to sell even to this number of customers.

Local wholesalers are common in the fruit and vegetable and in the fish trade. Many of them, however, are engaged solely in the distributive part of the wholesale function; they buy, not from the producer direct, but from another middleman, and consequently come outside the scope of the present chapter.

We thus see that, in the cases we have been considering, the main business of selling is usually undertaken by the wholesaler and retailer between them, and that even when the producer actively canvasses the wholesale trade, the number of customers upon whom he will have to call is likely to be reasonably small. This is a very different situation from that which confronts the manufacturer who goes direct to the retail trade.

It remains to consider the division of function between the other two parties. As regards sorting, packing and grading, this division of function varies greatly between different trades, while at the same time there are very wide variations in the total amount of such services which have to be performed. The retailer always has to undertake the final business of providing the customer with the quantity and quality which he desires. In the sale of bulk goods by weight this may involve considerable labour, whereas if the goods are already put up in quantities suited to the consumer's needs the retailer's work is appreciably reduced. Goods which the wholesaler receives from the producer in bulk may either be sold in the same condition to the retailer or be put up into packages ready for sale to the consumer. For instance, English butter is usually bought by the retailer

in 1 lb. or $\frac{1}{2}$ lb. packages, whereas foreign butter reaches him in the barrel and has to be weighed out as required. Sugar, on the other hand, and many other groceries, unless they are packeted and branded by the producer, are still usually weighed out to the customer's requirements by the retailer. The practice with tea varies widely. On the one hand many well-known firms, which have their own plantations, blend, pack, and distribute their own widely advertised teas; these do not come within the scope of the present chapter. On the other hand, wholesalers who buy tea in cases and blend and packet it before selling it to the retailer occupy an important position in the trade; while there is also a considerable sale of loose tea, not only to the larger retailers who do their own blending, but also to innumerable small grocers up and down the country.

However he may sell to the retailer, whether in bulk or in package, the wholesaler who buys in bulk from producers is certain to find his initial work of sorting and grading comparatively onerous. Different retailers want different qualities, and it is an important function of the wholesaler so to grade his goods that he can provide each retailer with exactly what he wants. This function involves most labour where goods are little standardized, where there are considerable differences in quality, and where the wholesaler deals with a number of small producers. For instance, in the potato trade there are upwards of five hundred distinct varieties; and the quality of a load of potatoes depends not only on their variety, but on the soil in which they are grown, on their cleanliness and freedom from dirt and disease, as well as on their size.

We may next consider holding costs. In large part, these

necessarily fall on the retailer, not because it is a primary part of his business to hold reserves, nor because he wishes to do so, but because in most cases his sales are too slow and too irregular to enable him to work on a narrow margin of stock without sacrificing its range. It is, nevertheless, his aim to work on as low a margin as possible. To quote an American authority: "The old-fashioned custom of buying heavily two or three times a year is now obsolete." Since, as we have seen, irregularities of supply make it impossible for a continuous stream of goods to flow regularly into consumption, there must be some pool from which the retailer can replenish his supplies. He can rarely, if ever, count on such a regular demand from consumers as to enable him to give an unaltered weekly or even monthly order; some goods will be bought more freely than he anticipated, whilst others will linger on his shelves.

Under the system of distribution we are now considering, the reserve pool is held by the wholesaler; it is a chief part of his business to provide sufficient stocks at convenient points, so that he can rapidly supply the retailer on demand. This he can accomplish in various ways. If he only does a local trade, as is often the case with ironmongery and drapery, and still more frequently with confectionery and tobacco, he need only hold sufficient stocks to supply the immediately surrounding district. On the other hand, if he covers a wider area he will be faced with a more difficult problem. He may elect to have offices and warehouse accommodation only in London or some other large centre, and from this source meet orders from all districts. This is fairly common in the drapery trade. In other cases large wholesalers have branch offices and hold stocks at various consuming centres throughout the country, so that retailers

can be rapidly supplied with goods from convenient depots. This arrangement is the more usual ; and with the ever-growing disinclination on the part of retailers to buy except from hand to mouth, it is being forced on many wholesalers who originally did not feel the need for it.

The wholesaler thus plays the most important part in holding stocks, and serves as a balancing factor between supply and demand. In spite of this, it could probably be said in the past that the average holding-period for the retailer was longer than for the wholesaler, although in actual size the typical wholesaler's stocks greatly exceeded those of the typical retailer in the same trade. That this is no longer the case seems fairly conclusively to be proved by the figures which have been quoted in Chapter VI. There are, however, exceptions. The rate of turnover of the Co-operative Wholesale Society, for instance, is much more rapid than that of the most efficient retail Co-operative Societies ; though this may be largely explained by the fact that the retail societies, when they are buying branded and other goods not of C.W.S. manufacture direct from the producing firm, have these goods invoiced through the C.W.S. books. In the drapery trade a very marked change has taken place in recent years. A generation ago the retailer could not order less than a " piece " of cotton goods, and if he wished to keep a large assortment of different lines, patterns and colours, he was obliged to hold goods over a long period unless he had a very large stream of custom. He can now order in smaller quantities, and pieces are cut by the wholesaler and sold in lengths of twelve yards, so that it is possible to hold a large assortment with a much lower capital investment in stocks. For lines which prove popular the retailer gives repeat

orders, and in this way is able to throw a great part of the burden of holding on to the wholesaler's shoulders.

The last service to be considered is that of information. Here, again, the wholesaler's function is of the utmost importance. We have already pointed out that the mere existence of the retailer's shop plays the chief part in informing consumers of what they can buy (except where this is done by advertising), and that accordingly his expenditure on rent, rates, lighting and heating, and upkeep generally, must in large part be classified under this head. None the less, the most costly aspect of information service is probably the task of connecting the factory with its retail outlets and this, in cases where the wholesaler exists at all, is invariably undertaken solely or mainly by him; indeed, he would hardly otherwise have a *raison d'être*. It is his most important service, and it is the one which producers who go direct to retailers find it most difficult to supply for themselves at a reasonable cost. The service is a double one. The wholesaler must first get in touch with all the possible sources of supply and then find out as many as he can of the retailers through whom the demands of the consuming public are transmitted. This work of assembling orders on the one hand and supplies on the other, which is essentially what the service of information amounts to, is especially difficult in certain cases. These cases occur, first, where the producers or manufacturers are numerous, small and scattered; secondly, where the commodity is little standardized, and is subject to considerable variations in quality; and thirdly, where supplies are seasonal or irregular in quantity. In the first of these cases, where the producers are small and scattered, the wholesaler has to send his buyers on frequent visits over a wide area. If this

condition is combined with either of the other two ; if, that is, the supply from each source, in addition to being small, fluctuates in quality or quantity, the wholesaler may have to scour the entire country in order to replenish his stocks ; for it would obviously be quite impossible under such circumstances to rely on a regular connection or to place standing orders for fixed amounts at regular intervals.

Commodities which are standardized or carefully graded can be selected by description or sample and ordered by post or telephone. Branded goods can nearly always be bought from description, and raw materials can often be chosen from samples ; the wholesaler's assembly costs are in such cases considerably reduced. Unfortunately for him, many, if not most, of the goods which are marketed under the producer-wholesaler-retailer system are neither branded nor standardized, so that, in fact, the wholesaler cannot buy till he has visited the place of production and seen the goods themselves. Where the manufacturer can be relied upon to produce goods of even quality, such visits may be comparatively rare, since repeat orders may be placed or standing contracts with the manufacturer entered upon with some degree of safety. There are, however, many manufacturers on whose standards little reliance can be placed. There are also many consumable goods, particularly agricultural products, whose quality is bound through the vagaries of nature to vary from one batch to another. This variation, as we shall see, often leads to the establishment of a more complex distributive organization than the three-party system ; but by no means always. Much of the egg trade, for instance, is in the hands of " higglers ", who call at the farms once or twice weekly, and buy all eggs available without

classification, subsequently grading them into sizes and re-selling to the retailer.

Variations in either the quantity or quality of each producer's output naturally present the wholesaler with fewer problems and involve him in less expense where the producers are highly localized, or where there is a standing and recognized market. In that case the wholesaler can do all his buying from an office in the locality and travelling expenses are much reduced.

Where the typical producer works on a large scale the wholesaler's assembly costs are smaller, partly because the output of the large producer represents in itself an assembled source of supply, and partly because large producers often themselves take the initiative in establishing contact with the wholesaler. Such cases bring us, of course, nearer to the position where the wholesaler is a less dominating figure in the trade; usually his rôle is of special importance only when the producers are small.

The assembly of goods, or in other words, the making and maintaining of contacts with the manufacturers and producers, is only half the work of co-ordination which it is the wholesaler's function to perform. He must sell the goods when they have been assembled and for this purpose he must seek out the retailers. Unlike the producers in most trades, the retailers are of necessity scattered through every town and village in the country, and they are surprisingly numerous. For instance, there are some 17,000 shops in Great Britain solely or mainly engaged in the retail sale of fresh fish¹ and as many as 40,000 butchers.² In 1930 the number of people licensed to retail tobacco

¹ *Report of Food Council on Fish Prices* (1927), p. 11.

² *Report of Royal Commission on Food Prices*, p. 82. (Cmd. 2320.)

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was 378,000, though that of retailers dealing *exclusively* in tobacco and smoker's requisites may not exceed 40,000. In 1923 there were over 1,000 shops in Birmingham selling fruit and vegetables; on this basis the number for the entire country would approach 50,000. A recent survey of the retail chocolate and confectionery trade indicated conclusively that the number of selling points for these commodities (apart from railway stations, theatres, cinemas, automatic machines, and similar channels) is in the neighbourhood of 250,000. Very large deductions from this figure would have to be made so as to exclude grocers, provision dealers, general stores, newsagents and other shops, of whose total turnover confectionery forms only a small part; but, after all such allowances, perhaps 50,000 would remain which sell solely or mainly chocolate and confectionery.¹

Figures of the order quoted in the preceding paragraph indicate the scope of the problem involved in the co-ordination of retail demand with wholesale supply. The wholesaler who wishes to make a complete list of the appropriate retail outlets has a wide field to cover and a great number of shopkeepers with whom to deal. Moreover, for the sale of most commodities he is not limited to a single trade. We have indicated above that sweets are sold by a large number of different classes of shop; those actually mentioned are only the more important and the list could be extended to include, if only occasionally, an enormous range of types of retail outlet. Razor blades, again, to take another example, are sold by chemists,

¹ This figure includes a large proportion of shops which combine the sale of confectionery and tobacco, but for which the former commodity predominates.

barbers, ironmongers, tobacconists, department stores, "universal" bazaars, and general stores, as well as occasionally by leather dealers, jewellers and others. This increases the difficulties of co-ordination, since the wholesaler must always be on the look out for new outlets; and in order to keep up with all possible sources of demand he must have at least a rough knowledge of the activities of every single retailer in the area he aims at covering.

Having discovered all possible sources of demand, the wholesaler must get in touch with each one of them, supply them with information of what he has to offer, and thereafter maintain continuous contact with them, both with a view to receiving their regular orders and to keeping them informed of the appearance of new goods as well as of changes in the quality and price of existing products. It may have been possible in the past for the wholesaler to carry on business by means of occasional visits to his customers, say twice or thrice yearly, but modern conditions demand monthly, fortnightly, weekly, or even, in the case of large and important customers, daily calls.

Contact with retailers is maintained in three ways: by price lists, catalogues and other printed matter sent through the post; by the provision of showrooms or offices where customers can be received and given an opportunity of inspecting the wholesaler's stock; and by the calls of commercial travellers. Most large wholesalers use all three methods. Exhaustive catalogues, often running into many hundreds of pages are issued by big wholesale houses. In the ironmongery trade monthly or even weekly catalogues are sent out; in the grocery and drapery trades frequent price lists are issued, and regular catalogues may be supplemented by

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offers of special lines, job lots, etc. Where the retailer lives close to the wholesale warehouse it is easy for him to call there and see what goods are on offer. This method of co-ordination is usually adopted when wholesaler and retailer are situated in the same town; large retail buyers may in such cases visit the warehouse as often as two or three times a day. Even when the wholesaler is not in the same town, retailers who do business on a large scale make a considerable number of their purchases by visits to the wholesalers' warehouses; for there are few towns in England which are not within a comparatively short journey from some great distributing centre. But this method of effecting co-ordination, so convenient to the wholesaler, must be supplemented in other ways; he cannot rely on the distant retailer's readiness to pay frequent visits to his warehouse, and he has almost always to go and lay his offers before the small man. Even large retailers often prefer to buy from commercial travellers who give good service, carry in most cases the newest range of samples and, of course, save the retailer the time and expense which visiting the warehouse involves. In many cases, accordingly, the greater proportion of the wholesaler's trade is conducted through commercial travellers.

In the drapery trade a fair-sized shop will be called upon at least once a month, if not once a fortnight or once a week. So, too, in the confectionery and tobacco trades. In the ironmongery trade, where the retail turnover is relatively slow, the traveller's calls will probably be less frequent. Travellers may sell by description, though this is not so usual in the case of bulk goods, which are largely handled by wholesalers, as it is in that of advertised and branded

articles, which manufacturers usually offer to retailers direct. More commonly the travellers carry samples and sell from these ; this happens in the drapery trades and indeed in all those where samples are practicable and not too heavy or bulky to be easily carried from shop to shop. The widespread use of the motor-car has much simplified the problem of carrying samples ; nowadays even travellers who sell by description nearly always have with them at least a range of samples of new lines or of some special offer which they have been instructed to make. Occasionally sales are made according to " type ", that is, according to a standard sample taken usually from the previous year's produce. This method of selling, however, is not common for consumable goods ; it is rather used for raw products such as wheat, tobacco, or sugar, which are often sold before actual samples of the current season's output are available. The traveller naturally carries, in addition to his samples, all the catalogues, price lists and other current sales literature issued by his firm.

It is usual to allot to each traveller a particular district so that he may acquire local knowledge and personal connections with the trade. The head office may itself collect independent information as to the retailers in each district, but the traveller is expected to supplement this with more intimate knowledge of the circumstances of the retailers whom he visits. Co-ordination with the retailers involves more than merely discovering them and taking their orders. There is, for instance, the important problem of what credit facilities may be granted. The wholesaler almost always delivers goods to the retailer on credit. The length of credit given varies with different trades, with the scale of the retailer's and wholesaler's operations, and

with other circumstances. In the coal trade, for instance, payment within thirty days is regarded as satisfactory, whereas in the confectionery trade it is more usual to require payment in seven days, failing which the small discount for cash which is usually offered is forfeited. Terms in other trades usually vary between these two limits. Wherever the wholesaler delivers goods on credit, he requires considerable knowledge of the circumstances of each retailer, so that he may form a correct estimate of his solvency and trustworthiness. For this knowledge he relies very largely, often primarily, on the accounts of his travellers, who are in constant touch with retailers and have many opportunities of picking up local knowledge, but he supplements these by requiring references from bankers or other business men before starting business dealings and by making inquiries through credit agencies whose special function is to collect the necessary information.

Wholesalers, as we have seen, may do a purely local trade or they may deal with retailers throughout the country. In the latter case they will require a very large body of travellers. In Great Britain it may be necessary to employ as many as eighty or a hundred, occasionally even more; though for the sale of high-class goods, which are carried by a comparatively small number of shops, far fewer, say ten or a dozen, will suffice. It is obvious that this part of the wholesaler's function, keeping in touch with the retail trade, announcing supply and booking orders, is far more difficult and costly for the large firm than for the small man who only does a local trade. On the other hand, the small wholesaler works at a disadvantage with regard to assembly, not only because he must keep in touch with a comparatively

large number of manufacturers in relation to the size of his turnover, but also because he is unlikely to be able to buy on the very best terms. Consequently the functions of co-ordination and assembly are sometimes divided; one intermediary buying the goods from the various producers, and another buying from the first all he requires in smaller parcels and specializing in distribution to retailers. This method will be discussed in the next chapter, but before concluding the present one we must briefly describe certain partial though often very significant deviations from the typical producer-wholesaler-retailer system of distribution:

In the cases we shall consider, the wholesaler no longer plays that prominent part in distribution which was once the characteristic of the merchant, although his services are still retained on a limited scale; the initiative has passed to the manufacturer, who now performs one or more of the wholesaler's original functions. In the first place there is the increasing tendency, which we have already noticed, for manufacturers to pack goods which they formerly sold in bulk into small cartons, tins, or boxes, which can be passed on as they are to the consumer. This reduces to very small proportions the packing work which the wholesaler has to undertake; and if it does not altogether eliminate his work of sorting and grading, it greatly reduces its difficulty and expense. A more important change is a growing tendency on the part of producers and manufacturers to hold their own reserve supplies. It is now very common for large manufacturers to build warehouses where they keep finished stocks; and in consequence it is possible for wholesalers to hold very little stock, and even in extreme cases none at all. In the drapery trades, for

instance, there are a few large wholesalers who buy in anticipation of demand and carry large reserve supplies for their customers, but there are also many others who buy from hand to mouth and rely on manufacturers' stocks. In other trades, the practice of direct sale from manufacturers to retailers has made it necessary for the former to hold large finished stocks, and this has the incidental result, in those sections of these trades which still pass through the wholesalers' hands, of freeing the latter from the necessity of keeping greater stocks than are warranted by their day-to-day requirements. The manufacturers are naturally prepared to let the wholesaler buy at frequent intervals and in relatively small quantities, and in consequence he no longer occupies that position of balancing factor between supply and demand which was once his chief characteristic.

Where both the foregoing changes have taken place, that is, where most of or all the work of packing, sorting and grading, as well as of holding stocks, has been transferred to the manufacturer, the wholesaler is concerned almost exclusively with the provision of information. Indeed in some cases, where he does not handle goods at all, this has become his sole function. He is then a mere agent or broker; and once he has secured an order for supplies from the retailer, he passes it on to the factory, from which the goods are delivered direct. Such agents have long been familiar figures in the primary produce markets, but they are a comparatively new phenomenon in the distribution of consumable goods. Concerned solely with bringing manufacturer and retailer together, and entirely absolved from the risks which carrying stocks inevitably involves, they can hardly be described as merchants in the traditional

sense. Wholesalers who have been relegated to this position are, in fact, well on the way to total elimination, or at least to elimination as independent entrepreneurs. The producer can seldom entirely dispense with the services of information which they still perform ; and since they have established connections with the retailers which facilitate the performance of these services, it is not uncommon for the large producer to incorporate as part of his sales organization wholesalers whose independence remains little more than formal. This means that he is taking over all the wholesaler's functions except that of making and maintaining contact with the retail trade, which is, of course, the one which the producer finds it most difficult to perform for himself. A wholesaler who proposes to confine himself to this one activity requires knowledge, but no capital ; so that it is easy for a man who has acquired personal connections with retailers, perhaps through serving as a traveller for a large wholesaler of the more traditional type, to embark on such a career ; this is, of course, an additional reason why such men are common figures in modern distribution.

At the opposite extreme from the wholesaler who takes orders but carries no stocks, is the wholesaler who carries stock and effects deliveries, but whose turnover is dependent, in part at any rate, on the orders which the manufacturer turns over to him. Manufacturers who make some or all of their sales through wholesalers occasionally send round special travellers—"detail men" as they are called in North America—to secure orders which are then passed to the wholesaler for execution in the usual way, allowing the latter the appropriate profit margin. This practice is on the increase ; in Great Britain it is specially prominent in the stationery trade, where almost all sales to a normal

retailer are made through a wholesaler, but where manufacturers' travellers are nevertheless often sent round to the retail shops. So, too, in the grocery trade, large producers sometimes select in each small town a trader, who may either be a small local wholesaler or a retailer, to undertake wholesale work. The selected trader is credited with all sales, though in fact a great part of the orders may have been booked by the producer's own traveller, or even sent through the post. The practice is adopted where the producer regards the wholesalers as indispensable to the distribution of his product; where he is therefore so anxious to retain their goodwill that he is prepared to offer them their usual commission even on those sales which he may have made direct; and where he is at the same time not convinced that, without independent effort on his own part, he will secure the largest possible turnover. It seems legitimate to classify the expenses which manufacturers incur on account of these special travellers as being generally advertisement costs in the true sense of the word, and hence as lying, properly speaking, outside the scope of the present chapter. There is, however, a minor reason why the manufacturer sometimes turns over to the wholesaler orders which his own travellers have received, and that is because, especially if the orders are small or placed by small retailers, he wishes to escape the responsibility for delivery and for giving credit.

Before bringing to a close a chapter which is already over-long, there is one other matter to which reference should be made; that is the not infrequent occurrence, both under the system of distribution here discussed and under others, of traders who combine the rôle of manufacturing and wholesaling, or alternatively of wholesaling

and retailing. In many trades—grocery, confectionery and tobacco, to name but a few—it is common for large retailers to act simultaneously as local wholesalers, supplying the needs of their smaller retail competitors; sometimes their wholesale and sometimes their retail activities predominate. Similarly manufacturers, in addition to selling their own products, often deal in other manufacturers' goods. Here again, the manufacturing or the trading side of the business may be the more important. It may be that a large manufacturer merely deals in a few side-lines to oblige his customers. Thus a men's clothing manufacturer may keep a stock of hats and caps, or children's clothing, which he has bought elsewhere, just as a retail tailor will sell socks or studs, or a tobacconist will sell walking-sticks. On the other hand, it may be that the manufacturer's own products occupy a secondary position, or that they are so specialized that no great turnover in them alone would be possible, and that it is necessary to stock many kindred goods in order to do a satisfactory volume of business. This latter is not uncommon in some of the food manufacturing industries. A manufacturer of cream cheese will deal in butter and other dairy products, which he has bought from a third party; a pickle manufacturer will keep sauces and other brands of pickles also in stock, and so on. This combination of function adds considerably to the difficulty of classifying the various agents in the distributive process in a logical manner.

CHAPTER IX

MANY INTERMEDIARIES: VARIOUS TYPES OF MIDDLEMAN

THE normal three-party system of distribution, together with those variations from it which do not involve any alteration in the total number of distributors, has now been described; we next pass to a consideration of the trades where the number of middlemen is increased. In the typical case the addition takes the form of an assembling wholesaler, whose services are interposed between those of the manufacturer or producer, from whom he buys in bulk, on the one hand, and those of the distributing wholesaler, to whom he sells generally in smaller quantities and who undertakes the final work of distribution to the retail trader, on the other. The assembling wholesaler is thus occupied mainly in finding out and co-ordinating sources of supply, and the distributing wholesaler in doing the same for demand. Where either or both of these tasks are more than usually intricate or costly, it may well be that their separation in this manner is in the interests of efficiency and economy. As we shall see, however, subdivision of functions and multiplication of middlemen do not always end at this point, and it is obvious that each additional link in the chain which separates producer from consumer requires an increasingly strong case if in the public interest its existence is to be justified.

This multiplication of intermediaries is most frequently found, so far as the distribution of consumable goods is concerned, in the case of animal and vegetable produce;

but it is also to be met with in the distribution of manufactured goods whose production is on a small scale, particularly if the small scale is accompanied by a wide diversity in the character of the final products. Ironmongery and, to a lesser extent, groceries afford the best examples of this latter state of affairs.

The terminology employed to describe the various middlemen who may be interposed between the producer and the final wholesaler is confusing. Persons engaged in similar activities in different trades are often described by different names, while on the other hand the same name may be applied to the performance of very different functions. Among the names most commonly applied to the performers of some part or other of the wholesale function, we find those of broker, commission house, commission salesman, manufacturer's agent, purchasing agent, commission buyer, higgler, and jobber. All these intermediaries may be roughly divided into two groups; on the one hand independent merchants who buy goods outright and who therefore undertake the risks and costs of holding them, and on the other mere go-betweens who do not act as principals, but only deal in goods as agents for producers or merchants. Those in the second of these two groups sometimes work on a commission basis and sometimes receive a fixed salary. Their function is usually confined to performing all or part of the work of assembly; which means that they seldom come in contact with the retailer, being rather exclusively concerned in the co-ordination of the producers' supply with the wholesalers' demand. Sometimes they do not handle goods at all; their function is then completed when they have found a customer for the producer, the goods being transferred directly between these two parties.

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Thus, in America, "brokers" in the grocery trade sell to wholesalers by means of samples, and the goods are usually delivered by the producer direct to the wholesale buyer. Similarly, in the hardware trade, goods sold by "manufacturers' agents" are shipped direct from the factory to the customer whom the agent has found.

Though this distinction, between the *agent* who specializes in assembly, and does not bear the risk of carrying the goods, and the *merchant* who performs all the other services, is usually legitimate, it cannot invariably be applied in a rigid manner. Cases often occur, for instance, where goods are unsuitable for sale by mere description, or even by sample, and in such cases direct transport from producer to wholesaler obviously cannot be arranged. This is true of goods which have any individual quality, such as, for instance, many animal and vegetable foodstuffs. In these cases the so-called agent has to receive, handle and display the goods, and may incidentally perform other services as well. On the other hand, where both intermediaries are independent merchants, one of them may yet in practice specialize in the assembly of goods and contribute practically no other services to the task of distribution, thus occupying a position very similar to that normally held by an agent working on commission. Such a wholesaler will buy goods from producers with a view to their immediate re-sale to another merchant, and will arrange for their direct transport from the producer without any intermediate handling on his own part; his only expenses in the way of holding costs will then be those of financing stocks and of bearing risks over a very short period. Thus the country wholesaler who buys potatoes in a specialized producing area for re-sale to a town wholesaler will often

arrange for them to be transported direct from the farm to the city. His only function is then to organize the flow of supplies from country to town: that is, to ascertain in the first place the location and volume of the supplies of the various qualities which may be available, and in the second the corresponding extent of demand, and to adjust the one to the other. He may leave the actual physical arrangements for handling and transport to the other interested parties, though he does not invariably do so. Storage, it may be added, he hardly ever undertakes, preferring to leave it in the main to the farmer and to a lesser extent to the town wholesaler. He thus closely resembles the commission salesman with whom he shares the trade; indeed, the same individual frequently carries on both types of business, sometimes acting as merchant and sometimes undertaking sales on commission. This last practice is specially prevalent in the trade in early potatoes, where the rapid fluctuations in prices and the need for marketing with the utmost speed makes it specially suitable. The difference in the two forms of trading lies principally in the manner of remuneration, though, of course, the independent merchant requires sufficient capital to cover marketing risks.

There is a great diversity of practice, both within individual trades and between different trades, as to the manner in which the wholesale function is divided. One wholesaler may specialize in assembly and sell to another who performs all the other services; or the trade may be split up between two merchants each of whom holds, grades, packs, and transports goods; or the holding of stocks may be confined to one or other of the parties, while they share all the other services; or, as we have mentioned,

specialization may go further and more than two intermediaries may be concerned.

The manner in which the work is subdivided depends largely on the causes which have led to the use of an extra middleman. The cause is sometimes financial ; where either producer or middleman works on a small scale the wholesale function may be subdivided, in order to pass on quickly the responsibility and the cost of holding goods. It is a common practice for small-scale wholesalers to specialize in the distribution of goods, particularly groceries and other foodstuffs, to small retailers in a single town. Their local knowledge enables them to give longer credit to these little shopkeepers than a wholesaler working on a large scale would be willing to do ; but since their capital is naturally small, they are unable to hold stocks for any length of time. They may therefore buy at frequent intervals from large wholesalers, who maintain reserve supplies, instead of going direct to the manufacturer or producer, who would expect larger orders.

