

**PRIMARY FACTORS RESPONSIBLE FOR THE
PRESENT BUSINESS STANDING OF THE
NORTHERN WHOLESALE HARDWARE COMPANY**

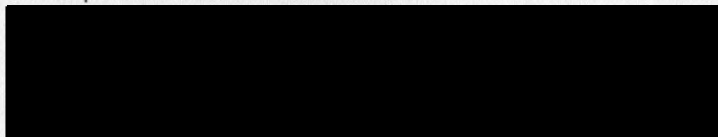
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A Thesis

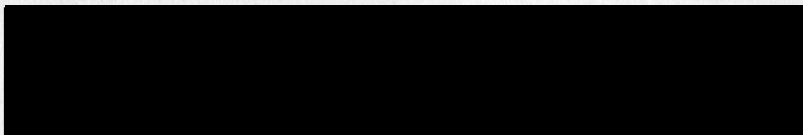
**Presented to the School of Business Administration
and the Graduate Division of the University of Oregon
in partial fulfillment
of the requirements for the degree of
Master of Arts**

June 1939

APPROVED:



Major Adviser



For the Graduate Committee of the
School of Business Administration

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CHAPTER I

INTRODUCTION

A new method of wholesale distribution, the cooperative retail buying association or cooperative chain, has been developing during the last half century. The movement grew steadily until the depression just following the World War. However, during the past fifteen years renewed interest has been shown in the movement, and there has been a rapid increase in the membership of these groups.

The reason given for the organization of these buying associations was to reduce the wholesaling expenses below those of regular service wholesalers. This can be done through (1) eliminating certain functions performed by the regular distributor; (2) shifting the cost of performing wholesale functions to the manufacturers or retail members of the association; and (3) reducing the cost of performing the retail functions.

It is the purpose of this thesis to show what factors are responsible for the success and development of the Northern Wholesale Hardware Company, a cooperative retail buying association. It may be well to point out these factors by determining to what extent, if at all, the wholesale functions of selling, buying, credit, delivery, and

storage are performed by this company; and, also, to further the appraisal by pointing out its advantages and disadvantages.

The history and present status of the cooperative retail buying association movement is first described in developing this thesis. This is followed by a discussion of the history, organization and wholesale functions performed by the Northern Wholesale Hardware Company. In each chapter on the wholesale functions of this company a comparison is drawn with drug and grocery cooperatives, as well as others in the hardware field.

The material for this thesis was obtained from several sources. Much of it was gathered through members and officials of the company by questionnaires, private interviews, and correspondence. A second source was books and magazine articles on cooperative wholesaling. As a final source, such material as the Federal Trade Commission reports, information obtained from other governmental agencies, and interviews with regular wholesale hardware firms was utilized in the formulation of this study.

CHAPTER II

COOPERATIVE WHOLESALING

Cooperative wholesaling is a method of distribution started at least fifty years ago in an effort to meet problems such as price cutting and price maintenance, and to combat rising competition. Perhaps the most common reasons why business men join together in cooperative effort are as follows: (1) the interchange of statistical information between members, a practice of rather recent origin; (2) cooperative advertising used to reduce advertising expense and to compete with chain stores. Many loosely organized local associations carry on collective advertising in newspapers, circulars and on bill boards. Frequently a common name is selected in order to associate the advertising with the member stores. Chain stores have been very effective through the use of mass advertising. Collective advertising affords the small independent dealer a chance to compete with the chain store in advertising. (3) Cooperative study and education for the improvement of management and operating problems; (4) collective buying which is principally to reduce the cost of merchandising to the retail members.¹

¹ I. W. L. White, Cooperative Retail Buying Associations, p. 1.

All business men, however, are not interested in cooperating to the same degree. Some are desirous only of organizing a small group of retailers into an informal buying pool, while others want a highly developed organization which performs all of the marketing functions itself.

Distributive cooperation may be classified as follows:¹

1. Cooperative buying (pool)
2. Cooperative buying and advertising
3. Cooperative buying and advertising with a warehouse.
4. Cooperative buying and advertising with a warehouse and supervisors.