More important, perhaps, are the cases where producers sell to an intermediary rather than to the distributive wholesaler because they are able to obtain from the former advances or at any rate such prompt payment as the latter would be unable or unwilling to provide. We have already alluded to the potato trade and pointed out that the intermediary is sometimes an independent merchant and sometimes a commission agent. Except in the early potato trade, he is usually the former ; mainly, it would appear, because of the need of the grower for cash immediately on delivery or even before delivery. The distributive wholesale potato merchant, who may often have to hold stocks for a week or ten days before they are

re-sold, usually requires a fortnight before making payment ; on the other hand, the country wholesaler nearly always pays cash within a week. Occasionally he buys the growing crop, so that the farmer gets his capital back before the productive process is complete ; and in other cases, especially after the farmer has had a bad season the previous year, he may finance a considerable part of the cost of growing the crop, providing, perhaps, seed, fertilizers and bags, while the farmer provides land and labour. In such cases it is clearly advantageous to have a division of function between the country wholesaler, with his knowledge of farming conditions, and the town wholesaler, whose knowledge is mainly confined to the state of the retail trade ; though merchants who work on a large scale can and do extend their business over both functions.

A parallel case to that of the British potato trade is provided by the silk textile trade in America. Here it is customary for small mills to sell their whole output through commission houses who help to finance the mills. These commission houses undertake for the manufacturers the whole of their selling services. They get into touch with wholesalers in different parts of the country, and take charge of all transport arrangements, so that the producers are able to get back their capital as soon as, or even before, the productive process is complete. Cotton and woollen piece goods are often marketed in the same way ; but in these trades the financing function of the commission house is less important and there is a tendency for the larger mills to deal direct with the wholesalers.

The intervention of an extra intermediary may occur, not for any financial reason, but because it is difficult for a

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wholesaler who purchases in large quantities from the producer to study the needs of individual retailers and to supply them direct. This happens where the wholesaler specializes in a single class of goods and the retailer requires variety; it also happens where the wholesaler has to buy goods in a condition where they need considerable grading, subdividing, or other treatment, before they are suitable for the requirements of the retailer.

In the case where the primary wholesaler is a specialist he will probably sell direct to the larger retailers, who can buy even a single commodity in fairly large lots; but for the trade with the smaller shops a secondary wholesaler steps in and deals in a variety of products, buying in some cases, perhaps, from manufacturers, and in others from the primary wholesalers whom we have just described, and selling a little of each commodity to his customers. This arrangement is obviously economical for all concerned; it protects the primary wholesaler from very small orders; and it saves the retailer's time and energy by restricting the number of suppliers he has to deal with. Thus there are tea blenders and cheese factors who deal exclusively in tea and cheese respectively; the smaller shopkeepers do not patronize these factors direct, but prefer to get their supplies from a wholesale provision merchant, who stocks all or a large proportion of the various commodities they require. Such a provision merchant does not maintain any extensive reserve supplies; he buys as required, where possible direct from producers, but more frequently from primary wholesalers who have expert knowledge and keep large stocks of a single line. This applies particularly to articles imported from overseas.

In cases where commodities vary widely in quality and

are not susceptible of standardization, the demand of each retailer for special grades requires considerable attention. Large wholesalers may be unable to attend economically to these individual requirements, and may therefore sell to a secondary wholesaler, who specializes in the subdivision of consignments or, sometimes, in the grading of produce. This subdivision is common in the home-killed meat trade. London wholesale carcass butchers buy stock in the country through agents, while commission salesmen receive consignments of meat from stock-breeders. These two classes of intermediary meat-dealers, whose services are of course alternative and not complementary, perform the assembling function, and also supply direct the needs of those retailers who can buy in considerable quantities and do an all-round trade. They do not, however, sell in small consignments or cut up carcasses to suit the needs of retailers who only do one class of trade. For this purpose the "jobber" intervenes; he buys in large quantities from the commission salesman or wholesale carcass butcher and cuts up and divides the carcasses so as to meet the requirements of small retailers, and of those who do only a "coarse" trade or only a "prime" trade, and who therefore only wish to purchase certain joints. Butter is another commodity which is little standardized and which varies considerably in quality. Accordingly, a specialist intermediary known as a "butter-blender" sometimes intervenes between producer and wholesaler, and makes it his business to provide "a standard article of good quality by mixing butter of varying colour and consistency into a uniform and reliable product".¹

¹ Linlithgow Committee, *Interim Report on Milk and Milk Products*, p. 63. (Cmd. 1854.)

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He gets his supplies in most, though not all, cases direct from producers, and sells in the main to wholesale provision merchants, and sometimes also to retailers.

The most frequent cause of subdivision of the wholesale function, however, is not so much the difficulty of co-ordinating wholesale supply with retail demand as that of co-ordinating the output of producers with wholesale demand. As we have already pointed out, this difficulty is specially acute where there are a number of small producers scattered about the country, where the wholesalers are themselves numerous, small and scattered, where the commodity is unstandardized and cannot therefore be sold by description or sample, and where supply is irregular or seasonal. If several of these conditions prevail simultaneously a subdivision of the wholesale function is almost inevitable. One intermediary specializes in assembly; he has to keep in touch with many small producers, he often provides them with market intelligence and sometimes he advises them as to the form, pattern, or quality of the product required. He has to classify and grade their deliveries, and perhaps hold them over a considerable period; sometimes he may issue a catalogue for the use of wholesalers. The second intermediary performs all the usual functions of a wholesaler and deals with the retail trade; he holds stocks, breaks them up into small lots, possibly subjects them to a further grading, and supplies each retailer with the quantity and quality he requires.

In the American hardware trade three of the conditions laid down in the preceding paragraph obtain. Producers and wholesalers alike are numerous, scattered, and usually small, and in many cases the products are

unstandardized and of variable quality. Such commodities as saws and scissors are manufactured on quite a small scale by innumerable specialist firms and individuals, each of whom have their particular type and quality of product; and it is necessary to buy from a large number of these little factories to make up a representative wholesale range. The work of assembling small consignments from, perhaps, hundreds of such suppliers is so considerable as to monopolize one man's time and attention; consequently the wholesaler who is busy looking after his customer's requirements often prefers to buy from a manufacturer's agent who, by combining the output of several small producers, is able to take orders for a large variety of hardware goods. From 15% to 20% of all hardware is said to be so marketed in the United States, and in some cases as much as 50% of a wholesaler's stock is purchased from a manufacturer's agent.

Similarly in the grocery trade in the United States even the largest wholesalers buy a considerable proportion of their stock from brokers. These brokers may specialize in a single commodity or they may deal in an entire range of goods; but in any case they purchase from a number of producers, and offer to the wholesaler, either by means of samples or through the display of produce in bulk, an assembled source of supply, to some or all of which they often affix their own trade-mark. Sugar, rice, canned goods, dried fruit, salt, flour, coffee and tea are among the articles commonly handled by these brokers. In the case of flour and canned goods the irregularity and the seasonal nature of supply render the use of an intermediary essential, at least where small producers are concerned;

and although under modern conditions the size of the producing firm is tending to increase, there are still a number of small canneries and flour-mills. The wholesaler needs to stock five or six grades of flour, while each small mill has but one grade to offer at any time, the quantity and quality of its output varying from year to year ; he therefore finds it convenient to buy from a flour broker, who by combining the output of several mills is always able to offer him a supply of different grades. Similarly, with canned goods, the industry is highly seasonal and the quantity and quality produced by small producers so variable that the wholesalers rarely find it worth while to maintain direct contact with them. The case of sugar is different. Refiners work on a large scale, and are few in number ; nevertheless, they usually make their sales through a broker, and do not go to the wholesaler direct. The use of an intermediary between producer and wholesaler is here due rather to the number of wholesalers, which is so large as to make it inconvenient for the refiners to approach them direct, and to the tendency to minute specialization in a highly organized trade. In some cases the brokers have become incorporated with the refiners, but this is by no means universal ; and indeed one large-scale refiner does not go direct even to the brokers, but deals with them through a commission house.

The textile trades in America have already been mentioned.¹ It is a common practice in that country for the mills to sell through commission houses and to leave to these agents the whole work of co-ordination with the wholesale trade. This is partly due, as we have seen, to the fact that manufacturers are able to obtain advances

¹ See p. 147.

from commission houses, but partly also it is a case of specializing the function of assembly. In a country where there are many small mills and many wholesalers, and where production is somewhat less highly localized than in England, the commission houses provide a useful link in the chain of distribution, enabling the mills to concentrate on production and the wholesalers to attend exclusively to the functions of holding stocks and distributing them to retailers. The same state of affairs prevails in the American haberdashery trade ; buttons, pins, hairpins, suspenders and similar articles are mostly manufactured by little firms who hand over to commission houses the task of finding a market for their output. A single such intermediary assembles the products of several manufacturers and sells them to the wholesalers, who are known as "dry goods jobbers" or "notions jobbers" according to the type and range of goods they handle.

Fish is another commodity which, in England, generally passes through the hands of two intermediaries before reaching the retailer. Three conditions tend to make the service of information costly ; namely, the number of small and unorganized producers, the irregular nature of supply, and the perishable nature of the product. Daily contact between the retailer and his sources of supply is essential ; and no satisfactory manner of securing this contact is possible without a subdivision of the wholesale function. The bulk of fresh fish sold by retail fishmongers, at any rate in the principal centres of population, goes through the hands first of a port wholesaler and then of an inland market salesman.¹ When fish arrives at the port

¹ *Report of Food Council on Fish Prices (1927)*, pp. 7 ff.

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it is sold by auction to wholesale merchants operating in the port market, to representatives of inland wholesalers, and to representatives of large multiple and other retail traders. The first mentioned class of wholesale merchants may sell direct to retailers to whom they send daily price-quotations by telegram or telephone ; but more often they will find their customers among the wholesalers attached to the inland markets. The necessity of making daily sales and purchases obviously restricts the number of retailers with whom the port wholesaler can deal ; and most retailers of small or average size rely on the inland markets for their supplies. In these markets fish is sold either by merchants, who have bought outright from the port wholesalers, or else by commission salesmen, to whom the port wholesalers have sent fish for disposal. Many of these dealers, indeed, work in both capacities, both as independent merchants and as commission agents on behalf of the port wholesalers.

The classical instance of an industry where many middlemen are found is furnished by the marketing of farm produce, where all the conditions tending to impede easy access to information are present in a high degree. These obstacles include the small scale of production, the wide dispersion of the producers, and the seasonal and other variations in both the quantity and the quality of the product ; moreover, the marketing problem is rendered still more difficult by the perishable nature of the commodities dealt in, which often makes daily contact between producer, middleman, and retailer imperative. The result is naturally an exceptionally wide gap between the price received by the grower and that paid by the consumer, which in recent years has grown to such dimensions as to

focus public attention on the possibility of reducing it. Numerous official and unofficial studies have been made of the marketing methods in this group of trades, among which the series published by the Ministry of Agriculture is of exceptional interest; and numerous practical suggestions have been made for reducing marketing costs. Most of these suggestions are in the direction of co-operative marketing schemes, such as those which have been successfully put into operation in countries like Denmark, Ireland and the United States. It is not the purpose of the present study to expound or criticize such suggestions and schemes, as the ground has been fully traversed elsewhere; but rather to examine, and so far as possible account for, the existing state of affairs.

The methods adopted for the marketing of farm and market garden produce for direct consumption differ considerably according as the producer is situated close to the point of consumption, either in or near a country village or small town or on the outskirts of a large city, or is established in a specialized growing area and producing for a distant market. Such specialized areas serve in the main the needs of London and the larger provincial cities, and are found for almost all types of produce. Thus potato-growing, in addition to being carried on on a small scale on farms and allotments and in vegetable gardens throughout the country, is concentrated round the Wash and the Humber, in Lancashire and Cheshire, in Durham and the North Riding of Yorkshire, and round the Thames Estuary. Some of these areas are not very far distant from large centres of consumption; but the Wash, at any rate, is quite remote and produces entirely for a distant market. In the same way London's milk supply comes largely from

the south-west of England, fruit and vegetable growing is concentrated in the Evesham district, flowers are grown in the Eastern counties, and rhubarb in the neighbourhood of Leeds and Wakefield.

Produce which is raised for local consumption is, as has previously been pointed out, usually marketed without any elaborate machinery. Occasionally the producer sells direct to the consumer, particularly in country villages, but more usually to the retailer; and most commonly of all to a middleman—whether on commission or outright—who in turn sells to the retailer.

Where the produce is grown for consumption outside the immediate locality, it is common to find the wholesale function divided between two or more intermediaries. In the case of fruit and vegetables, central distributive markets, and particularly Covent Garden, serve as points of assembly for the produce of growers in all parts of the country. The sellers in these markets are usually commission salesmen, who receive the produce from growers in the various specialized areas; the buyers are for the most part large wholesale distributors who intend to sell to the retail trade, but they also include a number of retailers, who either work on a large enough scale or live sufficiently near to attend the central market every day. There is also, however, a third class of buyers; namely, merchants who intend to reassign the produce to small provincial markets where local supplies are either temporarily or permanently insufficient for local needs. In this way yet another link in the chain of distribution is often introduced.

We see, then, that the process of assembly is carried on in at least two stages. The first consists of bringing the produce to the central market. Owing to lack of

standardization and irregularity of supply, wholesalers can seldom order by post or place standing orders with the growers. Since, moreover, the growers who send their produce to these central markets are nearly always situated at some distance from them, they cannot attend them in person, but must employ an intermediary—the commission salesman. The second stage of assembly consists of the purchase of the produce by the wholesaler. If the latter sells to a retailer in his own neighbourhood, or to a distant retailer whose business is large enough to permit of direct contact, this stage is the final one ; but, quite apart from the case where the produce is reconsigned to a smaller provincial market, there are many country retailers who depend on the central market and who are yet too small or too remote to be reached by the central market wholesaler direct. These retailers buy from a provincial wholesaler who serves the needs of their own special district. The provincial wholesaler may buy a certain amount of produce locally, or he may prefer to attend the central market and establish direct contact with a commission salesman. Very often, however, he will find it more practicable to buy from the central market wholesaler and thereby introduce a third stage in the process of assembly. As has been indicated in a previous chapter, an even larger number of intermediaries is often dragged into the distributive process ; according to the calculations of the Linlithgow Committee it appears that about a third of the fruit and vegetables grown in specialized areas reaches the consumer through two intermediaries, a third through three, a sixth through four, and a twelfth through five.

In America the sale of farm produce is conducted in

a manner somewhat different from that just described, a different subdivision of the wholesale function being usual. Owing to the very long distances over which produce often has to be transported, the first wholesale agent is situated at the railhead, where he buys from the local growers and consolidates the produce into carload lots ; in addition he often grades and packs it into small containers before shipping it to the markets in the consuming centres. This wholesale agent is sometimes a private merchant and sometimes a farmers' co-operative organization. Though this initial assembly facilitates the work of the city wholesalers, a further subdivision of the wholesale function takes place when the produce arrives at its destination. City supplies come first from one part of the country and then from another and shipments from local units vary in quality and quantity. For this reason it is often most convenient for a primary wholesaler to specialize in assembly from these variable sources, while a secondary wholesaler, able to obtain from the first a more or less constant supply, attends to the retailers' demand for small quantities of even quality.

A special factor tending to make information difficult is present when the producers are to a greater or less extent inaccessible. This factor nowadays operates almost exclusively in the case of imported goods ; but formerly, when transport was less developed, the co-ordination of supply in one part of the country with demand in another was often accomplished through a long chain of middlemen. Prof. Clapham, indeed, quotes an example which shows that even now the factor of inaccessibility may operate to lengthen that chain in the home trade, though the products concerned are not goods for final consumption. Spinners

usually sell woollen yarn direct to manufacturers, but transactions between two comparatively remote districts—say between Yorkshire and Scotland—may be conducted through an independent yarn agent. In the case of imported goods this multiplication of middlemen is still very common, the importer being an independent merchant who keeps in touch with foreign producers and sells, not at all, or not entirely, direct to retailers, but to the English wholesaler. Alternatively, the “importer” is not independent, but is an agent working on a salary or commission basis for one or more foreign firms; or he may buy not from producers but from export agents abroad, in which case yet an additional link in the chain is introduced. Thus wholesalers in England usually buy imported fruit from salesmen working for foreign producers on commission or from brokers who hold auctions at the port of arrival; tea is sold to wholesale distributors at regular auctions which are conducted by brokers in touch with producers; even the branded products of well-known foreign firms, for instance chocolates, though they are sometimes marketed in this country through a branch office of the producing firm, are far more commonly sold through agents or import merchants working on their own account. The larger and better known the foreign producer is, the more likely it is, of course, that he will open a branch office or employ travelling representatives in this country. Thus, in the case of imported cotton piece-goods, wholesale merchants often buy from agents in London who are working on behalf of foreign principals; but much of the trade is conducted through independent merchants.

We have now shown by a number of illustrations how, in any trade or portion of a trade where the selling services

required are more than usually onerous, the wholesale function is likely to be subdivided. There is one more class of products which for a different reason often passes through the hands of a number of intermediaries on their way from producer to retailer ; namely, those which are sold in organized produce markets. The most highly organized produce markets are, of course, those which deal in raw materials ; but there are some which handle consumption goods, of which tea is a good example. Where a market is highly organized it is usual to find a special class of intermediary operating there. The ordinary dealer, who requires goods for delivery, can seldom buy direct in the market, but must employ a specialist to act on his behalf. Thus, in the case of tea, selling brokers, who operate on behalf of the producers' London agents, hold regular auctions, but only in exceptional cases do the wholesale tea distributors themselves take part in the bidding. They usually select what they wish to buy either from catalogues issued by the selling broker or from samples displayed at the auction, and place their orders with a buying broker who, bidding on their behalf, makes the purchase for them.

It will be clear from the various examples we have given that the subdivision of the wholesale function owes its origin to a great variety of causes. Moreover, there are nearly always counter-influences at work which tend to produce a reintegration. When production was on a small scale and for a local market, any elaborate subdivision in the marketing organization was clearly unnecessary ; as the size of the market increased and production was carried on on a larger scale and in a more complex manner, new types of middlemen arose to meet new difficulties in

securing co-ordination ; but, finally, with the constant growth in the size of the producing units and the reduction of their number, simultaneously with an ever-improving system of transport and communication, it has become possible to re-simplify distribution. It is probably true to say that in no trade is it to-day the universal practice to employ more than a single wholesale agent to bring producer and retailer in contact. Even where subdivision is most firmly established, the larger manufacturers, whose output in itself represents an assembled source of supply, tend to sell direct to the distributive wholesalers. It has already been pointed out that in the American textile trades cotton, silk and woollen mills usually sell through an agent when they are on a small scale, but get into direct touch with the wholesaler as their output increases ; and the same is true of hardware and haberdashery manufacturers. In the same way in other trades where the wholesale function is subdivided the larger wholesalers are apt to extend their operations either backwards or forwards so as to embrace both assembly and distribution in the narrow sense. The large retailer, again, often jumps over the distributive wholesaler and buys direct from the primary wholesaler or the assembling agent.

The net result of all these conflicting and overlapping tendencies is to produce in almost every trade a great diversity of practice. Various forms of distribution and various groupings of middlemen are in competition with one another. The tendency to integration, on the one hand, brings producer and retailer closer together ; while on the other hand the natural difficulties of co-ordination, lack of capital on the part of particular middlemen or producers,

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or the tendency to minute specialization in the marketing of certain commodities, are constantly at work to keep them apart. On the whole the forces of integration have been making headway in recent years ; to such an extent, indeed, that the middleman is often entirely eliminated, and producer and retailer deal with one another direct. This relationship will form the subject of the next chapter.

CHAPTER X

ELIMINATING THE MIDDLEMAN: SELLING DIRECT TO THE RETAILER

DEVIATION from the typical producer-wholesaler-retailer method of distribution sometimes takes the form of an increase in the number of links in the chain; more commonly it involves a decrease. In the present chapter we shall consider the case where the wholesaler's services are dispensed with and the producer sells direct to the retailer, and in the next the case where all purely distributive agents disappear and the producer himself undertakes the entire work of marketing his products.

The great diversity of marketing methods which are in operation for the distribution of agricultural produce has already been discussed. It has been pointed out that these methods fall into two classes, according as the produce is grown in a specialized area for sale in a distant market or is intended for consumption in the immediate neighbourhood of the point of production. While in the former case many market intermediaries are required, in the latter there are few or none. The sale of farm produce for local consumption provides indeed the most familiar and the longest established example of direct sale by the producer to the retailer. Where both parties live in the same district, co-ordination is easily established by means of frequent visits by the retailer to the farm or, if he lacks the time or the necessary local knowledge, to the local market where he can meet the grower and inspect his produce. Weekly or

even daily purchases are possible and the problem of holding stocks hardly arises. Direct transport between the farm, the market and the retailer's premises is effected either by the farmer or the retailer; the total selling services to be performed are on a limited scale, and there is therefore no need for the intervention of the wholesaler. It does not, of course, follow automatically that the final price of produce marketed in this manner is lower than that of produce grown in specialized areas, since its costs of production may be greater, whether on account of heavier rent charges, of less efficient methods of production, or even of too much attention on the part of the producer to the business of marketing, resulting in neglect of his duties on the farm itself.

While the direct sale of farm produce in the manner described above is no novelty, the same can hardly be said of the practice, which dates in the main from the last quarter of the nineteenth century, of direct sale to the retailer by manufacturers who are producing for the general market. This tendency to eliminate the wholesaler manifests itself in a variety of forms; being due now to the initiative of the manufacturer who sends his own travellers to the retail shops; now to that of the large retailer who sends his buyers to the manufacturer, or who, by establishing a chain of stores managed from a central office and served by a central buying department and warehouse, virtually sets up his own wholesaling organization; and now to that of the wholesaler himself who enters either the field of manufacturing by making his own brands, or that of retailing by establishing or taking an interest in a chain of retail shops. Progress in these directions has been so rapid during the past few decades that it is commonly assumed

that the elimination of the wholesaler for dealing with all but the smallest retailers will only be a matter of time. It is also held in some quarters that the small retailer is himself doomed to extinction, and that the wholesaler is accordingly a complete anachronism—at any rate so far as the distribution of manufactured goods, as opposed to that of raw and rapidly perishable foodstuffs, is concerned. Before expressing an opinion in regard to this matter, we may profitably examine the conditions which most particularly favour the practice of direct sale to the retailer, the types of commodities to which the practice is most suited, and the manner in which under it the essential distributive services are performed.

We may note in the first place that the great increase in advertising in recent years has been a potent factor in inclining, as well as enabling, the manufacturer to establish direct contact with retailers. At the same time direct sale itself often constitutes a form of advertisement, a method, that is, of diverting sales from one's competitors' products to one's own. The two practices are, indeed, so inseparable that a consideration of the factors which favour direct sale is to a large extent a consideration of those which make advertising appear desirable.

Advertising, unless it is co-operative advertising on behalf of an entire trade, can only achieve its object if the advertiser can establish in the public mind a unique connection between his announcements and the products of his factories. In order to do this he must somehow differentiate these products from other similar ones on the market, and he must offer a definite range of goods whose merits he can describe and which the public can identify by name. This is the main reason for the existence of proprietary articles and for the

accompanying use of brands and trade-marks. With these aids goods can be brought to the public notice and identified in a manner which is not possible when they are sold in bulk. Among manufactured goods it is mainly proprietary and branded articles which are sold direct to the retailer. In part this is due to the fact that it is principally large manufacturers who appreciate and are able to profit by the use of brands and trade-marks, while it is naturally also only large manufacturers who have the resources to approach the retailer direct ; in part, again, it is due to the greater facility for direct sale which the advertisement of differentiated products affords ; in the main, however, it is probably due to the fact that direct sale, on account of the opportunity it provides of influencing the retailer's choice, is itself a form of advertising, and that producers who undertake other forms of advertising are naturally more likely than others to employ this form also.

Branded goods are usually packed by the producers in containers suited to the needs of the consumer ; for the distinctive wrapping, label or package is the readiest means of differentiating the product from its fellows. Besides being in this way a valuable aid to the advertiser, separate packaging is often a necessary feature of direct sale to the retailer, accustomed, as he is, to obtaining goods from the wholesaler in a form in which they can be sold without much further preparation.

Another characteristic of branded goods which must be noted here among the conditions which affect direct dealings between manufacturer and retailer is that they are often, though not always, sold subject to a fixed and uniform resale price to the consumer. This resale price is nationally advertised, and is an express

or implied condition of sale. Sometimes not only the price, but also the retailer's profit margin, is uniform : that is to say that, in addition to imposing on his customers a single resale price, the manufacturer makes no variation in his own terms according to the size of the order or the scale of the individual purchaser ; but this " one-price " basis is much less frequently adopted for sales to retailers than is the imposition of a fixed price for resale to the public. This question of prices will be discussed in detail at a later stage : it is only introduced here because of its relevance to the policy of direct sale by manufacturers to retailers.

When a manufacturer sells all or a considerable portion of his output direct to retailers he must naturally himself undertake much of the work ordinarily performed by wholesalers : whether he can thereby diminish the total amount of selling services required will depend on circumstances.

First comes the task of packing and grading. The producer who sells direct has no wholesaler to whom he can relegate the subdivision of his output into the small lots required by the retailer, nor its grading into even and distinct qualities. Since, as we have seen, his products are usually proprietary branded goods, this is no great hardship, for he will in any case wish to put them up in small containers labelled with his name or trade-mark ; moreover, in order to differentiate the contents of these containers from goods produced by his rivals, he must be careful to standardize them and maintain a uniform level of quality. These small packages will themselves require to be assembled into larger outers of standard size, containing, say, a gross or some other convenient number, in which they can be dispatched to the retailer. Altogether, therefore, the extra work which thus devolves upon the manufacturer

when he sells direct instead of turning over his output in bulk to the wholesaler, is very considerable. It does not end with the packaging into standard outers, for these will in turn have to be packed in twos or threes or tens or some other number according to the size of the individual order ; and the number of such orders may reach a very high daily figure, possibly several thousand if the business is a large one.

Secondly, the manufacturer who sells a large part of his output direct to retailers must undertake the holding of reserve supplies on a much larger scale than would otherwise be necessary. Instead of working on contract or to the order of the wholesaler and disposing of goods as they are completed, he must maintain at his factory stocks of sufficient magnitude to meet the more or less irregular demand of his customers. If this demand is in any way seasonal, as in the case of chocolates, which sell most freely at Christmas and Easter, he must build up stocks in the slack periods to meet the needs of the busy ones. In the same way if his production is seasonal, as in the case of jam, which must obviously be made when the fruit is ripe, he must carry stocks over from the time of production so as to provide a steady supply throughout the year.

The period during which the manufacturer has to hold stocks in such cases naturally varies according to the nature of his product. A confectioner or chocolate manufacturer who sells direct to retailers may aim at keeping three weeks' supply on hand, if the goods are quickly perishable, or as much as two or three months' (and even more in exceptional cases) if they will keep for a reasonably long period. A publisher who produces a large edition of a book

may hold the supply for a year or two and, indeed, if the book is a standard one and at the same time fairly expensive (so that sales may be expected to be slow but regular), the stock may be planned to last for many years. Roughly speaking, in any industry where direct sale is the general practice, the manufacturer's holding period will be equivalent to that of the manufacturer and wholesaler combined in a comparable trade where the practice is not usual ; though it should be added that in individual cases it may either be possible to shorten the period or necessary to increase it as a result of adopting this method of distribution.

In the third place, the policy of direct sale to retailers is likely to involve the manufacturer in considerably increased transport costs,¹ whether in respect of a transport organization of his own or of payments to railway companies and other agencies. The number of separate consignments will be enormously multiplied, while the size of each will be diminished ; and most of the advantages to be derived from transport in bulk will be lost. To some extent the increase in total transport charges which the goods have to bear on this account can be mitigated by setting up distribution depots in the principal consuming centres. In addition to the direct reduction in transport costs which such depots afford, they enable the manufacturer to give his customers facilities in the matter of speedy delivery as good as, or even superior to, those afforded by local wholesalers. In extreme cases they almost entirely supplant the manufacturer's

¹ Whether these increased transport costs which the manufacturer has to bear will or will not be offset by the cutting out of the cost of shipment from wholesaler to retailer is another matter, which is discussed elsewhere (pp. 63-4 and pp. 226-8).

home warehouse, though naturally stocks of finished goods will nearly always be kept at the factory to serve the needs of customers in the immediate neighbourhood.¹

The last service which falls to be considered is that of information. This involves getting into touch with retailers up and down the country, perhaps to the number of several thousands or even several scores of thousands. The problem before the manufacturer who sells direct is, therefore, different in kind and not merely in degree from that which faces one who is content to deal with a handful of wholesalers, perhaps not amounting to fifteen or twenty in number. He must have an elaborately organized sales force, with a sales manager at headquarters and often ten or a dozen branch sales managers in different parts of the country, each controlling several individual travellers.² Each branch manager performs services in some ways similar to those of the ordinary wholesaler, though on

¹ The depot system, indeed, in the hands of a large firm which distributes the greater part of its output direct to the retail trade, bids fair to reintroduce the wholesale stage of distribution under another guise. Some firms have not been content to set up depots which are mere warehouses and distributing centres for finished stocks, but have converted them into what are in effect branch houses through which all ordinary dealings and correspondence with customers are conducted. In such cases the depot differs in origin, but little in function, from a wholesaler who has become absorbed as a subsidiary in the manufacturer's selling organization. The growth of the depot system is in part, no doubt, a phase of the ever-increasing effort to which manufacturers are being driven to increase their sales, and as such is akin to other advertising and "sales promotion" activities, but fundamentally it must be regarded as a proof of the indispensable nature of many of the wholesaler's functions. From this point of view it may be said to refute some of the more over-confident talk about the economies which might result from "eliminating the middleman"—the perennial theme of the critic of existing marketing methods.

² Where there is a depot system for keeping stocks of goods it may obviously be convenient for the depot delivery areas to coincide with those allotted to these branch managers.

a restricted scale and in a different manner. Having acquired through his travellers a local knowledge of all possible retail outlets, and having selected the most appropriate retailers in each district, our manufacturer must keep them informed of what he has to sell—partly through the regular visits of the travellers, who take round samples, and partly by post, it being the common practice for this type of manufacturer to issue detailed catalogues, liberally illustrated and lavishly produced, which are supplemented by occasional price lists and “special offers”. In addition to the cost of the sales force, another aspect of “information costs” which obviously bears with exceptional severity on the manufacturer who sells direct to the retail trade is his accounting work at head office. Instead of a few score or a few hundred customers on his books he will have many thousands, for each of whom an account will have to be opened, and with each of whom a steady stream of correspondence will be necessary.

Where a manufacturer works to supply the general, and not some local or special market, it is obviously not worth his while organizing a large sales force on the lines we have described unless his output is considerable. The scale of operations is therefore the first consideration in deciding how far direct sale is likely to be profitable. Only those producers who both manufacture on a large scale and at the same time are well enough supplied with capital to hold their goods, not only over the production period, but for an important part of the selling period as well, can afford to adopt a policy of direct sale.

We may except from this general criterion of size manufacturers of high class specialities or luxury goods. Such goods are sold in a more limited number of shops than

are ordinary articles in general consumption; and even small-scale manufacturers can usually offer them direct to the retailer if they are so minded. The number of travellers required is very small, since only towns of a certain size, where luxury shops are situated, need to be visited; moreover, the interval between successive visits may reasonably be fairly long. To quote an instance known to the writers, a manufacturer of high-grade leather goods, who deals almost entirely with retailers, calls on his customers every two months; he is able to do this with a staff of only seven travellers and at the same time to cover the entire country. In other cases an even smaller number of travellers might suffice.

Besides operating on a large scale, a manufacturer who aspires to sell direct must produce an article for which both demand and supply are fairly regular. It is not worth maintaining one's own sales force if it cannot be employed the whole year round; firms which manufacture highly seasonal products rarely sell direct, unless they can get over the difficulty by turning out two or more different sets of commodities, which can be sold to the same retailers at different seasons. In such cases they can afford a permanent staff of travellers and keep in constant touch with their customers. This is, of course, what the wholesaler does. He often sells a great variety of goods of a type which are retailed together, for instance tobacco and confectionery, or different sorts of groceries and provisions, so that however seasonal in supply some of them may be, he always has something to sell and to keep his organization employed. For the manufacturer, on the other hand, convenience of production must always be the first consideration. The combination of seasonal products which is the most

convenient for keeping the plant and operatives busy throughout the year may not be that which will most readily give full and continuous employment to a sales forcé. The various products may, for instance, be sold in different types of shop ; from the point of view of direct sale this is a great disadvantage, since it means keeping up connections with two sets of retailers. All but the very largest manufacturers will in such cases find it more convenient to distribute through wholesalers.

Similarly, if it is demand which is variable, producers will also find it pays better to distribute through wholesalers, who by selling several allied products can maintain a far more regular contact with the retail trade. Flour is a case in point. In districts where bread is nearly always bought from the baker, the latter's demand for flour is fairly steady ; and direct dealing between the miller and the baker is the most reasonable procedure. On the other hand, in the North of England, where home baking is widely practised, the bakers' demand is intermittent and difficult to foresee ; resort is then had to factors who act as intermediaries between miller and baker.

These two causes, irregularity of demand and irregularity of supply, make it extremely difficult to sell any agricultural products direct to distant retailers, with the occasional exception of very large retailers who can absorb the entire output of a number of producers and make up the balance of their requirements through wholesale channels. In districts where local supply enables the retailers to get into weekly or daily contact with farmers, the position is, as we have seen, different, and direct sale is fairly common. Thus in small country towns retailers of poultry and eggs can usually obtain supplies locally at short notice and without

pre-arrangement, whereas in large industrial centres the services of an intermediary are imperative.

Variability in quality is another factor which makes direct sale difficult. Many manufactured goods are produced to a standard specification, but this does not apply to all ; nor does it apply to most of the agricultural produce raised in Great Britain. Unless a standard quality can be relied upon, the retailer naturally prefers to buy from a wholesaler, who, by sorting and combining the output of several producers, can supply him with the exact grade or grades he requires. Cheese, for instance, is an article whose quality varies greatly from one batch to another ; it is therefore handled in the main by factors who are expert judges of cheese and are able to select and sort the produce of farmers and to provide each retailer with exactly what he wants.¹ In some cases the quality of the article is so variable that the retailer insists on seeing what he is going to buy in advance, which obviously makes direct sale, except to retailers in the immediate neighbourhood, impossible. The outstanding examples of goods in this class are fruit and vegetables, which are mainly sold at central markets where the retailer or small wholesaler can inspect supplies in bulk.

Even where supply and demand are regular, and each producer's output is standardized, direct sale will still be impossible if the manufacturer is a specialist whose products are only bought in limited quantities by each individual retailer. This does not apply to expensive specialities, which are only stocked by a limited number of high-class

¹ It should be added that this particular commodity has to be kept in stock for a considerable time while it matures. This constitutes another important obstacle to direct sale, for the average farmer has insufficient capital to lock up for any lengthy period. But the main difficulty is variation in quality.

retailers, so much as to standard articles, possibly of inconsiderable value per unit, which form a necessary part of each retailer's stock, but which are only consumed on a small scale ; these include quite a large proportion of the stocks kept by grocers, ironmongers, drapers and other traders. Such goods can easily be distributed through a single sales force by a wholesaler who collects a wide range of them from a variety of producers, whereas the expense to which each manufacturer would be put if he attempted to distribute direct would be quite prohibitive. A good example of this kind is provided by stationery and writing materials. Pens, pencils, ink, india-rubber, blotting-paper, various kinds of paper, notebooks, drawing-pins, pen-knives, sealing-wax and other writing accessories must be stocked in great variety by each shop. At the best the retailer's turnover is slow, and he naturally does not wish to make it even slower by buying in large quantities. It is true that some manufacturers place a whole line of products on the market, but many others are specialists. Direct sale would be enormously costly for the great bulk of them, and is, in practice, extremely rare ; even large producers of well-known branded goods sell the greater part of their output through the wholesaler. In the ironmongery trade conditions similar to those in the stationery trade prevail for the general run of standard commodities, though expensive specialities like lawn-mowers and refrigerators are sold direct.

Just as the wholesaler's traveller can conveniently sell a variety of goods made by different manufacturers, so also is he a convenient source of supply for different grades of the same commodity. In many cases a producer will confine himself to one or two grades, while the retailer requires

a whole range. In the coal trade, for instance, it is usual for factors to offer many different kinds of coal ; one traveller may sell up to two hundred different qualities within the area he covers, whereas if he worked for an individual colliery he could probably only offer about two.

A final consideration determining the practicability of direct sale is the number and size of the retailers to be visited. It might appear at first sight that since the wholesaler's organization must cover all retailers, however numerous and however small, there is no reason why the manufacturer's organization should not do the same. In the rare cases where a manufacturer produces a range of goods as extensive as that of the ordinary wholesaler he can indeed do so, but it means that he must have a virtual monopoly of the entire trade. Such powerful and all-embracing organizations as the Imperial Tobacco Co., in the tobacco and cigarette trade, and Levers, in the soap trade, are very nearly in this position, but even for these firms there are lower limits to the size of the retailer to whom it will be advantageous to sell direct. The vast majority of small and medium-sized tobacco retailers stock other goods as well, not merely and not even always smokers' requisites, but confectionery, groceries and many other articles. Consequently it proves more economical, for them as well as for the manufacturer, to buy their cigarettes and tobacco from a wholesaler who stocks some of these other lines in addition. Similarly the small-scale retailer will buy his soap from a wholesaler who also sells groceries or drugs or toilet requisites.

A concrete example will perhaps most convincingly bring out the impregnable position of the wholesaler in trades where retailers are small and numerous. If we assume

that a small general dealer with a turnover of £10 to £20 a week—and there are many shops in this country whose weekly business falls well below the former of these figures—buys all his stock direct from the producer, he would probably have to be visited by at least forty or fifty travellers at regular monthly intervals; so that the average order he placed with each would not amount to more than £1 to £2. If, on the other hand, he dealt entirely with wholesalers, he could perhaps obtain the whole range of his requirements from, say, five of them, and the average order placed would be ten times as large—that is £10 or £20. The bare cost of executing the £1 or £2 order, making a reasonable allowance for the traveller's time and expenses, for office and packing expenses at headquarters and for transport charges, would amount to several shillings; 20 per cent of the value of the order might well not cover it. The cost of executing the larger order would, of course, be greater, but by no means in proportion, and would probably not exceed 5 per cent of its value. Even when the expense involved by the manufacturer in supplying the wholesalers is included, the total marketing cost under the one method is incomparably smaller than under the other.

Another way of looking at the matter is to consider the number of travellers required. One traveller can serve, perhaps, five hundred retailers. In a trade where there are fifty thousand retailers, and a hundred manufacturers, direct sale to every retailer by every manufacturer would call for ten thousand travellers. On the other hand, if ten wholesalers were interposed, each supplying five thousand retailers, the number of travellers needed by the wholesalers would be ten apiece, or a hundred in all;

and by the manufacturers, say, one apiece, or another hundred, though, in fact, dealings between wholesaler and manufacturer would probably be conducted on a different basis. The examples given are quite imaginary; but they exhibit the problem of the small retailer in its main outlines. It may, of course, be objected that the existence of small retailers in large numbers is itself uneconomic: that, indeed, is a thesis which we shall maintain at greater length hereafter; but, given the present state of affairs, or anything like it, the strong position of the wholesaler is clear.

It may be added that the problem of what credit facilities to afford is one which presents the manufacturer who sells direct with further difficulties. If he attempts (as he often does in order to push his wares against those of his competitors) to dispense with the wholesaler in dealing with all but the smallest shops, he may involve himself in serious losses through bad debts, on account of the delivery of goods to customers about whose credit-worthiness he is insufficiently informed. On the other hand, the wholesaler, covering a limited area in a more intensive fashion, has opportunities for obtaining local knowledge which will often save him from going astray in this respect.

The cost and difficulty of co-ordination with many small retailers need not prevent the manufacturer from dealing direct with the larger shops, which, though numerically few, are often responsible for the great bulk of the trade. In the confectionery trade, for instance, it is estimated that 25 per cent of the selling-points handle 75 per cent of the business. In such cases small orders are left to the wholesalers and only those of a reasonable value are

executed direct. Some manufacturers fix different rates for different quantities of their products ; the lower price for large quantities enables the wholesaler to buy in bulk and to sell in small quantities to retailers, on terms which still allow the latter a profit approximately equal to that which he could have earned by buying direct from the manufacturer. This is a usual practice in the soap trade, the confectionery trade, and many others where the product is a branded article of small unit value. The Electric Lamp Manufacturers' Association have a sliding scale of prices whereby dealers get a discount proportional to their total annual purchases of lamps from the associated firms ; the higher discounts may be obtained by retailers with a large turnover or by factors who buy large quantities and sell to the smaller retailers. Other manufacturers refuse to execute orders below a fixed minimum in terms of value, weight or some other convenient unit ; and refer retailers who wish to buy in smaller quantities to the wholesaler. This is the custom in the tobacco trade. The large manufacturers will not sell less than a certain quantity of cigarettes or less than a certain weight of tobacco ; with the result that small shops have to buy from the wholesaler, while large and medium-sized retailers can buy direct. In the drug trade orders must be of a minimum value—sometimes as low as £2—and those which fall below are left to the wholesaler. Many of the proprietary articles sold to grocers—breakfast foods and the like—are packed in cases of a gross, which manufacturers will not break up ; wholesalers on the other hand will sell in dozens or even, for certain articles, in single units. In yet other cases manufacturers fix separate prices for retailers and wholesalers and, while covering the market

as best they can by direct sale, accept at the lower price any order the wholesaler chooses to place.

In these ways manufacturers who sell a large part of their output direct succeed in maintaining the services of the wholesaler for supplying small shops. Moreover, it is common to refer to the wholesaler even the larger shops, which usually buy direct in large quantities, when they wish temporarily to replenish their stock by placing a small "repeat" order. Such business amounts in the aggregate to quite a considerable sum, which for the grocery trade has been estimated both in America and Great Britain at about 30 per cent of the total.

The initiative to establish direct contact between producer and retailer is not always taken by the former. Where the producer is working on a large scale, and is equipped with a staff of travellers who call on wholesalers and on the larger retailers, the question of who should take the initiative is only one of procedure. But even producers who have no sales organization designed to establish contacts with retailers may find themselves approached direct by large shops, particularly by department and chain stores, which are in a position to undertake the typical wholesale function of assembly and to maintain a buying department which goes in search of supplies. Quite small producers are approached in this way, and indeed there are many cases where a single retail organization will have a whole series of dependent producers, whose entire output it contracts to take, or who make goods to its order. There is hardly a trade, in fact, in which the very large retailers do not buy direct; in America the department and chain stores obtain almost all their goods in this manner, and in Great Britain the larger ones do so.

Only one other form of direct buying calls for remark, and that is buying through the medium of purchasing associations. These vary from informal arrangements between neighbouring shopkeepers, who agree to combine their several small orders of a particular commodity so as to obtain wholesale rates, to legally constituted federations, whose activities often extend far beyond securing the advantage of combined buying. In America these latter are known as "voluntary chains" and their rapid growth has been a noteworthy feature of American retailing during the past few years. They are particularly common in the grocery trade; where, in addition to buying through the central agency, the members often agree to observe uniform business methods, trade under the name of the association, adopt a standard type of shop front, initiate joint advertising and selling campaigns, and generally work together so as to obtain most of the advantages of the chain store system, whilst retaining financial independence and individual initiative in the daily conduct of business. The members of these groups usually bind themselves to obtain a large and specified proportion of their purchases, though not necessarily all of them, through the central agency; one of the best known of them is the well-known "Red and White" group of stores, whose windows are familiar objects in many American cities. Examples of group buying in England are to be found in a number of trades. Grocery is again the most important. The form of organization is seldom as elaborate as in the United States, but there are a number of definitely constituted groups, sometimes covering a wide area, like the Eastern Counties Wholesale Grocers' Association, sometimes merely operating in a single town. In addition, the practice

of occasional joint buying of individual commodities by neighbouring grocers is widespread. Similarly, in the meat trade, groups of retail butchers often purchase imported meat through a representative direct "ex ship" or even "c.i.f." On the continent of Europe group purchase has also made its appearance. A particularly interesting case is that of the Swedish book trade, in which distribution is mainly in the hands of a Stockholm company owned by the booksellers themselves, which daily receives from country booksellers orders which it transmits to the publishers *en bloc*.

We see then that the wholesaler's position is being attacked from both sides; on the one hand there are the large producers who have established selling organizations which enable them to reach the retailer, and on the other there are retailers with buying organizations which enable them to reach the producer. These two movements have proceeded so far and so fast that it is not uncommon, as we have already observed, to hear prophecies of the complete elimination of the wholesaler at no very distant date. That the forecast is a hasty one we have also given reason to believe; such an outcome is indeed inconceivable so long as small retailers continue to exist in most trades on anything like the present scale and in anything like their present numbers—in other words for as long as it is profitable to look ahead. Apart from this factor, the small scale of production in some cases, and irregularity of supply and demand in others, are likely to ensure the indefinite retention of the wholesaler's services for the distribution of a large range of commodities, even in the home market.

Foreign trade, which has not yet been mentioned, is worthy of separate notice. Even those manufacturers

who rely mainly on direct sale to the retailer in their own country usually conduct their export trade through merchants operating as exporters at home or as importers abroad, through selling agencies at home or abroad, or through commission houses in the foreign country. When such producers do a large foreign trade, they often maintain agencies abroad; but only occasionally do these agencies develop complete selling organizations, capable of dealing directly with the foreign retailer. The difficulty of information is usually far too great to permit of direct dealings between a manufacturer in one country and a retailer in another; at least one intermediary is nearly always employed, while, as we have seen, it is often necessary to call in several. Exceptions do, however, exist, particularly in Great Britain, which is so dependent on foreign supplies of many commodities that large foreign firms can and do set up organizations in this country for direct sale to retailers.

The South American meat trade is the leading example of such exceptions. The large American-owned meat firms operate their own works for the slaughter, preparation and chilling of meat in Argentina and Uruguay, and maintain distributive stores and depots in this country. A very large proportion of imported meat supplies, particularly beef, is sold direct to retailers in this way by a small number of American firms, whose headquarters in Great Britain are at Smithfield. Stalls in that and other wholesale markets, as well as provincial depots in many large cities, are controlled from these headquarters, and cater for urban retailers, while in addition travelling salesmen visit butchers over a wide area. The possibility of maintaining such a distributive organization rests on the great volume of South American meat sold in this country

and on the all-the-year-round character of the trade. The supply of Australian and New Zealand mutton and lamb, on the other hand, is seasonal, and does not therefore warrant similar methods of distribution; although by means of travelling salesmen and by correspondence the Dominion exporters are in direct contact with wholesalers in the mother country. Other cases of direct sale of foreign goods, particularly of expensive commodities like vacuum cleaners and typewriters, could also be mentioned, but there is no other trade where the practice is so widespread; these other cases are isolated examples in trades where distribution through intermediaries is the common practice.

To return to the distribution of home-produced goods, there are unfortunately no statistics from which we can gauge the extent to which direct sale and direct purchase have replaced the intervention of the merchant, and any estimate of it must be based in the main on hearsay and conjecture. It may none the less be worth while making a few general observations on what can be ascertained of conditions in certain trades.

Among those in which direct sale to retailers is the established practice, the tobacco trade and the chocolate and sweet trade are perhaps pre-eminent. In both of them it is the usual policy of the large manufacturers to sell direct to the medium and better-class shops. On the other hand, as we have seen, the imposition of a minimum value for orders in the case of tobacco and cigarettes, and a similar policy, or alternatively a different scale of charges for wholesalers and retailers, in the case of chocolates and sweets, leaves the trade with the smaller shops in the hands of the wholesaler. Some retail tobacconists confine themselves in the main to the products of the Imperial Tobacco

Company (a policy which the Company fosters in various ways) and one or two other large manufacturers ; in such cases even comparatively small shops can buy direct. Others prefer to stock a very wide range of less well-known brands in addition to the staple lines ; and these shops naturally have to buy in small quantities through the wholesaler. Moreover cigars and such necessary items of the tobacconist's stock-in-trade as pipes, tobacco-pouches and other smokers' requisites are all bought through intermediaries. In the same way, some confectionery shops stick to the well-known and widely advertised lines which they buy direct ; while others prefer to vary their stock by including the products of numerous small makers, or by featuring imported goods, which they buy through wholesalers. Even those whose main stock consists of staple lines generally find it necessary to go to the wholesaler for a certain number of Christmas and Easter novelties, and for special lines like Turkish delight, cachous, crystallized fruits and so on. It is noteworthy that the sugar confectionery trade, in which the small local manufacturer still plays a very important part, is far more dependent on the wholesaler than is the chocolate trade, which, for reasons connected with the technique of production, is mainly concentrated in the hands of less than half a dozen giant manufacturers, who advertise widely and continuously.

In point of fact by far the larger proportion, numerically, of selling-points for tobacco and confectionery are small mixed businesses which deal in the two articles together, either alone or with the further addition of newspapers and stationery, groceries, provisions and a variety of other articles. Most of these naturally draw the bulk of their

supplies through wholesale channels. Taking it all in all, it seems probable that about a third of the total output, both of tobacco and confectionery, is sold direct, and two-thirds through wholesalers, though there are individual manufacturers in both trades for whom these proportions are approximately reversed, two-thirds of the turnover being direct with retailers and only one-third with wholesalers.

In the grocery trade, where there is a great variety of products, and where many of them are imported, the wholesaler still plays a leading part. On the other hand, there are an immense number of branded and advertised goods, such as breakfast foods, biscuits, teas and jams, to name but a few, which are to a large extent sold direct. In certain cases whole lines of such goods are made by the same firm, and direct sale is then correspondingly easy. Bulk goods play a less important part in the trade than they used to, but still remain of considerable importance, including, as they do, sugar, flour, tea, coffee, bacon, butter, cheese, rice, oatmeal, beans, and so on; and most of these naturally pass through the wholesaler's hands. In the case of sugar, for instance, the minimum quantities in which refiners will sell are too large for all but the biggest shops; on the other hand in that of flour at least one well-known firm makes a practice of direct sale. It should, moreover, be observed that many of the commodities specified above, as well as others which are usually sold in bulk, are to an increasing extent being packeted and branded, which makes them more eligible for direct sale. Altogether, the average grocer probably still makes well over half his purchases from the wholesaler; but on the other hand individual manufacturers of branded lines can sometimes dispense almost entirely with the services of an intermediary. A jam

manufacturer who is a national advertiser states that he does not sell a large proportion of his output through wholesalers ; two other firms each of which markets a series of allied goods sold by grocers, and which are also national advertisers, estimate that of their total sales one-third are to wholesalers and two-thirds to retailers.

The special case of salt provides an interesting example of an attempt by manufacturers to sell direct which failed. In 1913 the manufacturers inaugurated a policy of offering salt to retailers on terms which actually involved a loss to themselves in order to get the bulk of the trade out of the hands of the wholesale intermediaries. The latter contended that this was an uneconomical arrangement, salt being only one among a large number of commodities usually bought from the same wholesaler ; and, moreover, that in order to be able to sell at reasonably low prices they must be allowed to handle the maximum possible tonnage. They therefore decided to fight the manufacturers by meeting them on their own ground, selling salt temporarily at a loss, and covering themselves out of the proceeds of the remaining portion of their business. After some delay an agreement was reached between the Salt Manufacturers' Association, which at that time controlled 90 per cent of the salt sold in this country, and the wholesalers, whereby it was arranged that the price to be charged, either by manufacturers or primary wholesalers, to secondary wholesalers should exceed the manufacturer's price to primary wholesalers by at least 5s. per ton, and that the price to other buyers, i.e. to retailers, should be slightly higher still. On this basis the retailers obtained no advantage from buying direct and the wholesalers' position was made secure.

In the drug trade, proprietary articles are frequently, but by no means universally, sold direct to the retailer, but a minimum value per order operates as in the tobacco trade. Bulk goods are usually sold through wholesalers. Altogether more than half the total turnover is probably still handled by the latter.

In the sale of books, direct dealings with the retailer may be looked upon as the ruling practice, but until recently it was common to sell through a wholesale house to small provincial booksellers and to stationers doing a book trade ; the recent tendency has been to approach even these small firms direct. The final sale-price of books is fixed and advertised to the public, and the terms allowed by the publishers to wholesalers are only slightly more favourable than to retailers ; the wholesaler makes his profit by allowing his customers a smaller margin than they would obtain by buying direct. The publishers' travellers are able to make frequent visits to all London retailers, but the provinces are less well served. Large provincial towns are visited four or, at most, six times a year and smaller places not more than once or twice ; it is naturally the latter which are most dependent on the wholesaler, whose traveller comes more often and takes orders for the publications of all firms.

Among other trades where direct sale is well-established may be mentioned the boot trade, the coal trade and the motor trade. In the case of boots, direct sale to the public through chains of retail shops is the practice of many large manufacturers ; but side by side with these there are many who merely sell direct to the retailer. Compared with trades like grocery and tobacco, the number of boot and shoe dealers is small, turnover is comparatively slow, and

direct sale correspondingly easier; nevertheless, small manufacturers, and those who produce special lines, for instance slippers and goloshes, remain dependent on the wholesaler. In the coal trade, according to evidence given before the Samuel Commission, only about 30 per cent of the supply is sold through factors, the remaining 70 per cent being disposed of direct. Since, however, the greater part of the direct sales are to large-scale industrialists for manufacturing purposes, the percentage of sales through factors to the retail trade is much higher than the figure indicated. Direct sale is only the rule in districts within easy reach of the pithead; and is therefore common in the Midlands and the North, but almost unknown in London and the South of England. In the motor trade, practice varies considerably. Some manufacturers have their own depots, others sell through dealers who are virtually agents, others direct to the retailer, and yet others through an intermediary. The same manufacturer may sell by several or all of these methods, maintaining, for instance, a depot in one or two large cities, appointing agents in smaller towns, and at the same time accepting orders through a wholesale dealer if they are sent to him. The general tendency, however, is to displace the wholesaler altogether in favour of one or other of the more direct methods of sale.