Definition

A cooperative chain is defined as an association of independent retailers acting cooperatively either by themselves or with a wholesaler to obtain advantages in buying, advertising, or in the performance of other merchandising functions or activities. Cooperative or so-called voluntary chains can be broken down into two groups: retailer owned and wholesaler-sponsored, depending upon who organized and continues to control the operation of the organization. The retailer-owned type is an organization of independent retailers which advertises, functions as a wholesaler, or performs other merchandising activities

1. Beckman and Engle, Wholesaling, p. 556.

cooperatively. It is not connected with any particular wholesaler in such activities. The wholesaler-sponsored type is a group of independent retailers affiliated with a wholesaler for buying, advertising, or other merchandising activities.¹

The term cooperative is used partly for convenience but primarily because in its broadest sense members of these groups, whether wholesalers or retailers or both, are cooperating in numerous ways with a more or less common end in view.

History of Cooperative Wholesaling

Among the oldest existing retail-owned cooperative associations are the New York Consolidated Drug Company in Manhattan, organized in 1887; and the Frankford Wholesale Grocery Company, organized in Philadelphia in 1888. The Philadelphia Wholesale Drug Company was organized in the same year as a limited partnership and today is the largest strictly cooperative drug house in the United States, with sales of approximately \$7,500,000.

There were thirteen grocery cooperatives organized prior to 1910 which are still in existence,² indicating an early development in the grocery field.

1. See Cooperative Drug and Hardware Chains, p. 1, for basis of classification.

2. Ibid., p. 23.

The Red and White Corporation, originally called the Serv Us Corporation, was the first wholesaler cooperative chain which was established with this type of organization in mind. The first Red and White stores opened in 1932; and at the present time it has the largest number of wholesale and retail members next to the Independent Grocers Alliance.

The oldest existing cooperative chain in the hardware field is the Franklin Hardware Company of Philadelphia, organized in 1906 as an informal buying club. The Southwest Hardware Company of Los Angeles was organized in 1912, and in the following year the Hall Hardware Company of Minneapolis came into existence. The Northern Wholesale Hardware Company of Portland started in 1923, and is to the present time the only cooperative retail hardware association in the Pacific Northwest. In 1925 the Wisconsin Hardware Company of Madison, Wisconsin, and the Anchor Hardware Stores Company of Kansas City, Missouri, were organized. Out of fifteen organizations answering a Federal Trade Commission questionnaire in 1930, the above were the only companies which returned completed schedules and reported cooperative features.¹

1. Ibid.

Causes for Cooperative Distribution

Structural changes for most distributing agencies are the result of the forces of competition. The competition faced by independent retailers and wholesalers came to some extent from newer types of agencies. Department stores, mail order houses, and chain stores have forced the independent merchant to consider new methods and policies during the past several years.

The department stores was among the first to build up volume on cut price and thus become a threat to the city trade. The coming of the mail order houses endangered markets of the retailer in small communities and rural districts. Then came the chain store, which first started in the city but has become a prominent feature in small towns and neighborhood districts.

As these movements swept over the merchandising field independent merchants realized their existence depended upon better methods of meeting competition. This resulted in the expansion of cooperative effort. The trend toward cooperatives has grown in importance during the past fifteen years when the retailers found their net sales decreasing.

Many attempts have been made from time to time to operative retail buying associations; but they have failed, mainly through the refusal of manufacturers to recognize them as wholesalers or because of poor management.

Present Status

Retail buying cooperatives exist primarily in three fields, namely, grocery, drug and hardware. Recently the movement has spread into the clothing trade. However, there is little data available at the present time in the latter field so comparisons can be more effectively drawn between buying associations in the former trades.

The cooperative chain movement has spread most rapidly in the grocery field, and at the present time there are more stores connected with the cooperative grocery chains than there are connected with the corporate grocery chain stores. According to the 1936 Chain Store Manual, there are 802 voluntary chains in the grocery and food trade, with 107,141 individually owned retail outlets which are estimated to handle over one-third of the food and grocery business of the United States.¹ However, another institution, the American Institute of Food Distributors, estimated that there were 672 cooperative grocery chains in the United States, with 101,493 retail outlets. Of this number, 23,604 retailers owned 164 cooperative organizations; 508 voluntary chains were reported as wholesale-sponsored, having over three times as many retail outlets.¹ The majority of these organizations are located in states with large urban populations.