CHAPTER XI

ELIMINATING THE MIDDLEMAN : SELLING DIRECT TO THE CONSUMER

THE logical conclusion of "eliminating the middleman" is obviously achieved when producers themselves sell their goods direct to the public, dispensing with wholesaler and retailer alike. This was, of course, the normal method of selling most articles, other than specialized commodities imported from abroad or from distant parts of the country, in the era before the industrial revolution. Manufacturer, wholesaler and retailer were one and the same person. Butcher and baker and candlestick-maker, tailor and cobbler and blacksmith and the rest, all worked to the customer's order and had no need of outside assistance in the marketing of their products. Even for goods like cutlery and cloth, which were manufactured in specialized areas, the numerous fairs which were held in different parts of the country, and which often lasted several weeks, provided opportunities of getting into direct contact with distant customers.

As the scale of industry increased, and it became more specialized, more highly localized and more complex, the need for one, and often for several, middlemen made itself felt, and the merchant advanced steadily in power and wealth. But latterly, with a still further growth in the size of individual manufacturing firms, he gradually lost ground, as we have already seen; until finally the wheel had turned full circle, and manufacturers under the stress of competition found themselves undertaking one after

another of the services which it was once the merchant's special task to perform. As a general rule this process of reintegration has stopped short at the point where producer and retailer stand face to face ; but this has only been because of the immense difficulties which have to be overcome by a producer who would reach the final consumer direct. Over a not inconsiderable and a widening field, even the last stage, direct sale to the public, has been attempted. This attempt has been made along two very different lines. On the one hand, manufacturers have devised entirely new methods of distribution, by house-to-house canvassing or by mail-order ; on the other, they have themselves established special departments to carry on the ordinary business of retailing through their own chains of shops. The latter alternative has only been open to large producers whose output is sufficient both in quantity and range to keep a number of shops fully supplied ; but where these conditions can be met it has generally proved more successful than selling by mail-order or by house-to-house canvassing.

These are comparatively new developments. There are, in addition, a certain number of industries in which the older type of direct production by retailers survives, though few in which it is not steadily dwindling in importance. The most familiar instances of these are perhaps bespoke tailoring and boot-making. In every considerable town there are still a few tailors whose only business is with customers for whom they make clothes to order, though the number of these tailors is constantly diminishing. Even in the West End of London genuine handicraft tailoring does not give employment to more than a couple of thousand operatives, which is rather surprising in view of

the fact that London is the Mecca of the well-dressed man from all parts of the world. Outside London the only important centres for bespoke tailoring are the seats of the older universities, two or three provincial capitals like Edinburgh, Manchester and Liverpool, and, on a smaller scale, cathedral cities and towns with large public schools in the immediate neighbourhood. For such traders the problem of co-ordination between producer and consumer is a simple one, since contact once established is spontaneously maintained by the customer, while the fact that goods are only made to order reduces holding costs to a minimum. These factors relieve the handicraft tailor of a large part of the expenditure on selling which those who sell factory-made garments have to incur. This saving, however, by no means offsets the vast economies which machine production and elaborate division of labour render possible; if it were not for the impossibility of making by any but bespoke methods clothes which fit perfectly, there is no doubt that the handicraft tailor would take his place with the spinning wheel and the sedan chair in the museum of extinct species.

The boot industry affords a parallel example of the survival of handicraft methods, but here the factory-made article has made even more serious inroads. Boots and shoes can be made in the modern factory in a very great variety of sizes and fits; and for people whose feet are at all normal it is possible to get almost as good a fit with the ready-made as it is with the made-to-measure article. Consequently a great many people, who would never dream of buying a suit which was not specially made for them, will not hesitate to buy ready-made shoes.

More important numerically than either tailors or

bootmakers are the thousands of dressmakers who still work to customers' instructions; often, however, such dressmakers can hardly be regarded as retailers in the ordinary sense of the word; they usually work on the customer's own materials and are not really taking part in the process of distribution, which in such cases comes to an end when the customer has bought the material from the drapers.

A very different trade from those which have already been mentioned, but another in which the combination of production and retailing often occurs, is that of the baker. Bread is, for the most part, still made and distributed by the retail baker for sale in his own neighbourhood. Such bakers have regular connections with customers, whom they usually retain for years, so that costs of information are low. The bread is naturally baked daily and to meet a demand which does not fluctuate very widely, so that holding costs are also low. But this method of distributing bread is not universal; side by side with the producer-retailer, we find large-scale manufacturers who make bread for sale to retailers, possibly over quite an extensive area. These manufacturers often combine a wholesale business of this nature with the retail distribution of part of their output by roundsmen or through shops; but not infrequently they confine themselves to manufacture and wholesale distribution. Very similar conditions prevail for kindred articles like buns, cakes and pastries, and ice-cream. Paradoxically enough when one bears in mind the somewhat analogous case of fresh fruit, the perishable nature of these commodities makes them unsuitable for handling through a string of intermediaries, though slab-cake and similar lines, as well as ice-cream,

sometimes pass through the hands of a wholesaler on the way from producer to retailer.

Apart from the small group of trades just discussed, and a few others where craftsmanship or taste play a specially important part, there is only one other broad class of goods, but that an important one, in which direct distribution still survives, under conditions very similar to those which prevailed in the pre-industrial era; we refer to agricultural produce consumed at or near the point of production.

Of such produce milk is the most noteworthy example. It is estimated ¹ that at least a quarter of the total quantity of milk sold for consumption in liquid form is distributed directly by producer-retailers who are farmers or cow-keepers retailing their own milk. In villages and small towns this practice is general, though not universal; but even in so large a town as Preston it is believed that 40 per cent of the entire supply is so marketed.² The milk may be sold at the farm or delivered to customers, while in many cases the producer keeps a separate retail establishment. On a smaller scale, butter and cheese and cream are also sold to consumers in this manner—either at the farm, through a retail shop or at a local market. Eggs and poultry, especially the former, are disposed of in the same way—either at the farm or at a local market; while in districts adjoining large residential or industrial centres, dressed poultry and eggs are frequently taken from door to door in connection with a milk round.

¹ Linlithgow Committee, *Interim Report on the Distribution of Milk and Milk Products*, p. 15. (Cmd. 1854.)

² R. B. Forrester, *The Fluid Milk Market in England and Wales*, p. 20. [Ministry of Agriculture and Fisheries, Economic Series No. 16.]

The direct sale at a local market by the grower of fruit and vegetables to the consumer, which was formerly the general practice, is still common in many towns. Hawking these articles from door to door is also common, while in other cases they are sold by the grower from his own retail premises. The development of motor transport has facilitated direct contact between producer and consumer in all these trades; but particularly so in the case of fruit and vegetables. It has enabled both parties to visit local markets from a wide area, and it has enlarged the districts round consuming centres from which the small producer can drive in to sell his produce from door to door. A certain amount of roadside trade has also resulted from the popularization of motoring: it is a common sight on roads frequented by motor traffic to see fruit, vegetables and flowers exposed for sale to passers-by. Similarly, an increasing number of orchards sell their fruit during the packing season to anyone who calls.

We now pass to the consideration of industries in which modern technique has separated producer from consumer, but in which, nevertheless, an attempt to establish direct contact between the two parties is made. The most obvious of these industries are those which produce raw and semi-finished materials and capital goods of all kinds. The ship-builder and the locomotive manufacturer, for example, generally have to seek their customers at a distance; but for them the business of selling, so far as the establishment of contact is concerned, is comparatively simple, since demand is not dispersed among the general population, but concentrated at comparatively few points. These articles do not fall within the purview of the present study; but there are certain classes of consumption goods for

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which a single purchaser represents a large and compact demand. These are the supplies required by Government departments, municipalities, and large institutions like hospitals and hotels. Consumers of this type purchase either all or a large proportion of their requirements direct from the producer, and indeed frequently themselves take the initiative in establishing contact by inviting tenders. Their demand may exceed that of several wholesalers put together; they often have goods made to their own specification or place standing orders for continuous supplies over a fairly long period; the difficulties of information are enormously reduced and the whole business of selling is simplified.

Apart from the special cases of the preceding paragraph, and those where production is for a local market, the manufacturer who wishes to sell direct to the general public has usually set himself rather a stiff task. Of the methods he may adopt the most obvious is house-to-house visitation. This is a very expensive method. The cost of a shop is, it is true, completely eliminated; but on the other hand an enormous number of possible customers, only a fraction of whom will turn out to be actual purchasers, have to be visited. Directories have to be searched for suitable names, and numerous travellers employed. In most cases where this method is adopted, only a single commodity, or at best a narrow range of goods, is offered for sale, since it would be impossible either to carry about (or to get customers interested in) a really wide selection; the amount sold at the most successful visit is therefore likely to be small, and the considerable travelling expenses have to be spread over an inconsiderable cash turnover. The only means of lessening the incidence of this expense is to aim at securing

through the post, at a later date, repeat orders from satisfied customers. This may sometimes be done without much trouble in the case of new and specially attractive commodities, but in other cases only if a reputation is built up by means of advertisement.

For the foregoing reasons house-to-house visitation is in general a method only suitable for the marketing of expensive articles, though it has been adopted by certain firms both in England and the United States for the sale of comparatively cheap household necessities like brushes, as well as for articles of clothing, particularly stockings. It is most efficacious where likely purchasers can be singled out in advance, so that the number of calls to be made can be reduced to comparatively manageable dimensions. It would be no use, for instance, trying to sell electric vacuum cleaners to households where electricity is not already laid on, or lawn mowers except where there is a garden. Books are among the articles whose sale by house-to-house canvassing has proved most successful, especially rather expensive books of a semi-technical character, or with an appeal restricted to particular classes. Educational books can be offered to schoolmasters, medical books to doctors, and so on. Perhaps the favourite types of book for this kind of marketing are encyclopædias, compendiums of knowledge, "outlines" of history or art or literature, complete editions of popular authors and other publications regarded as suitable for the "family man". Such books are comparatively expensive and unlikely to be bought, except occasionally for presentation and similar purposes, unless their merits are somewhat histrionically brought before the possible purchaser; on the other hand, it is a fairly easy matter to talk a certain type of person into buying

them, especially if payments on the instalment plan are permitted or encouraged.

Sale by post—or “mail-order”—is in general a more effective as well as a more usual form of direct sale than house-to-house canvassing, and is accordingly worth rather more detailed consideration. It is sometimes used as the sole form of distribution—by specialized mail-order merchant houses no less than by manufacturers—and sometimes as an auxiliary to other methods.

Many firms which normally sell through middlemen are prepared to satisfy at ordinary retail shop prices the requirements of customers who write for small quantities of goods to be sent through the post, mainly in order to retain these customers' goodwill. Such occasional sales are of slight importance and have a negligible effect on the manufacturer's selling costs. They cannot, of course, conveniently take place unless the manufacturer has a properly organized sales organization through which to handle them; that is, normally speaking, unless he sells a considerable proportion of his output direct to the retailer, since firms which sell mainly through the wholesaler are seldom equipped to deal with any large number of small orders. This means, in general, that non-branded goods cannot be sold in this manner; moreover, since it is only branded and advertised goods whose manufacturers are known to the public by name, inquiries for non-branded articles are in any case likely to be rare. These considerations determine the price at which such occasional sales must be made. Branded goods are nearly always subject to fixed resale prices for retailers, and the manufacturer who sells direct to the consumer must obviously maintain the same prices if he is not to incur the hostility of his trade customers. Even

when he observes this precaution, he is unlikely to find favour with the retailers if he attempts to market any considerable proportion of his output through the post ; since they naturally regard this procedure as a method of depriving them of possible sales. It is a standing grievance, for instance, with the retail book trade that publishers are willing to fill at ordinary retail prices orders which reach them direct from the public. Nevertheless, a great many manufacturers do in fact seek to augment their normal sales through other channels by direct invitations to the public to send in their orders by post, particularly if the articles required are not stocked by the shop where the customer usually deals.

A clear distinction must be drawn between the policy of making sporadic sales in the manner just described and that of using the post as the principal or the sole channel of distribution. Occasionally the one policy gradually supersedes the other ; a recent example of this being provided by a British firm of macintosh manufacturers, who began by selling through the retail trade, and only using the post as a subsidiary outlet, but little by little increased their direct sales and finally advertised that the macintoshes could only be bought direct, and that in consequence of the change a reduction in price would be made.

A distinction must also be drawn between the use of the post to obtain direct contact with consumers by producers on the one hand and by the great mail-order houses on the other. The latter are, for the most part, wholesale merchants, who use this means to dispense with the retailer, though, like other large distributors, they often undertake the manufacture of a part of their stock on their own account. They have been most conspicuously successful

in America, where they have in the past afforded to the farming population of the Middle and Far West almost the sole means of obtaining many of its daily requirements in the way of clothing and manufactured goods. With the introduction of the cheap motor-car, which enables the inhabitants of even remote rural districts to make periodical visits to the nearest town, the fortunes of these great houses, of which Sears Roebuck, of Chicago, is the chief, have undergone a decline; and they have latterly been driven to establishing chains of department stores in order to maintain their position.

In England the mail-order house has never enjoyed the vogue which it has in America, for the obvious reason that distances are short, and that almost everyone who does not actually live in a town can reach one by rail or road sufficiently often to buy any articles which he cannot obtain locally. There are nevertheless several well-known firms doing a general mail-order business, such as Messrs. Graves, of Sheffield, as well as a number of manufacturers, particularly of articles of clothing, who dispose of their output wholly or partly in this way. The mail-order business of the leading London department stores, conducted through the medium of printed catalogues, promoted by lavish expenditure on press advertising, and catering for customers both at home and abroad, is also familiar.

We shall not be further concerned in this chapter with mail-order business not conducted by manufacturers or producers, although it may be observed that most of what follows applies *mutatis mutandis* to merchant houses no less than to manufacturing concerns.

We may first note that in all mail-order business the consumer receives goods accompanied by somewhat

different services from those which he would have got if he had bought from a shop. On the one hand the goods are delivered to his house, an advantage which is also afforded by certain classes of retail establishment ; but on the other he does not see his purchases in advance, and cannot compare selections of similar articles or ascertain with the same degree of certainty that what he is buying will suit his requirements. Fortunately there is a high standard of honesty in most, though not all, mail-order dealings. Descriptions of goods are usually accurate and not too fulsome or exaggerated, while there is nearly always the safeguard, without which a mail-order purchase would be extremely unwise, that if the goods are found to be unsatisfactory they may be returned, the purchase money being refunded in full and without question. Such conditions are essential to the continued success of any mail-order business. Even so the disadvantage of not being able to see what one is buying in advance is a serious one ; and it is for this reason probably true to say that mail-order goods are worth slightly less to the consumer than similar articles bought at the same price through other channels.

From the point of view of cost, the special difficulty of mail-order business centres round the service of information. The remaining selling services are not in any important respect more costly than those which are entailed by other methods of distribution. It is true that the producer must bear the entire expense of delivering goods to the customer's house, and that this involves the dispatch of parcels at comparatively high rates, whereas goods distributed through middlemen travel the greater part of their way in large quantities at low rates ; transport costs are therefore

likely to be on the high side. Against this must be set the fact that the only goods which are suitable for this type of business are standardized articles of uniform quality ; this reduces to small dimensions the cost of grading and sorting. The work of sorting out and packing each purchaser's order represents a considerable proportion of the total selling costs of a mail-order business ; but there is reason to suppose that this work can in fact be done more economically by a specialized department which does nothing else, and handles perhaps thousands of orders daily, than in an ordinary retail shop where it is only one among numerous other functions of the attendants. Moreover, the goods only have to be packed and handled once, whereas if they are marketed through middlemen they are packed and unpacked at least twice and often more. On balance, therefore, it is fairly certain that packing, sorting and grading costs are lower in the case of distribution through the post than under other systems.

A further economy is likely to arise in connection with holding costs. Instead of many sets of stocks in the hands of a number of retailers, together with reserve supplies held by the wholesalers or the producer, or both, there is a single pool of supplies in the hands of the producer. The holding period, instead of being made up of the time during which goods are held as reserves, together with the time during which they are held by the retailer as part of his assortment, is confined to the time they have to be held by the producer. Thus the amalgamation of stocks into a single pool produces a twofold economy ; the total stocks held are smaller, and the average time during which each article is held is shorter. Furthermore, retailers in small towns and villages are compelled by circumstances to hold very large stocks in

proportion to their monthly turnover, whereas the large mail-order concern can work on quite a narrow margin. It is indeed particularly to residents in rural districts that the mail-order appeal is most effective; for only a limited range of goods is stocked by the local shops, and on account of their slow turnover such goods as are stocked are apt to be unusually expensive. We may conclude that there is almost always an economy in holding costs when goods are sold by post, and that this economy is particularly marked when, as most commonly occurs, the sales are to country rather than to town residents.

It is of interest to add that the extent of the economy in holding costs secured by any one producer's decision to sell through the post is dependent on how far the practice is general throughout the trade concerned. If his output is only a small fraction of the total turnover of his competitors, and if at the same time he is alone in his policy, the economy is unlikely to be great. As we have seen, it is the pooling of reserves which causes the economy, and in the case under consideration the total reserves will not be pooled. It is true that if the mail-order producer can secure from his share of the market a demand which is more regular than that secured by his fellow-traders, he will be able to reduce his holding costs below the level of those which in the rest of the trade have to be borne by the producers, wholesalers and retailers combined; and that in such a case the full advantages of eliminating the middlemen's separate stocks will be secured. In fact, however, there is no particular reason why such regularity should be achieved; indeed, it is far more likely that a trader, who embarks in isolation on a form of trading which is not common in his industry, will encounter exceptional

irregularities of demand. In that case he will have to hold fairly large reserves, though it is still true that the proportion which they form of his total turnover may be less than the proportion which would otherwise have been held by himself and the wholesaler and the retailer combined.

Alternatively, all, or all the more important, producers of a given commodity may sell by post direct to consumers. In this case the reserves will not be massed into a single pool, but they will certainly be in fewer hands than if they were distributed among wholesalers and retailers as well as producers ; the economy in holding costs will therefore be considerable.

Finally, there is the mail-order producer who has a monopoly or semi-monopoly in a given product, by whom the maximum economies from massing reserves are achieved. Many manufacturers of proprietary articles and branded goods are, in fact, in this position, since they have succeeded, by means of advertising, in differentiating their products in the public mind from those of their competitors, and so have made them in effect separate articles. To the purchaser who wants a special brand of gramophone or tooth brush, other gramophones and toothbrushes form no satisfactory substitute ; a deficiency in the stock of one brand cannot therefore be made good by a surplus in that of another. This is equivalent to saying that for the purpose of the present discussion each brand must be regarded as constituting a commodity different from every other. It is evident, therefore, that when the producer of any one brand decides to sell it only through the post, his decision will not in any way react on the stocks of other brands held by the trade. It will, however, effect a substantial reduction in

the total stocks which have to be maintained of his own, by cutting out those in the hands of wholesalers and retailers.

Where manufacturing firms, as opposed to mail-order merchant houses, distribute their products exclusively by post, it will generally be found in fact that the products are branded goods of the highly differentiated type—a special kind of armchair, for instance, a portable garage, various kinds of invalid appliances, “non-throat” cigarettes, and so on. We may therefore reach the general conclusion that such firms obtain large economies in holding costs, and that these economies are greater or less as the commodities sold approximate less or more closely to standard articles usually distributed through retail shops.

We may now turn to the problem of information, which is the one function which the mail-order distributor finds specially difficult and expensive. He has no shop from which to make his presence and his goods known to his customers, with whom he must yet somehow establish contact. Two courses are open to him; either he may announce supply by general advertisement in the press¹ or else he must address printed matter to individuals. In practice he is likely to employ both these methods together. Press advertising alone is seldom sufficient, but forms a very useful adjunct to the direct distribution of catalogues and sales literature. In many cases its chief purpose is merely to secure the names of people who are interested in the commodity sold, and to whom, therefore, it would be worth addressing detailed information. This is the great problem

¹ The cost of this “advertisement” is, of course, an essential part of the distribution expenses of a mail-order house, and we obviously cannot classify it, as we should do the similar expenditure of other types of distributors, under the heading of “advertising costs”. See also Chap. VII.

of the producer who would sell direct—how to compile a satisfactory “mailing-list”. It is a waste of money to send expensive literature to people who are unlikely to want the commodity sold, and equally wasteful to have a list which includes the names of people who have changed their addresses or who have died.

In this search for “prospects”, it may even be worth making an initial sale at a loss. It is common, for instance, to insert in a newspaper or magazine an advertisement containing a coupon, which, if filled in with the sender’s name and address, will entitle him to a specimen article at a reduced price. The cost per reply received as a result of such methods naturally varies enormously, but often reaches 20 per cent or more of the value of the orders which it finally yields. An American firm of bulb and sapling merchants, for instance, spends some 7s. per name received in advertising for inquiries and obtains an average order worth 28s. as the result¹; and this does not represent at all an unusual level of expenditure.

When the names of possible customers have been secured, the producer must follow up his “prospects” with descriptive matter, which is often elaborately got up and illustrated in several colours with pictures of his wares. Usually a number of different booklets, catalogues, brochures, and so on, will be prepared and sent out one after another at frequent intervals, either in the attempt to make an initial sale, or else in order to secure repeat orders. In this connection, the mailing-list, originally so costly to compile, must be constantly revised if it is not to become obsolete. It has been estimated that a normal rate of obsolescence is 15 per cent to 20 per cent per

¹ Stirrup, *Mail Order Advertising*.

annum, which means that a yearly revision is highly desirable, and that after three years or so the list is almost entirely useless.

To sum up, the success of distribution through the post depends in the main on the manner and the expense of making contact with customers, and the likelihood that customers once secured will come back of their own accord with repeat orders. If this part of the business can be effected with reasonable cheapness, as it sometimes can, postal distribution is likely to be quite an efficient device, for although a few of the retailer's functions—holding stocks and packing, for instance—are merely transferred to the producer, most of them are eliminated altogether.

It is evident that an important factor in determining what proportion of customers originally approached will finally decide to buy is the variety of articles offered to them. From this point of view the merchanting house is at a great advantage over the producer of a single line of goods, or even of a range of kindred goods; and it is not therefore surprising that mail-order business, when conducted by producers, has only been successful in a limited number of cases. It is obviously quite unsuitable for the distribution of articles whose transport costs are heavy in proportion to their value, of articles which are usually bought at frequent intervals and at a low price, or of articles which the consumer is particularly likely to wish to see before buying. In fact, since the consumer would almost invariably prefer to see what he is buying in advance, he must be offered some recognizable alternative advantage to induce him to order by post. Two such advantages are commonly offered—a lower price than that which is charged by the retailer for similar goods and the opportunity of buying

articles of which the consumer is consciously in need and which at the same time he cannot easily obtain locally. The large mail-order merchant houses make both these appeals, being enabled to do so by the fact that their customers are mainly drawn from remote country districts, where the local shops are poorly stocked and expensive, and where at the same time it is both inconvenient and costly to make frequent visits to town. Incidentally such purchasers are likely to order a large number of different goods together, thus making possible a saving on transport charges, while if they are satisfied with their first purchase they will probably become regular customers: they are therefore particularly desirable clients.

Neither of the foregoing appeals can so easily be offered by the producer as by the merchant firm. Owing to the limited range of any one manufacturer's products, the number and value of the articles over which the costs of obtaining customers will have to be spread is likely to be small, which precludes cheapness, while the same factor of limited range makes it unlikely that the need for his particular wares will be widely or urgently felt. Nevertheless there are a few types of commodity for which these difficulties can be overcome.

The first of these types is the article which is expensive in relation to its weight and bulk, and for which, therefore, the cost of transport is a minor factor; which for some reason is unusually expensive to market by the ordinary methods; and for which at the same time a keen demand either exists or can easily be created. Among the articles which fit this description cigars, cigarettes and wines and spirits are pre-eminent. They are all expensive in relation to their weight and bulk; they are expensive to market,

either, as in the case of cigarettes, because competition is keen and advertising costs correspondingly heavy, or else, as in the case of wines and cigars, because turnover is slow ; and there is a keen demand for them, which only requires a slight incentive to direct it into a particular channel. Such an incentive can be provided by offering a price advantage, or by the suggestion, which is easily made, that something unique is being offered by the particular producer.

A second type of commodity which can be sold by mail with advantage is one which, again, is comparatively costly and which, being usually bought at infrequent intervals, is not easily or universally obtainable in shops. This type includes portable garages, encyclopædias, bulbs and seedlings, sets of expensive books, and other articles, some of which, as we have already seen, are almost equally suitable for sale by house-to-house canvassing.

A third type, which often overlaps the two preceding ones, and which also is sometimes suitable for sale by house-to-house canvassing, is the commodity which only appeals to particular classes of users, e.g. garages to car-owners, lawn-mowers to owners of gardens, fishing-tackle to fishermen, and so on. The smaller and more scattered is the class of users, the more suitable is the post as a means of approach. Thus members of such professions as medicine and engineering are constantly being circularized by firms whose products are of special interest to them ; while for the sale of articles of a still more limited appeal, such as the "old boy" colours of a particular school or the history of a particular regiment, almost no other method of distribution is available.

The last type of commodity which is often sold by post

is that produced on "home-made" lines in rural districts, whether it be garden or dairy produce, or the product of rural industries such as Harris tweed. Here there is often a double advantage in this method of distribution—first, the elimination of what is often a very roundabout system of intermediaries, as in the case of fruit and vegetables, and secondly the value as a sales lever of the "local" appeal, as in the case of Devonshire cream, Harris tweed and home-made jams.¹ Even with these advantages, however, the method is frequently a failure, and is adopted as much on account of the producer's ignorance of the real difficulties of distribution, and his consequent indignation at the apparently excessive toll levied by the middleman, as of its intrinsic merit from the economic point of view.

We have now reviewed a number of methods whereby the producer can sell direct to the consumer without the intervention of a third party, but apart from the special case of the old-fashioned small-scale producer-retailer, we have not yet mentioned the most important method of all, namely, the operation of his own retail shops. It is of course evident that this procedure does not in any sense involve the complete elimination of either the wholesaling or retailing function—any more, for that matter, than do the other forms of direct selling we have described. In common with house-to-house canvassing and distribution by mail, however, it may, and generally does, lead to certain economies, as well as to certain additional expenses, in the execution of these functions.

Certain large manufacturers who sell most of their output through the ordinary retailer have adopted the policy

¹ See also p. 39.

of operating a single shop or a limited number of shops themselves as a means of gauging the public taste and of keeping in touch with trends of demand. Such shops, however, being exceptional, are not necessarily run on strictly commercial lines, and should be regarded rather as research laboratories than as normal trading units.¹ For the large-scale manufacturer who proposes to market all, or the greater part of, his output direct, it will obviously be necessary to maintain a chain of shops with branches in all parts of the country. His shops will therefore be subject to the advantages and disadvantages of chains in general, about which something will be said in Chapter XIII; they will also, however, be characterized by certain special features of their own which we may now conveniently discuss.

Whatever incidental economies in distribution the manufacturer who operates a chain of shops may expect to achieve, there can be no doubt that his primary purpose is to assure a steady and dependable outlet for his goods and to secure a lever against his competitors. There is thus in the enterprise a large measure of what we have defined in this book as advertisement. The extent to which real economies can be attained depends very much on the extent to which the manufacturer is willing, having once established his shops, to let them be run as purely economic considerations dictate, rather than as mere aids to the sale of goods of his own manufacture.

¹ These laboratory shops do not usually confine their sales to the manufacturer's own products, since one of their purposes is to compare the popularity of his goods with those of other people. Ideally they should not even make any special effort to push his products against other people's, though the instinct of the salesman is often so strong that this condition is not properly observed.

There is, of course, a real economic advantage in securing a steady market, since it reduces the effort and expense of selling and makes unnecessary the employment of a large travelling staff; it may also simplify the problems which a fluctuating demand would otherwise impose on the factory. Against these advantages must be set the probability that there will be some loss of efficiency in the conduct of the shops as such, owing to the predominantly manufacturing outlook of those in control, and in some cases to their lack of expert knowledge of retailing. The shops will also be at a disadvantage if they are not completely free, as they seldom are, to stock any articles which the convenience of trade may suggest, and not merely those of the controlling firm's own manufacture.¹

The foregoing considerations apply to all manufacturers' shops, and as long as they are the only ones which enter into the picture, the scales of public advantage are likely to be fairly evenly balanced. Very commonly, however, the manufacturer deliberately sacrifices efficiency in order to use his shops as a means of advertising his products. There are many trades in which it is fairly clear that in all normal cases a number of different manufacturers' goods ought to be stocked, in order to give the customer a reasonably wide choice. If in such trades the manufacturer decides only to display his own merchandise he is likely to be at a real disadvantage from the point of view of efficiency. By lavish expenditure on window dressing, by locating his shops in prominent positions where rents are correspondingly high, and perhaps by a certain amount of deception in describing the qualities of his wares, he

¹ With the possible addition of a few other lines in such universal demand that it would be courting disaster to be without them.

may succeed in obtaining an exceedingly satisfactory turnover ; but he is likely to give his customers rather poor value for their money. This is not to say that it is never desirable that manufacturer's chains should be used for the purpose of advertisement. When they are so used they constitute as legitimate a form of advertising as any other, but they must then be justified by considerations similar to those which apply to other forms. Part, at any rate, of their costs of operation are not essential costs of distribution, but advertising costs, the incidence of which has already been fully explored in an earlier chapter.

Before giving examples of the trades in which producers' chains have been most successful, it will be useful to summarize the features which commonly characterize them. First, it is obviously desirable that a comparatively small number of shops should suffice to secure widespread distribution ; for this condition to be satisfied the goods must be durable, of high value per unit, and only bought at infrequent intervals. Secondly, it is an advantage for the goods to be such that the public attaches more importance to dependability or reputation than to variety of make. Thirdly, there is a special reason for selling through one's own shops where expert knowledge on the part of the retail salesman or " after-sales " services are of importance. Fourthly, manufacturer's chains provide a particularly effective method of maintaining and increasing the sales of high-class speciality articles, to obtain which the buyer may be willing to go out of his way if he cannot get them in a nearby shop. Fifthly, such chains may form a valuable means of consolidating a complete or partial monopoly which has already been secured in the sphere of production. The control by a manufacturer of

a substantial proportion of the retail outlets for products of the type he manufactures obviously places a considerable impediment in the way of existing or would-be competitors. Lastly, manufacturer's chains are useful and economical when the normal channels of distribution are unusually cumbrous and involve the intervention of an excessively large number of middlemen. These conditions need not all be present, indeed they are sometimes mutually exclusive ; but it is rare to find a producer's chain which has prospered in the absence of any one of them.

Among the most successful manufacturer's chains have been those which have been set up in the boot and shoe trade. Here the first three conditions set out above are found in operation. Boots and shoes are expensive and are only bought once or twice a year by the average purchaser ; it is thus quite sufficient to have a single shop in a town of moderate size to secure all potential customers. Provided a wide range of style and fitting is offered, the public are quite willing to buy the same make over and over again : in fact if they are once satisfied they will prefer to come again to the same manufacturer. Finally, expert knowledge on the part of the shop-assistant is essential if a satisfactory choice is to be made ; the ordinary purchaser expects help of this kind and is legitimately aggrieved if he finds that after a few days' wear his shoes do not really fit him.

Watches are another class of goods which have been successfully sold through manufacturers' own shops. They are more expensive, as a rule, and more rarely bought, than boots ; dependability is of great importance ; so is expert guidance from the shop-assistant ; so is " after-sales service " for repairs and cleaning. Other articles which satisfy somewhat similar conditions are typewriters,

sewing machines, men's clothes and furniture. In the two first of these cases, as in that of watches, there is also sometimes present an element of monopoly; Ingersolls and Walthams are to all intents and purposes different articles rather than different brands of the same article; a typewriter is hardly sufficiently described unless its make is stated; while for many people no sewing machine other than a Singer exists.

Examples of speciality articles distributed by manufacturer's chains are silk stockings, hats and chocolates. It is for such commodities in particular that the danger of using one's shops too exclusively for advertising purposes is apparent. The goods sold are not usually of very high unit value, nor are they likely to attract the same purchasers over and over again. Moreover, there are limits to the variety of choice which one manufacturer can offer. It is therefore usual in such cases to select small but very highly-rented premises in important thoroughfares, to instal elaborate and striking shop-fronts, to spend freely on window-dressing, and generally to secure by "high-pressure salesmanship" a volume of custom which more normal and more economical methods would not yield.

The use of one's own chain of shops to consolidate a monopoly is most familiar in the provision and meat trades. Here, few of the other conditions we have laid down apply. The number of shops required is large; expert knowledge on the part of the retailer is not called for to an extent much greater than in other trades, and is certainly not displayed by the average assistant in such shops; "after-sales" service plays no part; the products cannot be described as "high-class specialities". It is true that dependability is more important than variety for

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articles like meat, butter and margarine, and that independent grocery and provision shops provide few outstandingly shining examples of efficient business methods; but the monopoly element is clearly the most important.

In the case of grocery and provisions the non-manufacturing chain has long been a dominant feature of the trade; and it has therefore only been natural for manufacturers and producers, confronted with such powerful buyers, to seek to establish their own chains or to get control of existing ones. With every increase in the scale of production, this policy has become more desirable, so that in Great Britain there is now one giant system of retail provision shops, comprising in all some 4,000 branches, which forms an important link in the Unilever soap and margarine combine, and another, the International Tea Stores, operating on only a slightly smaller scale and comprising about 1,000 branches, which has developed from a purely retailing business into one which manufactures most of the goods it sells.

In the South American section of the imported meat trade we have already alluded to the practice of selling direct to the retailer, which is followed by the chief importing firms whose headquarters are in the U.S.A. Besides these American-controlled firms there is the Union Cold Storage Co., Ltd., an English concern, which not only controls the importation, storage and preparation for sale of the meat, but operates nearly 3,000 retail meat shops. Here, as in the case of provisions, the chief purpose of the shops is to put the combine in a strong position to dominate the market.

Yet another example of successful chain-store operation by manufacturers is provided by the drug trade. Here the advantages of reliability and reputation are a powerful

factor. The average purchaser is glad to go direct to the shops of a manufacturer he feels he can trust ; he looks to the assistants for expert advice ; and except in cases of emergency he is willing to go a little out of his way in order to buy what he requires from one of the branches.

The last condition for the success of a producer's chain, namely, an excessive complexity in the normal system of wholesaling and retailing, obtains in the distribution of perishable foodstuffs, most notably milk and dairy products ; though from another point of view the large-scale direct distribution of these articles, as well as of bread, fruit and vegetables, is merely an extension of the methods adopted by the individual producer-retailer to whom we have already alluded in an earlier paragraph. A considerable fraction of London's milk supply is retailed by United Dairies, Ltd., from their own branches and those of their subsidiaries ; and similar but smaller chains exist in the milk trade both in London and in other towns. The bread and confectionery business conducted by J. Lyons & Co., Ltd., is equally well known, and is again paralleled by numerous smaller enterprises of a similar nature.

CHAPTER XII

ELIMINATING THE MIDDLEMAN: THE BALANCE OF LOSS AND GAIN

ANY attempt to weigh the relative advantages and disadvantages of direct sale, whether to the retailer or to the final consumer, must distinguish sharply between the point of view of the individual manufacturer and that of the general public. Consumers will benefit from the elimination of the wholesaler, or of the wholesaler and retailer, if marketing costs are thereby reduced, and if this reduction is handed on to them in the form of lower prices or improved products. The prospect of such an economy may sometimes be the manufacturer's principal motive for selling direct, but we have already suggested that he more usually goes over the head of the middleman, not because this is the cheapest method of distribution, but because it is the one which enables him to push his products most effectively. Direct sale is often a means of competition based not upon a reduction of price, but upon a form of advertisement.

Since the initiative is usually in the hands of the manufacturer, it will be convenient to begin by reviewing the motives which impel him to sell direct or to refrain from doing so; and then to consider how far, on balance, the consumer's interests are likely to march with his own.

All sellers depend in the last instance upon the goodwill of the consumer; but unless the manufacturer sells to the consumer direct, he must look to the retailer, who

alone is in immediate contact with the public, to maintain and increase the volume of his sales. The difficulties involved in selling to the consumer—whether by house-to-house canvassing, by mail-order or by the operation of one's own retail shops—have been very fully described ; and there can be little doubt that the main incentive which lures the large-scale producer into direct sale to the consumer is the desire to steal a march on his competitors rather than a belief that it is a more economical method of distribution than any other. Direct sale to the retailer opens up a much wider range of considerations ; and being also a far more general practice requires careful discussion. The remainder of the chapter will therefore be devoted to this form of direct sale.

As long as the manufacturer continues to sell through wholesalers, almost his only means of influencing the public mind, apart from through the intrinsic quality and value of his goods, is by some form or other of printed advertisement, which may be addressed either to the public itself or, with probably less effect, to the retailers through the trade press. He can of course, and does, bring pressure to bear on the wholesaler to stock and push his goods, either by employing highly qualified salesmen or by the use of his own powers of persuasion. The average wholesaler, however, is a far more acute buyer than the retailer, let alone the general public, and has no particular interest in selling one manufacturer's goods rather than another's ; all he is out for is a good rate of profit and a large total turnover. He may even have a brand of his own which he is anxious to push ; and in any case he is likely to be disinclined to allow one manufacturer's lines to swamp everybody else's ; moreover he seldom has

any particular knowledge of the selling points of individual brands which would enable him to push them against others which are broadly similar. It is therefore only natural that the manufacturer should wish to cut him out, thereby removing one opportunity for some rival commodity to compete successfully with his own.

Once direct contact with the retailer has been established it is relatively easy for the manufacturer to secure the adoption of an active selling policy in his own favour. This can be done in three ways. In the first place the traveller, being well-primed in the merits of the goods he is trying to sell, is in a strong position to impress the retailer. Manufacturers of certain classes of goods make a great deal of the point that experts must be employed to demonstrate them and explain their uses and method of working. Such claims are sometimes justified. There are many articles, typewriters for instance, which retailers would not buy unless they had seen them demonstrated and had been shown how to explain them to their customers. In other cases, where the need for expert knowledge is less obvious, there may be a great advantage in being able to draw attention to the finer points of the merchandise one is endeavouring to sell.

Secondly, there is the weapon of advertisement. The most obvious method of appealing to the retailer is through the trade press. This method is also, of course, a useful adjunct when selling through the wholesaler, but a direct call on the retailer is likely to ensure that the advertisement will be fully effective. Still more valuable than advertisements in the trade press, even as a means of impressing the retailer, are those addressed to the general public. A wise manufacturer will be careful to

supply his retail customers with copies of his announcements in the daily papers and with as much information as he can safely disclose about the extent of his general advertising activities ; for he can then use the argument, and with entire justification, that he has paved the way for the retailer and made the latter's selling task a great deal easier. " It pays to sell advertised goods " is as true a maxim for the retailer as " It pays to advertise " is for the manufacturer.

Lastly, there are a great many services which a manufacturer can render to the retailer if he supplies him direct, but which it would be difficult or impossible to offer through the wholesaler as intermediary. These include not only advice as to the best manner in which to sell the goods or display them to advantage, but the supply of sales aids of all kinds, including window-bills, showcards, literature, display-cases, and so forth, either gratis or for a nominal payment. More important than any of these are the services of window-dressers, which many well-known manufacturers are nowadays willing, and indeed anxious, to provide for their customers. Where the alternative to selling direct to the retailer is dependence on a small number of wholesalers, or in extreme cases on one only, there is an additional reason for wishing to establish contact with the retail trade, namely, the danger of being left in the lurch if the wholesaler suddenly chooses to start buying from an alternative source. Without a proper selling organization the manufacturer may find it impossible to find other outlets in a short space of time and may consequently be driven to a temporary closing down of his factory. Even if his products have established themselves in the public favour, the retailers will be unable to stock them if they find their usual

source of supply has disappeared ; and the net result for the manufacturer will probably be a permanent loss of goodwill and of a large proportion of his original turnover. Apart from the possibility of this happening, the manufacturer's keen desire to keep his plant running continuously is likely to lower his bargaining power and to expose him to the risk of being squeezed by the wholesaler. Thus, besides wishing to be independent of the wholesaler in order to bring direct pressure to bear on the retailer to sell his goods instead of someone else's, he is anxious to have direct dealings with a number of retailers in order to be independent of the wholesaler's purchasing monopoly.

Many manufacturers regard this last argument for direct sale as an important one. This seems to imply a lack of competition between wholesalers which is rather surprising. One would have thought that the protection required by the manufacturer who is dependent on a single wholesaler might be found in dealings with other wholesalers. However this may be, it is obviously true that a manufacturer who deals with a large number of retailers is in a much stronger bargaining position than is one who deals with a limited number of wholesalers.

There is a further point of rather more limited application. If a manufacturer sells through the wholesale trade, and does not advertise to the consumer or the retailer, he is in a particularly precarious position. Although his goods may become popular, the reputation which they acquire with the consumer will accrue not to him, but to the retailer ; and the reputation which, in turn, they acquire with the retailer will accrue to the wholesaler from whom they have been bought. In consequence it is possible that a manufacturer's products may enjoy the

goodwill both of the retailer and of the consumer, and yet that he himself will remain very much at the wholesaler's mercy. It would be foolish of the latter under such circumstances to change his source of supply; but it remains true that it is to the manufacturer's advantage to establish a reputation of his own, if not with the consumer, at least with the retailer. This does not, however, imply that direct sale is essential, since the same object can be attained by branding the goods with the manufacturer's name. The wholesaler is, of course, aware of this, and in consequence is often reluctant to handle branded goods; he naturally much prefers that their origin should be unknown to the retailer, and is best pleased of all if he can himself brand them with his own name.

In spite of the advantages which contact with retailers affords in the matter of pushing sales, there are a few large manufacturers of advertised goods who refuse to sell any portion of their product direct. This policy is often combined with that of quoting a single fixed price to all customers, allowing no discount for quantity. It appears at first sight little calculated to encourage sales, though, as might be supposed, that is its principal object. It is usually adopted by manufacturers who expect that in any case a large part of their output will have to reach the public through small retailers to whom it would not be profitable to sell direct. The idea is to make sure of the goodwill, first, of the wholesaler by refusing to sell to the retail trade, and, secondly, of the small shopkeeper by ensuring him a reasonable margin of profit. The latter aim is attained by fixing the final price at a level sufficiently high to

cover the costs and reasonable profits of wholesaler and retailer alike and at the same time removing the temptation to undercut this price to which the larger retailers would be exposed if they could buy direct on wholesale terms. The policy is thus wrapped up with the question of price-maintenance, to which most of the final chapter of this book will be devoted. In its extreme form of absolute refusal to sell to the retailer it is not very commonly pursued ; but there are several examples of it in the United States, particularly among manufacturers of proprietary food-products and household requisites.

The battle for strategic position between the manufacturer, the wholesaler and the retailer, which we have been describing, is of only secondary interest to the consumer. His primary concern is to obtain commodities of good quality in fresh condition, and at the lowest possible price ; and it is by its success in bringing about these results that he will judge the merits of direct sale.

As regards quality, there is some likelihood that a manufacturer who sells direct will feel a specially keen sense of responsibility for his products. Any shortcomings in them are likely to be visited on him directly, whereas if they were sold through a wholesaler, the responsibility would be more difficult to place. Complaints, other than those of a really flagrant nature, would not get passed on to him, and would have comparatively little effect, at any rate immediately, on his sales. Moreover the manufacturer who sells direct is very anxious to keep the goodwill of the retailer, and to take back goods which have proved unsatisfactory, whereas the wholesaler will seldom be willing to do this and so expose himself to the risk of loss.

Again, as regard freshness, the balance of advantage

probably lies with direct sale. In the case of certain goods it is of the utmost importance that the interval of time between leaving the factory and reaching the consumer should be as short as possible. The question of the relative lengths of the holding periods under the two systems of distribution will be discussed shortly; but there is obviously a *prima facie* reason to suppose that goods will move more quickly if they only go through one warehouse and are exposed to the fewest possible opportunities of delay. In America the Heinz Co. has distributing stations all over the country, which enable it to go direct to the retailer and offer him supplies in a fresh condition; and the same policy of eliminating the wholesaler completely has been pursued by the National Biscuit Co. By way of contrast, however, the Kellogg Toasted Corn Flake Co. sells solely through jobbers and holds no stocks at the factory, and states that the principal object of this policy is to ensure the freshness of its goods. It seems likely that in this particular case, where a considerable fraction of the trade would be almost bound to pass through the jobber (cornflakes being a commodity stocked by almost every grocer in America) the contention is justified.¹

In the matter of quality and freshness the interests of the

¹ It must not be forgotten that while the length of the holding period depends in the last resort on the necessity for holding reserve supplies, the factor of efficiency is very important in any particular case. The inefficient dealer will work on a wider margin of stocks than is necessary. He may make an inaccurate estimate of demand, and buy rashly or sell unsuccessfully; and he is very likely to have stocks lingering on his hands for an unduly long period, and to maintain a much lower rate of turnover than could have been reached with safety. Where the manufacturer produces on a large scale and the average wholesaler in the trade deals on a small one there is some reason to suppose that the former will be more efficient in his methods of stock-control; in this case the holding period will probably be shortened by direct sale.

manufacturer and the consumer are identical, but when it comes to the question of cost a conflict often arises. In earlier chapters we have discussed the incidence of the costs of marketing under each system of distribution, but we now have to make some estimate of the manner in which the elimination of the middleman will affect their total burden—which is all that need worry the final consumer.

We may first consider the cost of transportation, since it is the one in regard to which the issue between direct and indirect sale is the most doubtful.

Elimination of the wholesaler involves either the direct shipment of goods from the factory to the retailer or else shipment of bulk quantities to distributing centres, where they are broken up and delivered to retailers. Allusion has already been made to the latter method.¹ So far as transport charges are concerned it does not differ materially from a system of distribution through large wholesalers in the same centres. There may be some advantage in direct sale, since the manufacturer can make arrangements to supply each retailer from the nearest centre, whereas with competing wholesalers a certain amount of overlapping and cross journeys will probably take place. On the other hand the wholesaler, by combining orders for several manufacturers' goods from each retailer, can sometimes obtain more favourable transport rates, and in that case the advantage lies with him. On balance there is probably little in it either way.

The real issue in the matter of transport costs lies between shipment from factory to retailer through the manufacturers' depots or through large wholesalers with a wide market, on the one hand, and delivery through smaller wholesalers

¹ See pp. 59-62.

with a local market, on the other. The large wholesaler has to deliver to distant retailers in much the same way as the manufacturer does. Although by making up a parcel of different manufacturers' goods he may obtain more favourable rates than the manufacturer, he will have to save a good deal in this manner if he is to compensate for the extra cost of shipment from the factory to his own central warehouse. So much depends on the relative sizes of the orders which the manufacturers are likely to obtain from the wholesaler and the retailer, and which the wholesaler is likely to obtain from the retailer, that no definite generalization is possible; but on the whole a large-scale manufacturer of varied goods may be expected to save on transport by direct sale, whereas the small manufacturer, with but a single line to offer, will do better in this respect to sell through a wholesaler—as of course he usually does for other reasons. As between direct sale from the factory and sale through a local wholesaler, there is a strong likelihood that economies in transport rates will be effected by dispatching goods in bulk for the greater part of their journey, and leaving the final stage of distribution to each individual retailer in the hands of the wholesaler; but here also there is the question of the additional set of loading and unloading charges to bear in mind. In the case of very small shops, distribution through the local wholesaler is certainly the cheaper method. It not only means that for the greater part of its journey from producer to retailer the merchandise travels in wholesale lots, and so escapes the onerous railway charges which have to be borne by very small consignments; but also that even in the final stage of the journey the individual parcels are relatively large, since the local wholesaler who supplies

shops of this kind usually deals in an enormous variety of goods, and by supplying almost all the requirements of each individual customer can make up quite a fair-sized order for dispatch.

A fuller discussion of the various possibilities would be out of place, as it would involve a consideration of methods of railway charging, of the "rail versus road" controversy, and of other issues more relevant to a work on transport than on marketing. All that can be said is that there is no certainty of either loss or gain from direct sale, unless the circumstances of each particular case are fully known.

In the matter of packing and sorting, we can say with some confidence that direct sale will usually lead to economies. Unpacking and repacking by the wholesaler is avoided altogether, as is the sorting of consignments from the same or different manufacturers into grades. Each manufacturer grades his own produce at the factory so that in most cases less of this service has to be performed altogether¹; for not only must some grading be done by the producer in all cases (and it is probably more economical to get the whole process over at once), but also the producer who has to supply a steady quality to retailers will be under a strong inducement to standardize his methods.

Whether direct sale increases or decreases the holding period, and hence the amount of holding costs, depends mainly on the nature of the commodities being sold, whether, that is, they are branded goods or not, and on the relative size and number of manufacturers in the trade.

To simplify the problem we may perhaps assume that the

¹ Not necessarily, of course, in the case of animal and vegetable produce, but nearly always in that of manufactured goods.

manufacturer who sells entirely through the wholesaler does not himself hold any appreciable reserve of finished stocks, at the same time bearing in mind that if the number of wholesalers is large, this may not be strictly the case; if it is not large, the likelihood that direct sale will lead to economies is increased. As a further simplification we will confine ourselves to contrasting the policy of selling solely through the wholesaler with that of selling solely direct to the retailer, though in fact a majority of manufacturers do a certain amount of both kinds of business.

Consider, first, the case where the goods are not branded, or where the brands are not sufficiently distinctive in the public mind for any one of them to enjoy a partial monopoly; in other words, where the commodity can be regarded as homogeneous for the purpose of deciding the magnitude of the reserve supplies which will be needed. Under conditions of direct sale throughout the trade each manufacturer will hold his own reserves; whereas if the wholesaler intervenes each wholesaler holds a pool of reserves made up from the output of several manufacturers. If, as we may assume, each distributor tends to hold a proportion of reserves to annual turnover which decreases with the volume of the latter, the one method will mean larger or smaller total reserve supplies than the other according as the number of manufacturers is larger or smaller than the number of wholesalers. Putting it differently, the smaller the number of reserve pools in separate hands, the smaller need be the total amount of reserves held; and there will consequently be an economy in total reserves when they are held by those persons—be they wholesalers or manufacturers—whose annual turnover is greatest. Direct sale, involving the holding of reserves by the

manufacturers will therefore lead to an economy in reserves wherever the particular manufacturer concerned has a turnover larger than that of the average wholesaler in the trade.

The position is different where there is great differentiation between brands, for in such cases a surplus in the reserves held of one brand does not make up for a deficiency in those of another. In these circumstances economies will certainly ensue if the producer of each important brand holds his own reserves. Since, in fact, the producers who sell direct are for the most part makers of branded goods, and extensively advertised and highly differentiated branded goods at that, there is reason to suppose that direct sale does in most cases lead to an economy in holding costs. Moreover, since direct sale is usually only undertaken by those manufacturers who produce on a large scale, it is probable, for the reasons given in the preceding paragraph, that quite apart from the differentiation of brands, such an economy will be achieved.¹

It might be thought that this economy would be offset by the success of producers in pressing such quantities of their goods on to the retailer as to compel him to hold stocks over a longer period than he would otherwise do. This does not, however, appear to be the case. It is true that the retailer who buys at short intervals from a neighbouring wholesaler may possibly trade on a smaller margin of stocks than one who buys from a more distant manufacturer whose travellers only perhaps come round once in two or three months; but this is a factor of diminishing importance in these days of easy communication, and in any case is a contrast rather between the local distributor and the

¹ See also discussion on pp. 202-5.

distant one than between wholesaler and manufacturer as such. It is also true that very large retailers who buy direct from producers sometimes hold their own reserves, but this is merely a transfer of function between producer and retailer; such retailers often buy from quite small producers who may be entirely dependent on them for orders. When dealing direct with retailers of average size, the manufacturer of branded goods seems to be particularly careful not to overstock his customers. The retailer will not look with favour on a brand which lingers unduly on his shelves; and since the manufacturer who sells direct is in a position of special dependence upon the retailer's goodwill, he will find it better policy not to let him purchase more stock at a time than he really requires.

Coming, now, to the cost of information, we find that the effect of direct sale is far less favourable. By selling direct to the retailer, the manufacturer does, it is true, eliminate all those expenses which wholesalers would otherwise incur in seeking out sources of supply. This does not, however, lead to as great a saving as appears at first sight. The producer who sells direct always works on a large scale¹; the cost to the wholesaler of effecting contact with such producers does not form a large proportion of his total expenses and is seldom of the same order of magnitude as the extra cost involved in establishing direct contact between manufacturer and retailer.

In order to cover the country, and to visit all the retailers to whom he wishes to sell, the producer will have to employ just as many travellers as the wholesaler who aims at covering a market of similar extent. If these travellers

¹ Except where large retailers assemble goods direct from small producers, in which case it is the retailer who bears the cost of assembly.

were handling the goods of several manufacturers, they could take from each shop more orders, which in fact are given to other travellers, and so sell more goods without appreciably increasing the total number of their visits. Moreover, it is not a mere matter of using the travellers themselves to their full capacity; the same argument applies to the provision of samples, the issue of catalogues, the collection of information as to the credit of retailers, and the keeping of separate accounts for each customer. The cost of establishing and maintaining contact with retailers is the expensive part of information, and an increase in the volume of business transacted with each retailer hardly, if at all, increases the cost of that process; the greatest economy in the cost of co-ordination will therefore be attained when each retailer is solicited by as few firms, and purchases his stocks from as few sources, as possible.

It will be apparent from what has been said that if there are more manufacturers attempting to cover the whole market by direct sale than there would otherwise be wholesalers, the method is almost certain to be an expensive one from the point of view of information costs. Even if there are more wholesalers than manufacturers, it by no means follows without qualification that it would pay to eliminate the former. It is far more usual for wholesalers than for manufacturers to sell in a limited regional market, so that it would not be at all certain that each retailer would be dealing with more suppliers if he bought through intermediaries than if he bought direct. It is also usual for manufacturers to specialize more minutely than do wholesalers or retailers. While the former may confine themselves to a single commodity, or even to one or two grades only of that commodity, wholesalers commonly

sell an entire range of goods. There may, for instance, be fewer manufacturers who make pin-cushions than wholesalers who sell them, but it would still be true that a retailer whose stock-in-trade is not solely composed of pin-cushions would have to deal with a larger number of persons if he bought his pin-cushions from the manufacturer than he would if he bought them from the various wholesalers with whom he is in any case dealing for the purchase of other articles.

The only case where the cost of information might be less under conditions of direct sale is where a retailer could obtain all the goods he requires to stock from a small number of large-scale producers ; and such cases are few and far between. Even where they do occur there will seldom be any economy if one manufacturer sells direct while most of his competitors prefer to deal through the wholesaler. The duplication of information costs involved in organizing a sales force to call on retailers who are already being visited by the wholesalers' travellers will be wasteful ; unless, indeed, the volume of the manufacturer's output is such that the wholesalers could only deal with it by incurring an extra expense equal to the cost of the manufacturer's sales force, and this is obviously very unlikely to be the case. Examples of trades in which direct sale may not involve unduly heavy information costs are boots, books and tobacco. In all these cases it is common, though of course by no means universal, for the retailer to stock nothing but the class of goods mentioned, so that the wholesaler cannot, at any rate when calling on certain shops, use his sales force for the distribution of a great variety of commodities ; it is also common in these cases for the manufacturer to produce a line of goods sufficiently large

to account for a considerable fraction of the retailer's entire stock. With these trades we may contrast drapery, stationery and groceries respectively, where the reverse conditions obtain. The number of manufacturers from whom it would be necessary to buy if no wholesalers existed would in these cases be enormous, whereas a single wholesaler can maintain such a wide range of lines as to satisfy nearly all the needs of any particular retailer.

At this stage we may sum up the entire argument. By direct sale transport costs may be affected in either direction. Whether or not this difference, on whichever side it falls, is of considerable importance depends on the nature of the commodity: for cigars it would obviously be negligible; for heavy or bulky articles of small value it might be very great. Packing, sorting and grading costs are almost certain to be reduced. Holding costs are likely to be reduced; particularly if the manufacturers who sell direct are each producing on a large scale and are responsible between them for a large part of the total output. On the other hand, information costs are likely to be considerably increased; though perhaps not to a great extent when a very small number of producers control between them the entire output of a commodity and are unanimous in adopting the policy of direct sale.

How these divergent tendencies balance out depends on the nature of the trade. The scale of the undertakings which embark on a policy of direct selling is clearly the most important factor. If they are very large indeed direct sale is certainly likely to be more economical than distribution through wholesalers. In all other cases the result is much more doubtful. For some commodities the savings in the cost of transport, packing and grading

would outweigh the loss or gain in the remaining costs ; but generalization is impossible. On the whole it seems probable that in many actual cases of direct sale the increase in the cost of information is sufficiently serious to counterbalance the economies obtained in other directions. Although holding costs account for a fair proportion of the wholesaler's expenses, it is doubtful if the economy which results from a concentration of reserves is likely to be of the same order of magnitude as the diseconomy which would result from multiplying the sales force unnecessarily. It is fair to add that the specialization of the selling function which the introduction of the wholesaler represents has favourable reactions on the cost of all the incidental services which selling entails. A wholesaling organization with packing, delivery, accounting and travellers' departments on a considerable scale can use the employees in each department to their capacity. On the other hand even the larger producers, who work on a scale which enables them to secure most of the benefits of the division of labour, usually suffer from the disadvantage of selling a smaller range of commodities than do the wholesalers. Similarly, the advantages to be gained by minimizing the number of firms with whom each retailer deals are not confined to the realm of information costs ; they extend, though less markedly, through the whole range of selling services.

Making full allowance, therefore, for the advantages of improved quality and freshness of goods sold direct, and the better attention from manufacturers which the consumer usually obtains in such cases, we must conclude that the complete elimination of the middleman is a policy which the consumer would do well to view with suspicion.

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The economies which result in handling and financing stocks, and often in transport, are obvious to all ; the extra cost on account of information, whether it takes concrete form in travellers' salaries, or in sums spent by mail-order houses to secure an up-to-date mailing list, or in the extravagantly high rents which some manufacturers are willing to pay in order to secure suitable retail premises from which to distribute their products, is frequently less visible. There are some trades, as we have seen, where the number of middlemen would appear on occasion to be grossly excessive ; but it is not necessary to advocate the continued employment of six or more intermediaries for the distribution of certain kinds of fruit and vegetables in order to contend that in an industrial system based on competitive profit-making the practice of direct sale may lead to a dangerous increase in the large-scale manufacturer's power over his customers.

CHAPTER XIII

RETAIL DISTRIBUTION

THE efficiency of a distributive system must not only be judged by the character of the wholesale channels through which commodities pass, or by the number of times they are separately handled on their journey from the producer to the consumer ; it is governed to an equal or greater extent by the business ability, the operating methods and the numbers of those engaged in retail trade. Moreover, as in other types of economic enterprise, there is an optimum size of undertaking to which in each trade or group of trades it may be conceived as desirable that the business of the individual retailer should approximate ; and on the closeness or otherwise of such approximation his chances of success must to some extent depend. Even within a given trade, say grocery, there are various types of shop, working on different policies and perhaps undertaking different functions, and it is seldom possible to come to any final conclusion as to their relative advantages ; small "neighbourhood" shops, chain-store branches and large grocery and provision stores conducted on departmental lines all have their place. At the same time it is often possible to discern the approximate limits of size which for each type are compatible with efficiency ; and sometimes to suggest that certain types are likely, other things being equal, to be more successful than others.

Estimates of the total number of retail shops and of their aggregate turnover vary considerably, and are

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complicated by the fact that an indeterminately large volume of goods reaches the public through other channels than ordinary shops. These include hotels and public-houses; schools, hospitals and other institutions; street hawkers; stalls, kiosks and automatic machines at railway stations and places of public amusement; as well as direct distribution from the producer to the consumer by house-to-house canvassing or by mail-order. The figures in the table below serve as a rough indication of the retail trade structure of Great Britain. They relate solely to trade

ESTIMATE MADE BY S. P. DOBBS OF THE NUMBER AND AGGREGATE
TURNOVER OF RETAIL SHOPS IN GREAT BRITAIN IN 1930.

<i>Type of Shop.</i>	<i>No. of Shops or Branches.</i>	<i>Aggregate Annual Turnover.</i>	<i>Average Annual Turnover per Shop or Branch.</i>
Unit Shops . . .	500,000-600,000	£1,000,000,000	under £2,000
Chain Stores . . .	30,000	£300,000,000	£10,000
Co-operative Societies	10,000	£200,000,000	£20,000
Department Stores .	1,000	£150,000,000	£150,000

passing through what are ordinarily known as retail shops, and do not, for instance, include an expenditure amounting to over £250,000,000 annually on alcoholic liquor (other than that sold by grocers and wine-merchants). In the case of mail-order or house-to-house trade they include sales made by or on behalf of retail shops, but not goods sold directly by the manufacturer or the grower. In reading the table, chain-stores must be understood to include all multiple retailers with five or more branches, whether operated by manufacturers or solely as retail undertakings; and the estimate quoted for department stores must be interpreted in the light of the fact that the line of demarcation between

the large unit shop and the small department store is very difficult to draw.

It will be seen that in spite of the rapid growth of the various new types of retailer, the typical shopkeeper is still the independent tradesman, owning and managing a single shop, and working on a comparatively small scale. The number of shops conducted in this manner is well over 90 per cent of the total, and they account for something like two-thirds of the entire turnover. In North America the situation is rather different; chain stores are of relatively greater importance, but on the other hand co-operative societies scarcely exist; department stores, especially those doing a mail order trade, are also more predominant; but even in that country the small retailer holds his own to an extent which the casual observer would scarcely believe, and he is still responsible for well over half the entire turnover.

In each of the foregoing groups, the figures quoted for average turnover per shop naturally conceal enormous variations between individual undertakings. With the exception of chain stores, where there is a greater semblance of uniformity, the average turnover, as it is stated in the table, is very much larger than the typical or modal turnover; this being due to the fact that a small percentage of the shops accounts for a very large percentage of the total trade. Among department stores, for instance, there are a few with annual turnovers running into several millions, and large numbers doing anything from a quarter of a million upwards; but there are many more whose trade is well under the £100,000 mark. The co-operative stores include vast emporia like the central branches in places like Leeds and Birmingham, which are themselves

larger than the average department store and are often among the most imposing business premises in the town, and on the other hand tiny little branches in the back streets of the smaller industrial towns, which compare unfavourably in point of size with an ordinary private grocer in a similar district. There is the same divergence among the independent traders. At one end of the scale there is the large furniture shop, which is practically a department store and has an annual trade of perhaps £50,000, while at the other there is the insignificant house-shop with a turnover of less than one-hundredth of that amount.

There are certain types of trade in which for one reason or another the personal element plays a considerable part. In these the independent dealer is likely under almost any conceivable economic system to survive. One example has already been mentioned in an earlier chapter, namely the producer-retailer who makes goods to the customer's order. As long as there is a demand for the highest class of bespoke tailoring and bootmaking, dressmaking and millinery, and even cabinet-making and upholstery, so long will work of this kind be executed by the independent craftsman-retailer working on a small, or at any rate only a moderate, scale. Closely akin to, and overlapping, these trades are those where taste and artistic ability are needed—the dealer in pictures or antiques, the dressmaker, and the interior decorator. Similarly overlapping are those where what is required is not so much taste as expert skill or knowledge—the dealer in second-hand books or furniture, the wine-merchant, the optician, and the scientific instrument-maker. In all these and many similar trades the independent specialist can look forward to holding his own ;

though it may be observed that unless his taste, his creative skill, or his expert knowledge are of the highest, he may be closely pressed by the high-class multiple shop or the department store, which can afford to engage specialist managers at high salaries. All but the best boots can now be bought from the branches of manufacturers' chains, and all but the most artistic furnishing can be carried out by firms like Maples, Harrods and Waring and Gillows.

Apart from the need for the highest forms of skill or for genuine artistic ability, the personal element plays a most important part in the sale of any kind of luxury goods; the expensive florist or tobacconist or confectioner, in England if not in America, is invariably an independent trader. Here snobbery is perhaps the most potent factor; it is pleasant to be able to refer to "my" tobacconist or glovemaking—or even "my" butcher or grocer—with the comforting reflection that they know "my" idiosyncrasies and are not as other traders are. In part this knowledge of each customer's requirements is illusory, and feigned to flatter the customer, but in part it is genuine; it is, of course, essential if each customer's tastes are to be satisfied to the fullest degree possible.

At the other end of the scale from the highest class of shops are the lowest, the vast mass of petty "general dealers", corner shops and "house" shops, which abound in all the poorer quarters of the large towns and which indeed are found wherever there is any retail trade to be done at all. Here again the independent trader will certainly survive—so long, at any rate, as society demands or tolerates such shops. The reasons for his survival in this case are, first, that even in a modern industrial community, with its cheap, rapid and universal transport

facilities, the small neighbourhood shop meets a genuine need which cannot adequately be satisfied in any other way ; secondly, that the type of trade is not one in which it would be profitable for a chain store to engage—the turnover would not be sufficient to pay expenses ; and thirdly, that these shops afford, at least to outward appearance, a means of earning a modest livelihood which is open to all comers. The small boy who wishes to buy a penny-worth of sweets, but whose parents dare not send him out to a main shopping street to brave the hazards of the traffic ; the labourer who, tired out after a hard day's work, wants an ounce of shag or a packet of Woodbines, but is disinclined to go far to buy them ; the working-class housewife who has run out of soap or matches on Sunday morning ; to all these and many others it is worth paying slightly more or obtaining goods of slightly poorer quality in order to get them quickly and easily. Perhaps a cause of the popularity of these small shops which is even more important than convenience of access is the small credit which those who run them are usually willing to give to customers they know, who are perhaps their next-door neighbours and in a position from time to time to render some similar service in return ; while a third factor not entirely to be overlooked is the opportunity which shopping of this kind offers of a friendly chat.

In spite of what has been said, there can be no doubt that there are far more small shops than are either necessary to meet the needs of the community or compatible with the prosperity of the shops themselves. Some of these small shops in villages, or in the outlying areas of large towns, or at the end of a long back-street in the slums, or in some other isolated position where supplies cannot

easily be obtained in an emergency, are in their modest way making a genuine contribution to the public welfare and providing a satisfactory return to their owners. Some others afford a useful additional means of support to people not entirely dependent on them; but many more are redundant or inefficient or both. Their owners may have seen better days; but whether as the result of excessive competition in the immediately neighbouring streets, or of industrial distress among their customers, or of their own incompetence, are now on the downgrade, living perhaps on their savings and awaiting the inevitable day when they will be unable to meet their creditors. In the lower ranks of this vast army of the inefficient and the unsuccessful are the small, dirty house-shops in the slums, which in any properly organized society would be swept away.

Apart from a lack of economic sense and an insufficient appreciation of the real problems which even petty shop-keeping presents, there are three main reasons which drive people to open little shops where they are not really required. The first is that the operation of such shops is seldom a full-time job. Their busiest times are often in the evenings, after ordinary closing-hours, and on Sundays; they can be run collectively by the family; and any profits they may yield constitute a welcome addition to the wage-earner's ordinary weekly pay-envelope. The use of the front parlour as a shop is an alternative to letting an unwanted room to a lodger, and the work and return involved are somewhat equivalent. In this respect small house-shops differ from street barrows and market stalls, which are usually operated as a full-time occupation; often of course by people who are crippled or in some other

way incapacitated for ordinary work. As such they must yield at least enough for their owner to live upon.¹ The second reason is that sales are mostly in pennyworths and twopennyworths and similar small amounts, and that the margin of profit, as opposed to the total profit, on such sales is usually extraordinarily high. The third, and perhaps the most important, reason is the extreme ease with which such shops can be opened and the temptation to try his luck which they afford to anyone who is unable or unwilling to find regular employment. A five pound note may be sufficient on which to start in business ; the initial stocks may be purchased almost entirely on credit from the wholesaler, who is always eager for new customers ; under these conditions it is only to be expected that many will try—and fail. Small-scale retail distribution is, indeed, by far the widest field of economic activity which, in Great Britain, remains unsheltered and unregulated. Restriction on entry there is none ; regulation of earnings is impossible where the majority of those engaged are their own employers ; it is not surprising that the returns which it yields are correspondingly meagre.

The most important fields of retail enterprise in which the small man is virtually unchallenged have now been mentioned. In almost every type of trade, however, he has certain advantages which are denied to the larger undertakings. Being in personal contact with his customers, and having in many cases some personal knowledge of their affairs, it is easy for him to give them credit—a desire for which is not confined to the very poor. For the handling

¹ Private report by W. R. Dunlop : "Enquiry has proved without any doubt that street-barrows and market stalls are much more profitable undertakings than very small shops."

of perishable articles—greengrocery, for instance—he is well-nigh indispensable, for he can adjust his stocks to suit day-to-day fluctuations in demand. Where service plays an important part, as in the sale of electrical fittings, he is in a strong position compared with that of departmental and ordinary chain stores; though not always, as we have seen in a previous chapter, compared with that of the manufacturer's chain. Finally, if he is of an adventurous turn of mind, he can pioneer the sale of new commodities—radio sets afford a recent striking example—and hope with luck and judgment to do very well for himself.

It should be added that if at any time the world's gradually improving standard of living leads to a reaction against the prevailing current in favour of mass-produced standardized articles, there may well be an opportunity for the independent retailer to come again into his own; not, it is true, for the supply of the ordinary necessities of life, which are likely more and more to come under the control of some form of large-scale retailing, but for the satisfaction of that desire for variety and novelty which makes itself felt when more pressing needs have been met.

The most characteristic retail type of the present day is without any doubt the multiple or "chain" store. The manufacturer's chain, which confines itself wholly or mainly to the products of a single firm, has already been discussed, but we may now examine some of the features which characterize chain stores as a class.

In its simplest form the chain merely represents the natural extension of a successful retail business under enterprising management, when conditions appear to limit the scope for a further increase in the turnover of the

original shop. This was its historical origin, and the majority of the best-known and most successful chains of the present day began in this way ; though nowadays it is not uncommon for a chain-store enterprise to be launched on a fairly ambitious scale from the outset. As long as the number of branches remains small, say under half a dozen, the characteristic problems of chain-store operation hardly arise ; and such ventures are best regarded as groups of distinct businesses under single management, with a greater or smaller amount of centralization in such matters as buying, warehousing of stock, accounting and finance, and a greater or smaller amount of standardization in type of trade, prices, window-displays, and sales methods generally. Such groups, which are very numerous, seldom have any elaborate form of head office control ; what co-ordination is necessary is usually performed by the owner himself, with perhaps a certain amount of clerical assistance. It is clearly most convenient for the various branches of a small chain of this kind to be in the same town or district, so that each can be under the owner's direct and constant supervision, though in fact they are not infrequently situated in towns which are widely separated from one another ; in this latter case there is often some similarity in the towns selected which justifies the establishment in them of branches of the same business. For instance, a cafe proprietor might open branches in Blackpool, Scarborough, Margate, Brighton, Bournemouth and Torquay ; a military tailor in York, Woolwich and Aldershot ; a high-class tobacconist in Oxford, Cambridge, London and Edinburgh ; on the other hand, a grocer or a dairyman or a chemist who wished to set up several different branches would probably do well to confine himself to one large centre of

population, where the branches could all be within easy reach of a central establishment and where the type of customer would be more or less the same for each branch.

These small chains have certain advantages over a single-unit business in being able to buy direct from the manufacturer in relatively large quantities and on favourable terms, as well as in the economies which can be effected through a centralized system of stock-control; but their greatest merit is that they afford an able man the opportunity of using his special skill and knowledge of the trade over a wider field than would otherwise be possible. Provided on the one hand that the number of branches is not too large for him to give reasonably detailed attention to the affairs of each, and on the other that the total turnover is sufficient to warrant his devoting all or the greater portion of his time to the work of buying and general supervision, they may therefore be regarded as a very efficient form of distributing organization.

The next type is the retail chain which has grown to such dimensions that a formal system of control and a considerable measure of standardization in the operations of each branch is necessary, but which has not taken the step of entering the manufacturing field. Chains of this type are specially numerous in the grocery and provision trades. They normally comprise from fifteen or twenty to perhaps two hundred branches, and usually operate within a fairly restricted area—Lancashire, for instance, or London and the Home Counties, or the North-East Coast.

This type of chain is a relatively unstable one. As soon as the number of branches runs into two figures it becomes difficult for one man to give to each the close attention which is necessary if he is to avoid centralized methods of

administration, accompanied by heavy overhead expenses and calling for a different type of managerial ability from that suited to the very small chain. Centralized administration is costly and requires the establishment of a very large number of branches if the incidence of overhead expenses is to be kept reasonably light. The minimum number of branches it is desirable to maintain will naturally vary with the average size of each and consequently with the particular trade engaged in ; at least fifty shops might be desirable in the case of the grocery trade, whereas twenty or fewer might suffice in that of furniture. When the number reaches or exceeds such a minimum, a strong urge to engage in production as well as distribution, over at least a part of the field covered, often makes itself felt ; for only so can regular supplies of uniform quality and at the lowest possible prices be guaranteed. These considerations, backed up by the spur of competition, which among chains of this character is sometimes very severe, lead sooner or later to the establishment or acquisition of factories, workshops and estates and to an attempt to open branches over a wider area, or else to the absorption of the chain into one of the larger organizations already operating in the national field.

A special form of chain, which from the point of view of size, usually falls into the class we have just been describing, and which is not uncommon in certain trades, is the group of shops which to outward appearance are run by private traders, but which are in effect under a single ownership or control. In some cases such chains consist of shops which were originally in private hands, but which have been bought up and are being continued under the former name. In other cases the original owners have been taken

into partnership and stay on as branch managers, without any external change being made in the name or appearance of the shop. In yet other cases "private shops" are really controlled and supervised by wholesalers to whom they have got into debt; this constitutes a sort of "tied house" system, the extent of which it is difficult to gauge accurately.

The third and most fully developed type is the large national chain comprising several hundred or even several thousand branches. In nearly every case such chains grow or manufacture a part of the goods they sell, but they fall into two classes according to whether the manufacturing or the retailing side of their activities is the more prominent. From the point of view of operating methods and of the direct economies which they can achieve, they do not differ essentially from the larger of the local chains, but they more frequently aim at achieving a semi-monopolistic position and they make a much freer use of trade-marks, brands and advertisement generally.

The most important characteristic of the larger chains is their reliance on the price appeal. To this end they specialize in the sale of standard articles in everyday use which can easily be handled and for which the demand is reasonably predictable; they either manufacture themselves or, on account of their enormous turnover, are able to buy at the very lowest prices and on the most favourable terms; and lastly, they eliminate a variety of services which the independent retailer is accustomed to offer his customers, including the delivery of merchandise to the purchaser's house and the granting of credit. Stocks are kept at a very low level in relation to turnover, partly because it is possible to maintain a central reserve to supply the needs of a large number of branches and partly because

the trades in which such chains usually engage are those where turnover is in any case rapid. In addition to these specific economies, the chain store enjoys some of the characteristic advantages of large-scale enterprise. Each department of the business can be placed under the control of specialists ; a standard shop layout and type of window display, carefully designed in the light of wide experience, can be adopted ; and a special " sales routine " worked out to enable the assistants to employ their time to the fullest advantage. More important still is the estates and development department of the large chain store. Shop premises can be selected on the basis of minute inquiries into the location of the best sites, the number of passers-by during business hours, the relative rentals in different towns and similar considerations ; and future expansion may be provided for by buying up likely property while it is still cheap.

In addition to the price appeal, the better-class chains enjoy in a limited manner a reputation appeal, if not for goods of the highest quality, at any rate for maintaining a certain minimum standard of reliability and good value (which is not identical with cheapness). This appeal they endeavour to drive home by advertisements in the press, by adopting a uniform type of packaging and labelling for their goods, perhaps embodying some slogan about purity or freshness, and by maintaining a high standard of cleanliness and attractiveness about the interior and exterior of their trading premises. This does not, of course, in itself lead to economies ; but it is a potent factor in attracting custom by inducing people to put up with a certain amount of incivility and inattention on the part of the staff in rush hours and to accept the inconvenience

of having to carry their purchases home in person and to pay cash.

Against these advantages must be set certain drawbacks. Of these, the most important are the danger of routine, the difficulty of supervising a large and scattered staff and the costliness of the administrative machinery involved and, in cases where two or three giant concerns are competing in the same field, the danger of overlapping and cut-throat competition. Moreover, there is a limit to the willingness of the public to forego the facilities and courtesies which they are accustomed to expect from private traders; in fact some chain stores have latterly made a feature of improving the standard of politeness and attention among their staff, restoring a delivery service, and generally making special efforts to study their customers' convenience; credit they can seldom give, not so much because credit trading is in itself unprofitable, but because of the difficulties of supervision which it would entail.

With these considerations in mind, it is easy to see why the grocery and provision trade has proved to be the most favourable field for chain-store operation. The goods it distributes are in universal and regular demand, and account in the aggregate for a larger proportion of the national expenditure than do those which are sold by any other single trade; they are nearly all capable of being standardized and are suitable for bulk handling; unlike most other foodstuffs, they are not quickly perishable; finally, they are in the main necessities rather than luxuries, and are therefore easily made the subject of a price appeal. Including not only the chains which are primarily retailers, but also those which are at the same time large producers

or subsidiary to large manufacturing combines, but not including co-operative society branches, which will be discussed later in the present chapter, grocery and provision chains probably handle about a third of the turnover in Great Britain of the articles in which they deal ; in the case of certain individual commodities like margarine, the proportion is even larger.

Second only in point of size to the grocery and provision chains are the meat chains: these, together with a number of others which are usually controlled by manufacturers, we have already considered in Chapter XI. Among the more important chains which manufacture either nothing at all or only a small proportion of what they sell are those dealing in tobacco, confectionery, drugs, cycles and accessories, cheap books, hardware, stationery and newspapers—to name but a few.¹

In most of these trades (though in varying degree) the factors of wide and regular demand, standardization and comparative durability of the product, and susceptibility of the purchaser to a price appeal are present. It will also be noticed that many of them are trades in which it is possible to set up in business with a very small capital and in which the private shopkeeper is frequently inefficient. This is especially true of grocery, confectionery and tobacco.

The confectionery trade provides a particularly interesting field in which to study the relative merits of the private shop, the retailing chain and the manufacturing chain. In the first place, an enormous number of selling

¹ Catering establishments like those of Messrs. Lyons, the Aerated Bread Co., the Cadena Cafes, and others equally well known, are perhaps better classified under a separate heading, while the tied houses of the brewery trade afford a special example of manufacturer's chain.

points are required if the public is to be satisfactorily served, since a large proportion of the customers are children or people who do not care to go far out of their way or to buy in large quantities at a time. This is a point in favour of the private trader. Secondly, the trade is, in fact, hideously overcrowded ; even the keenest advocate of having numerous selling points can scarcely deny that at least half of those which at present exist are redundant. This means widespread inefficiency, resulting not only in frequent failures but in the constant presence in the shops of goods which are stale and out of condition, and is perhaps a point in favour of the well-managed chain. Thirdly, the price appeal is of particular importance. This is certainly a point in favour of the chain.¹ Fourthly, competition among manufacturers is very intensive. This suggests the formation of chains by manufacturers in order that they may gain and maintain a secure footing in the market. Lastly, the public expects to be offered a wide variety, not only of lines, but of brands, from which to choose. This is a point, and a very strong one, against the manufacturing chain. The net result of these conflicting forces is that the great bulk of the trade is in the hands of the small retailer, but that there are a certain number of successful chains of moderate dimensions, many of which make a strong feature of the price-appeal in the form of a "cut-price" policy. Some of the chains manufacture a portion of the lines which they sell, and a few sell nothing but their own products ; but on the whole, in spite of the very keen competition and the powerful forces driving manufacturers to set up their own shops, the manufacturer's chains have proved only moderately successful ; those which

¹ See also the discussion of price-cutting, pp. 274 ff.

have done best have been content to sell other people's products as well as their own.¹

From the point of view of the amount of trade done, the co-operative societies rank next in importance to the privately-owned chains in the British system of retail distribution. Co-operative trading, in both its economic and sociological aspects, has received so much attention from other writers that we do not propose to add much here to what has already been said. From our present point of view the retail societies may best be regarded as a special type of the genus "chain store". Like the chain stores they have been most successful in the distribution of standardized articles in daily use—notably groceries, provisions, meat, bread, and coal. Like the chain stores, they rely on a price-appeal, though it takes the form of a high "divi" rather than of specially low prices; and their goods, though reliable, are undistinguished. Finally, like the chains, they display a tendency to reduce "services" to a minimum, and in particular they refuse to allow extended credit.²

There is no doubt that in the past the co-operative societies were able to give better value in the goods in which they specialized than did the private trader, often dependent for his livelihood, as he was, on a high rate of profit derived from a low annual turnover. They are still

¹ In addition to the type of confectionery shop mentioned here, there are a fairly large number of "home-made" chocolate and sweet shops, where all goods are made on the premises. These shops make a special feature of the fact that their goods are freshly made, and they are able to market certain lines which would not keep long enough to travel through the ordinary wholesaler-retailer channels.

² Except sometimes, for political reasons, in order to assist workers who are unemployed through a trade dispute or who are the victims of industrial distress.

conspicuously more efficient than the small neighbourhood shop; but it is a little doubtful whether they show to advantage in comparison with the more successful of the chain stores, which are run on strictly commercial lines and make a profit, large in the aggregate, but often surprisingly low in relation to turnover. Sectionalism and favouritism are apt to creep into their administration; rival societies in the same town often engage in underground competition, in spite of demarcation agreements, when they should amalgamate; and it is said that when managerial positions fall vacant they are often filled by the wrong type of man. There can be little doubt, moreover, that the remuneration of the higher officials of large societies, as well as of the directors of the C.W.S. itself, is not such as to attract the more aggressive type of commercial ability, quite apart from the fact that in any case such posts are normally regarded as the natural reward for long and faithful service to "the movement" and are not therefore open to all comers.

The great service which, from a strictly economic point of view, the societies render to the community, is the protection which they afford against monopolistic exploitation. In the case of such articles as bread, flour, milk and meat, whose prices are often fixed by powerful trade associations or whose distribution tends to be controlled by large combines, this safeguard is of enormous potential value. A semi-economic advantage, which, as Mr. and Mrs. Webb have pointed out, is perhaps the chief attraction of the societies in the eyes of the working-class housewife, is the fact that the half-yearly or quarterly dividend provides a most valuable method of accumulating small savings almost unconsciously. In this respect it has

all the advantages, and none of the drawbacks, of the coupon schemes which are nowadays so popular with manufacturers of branded goods. From a broader social standpoint, of course, the co-operative societies play an important part in the life of modern industrial communities : but this aspect of the movement does not fall within the purview of the present study.

As a form of mass-retailing the department store is in many respects the antithesis of the chain. Whereas the one aims at maintaining its stocks at the lowest possible level and concentrating on a few rapidly-selling lines, the other is largely dependent for its popularity on the enormous variety of choice it is in a position to offer. The one eliminates " services " so far as it can ; the other is continually extending the amenities and conveniences which it provides for its customers. The one uses the " price appeal " ; the other, while it gives good value, has tended, at least in the past, to lay more stress on quality. Finally, the chain spreads its tentacles far and wide, and is a factor in decentralizing distribution geographically, whereas the department store is a potent factor in concentrating distribution within a small area in the centres of big cities.

Some of the departments of a big store may be frankly unremunerative. This is very often the case, for instance, with the restaurant ; and still more obviously with the various rest-rooms, writing-rooms and other amenities, which are provided free for the sole purpose of enticing people into the shop. The handsome architecture, the numerous lifts, the marble fittings and the soft carpets are further examples of the same policy, much of the cost of which must be set down under the heading of advertising expense. In the same way, the better-class department

stores are not only over-staffed with salespeople, at any rate by comparison with the chains, but also employ a number of commissionaires and floor-walkers, whose function is mainly ornamental.

In other respects the department store and the chain have much in common. They are both, on account of their large turnover, very powerful and very efficient buyers; and can usually secure specially favourable terms which are denied to the private trader, even if in a particular transaction the latter is willing to place a large order. They both have heavy administrative and other overhead expenses; the chain store is at a disadvantage in the matter of supervision, owing to its numerous scattered branches, but the department store more than makes up for this by reason of the expenses which have been described in the preceding paragraph. Finally, they both tend to spend a larger sum on rent, even as a percentage of turnover, than a unit shop doing a similar class of trade; it is indeed a cardinal feature of their policy to obtain the very best sites available, cheaply of course if possible, but if necessary at great expense, so as to spread the overhead expenditure over an enormous volume of business. In the result the chain store can usually trade on a somewhat narrower margin of gross profit for similar classes of goods than the department store; but both show, in relation to turnover, a very low margin of net profit compared with that of the average well-run private shop.

In contrast with the chains, which have been most successful in the distribution of foodstuffs in regular daily demand, department stores have made drapery and fashion goods their principal field, and it was in these trades that they first arose about the middle of the nineteenth

century. Though the larger stores have since broadened the scope of their activities so as to include almost everything that can conceivably be sold to the consumer, from a reel of cotton to a cruise round the world, they are still mainly dependent on the sale of goods in which the purchaser expects a wide choice. Many stores, for instance, sell staple groceries and other foodstuffs, but mainly as a bait to attract customers for the more highly-priced delicacies which yield a high profit-margin, and which must be displayed temptingly and in considerable variety. The same principle applies to a good many other departments besides food. The cheaper and more commonplace commodities are kept in stock as a convenience for clients ; but the aim of the salesman is to interest his customers in more expensive articles, and particularly in those which are of high unit value—overcoats rather than buttons, pieces of furniture rather than door-knobs, and so on.

These are the traditional and still perhaps the most characteristic features of department store operation ; but during the last two decades a new type, intended to combine the advantages which the department store derives from conducting all its operations under one roof with the appeal to the consumer's pocket which enables the chain to secure a very rapid stock-turnover, has made its appearance. This is the department store which, either in a so-called " bargain basement " or throughout the store, makes a point of selling articles in popular demand at specially low prices. Often the " bargains " are genuine, in the sense that they are made possible by the purchase on favourable terms of manufacturer's job-lines, bankrupt stock and the like ; in other cases they merely depend on a partial abandonment of the policy of offering immense

variety in favour of that of placing large orders for articles, especially clothing, which are normally manufactured on a fairly small scale, but which can be produced far more economically on mass production lines. Stores which cater in this manner for the working population of the large cities generally follow the lead set by the chains in regard to the refusal of credit, and also cut down their wages-bill by eliminating redundant sales people and often by paying them exceptionally low wages ; on the other hand they retain, on less sumptuous but more showy lines, the splendour and magnificence on which the department store so much relies.

In its extreme form the policy of selling mass-produced articles at a low price has led to the " one-price " bazaars, of which in this country Messrs. Woolworths and Marks and Spencers are the leading exemplars. The name " one-price " is not strictly accurate, since these shops seldom confine themselves to a single price for all articles, but rather establish a maximum price above which no one article is sold. From one point of view they are chain stores specializing in a certain (very wide) range of goods, namely toys, novelties, stationery, all kinds of cheap household articles in universal demand, and generally speaking anything which can be retailed at or below the arbitrarily-fixed and comparatively low unit price. From another point of view these concerns are department stores, since each branch in the chain deals in such an enormous variety of goods that it has to be organized on departmental lines. The one-price bazaar sacrifices everything else in order to secure rapidity of turnover and low prices. Rent is necessarily a heavy item, since the premises must be situated where the number of passers-by is highest ; but otherwise expenses

are kept down to the greatest possible extent. There is little of the grandeur of the ordinary department store about the interior, or even the exterior, of the shop; the policy of selling at a single price and of placing the stock where customers can make their own selection reduces the work of the assistants, and hence their number, to a minimum; credit-trading is entirely unknown and delivery service almost (but not quite) equally so; no article is stocked of which enormous sales are not assured. In the result the value offered is often remarkable. This applies particularly to small articles of ironmongery and hardware, novelties, fancy goods, and so forth, for which the turnover in an ordinary shop is slow, and which can sometimes be reduced in price by as much as hundreds per cent if they are manufactured and sold by the thousand or the million.

Apart from these "sixpenny" and "ten cent" bazaars, the tendency has been for department stores to develop into "universal providers"; but at the same time there exist in a good many trades a number of highly successful shops, which have grown to such a size that they are in fact run on departmental lines, although they would not usually be described as department stores. Fortnum and Mason's in the provision trade, Hamley's for toys, and The Times Book Club are a few among many familiar examples.

One other development which should be mentioned is that of the chain of department stores, represented in Great Britain by such concerns as The Drapery Trust, Ltd., Selfridge Provincial Stores, Ltd., and Lewis', Ltd. Each unit of these undertakings is a department store; but with its centralized finance and buying the chain as

a whole is able, or should in theory be able, to effect important economies. Where the number of units is small, as in the case of Lewis', Ltd., and of the Harrod's and Barker groups, and where a tight grip on the whole organization can be maintained, this type probably represents the acme of efficiency in department store operation. On the other hand a technique for the centralized control of fifty or sixty department stores, such as those which comprise the unwieldy Drapery Trust, has yet to be worked out ; ambitious ventures of this kind, formed, as they usually have been, in a hurry, and often for financial rather than economic reasons, have hitherto proved a disappointment to their shareholders. This criticism is only relevant to genuine department store chains ; it does not apply to firms like W. H. Smith & Sons, Ltd. and Boots' Pure Drug Co., Ltd., which are essentially ordinary chain stores, and very successful ones, although some of their larger branches deal in such a variety of articles that their internal control is on departmental lines.

The principal avenues through which the public receives its goods have now been described in this or earlier chapters. There remain a number of miscellaneous forms of retailing which in the aggregate do a large amount of business, but which do not present any special features which need detain us. These include automatic machines, stalls and kiosks in railway stations, hotels and other places of public resort, market-stalls (not essentially different from privately-owned shops), street-barrows and hawkers, and what is known as "club trading". This last is really a special genus of ephemeral co-operative trading, which many manufacturers, particularly of goods suitable for Christmas presents, encourage as an additional outlet for

their products ; it has the apparent advantage of cutting out the shopkeeper's profits, but like many other forms of "eliminating the middleman" does not effect much net saving, on account of the high rate of commission which the organizer of the club receives and of the frequently onerous nature of the task he has to perform. Club trading is a perennial bone of contention between the manufacturer and the "legitimate" retailer ; but is conducted on a scale which is never likely to reach significant dimensions.

Amidst the bewildering variety of the distributive system, one of the few valid generalizations which can be made is that, by any reasonable standard of judgment, the number of retail distributors of all kinds is grossly excessive. This criticism has already been made in relation to small one-man shops, but it is of wider application. The facts are incontestable. If the figure which has been quoted in Chapter VIII¹ for the number of shops in the confectionery trade is approximately correct, it means that there is more than one outlet for every two hundred inhabitants ; in the case of tobacco there is, roughly speaking, one for every hundred inhabitants. Similar evidence for retail trade as a whole is provided in an interesting table,² which has recently been made public, showing the number of persons per shop in some of the larger cities in Great Britain. While the figures in this table may not be all strictly comparable with one another, there is a surprisingly wide variation between one town and another ; this in itself suggests that in some of the towns the shops are too numerous :—

¹ See p. 132.

² In an appendix to a paper entitled "Some Aspects of Shop Property", by W. S. Edgson, F.S.I., published by the Auctioneers' and Estate Agents' Institute of the United Kingdom. The figures were supplied by the Rating Departments of the towns concerned.

<i>Town</i>	<i>Number of Persons per Shop</i>
Liverpool	39.7
Manchester	43.8
Birmingham	51.7
Belfast	54.3
Newcastle	59.6
Sheffield	60.0
Bradford	113.9

Such figures may testify to the adequate manner in which the consumer's convenience is studied, but they bear more eloquent witness to the price which he, no less than the distributors themselves, has to pay; and although it is with the retail trade that this chapter is concerned, it may be said in passing that the retail trade does not stand alone. Many wholesalers are confessedly fighting a losing battle against manufacturers whose policy of selling direct is gradually cutting the ground from under their feet, and they would be better out of the arena; many others are unable to secure a reasonably large turnover, owing to the number of their fellow-wholesalers. In the same way the ranks of the manufacturers themselves are by general consent seriously overcrowded.

In large part these excessive numbers are a normal feature of any branch of economic enterprise in a competitive industrial system; but in the case of retail trading a special additional factor is at work. It is natural for the manufacturer to do all he can to secure the goodwill of the retail trade; and this frequently leads him, if he sells branded goods, to compete against his fellow-manufacturers by offering his retail customers rather higher profit-margins than the average. He will do this reluctantly, it is true, since it is obviously to his advantage that the final consumer shall get the best possible value for his money; but since he can only reach the consumer through the retailer, he

cannot but feel that the favour of the latter must come even before that of the general public. A tendency for retail profit-margins to rise is thus created, and with it a tendency for the number of retailers to increase far beyond the limits which the public interest demands. This question of profit-margins will come up for fuller discussion in the next chapter, but a few words of comment may with advantage be inserted at this stage. It might be expected that the manufacturers, realizing that the use of a high profit-margin as a competitive lever is a policy which defeats its own ends—since it leads to a vicious circle of ever more numerous retailers pressing for ever higher margins to enable them to remain in business, and hence to a steadily-widening gap between what the manufacturer receives and what the consumer pays—would tacitly or explicitly agree not to use this weapon. Many of the more enlightened among them do in fact so agree ; but unfortunately at this point a further consideration supervenes, and that is that the average manufacturer is not at all averse to seeing the number of selling-points for his products increase. The greater the number of confectioners, for instance, the more chance there is that a particular half-crown will be spent on confectionery rather than on a pair of silk stockings or a visit to the theatre—or so the argument runs. It is easy to see the advantage which a particular trade derives from having numerous retail outlets ; it is less easy to realize the disadvantage under which it labours from having its products overloaded with unnecessary distributive costs. It is the old bogey of advertisement all over again ; and the private advantage of each individual manufacturer combines with the (ostensible) general advantage of each trade as a whole to defeat the interests of the community at large.

There is yet another factor which is perhaps of some importance. Landlords can get higher rents for shop property than for private dwelling houses ; and it is therefore in their interests, as in those of the manufacturers, that the number of shops should be as large as possible. It is true that it is no use building shops if tenants cannot be found for them ; but it is fatally easy to attract the uninitiated into retail trading and to lure them with prospects of large profits into consenting to pay high rents ; and shop premises once erected are not readily converted to any other use. We do not wish to stress this factor unduly, but feel that it deserves some mention.

It is difficult to see how the situation can be remedied. To the man with small capital and no particular professional aptitude retail trading offers almost the only hope of an occupation in which he can be his own master ; indeed, in these days of widespread unemployment, it often offers him the only hope of remunerative occupation at all. The mathematical chances that he will lose his money may be high¹ ; but even if he is aware how heavily the dice are weighted against him, which he seldom is, he is unlikely to be deterred if the sole alternative is idleness.

One partial solution which has been suggested is the one to which we have alluded above, namely, that manufacturers should bind themselves not to increase the retailer's profit margin, or better still, gradually to decrease it ; or alternatively that the imposition of any fixed resale price should be made illegal. This, however, as we have

¹ There is evidence that, allowing not only for actual bankruptcies and deeds of arrangement but also for solvent shopkeepers who retire from business after losing part or all of their initial capital, the mortality rate for the retail trade as a whole is in the neighbourhood of 10 per cent per annum.

pointed out, brings us up against the whole question of price-control and price-maintenance, which is the principal theme of the next chapter.

Another and possibly more effective solution would be a system of government licences, obtainable either on payment of a fairly stiff fee (which would lead to the closing down of many of the very small shops) or else only after proof that the proposed shop has a reasonable chance of success and will not encounter excessive competition from others already established in the immediate neighbourhood. The method of charging a fee would only work if the fee was really high, and considerations of equity would seem to rule it out of consideration ; in any case it would certainly not commend itself to any government dependent for support on a democratic electorate. The method of preliminary enquiry would perhaps achieve its object if it could be applied in a workable and not too costly manner. Something of the sort already exists, though admittedly for special reasons, in the shape of the licensing system for public-houses. Similar results are achieved for the drug trade by the provision that there must be at least one qualified assistant in each chemist's shop.

Apart from these legal restrictions, it is also the practice in one or two trades for manufacturers or wholesalers, or both, to co-operate with a view to restricting the number of retailers or ensuring their efficiency. "In the cycle and motor-cycle trade a newcomer is not supplied without some inquiry being made by the British Cycle and Motor Cycle Manufacturers' and Traders' Union as to whether he is suitable from the point of view of premises and capital, and of practical capacity to undertake repairs. Similarly in the book trade applications from those who wish to be

recognized as entitled to trade terms are examined by a standing joint committee of booksellers and publishers, and the applicant is normally required to show that he is in a position to create some demand for books by having a shop and carrying stocks, or by issuing lists in order to create a mail order business. Again the Stationers' Association aim at preventing so far as may be possible by friendly means the supply of stationery goods for resale by persons or firms outside the trade unless a proper stationery department is in regular being."¹

As the Report of the Board of Trade Committee on Restraint of Trade points out, the foregoing practices are not so much intended definitely to limit the number of retailers as to keep out those who are not likely to conduct a regular business or one which will attain a reasonable standard of efficiency. There is, however, one trade in which a more definite policy of limitation is pursued. This is the newspaper trade, in which the proprietors and wholesalers impose a "distance limit" on retail newsagents by refusing to supply papers to new shops within a certain minimum distance of existing retailers. This is done in order to ensure that the number of dealers shall not be so large as to make the sale of newspapers unremunerative, and (perhaps a more important reason) to minimize the wastage on account of newspapers supplied on sale or return.² The effect of this policy is undoubtedly to reduce the number of shops where newspapers are sold, and so probably to increase their efficiency, but it is questionable if there are many other trades in which it could be put into practice. Apart from the special circumstance that newspapers are

¹ *Report of Board of Trade Committee on Restraint of Trade*, 1931, p. 19.

² *Op. cit.*, pp. 20, 21.

supplied on sale or return, which places the wholesaler in a particularly strong position to enforce his policy, there is the additional fact that each newspaper proprietor is in the position of a monopolist. A retailer who was not allowed to stock one brand of tea would find little difficulty in obtaining another, or in finding customers for it, but it would afford little consolation to a newsagent who is prevented from handling the leading penny dailies to tell him that he can readily obtain a supply of obscure provincial weeklies or of twopenny comics.

To devise a system of licensing which could be generally applied to all branches of retail trade would certainly prove a formidable task. One cannot, moreover, overlook the inherent dangers involved in granting what would in effect be monopolies to particular traders. The object of reducing the number of shops by means of licensing would be to cheapen the costs of distribution and hence to reduce retail prices ; and this object would be defeated if the result were merely to present the retailer with an extra profit. At the same time, since it would always be within the discretion of the licensing board to allow competition if any retailer appeared to be abusing his privileges, the danger is perhaps not so great as it appears. The chain stores have in many cases established what is virtually a monopoly, and yet as a rule charge very moderate prices : a private dealer answerable for his good behaviour to an impartial board would scarcely be in a stronger position to fleece the public. The experiment therefore seems worth trying ; and is, indeed, likely to be made in due course as part of the programme of increasing public control of industry and commerce, to which the world of to-day is undoubtedly committed.

CHAPTER XIV

PRICES AND PROFIT MARGINS

It is not proposed in this final chapter to embark on any general discussion of the theory of retail prices ; for that would clearly be inappropriate in a work whose scope is limited to the marketing of a particular class of commodities. The question of the stage of distribution at which prices are primarily determined—whether “ at the mill ”, that is at the time of sale to the wholesaler by the manufacturer, or “ in the shop ”, that is at the time of sale to the consumer by the retailer, has been much debated, but mainly by persons who are not versed in economic theory. As the reader who is familiar with the technique of supply and demand curves will appreciate, it is a question to which there is no conclusive answer. The price charged by the manufacturer is determined at one time, and with reference to one set of conditions, and that charged by the retailer at another time, and with reference to another set of conditions. The two sets of conditions are inter-related, but neither can be said to have precedence. Nor is the controversy very relevant to our present topic. On the other hand, the question of the margins between manufacturers’ , wholesalers’ and retailers’ prices is most relevant. These margins vary widely as between one article and another, one trade and another, one shop and another for the same article, and one time and another for the same article and in the same shop. The majority of such variations occur for obvious reasons and require no special notice ; but certain of them raise important questions of economic principle or social expediency.

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Some indication of the variation between different trades is afforded by the following table :—

ESTIMATE OF TYPICAL PROFIT MARGINS AND EXPENSES OF RETAIL SHOPS
IN GREAT BRITAIN

<i>Type of Shop</i>	<i>Margin of Gross Profit</i>	<i>Expenses</i>	<i>Margin of Net Profit</i>
<i>Department Stores</i> (all depts.)	25	20	5
<i>Multiple Shops—</i>			
Boots and Shoes	30	25	5
Confectionery	29	23	6
Ironmongery	26	20	6
Grocery	20	17	3
Meat	20	16	4
<i>Independent Shops—</i>			
Furniture	32	26	6
Boots and Shoes	28	22	6
Confectionery	28	23	5
Confectionery and Tobacco . .	23	19	4
Meat	20	14	6
Tobacco	19	15	4
Grocery	15	10	5

These figures, which are based on a number of different sources of information,¹ must, of course, only be looked upon as being roughly representative of the trades to which they relate, as there are enormous differences between one shop and another. In the case of the expenses of the independent shops a reasonable allowance has been made for the remuneration of the owner, where as usually happens, he works in the shop himself. It is clear that, in the main, the variations in the margin of gross profit are determined by variations in the expense ratio, and that any attempt to lower the margin must proceed by way of a lowering of the operating expenses. Although similar figures are not available for wholesale distribution, at any rate in Great Britain, the same conclusion would no doubt be true of the

¹ Principally on investigations conducted by Mr. W. R. Dunlop and by one of the present writers (S. P. D.).

differences between the margins of various types of wholesaler.

The factors which determine the level of operating expenses are those to a discussion of which the greater part of this book has been devoted ; and no further comment on the differences between one trade and another is called for at this stage. We propose, however, to give some consideration to the question of differences between the margins imposed on one article and another, or on the same article at different times or to different customers, by the same shop ; and to that of differences between the average margin on the entire turnover in different shops within the same trade.

As between one article and another the most usual cause of a variation in the gross profit margin is a difference in the cost of doing business, just as it is between one trade and another. Some articles require more elaborate packing or more careful grading and preparation than others ; some are physically more perishable, or decline rapidly in value on account of changes in fashion ; some call for special knowledge or ability on the part of the salesman ; above all, some are rapidly sold while others are liable to remain in stock for a very long period. This last consideration, rapidity of turnover, and its consequent effects on holding costs, is undoubtedly the most important determining factor. It often explains the apparent anomaly whereby an article of low unit value is sold at a low margin of profit, and consequently for a very small absolute gross profit, while another article, perhaps no more intrinsically costly to handle, has to bear a much higher margin, and consequently yields a very large absolute gross profit. A box of cigars, for instance, bears a higher proportionate profit

margin than a packet of cheap cigarettes, and a fur coat than a cotton frock. Reverting for a moment to the table on p. 270, and comparing it with the figures for rapidity of turnover quoted in Chapter VI,¹ it will be seen that the higher profit margins are in trades like furniture, boots and shoes and, to a lesser extent, confectionery, where turnover is relatively slow, and the low ones in meat, grocery and similar trades, where turnover is rapid. Department stores, again, as a class, work on a fairly high margin, corresponding to a fairly low rate of stock-turn.

We now turn to variations between the margin on the same article set by the same trader at different times or to different purchasers. Up till fairly recently it was almost universal for the exact price to be determined separately for each transaction by a process of higgling between retailer and customer; in Oriental countries and to some extent on the continent of Europe, this still happens. Such a state of affairs is natural where articles are little standardized, or where the market is imperfect, but it is clearly inappropriate to modern conditions of mass-production and mass-distribution. Besides being wasteful of time, it is generally felt to be unjust, and may therefore be dismissed as characteristic of a more or less primitive economy. Variations do, however, exist in the retail prices charged, not to different individual customers, but to different classes of customers. In particular these differences take the form of discounts for large purchases, discounts for prompt payment, and discounts to regular as opposed to occasional customers. In each case, however, such discounts are granted, at least in principle, for a sound economic reason; namely, that they are made possible by a reduction

¹ See p. 79.

in the cost either of transporting, holding or financing stocks, or of obtaining information. In wholesale distribution discounts of this character are far more widespread; and here, in addition to the recognized quantity discounts and allowances for prompt payment, there is still a good deal of higgling with particular customers. Where wholesale transactions are on a really large scale, each sale can be considered to be associated with special supply and demand curves of its own, and variations in price are therefore, economically speaking, legitimate. On the other hand, for relatively small transactions, such as those which take place daily between a large manufacturer of standardized branded goods and his wholesale customers, there is little justification for special concessions to individual customers, as opposed to classes of customers; if concessions are made they can rightly be regarded, in common with similar occasional concessions made by retailers to individual members of the public, as survivals of a more primitive economy.

Differences in the prices charged for the same article, not to different customers at the same time, but to the same customers at different times, rest on quite another basis. They can be justified, for the most part, by reference to two principles, which are perhaps better regarded as two aspects of the same principle. First, there is the case of goods which rapidly lose value owing to changes in fashion or to the fact that they are perishable. The half-yearly sales organized by drapers, department stores and other dealers in fashion goods fall into this category, as do the Saturday night clearances of fish, fruit and vegetables.¹ Secondly,

¹ It is important to distinguish between a reduction in the price of, say, strawberries, because they have actually deteriorated and because they are

there is the case of goods for which it is practicable to tap at different price-levels successive layers of consumer demand. Books brought out first in "de-luxe" or limited editions, then in standard editions, then, after a time-interval, in large popular "reprint" editions afford the most familiar example in this class. In a sense, fashion-goods also fall within this category. Paris "models" fetch an extremely high price so long as they are unique or limited in numbers; at a later stage garments identical in all other respects can be marketed in large quantities at a much lower price to the mass of the population. We do not propose to elaborate this topic, as it is a commonplace of economic textbooks; but will now pass to those forms of price-variation between different shops in respect of identical articles, which rest on an entirely different set of considerations and which have come to be classed generically as "price-cutting".¹

By way of preliminary we may observe that the fact

likely to deteriorate if they remain unsold. In the former case the article is no longer physically what it was; whereas in the latter it is physically unaltered, but can only fetch a low price owing to a lack of balance between supply and demand. The latter case is strictly comparable with the general marking-down in a half-yearly sale, or with distress sales of any kind of goods; the former is rather comparable with the disposal at reduced prices of shop-soiled goods, "remnants," or articles which have in some way or another been damaged.

¹ Since the above was written a monograph on price-cutting has been published under the title *Price-cutting and Price-maintenance*, by Seligman and Love. This is a comprehensive, but characteristically long-winded, American study of the problem as it presents itself in the United States, in its historical, legal and economic aspects. The interest of the book is rather marred for the English reader by the extent to which it is concerned with the peculiar legal situation in regard to price-cutting which prevails in that country, where a manufacturer is forbidden so much as to maintain for his own use a list of retailers with whom he does not propose to deal. Nevertheless, those who wish to pursue the subject further would do well to consult it.—S. P. D.

of a difference between the prices charged for two apparently identical articles in two different shops is itself proof of a difference between the market conditions in the two places. Within a perfectly free market, prices for identical articles at the same time are identical ; that is the definition of a free market. In face of a difference in market conditions, a difference in price is *a priori* justifiable ; and the onus of showing that in particular cases it is not justifiable rests with those who are opposed to it. In other words it is not " price-cutting ", but rather any arbitrary interference with the free working of the market designed to secure " price-maintenance ", that requires defence.

For unbranded goods uniformity of price in different shops is the exception rather than the rule. Certain articles in universal demand, like bread and milk, are sometimes sold at a price which is uniform over, at any rate, a large part of the market in a particular district, but even this measure of uniformity is commonly the result of agreement between the leading dealers. Otherwise it is usual, and accepted by the public as reasonable, that prices should vary somewhat from shop to shop, according to the peculiar circumstances of each. A chain-store branch will undersell a private grocer, at the cost of omitting to supply credit or delivery facilities ; a market-stall will undersell a suburban greengrocer, at the cost to the customer of a journey into town and the inconvenience of shopping in a big crowd and perhaps within a very much restricted period ; an apple will cost more at the top of Snowdon than in Manchester or Liverpool ; and so on.

In the case of branded goods of standardized quality, on the other hand, it is usual to find a standardized price, observed with a greater or lesser degree of rigidity according

to circumstances. Occasionally, and for special and obvious, though not always justifiable, reasons, this price may be exceeded. A penny newspaper, for instance, may cost twopence on a cross-Channel steamer; a two-shilling box of chocolates half-a-crown in a theatre; a ninepenny bottle of beer two shillings or more in a night-club. In each of these examples there is an element of monopoly on the supply side; probably, though not certainly, coupled with an exceptionally high cost of doing business. In the absence of any special evidence to the contrary, it may be presumed that the consumer will himself resist such extra charges; and that he therefore requires no special protection except, perhaps, against actual misrepresentation or fraud.

The more usual deviation from the standard price, and that which is a perennial source of dispute in modern commerce, takes place in a downward direction. For a variety of reasons many retailers believe that it is to their interest to sell goods below the normal advertised price—in other words to indulge in “price-cutting”. There are a number of methods of price-cutting in the sense thus defined. First, it may be adopted by the retailer as a permanent policy, and applied to a wide range of branded goods or even to his entire stock in trade. In such cases one may presume *a priori* that there is strong economic justification for the practice. Secondly, it may be applied, again as permanent policy, only to a narrow range of lines, which are described as “loss-leaders”, in order to attract custom for other lines sold at a more profitable margin. Thirdly, it may be quite sporadic, applied now to one line and now to another, or lasting for a brief period, or directed to some particular object like cutting out competition on

the part of another retailer newly established in the neighbourhood. In the first of these cases—all-round price-cutting as a permanent policy—the price-scale adopted must clearly be such as to cover all the costs of distribution, as well as to allow a certain, though reduced, profit-margin. In the other two cases the price charged may be below the prime cost of the transaction, or above the prime cost but insufficient to cover a fair share of overhead expenses, or finally, but less probably, sufficient to cover all expenses but yielding less than the normal profit-margin.

We will deal with the three cases in reverse order. Sporadic price-cutting may or may not be justified according to circumstances. In one form it is practically indistinguishable from distress-selling or from the periodical sales of obsolescent stock which have been alluded to in an earlier paragraph. In another form it is a deliberate method of sales-promotion. Chemists, for instance, frequently organize "special offers", "two articles for the price of one" campaigns, and similar drives which are unprofitable in themselves but which are considered to stimulate trade and to draw attention to the shop which is responsible for them. From the point of view of salesmanship the merits of such methods are open to question, since they serve to lower public confidence in the value offered when goods are being sold at their full normal prices; and from the point of view of the economist they may be condemned, since they discriminate unfairly between one customer and another, besides tending to induce people to purchase more than they really need. It is, however, very difficult to see how, under a competitive economic system, they can be suppressed.

In yet another form sporadic price-cutting is still more indefensible. When it is used by a trader as a deliberate means of killing legitimate competition, either in individual lines or over the entire range of goods sold, with the intention of abandoning it as soon as he has achieved his purpose, it has all the vices of the worst forms of destructive "dumping" or of those practices which a generation ago brought some of the early American trusts into disrepute.

The policy of using individual products as loss-leaders is a very old one and requires careful examination. It is not confined to branded goods—grocers often sell bulk lines like sugar and tea at a loss in order to bring customers into the shop—but it is most commonly found in the sale of widely advertised brands of standardized articles, the price of which is supposed to be fixed by the manufacturer as an integral part of his selling policy. Here two separate interests call for consideration—that of the manufacturer and that of the consumer. So far as the retailer himself is concerned, the practice of using popular articles as loss-leaders may be presumed to be beneficial (or he would not adopt it), though, like other forms of price-cutting, it is not unattended with risk.

From the point of view of the manufacturer whose goods are cut in price, the issue is doubtful. On the one hand, the reduced price leads to an immediate increase in sales, which, since his own profit-margin remains unaltered, is directly beneficial to him. On the other, there is the danger that the public may lose confidence in a branded and nominally price-maintained article for which they have to pay one price in one shop and another in another; and that their total purchases in the shops where the price is cut and

where it is not will be less in the long run than they would be if the price were everywhere uniform. Moreover, it is not only the favour of the general public which may be lost. Retailers who are either unable or unwilling to follow the cutters are naturally prejudiced against the article in question ; and even the cutters themselves, if they find that too much of their trade is being diverted into unprofitable sales, may suddenly tire of their policy and revert to full prices or, more probably, drop the line altogether and start cutting in some other direction. The sufferer from all this is the manufacturer ; and his contention that the use of his lines as loss-leaders is a means whereby the retailer robs him of the value of his expenditure on advertising is fully justified. Nearly all manufacturers do in fact object strongly to price-cutting of this type, so that it may be presumed that they suffer more from loss of goodwill and an uncertain market than they gain through increased sales. From the point of view of other manufacturers whose goods are not cut in price, the cutting policy is harmful, since it means that their own products have to bear a portion of the distributing costs of the cut-price goods. This result of price-cutting is not very obvious on the surface, since its effects are spread over a large number of manufacturers, but it is one which the economist must take into consideration and which indeed may well be the deciding factor in condemning on grounds of equity the use of loss-leaders.

From the point of view of the general body of consumers, generalization is impossible. The effect of the loss-leader policy is in many ways the same as that of a tax placed on one set of commodities, the proceeds of which are used to subsidize the production of another set of commodities.

Whether the consumers gain or lose by the consequent transference of consumption depends on the shape of the supply and demand curves for the subsidized commodities on the one hand and for the other commodities on the other. In general, however, a slight loss may be presumed. Moreover, the uncertainty which attaches to cut prices is, as already pointed out, harmful; as is the tendency for people's judgment to be warped by the idea that they are getting "something for nothing".

The most important consideration, however, is doubtless the harm done to the manufacturer in depriving him of the just rewards of his advertising. It is a leading thesis of this book that expenditure on advertising is on the whole injurious to the community; but so long as it is in fact an important element in the economic system it seems desirable that its fruits should accrue to those who are responsible for it.

There is one other danger which is constantly present when retailers make an extensive use of loss-leaders: that is that, in addition to selling other articles at prices above the average, they will indulge in misrepresentation of these other articles. It is not easy to attract custom for very highly priced goods, if nothing is done to conceal the fact that the price is high; and it is by no means unusual for a cutter to sell at a loss or for insufficient profit a few well-known branded goods, while at the same time selling either unknown non-branded goods or deliberate imitations of branded ones at a preposterously high price—with the result that on his entire turnover he is making not an abnormally low but an abnormally high rate of profit.

We now return to the more general question of the

adoption of price-cutting as an all-round policy ; and we may assume provisionally that the cutting is of that mild order which only means a reduced percentage of profit, and not any danger of actual loss. It is not infrequent for mild cutting to develop into fierce cutting, leading to eventual bankruptcy, and with that contingency we will deal later ; but for the present we will take it for granted that this does not happen, in other words that the price-cutter is alive to the full implications, so far as he himself is concerned, of his actions. This type of cutting is undertaken because, although it means a smaller profit on each transaction, its effects are so to increase the total turnover that the total net profit is increased. In general, moreover, the increased turnover leads to a reduction in some or all of the selling costs, notably in holding costs, so that even on each transaction the net profit margin is not reduced to the same extent as the gross profit margin.

In the case of non-branded goods, price-competition on these lines is a perfectly normal feature of distribution. It is only where a fixed price is advertised to the consumer that variations appear to be unreasonable. Common sense, as well as economic theory, decrees that a retailer whose costs are lower than those of his fellows, either because he is specially efficient or specially favourably placed, should undersell them. An extreme example is provided by the contrast between a cut-price confectioner in a main Central London thoroughfare and a village sweetshop in a remote part of the Highlands. The former may easily secure a turnover fifty times as large as that of the latter ; the stock he will have to carry, however, will perhaps not be more than ten or twenty times as large. The rate of turnover will therefore be four or five times as great.

The village shop may have to yield at least a maintenance to its owner, and possibly support his family as well; the town shop will require the employment of, let us say, ten or a dozen assistants. The labour costs will then be something like five times as great in proportion to turnover in the Highlands as in Central London. Some of the expenses in London, notably rent, may be in full proportion to the extra turnover, but when all factors are taken into account it is quite possible that the entire cost of doing business per unit of turnover will not be more than half as much in the one case as it is in the other. It thus stands to reason that a price which would be fair in the Highlands would be grossly excessive in Central London; and that if the village shop is to survive while the London shop does not make utterly exorbitant profits, the latter will have to cut prices in comparison with the former; and hence, that unless some form of outside pressure is brought to bear, competition will in fact compel the London shop to do so. Actually the recognized gross profit-margin in the confectionery trade is round about 30 per cent, and this is the rate which the village shop expects to earn; on the other hand, the average gross margin of a successful London cutter is not likely to be much in excess of 20 per cent. A recent survey indicates that the number of confectionery shops in Central London, which do not systematically sell the branded lines of national manufacturers below the ticketed price, is extraordinarily small.

We have purposely selected an extreme example for our illustration. A 30 per cent profit margin under present circumstances, and with the existing number of selling-points, is absolutely necessary to ensure a bare livelihood to the vast majority of confectionery retailers; on the other

hand, a margin of that magnitude, rigidly enforced without possibility of evasion, would lead to a hopelessly uneconomic multiplication of shops in certain areas, or else would provide a gratuitous addition to the income of the landlords or the existing occupiers. In other circumstances the position is perhaps more doubtful. Where there is no such obvious and blatant reason why the prices of branded goods should be cut, the effect on the public mind, as well as on the retail trade, of the existence of three or four separate prices for identically the same article in the same or neighbouring streets is undoubtedly demoralizing. It is hard enough for the ordinary consumer, under modern conditions of competitive advertising and complexity of products, to formulate his effective demand for commodities on rational principles; and to introduce the further complication which the possibility of buying at cut prices involves undoubtedly makes rational choice slightly harder still. This, however, is mainly because the public is imperfectly educated as to the true basis which makes permanent price-cutting possible. If people fully appreciated that the cost of distribution of a branded article, as of an unbranded one, varies according to the efficiency, the location, and the amount of selling services rendered by the individual retailer, there should be no more resentment at paying 3s. in one shop and 2s. 6d. in another for the same box of chocolates than there is now at paying 6d. in one shop and 4d. in another for cauliflowers of indistinguishable size and quality. The prospective purchaser would have to weigh the advantage of obtaining his chocolates at the lower price against other advantages, which might include delivery, credit, more courteous service, a wider choice, or greater accessibility of the retailer's

premises. In practice the last of these advantages would often be the most important, since the cut-price shop can only flourish in localities where a big turnover will be assured and the purchaser of chocolates will probably want to buy them on the spur of the moment at the nearest available selling-point.

The preceding sentence takes one to the heart of the second of the two leading objections to price-cutting which are usually urged by manufacturers. Their first objection is that it "demoralizes" the trade, antagonizes their regular customers, and so forth. The force of this objection in the case of "loss-leaders" has been admitted; and in the case of all-round price-cutting has been recognized, with the proviso that it would lose most of its force if public opinion could be made to appreciate the true nature and justification of price-cutting, and not to look upon it as something unusual and needing special explanation. The manufacturers' second objection, which we now propose to examine, is that price-cutting, by driving the smaller "neighbourhood" shops out of business, decreases the total number of selling-points, and so not only decreases the number of the manufacturers' possible customers, but places undue obstacles in the way of the legitimate satisfaction of public demand.

It is very hard to feel any sympathy with this second plea. Its force can be questioned from two different angles. First there is the question of fact; whether, that is, a reduction of the number of selling-points as a result of price-cutting will really lead to a reduction in the total sale of the commodity concerned. In the case of necessities it obviously will not; in fact the lower prices at which they can be obtained will no doubt slightly increase the demand

for them. In the case of non-essential commodities for which the demand is elastic, and which are not usually bought on impulse, the lower price-level will also stimulate total sales, perhaps even to a far larger extent than the average manufacturer would believe possible. There remain for consideration non-essential goods which are usually or frequently bought on the spur of the moment, possibly for the mere reason that they are seen in a shop-window. Chocolates afford an excellent example of goods in this class. There is no doubt that an individual purchase of them is often made because of the sight of a tempting window-display, and that a spontaneous impulse to buy can be easily stifled if a purchase involves any considerable journey to find a shop. On the other hand it may be doubted whether, even in the absence of a price-reduction, the aggregate purchases would diminish considerably (it may be admitted that they would diminish a little) if the extreme plethora of shops which actually exists were very severely reduced. The human organism has a fairly strong craving for sweet things, which does not need any exceptional measures of stimulation to bring it into play. If chocolates were less readily obtainable on the spur of the moment, they would still be purchased when the opportunity arose, less frequently, no doubt, but in larger quantities at a time. What is true of chocolates and sweets is true of most other commodities. Of course, if price-cutting were established in one trade and suppressed in all others, the arguments we have just put forward would lose somewhat in weight, for commodities, particularly non-essentials, are competitive with one another; but we are presupposing a general abolition of price-maintenance for all goods in respect of which it is now practised. The

only possible result would then be a slight swing-over in consumption from branded and hitherto price-maintained articles to non-branded goods, which, in view of the excessive salesmanship devoted to pushing the former, might possibly be to the public advantage.

No doubt commodities do exist for which the desire to buy is in large part a direct result of easy access to a retailer, and for these a reduction in the number of retailers would seriously reduce sales—and so injure the manufacturer. It may, however, be questioned whether from the social point of view a commodity for which demand is so volatile is one the sales of which it is desirable to encourage. The most obvious example is alcoholic liquor, in respect of which public policy dictates that the number of selling-points shall not merely not be artificially increased, but shall actually be restricted by legal enactment.

Since, in the absence of special measures to prevent them, price-variations are the natural result of economic forces, the free play of demand would in any case not lead to such a diminution in the number of shops as seriously to inconvenience the public. It is absurd to suppose, for instance, that the village schoolboy would refrain from buying sweets at a penny an ounce because he knew, which of course he generally would not do, that the same articles were on sale at four ounces for threepence in a neighbouring town ; and consequently absurd to suppose that the village shop would be forced to close its doors. All that would happen would be that a certain number (perhaps a large number) of more or less redundant shopkeepers would be driven out of business—to the advantage of all concerned, themselves often in the long run included.¹

¹ Since such shops seldom, in fact, yield an adequate livelihood to their owners.

We have not yet made any allowance for the direct increase in the sales of the shops where price-cutting takes place which results from the lower price-level. When this is taken into account—and there is reason to believe that for many commodities it would be very large—there is little room left for doubt that with an all-round abolition of all efforts to impose fixed resale prices, there would be an all-round increase in the production and consumption of the commodities which are now subject to such efforts; but it must, of course, be admitted that individual manufacturers in particular cases may gain more from attempting to suppress price-cutting, as a result of the increased goodwill of the retailers with whom they deal, than they lose as a result of the higher prices at which their goods are sold.

Secondly there is the question whether, even if price-cutting did reduce the number of selling points to such an extent as to diminish sales, it would necessarily be against the public interest. This, like the justification for advertising, must remain largely a matter of opinion. If economic welfare is considered to be greatest when the production and consumption of commodities is greatest, then it may be admitted that a reduction in consumption must be accompanied by a diminution in welfare. If, on the other hand, the public can be considered to know best what is good for it, there is no special advantage in a state of affairs which, by altering the valuation of leisure as against commodities, leads to an increase in consumption at the cost of greater exertion. Since we have already argued that in fact price-cutting does not reduce consumption, the question does not really arise in this form. On the other hand, if in particular cases the removal of restrictions

placed on resale prices leads to a diminution in the consumption of particular commodities, it may almost certainly be assumed that such restrictions are undesirable. As we have suggested above, goods which can only hold their own in the public favour through artificial measures of this kind¹ are not likely to deserve much encouragement.

As in the discussion of advertising, an exception may be made in the case of new commodities. A specially favourable rate of profit which induces retailers to stock a new invention, or an old commodity of improved quality or design, may well be to the public advantage. The argument is similar to that which justifies the granting of monopoly rights to patentees, and needs no special development. Patentees do in fact have special legal powers of enforcing conditions of resale on their customers, and these powers may be regarded with equanimity and indeed with approbation.

We come now to the one serious danger which the cutting of the advertised price of branded goods involves, namely the risk that it may be carried to a point where the retailer makes a loss instead of a profit, leading to his eventual bankruptcy. All competition involves this risk, and indeed loss or bankruptcy is the only way under the existing economic system in which traders who are inefficient or over-bold are squeezed out of business. The danger is, however, particularly acute when price-cutting becomes the retailer's guiding principle and the chief basis of his

¹ It is not argued that the higher price is a direct incentive to the public to buy—though in exceptional cases it may be so—but that it acts as an inducement to the retailer to push the goods in question, and also that it tends to multiply the number of retailers—both of which, on the present hypothesis, lead to increased sales.

appeal to the public. The idea that a reduction of the profit-margin, leading to an increase in turnover, is a sure road to financial success so takes hold of the imagination that the necessity of covering expenses, overhead as well as direct, is apt to be forgotten. Moreover, price-cutting, by its very nature, is predatory; it tends to drive competitors out of business. In any given area there is a limit to the consuming power of the public, and the adoption of retaliatory price-cutting by the competitors who find they are losing custom may be followed by the collapse not only of those competitors but of the original price-cutter himself; his power to sell at the cut prices rests on the increased turnover which he secures, and when this is reduced his expense-ratio begins to return to a higher level. The whole question of the degree to which price-cutting is desirable is therefore bound up with that of the number of retailers it is desirable in the public interest to keep in business. In most modern communities the number which actually exists is undoubtedly excessive, so that the present argument is perhaps of mainly academic interest; at the same time it is in theory of pivotal importance.

We may conclude that in a community whose economic system is based on competitive profit-making the deliberate attempt to maintain uniform resale prices is inimical to the public interest. In a planned socialist economy it might well be otherwise; it would be just as reasonable for such a community to adopt a uniform price-system as it is for capitalist states to impose flat-rate charges for the carriage of inland letters, for local telephone calls, and for many other services whose prime costs differ enormously from one transaction to another. As we pointed out in the first

chapter of this book, our whole discussion is only relevant to the particular industrial system now prevailing in Western Europe and America.¹

A passing reference may be made to a phenomenon which is sometimes described as a special type of price-cutting, but which is better regarded as a form of advertising, under which heading it has already been mentioned. This is the offer of prizes or free gifts in return for coupons enclosed with commodities or for the wrappers surrounding them. Such offers are most frequently made by the manufacturers of branded goods, in which case they obviously do not constitute price-cutting in the sense in which the expression has been used above ; but they are also sometimes made by retailers who issue " trading stamps " to customers in proportion to the value of each purchase, and redeem such stamps when a certain number have been collected, either in cash or kind. In this latter form these operations are more closely akin to price-cutting proper ; though in view of the fact that there is no guarantee that the retailer does not recoup himself for the cost of the scheme, by charging somewhat higher prices than his competitors and relying on the stamps to attract custom, it is

¹ See also the *Report of the Board of Trade Committee on Restraint of Trade*, 1931. In this Report the problem is approached mainly from the point of view of the possibility of altering the legal position in regard to price maintenance. As matters stand, the manufacturer in Great Britain, who wishes to have his products sold at the ticketed prices, may adopt any measures he thinks fit to prevent them from falling into the hands of price-cutters ; but once the retailer has obtained possession of them he is at liberty to charge what price he likes. The view expressed in the Report is that no change in the position is desirable, whether in the direction of giving the manufacturer a more effective control over retail prices or in that of specifically forbidding any attempt at price-maintenance.

not really logical to place them in the same category. All schemes of this kind may be unhesitatingly condemned. They discriminate unfairly between the consumer who takes the trouble to collect the coupons and the one who does not ; they appeal in a delusive manner to the desire to get " something for nothing " ; and they place a further difficulty in the way of rational choice. It has been argued by those who approve of them that they have the merit of providing the recipient of the gift with something which he could not otherwise obtain so cheaply. Those who take this line admit that the value of the coupon has to be added to the manufacturer's price for the main commodity ; but assert that it does not have to bear any share of the retailer's and wholesaler's profits. This is a complete fallacy. Suppose an article in the normal way retails for 6*d.*, the manufacturer's charge for it being 4*d.* If, now, the manufacturer encloses a coupon which, on the average, costs him $\frac{1}{2}$ *d.*, he must charge 4 $\frac{1}{2}$ *d.* to the retailer. The retailer in turn, if, as we must assume to be the case, he is to earn the same profit margin as before, will have to charge 6 $\frac{3}{4}$ *d.* In other words the manufacturer gets $\frac{1}{2}$ *d.* for his coupon, but the consumer pays $\frac{3}{4}$ *d.* Nor is this the end of the matter. A gift scheme certainly cannot be administered for nothing ; in fact, it will probably be extremely costly, being in many ways analogous to direct sale by post. Leaflets and other advertising material have to be distributed, the coupons themselves must be printed and enclosed with each article, the cost of postage is heavy (we must of course include the cost to the consumer of posting his coupons to the manufacturer), and a great deal of waste is entailed. Regarded as a form of advertising, gift schemes may not be much more pernicious than many others, though

they certainly cannot be defended on the ground that they bring the real merits of the commodity they are advertising to the consumer's notice (which is what is claimed by certain advertisers for their announcements in the press and on the hoardings) ; regarded as a form of price-cutting, they are a snare and a delusion.

Direct cash discounts on all sales are, of course, in quite a different category. Whether they take the form of the co-operative societies' " divi " or of the discount allowed to regular customers by ordinary tradesmen, they are a genuine form of price-competition, and as such are not affected by any of the criticisms made in the last paragraph. They would not have been alluded to at this point, were it not for the fact that false analogies have sometimes been drawn between a cash rebate of this type and a rebate in kind of the type which gift schemes provide.

We may now summarize the entire argument. In an economic system where competition is effective the consumer pays for what he gets and gets what he pays for. It is not denied that there are in distribution many opportunities for earning monopoly profits ; but for a number of reasons such opportunities are less frequent than in production and manufacture. In the first place, distribution cannot be based on a natural monopoly of raw materials ; in the second, it is less subject to conditions of increasing return ; and in the third, it can usually be entered upon with a very modest capital and perhaps with a smaller equipment of technical knowledge and specialized skill. Local monopolies may easily be established, but they are always subject to the possibility of goods being obtained elsewhere ; if the only grocer in a small village raises his prices to an excessive point he will probably find himself up against the

competition of chain-stores and co-operative societies in the neighbouring town.¹

Where a real monopoly cannot be made effective, it is yet possible to maintain prices at an artificially high level. In such cases the higher prices, instead of accruing in the form of extra profits to the distributor, are likely to be absorbed in one of two ways. Either the number of distributors will increase, since outsiders will be attracted into a field which promises a large return, or competition will be transferred from a basis of value for money to one of the provision of additional service. Neither of these developments can be regarded as altogether healthy. The ranks of distributors, wholesale as well as retail, are already seriously overcrowded, with the consequence that individual turnovers are far lower than they should be, and nobody in the long run is the gainer; distribution is merely less efficient and more costly than it might be. "Service to the public" is often furnished on a scale far exceeding that which the public, left to itself, would ask for; and is really very largely competitive advertising. If price-competition were allowed to act more freely, public demand would determine, more exactly than it is now able to do, how many shops and what standard of service it requires. Those who are willing to pay a slightly higher price for the convenience of being able to get what they want near

¹ The above conditions do not apply if production and distribution are concentrated in the same hands; when this happens a monopoly position of the greatest possible strength is liable to be established, since a single control may then be exercised over the raw materials, the finished product and most or all the available distributive outlets. Many of the great monopolies of the modern world are based on such a concentration of control over production and distribution, indeed, it is a leading feature of "trust" policy to aim at control in the retail field. See also *The Prospects of Industrial Civilization*, by Bertrand and Dora Russell, pp. 198-212.

at hand, or of enjoying such services as credit, delivery to the door, and exceptionally efficient and courteous attention from the man behind the counter, would do so. Those who are willing to forego these advantages for the sake of lower prices would similarly be able to secure satisfaction.

It is not suggested that in fact both needs are not to some extent met. On the one hand there are small neighbourhood shops, family tradesmen who place "service" in the forefront of their policy, and luxurious establishments where comfort and convenience are considered to be more important than cheapness; on the other hand there are multiple shops, co-operative societies, and "sixpenny" bazaars, where price is the leading consideration. It is, however, suggested that efforts at price-maintenance handicap the development of the latter, which in view of the still comparatively low standard of living of the mass of the population is a matter to be deplored. Moreover price-maintenance drives even multiple shops into the arena of competition on non-price lines; credit, delivery and similar facilities are now being offered by these institutions, or the money is spent, still less desirably, on advertising, or on attempts to cut out the manufacturer by establishing an alternative source of supply.

We must repeat that we do not deplore the provision of additional "service" by the distributor; it is, indeed, only a symptom of an improving standard of life. Nor, in a regulated economic system, would we deplore the establishment of a monopoly, or the use of advertising where it seemed desirable in the public interest, or the decision, if it were arrived at, to sell at uniform prices, or the maintenance of a number of selling-points somewhat larger than would permit of the very lowest possible prices being charged.

It would indeed be silly to deplore them, since they would obviously be of the essence of a controlled economy. The gist of our argument is that in a world which in fact is not regulated in that manner, but is nominally based on free competition, artificial restraints are often injurious to the body politic. We end this book, as we began it, by suggesting that at the moment we are between the devil and the deep sea—in distribution as in most other phases of economic life. There is too much rigidity to be compatible with free competition, with the result that competition is driven into wasteful channels ; and there is not yet that far-reaching measure of control towards which the world is certainly moving. Many, though by no means all, of the criticisms which have been made and the conclusions which have been formulated in the course of our study apply only to existing conditions ; and to that extent it is inevitable that in a completely planned economy they would have to be abandoned or revised.

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