1. Beckman and Noble, 1936 Chain Store Manual, p. 211, footnote.

According to the Federal Trade Commission Report on cooperative drug chains, there were twenty-three of these groups in 1929, with a retail membership of 6,041 independent drug stores.¹

In the same report by the Federal Trade Commission there were found to be six hardware cooperatives comprising a total of 990 retail store members, or an average of 165 each. The smallest is the Anchor Hardware Stores Company, with eleven members, which is merely an advertising and buying group and does not operate a warehouse. The Hall Hardware Company is the largest group, having 505 members.

The total net sales of five of the cooperative hardware companies (excluding the Anchor Hardware Company because it does not operate a warehouse) amounted to \$6,058,000 in 1929. The net cost of goods sold in that year amounted to \$5,143,000, making a gross profit of \$915,000, or approximately 15% on sales.²

It is evident from the discussion on the present status of voluntary chains that the grocery trade has made by far the largest strides in this movement. They operate over 650 more voluntary chains than are carried on by the druggists. This is due mainly to the type of product

1. Beckman, American Institute of Food Distribution, p. 50, footnote.

2. Cooperative Drug and Hardware Chains, (Senate Document No. 82), p. 5.

handled. Groceries are generally small units which have a very high turnover. They are mostly mass production products which can be easily handled and stored. Because they are mainly necessities with a perpetual demand, cooperative retail buying associations find them adaptable to their type of organization.

To a certain extent the drug trade handles goods with similar qualities. However, their turnover is not as great and many of their items have a very elastic demand, but they are well suited for mass distribution through cooperative chains or buying associations.

Hardware has made the least progress of these three fields, and mainly because of the character of the products. It is evident that many hardware items are not adapted to pooled buying, rapid turnover, nor are they in demand by as many people as products of the two former trades. Many of the smaller hardware items, however, do have a rapid turnover and therefore are more suitable for this method of distribution. The average stock turnover of groceries by regular service wholesalers is about twice that of the hardware trade. One should not conclude from this comparison that hardware is not suitable for distribution through cooperative chains but that the main reason for its not being comparable to grocery and drugs is the difference in the type of products.

Functions of Retailer-owned Cooperatives

The basic function of retailer-owned cooperatives in grocery, drug and hardware trades is fundamentally that of a buying institution. They are operated by retail merchants who are interested in reducing the cost of the wholesaling function. They are desirous of doing away with the wholesaler profits and other expenses common to his business as much as possible. It is their wish to take advantage of discounts and allowances given by manufacturers to service wholesalers and other large buying groups. Such establishments as the National Retailer-owned Grocers and the Federal Wholesale Druggists' Association were the outcome of this movement. Both are composed of a large number of cooperative and mutual houses distributing to retail stores. Centralized buying is a cardinal policy of these associations.

The wholesaler-sponsored groups are not as interested in the economies of large scale buying as are the retailer-owned cooperatives. Since the wholesaler is already set up as a going concern he receives his usual rates.

Advertising

As cooperative organizations both groups have been desirous of getting quantity discounts. However, they not only have been able to secure them but to obtain advertising discounts and allowances also.

Retail buying associations have in the past stressed buying and have attached little importance to selling; advertising has been left almost entirely to the individual retailer. It was not until the wholesaler-sponsored group became an important factor in the distributive system that retail cooperatives began to use collective advertising. This method which grew with the wholesaler-sponsored groups has received special attention by many retail buying associations. Now, retailer-owner cooperatives have in many cases been doing regular advertising through newspapers, display cards, news sheets, and window posters.

Warehousing

Most cooperative retail buying associations started out by using the back room of a member's store as a store-room for incoming merchandise. To take advantage of discounts and wholesale prices the best policy was for the group to open a warehouse with the necessary supervisors and employees. This would give them a place to carry a limited line of merchandise and a relatively small stock. There are exceptions to this, however, as the Frankford Grocery Company carries a wide selection of merchandise and operates as modern a warehouse as any wholesaler in the United States.

Merchandising Services

Little has been done by cooperative retail buying associations, even at the present time, in the line of dealers services. Generally they do not maintain a delivery service. If they do not operate on a cash basis credit is usually extended for a short period, commonly a week, although some extend it over a two weeks period. The lines of merchandise are usually limited and little or no advice or help is offered to retail members on store operation. This is not difficult to understand when one realizes that retail members own the warehouse and that they do not see the need of giving themselves dealers services. They are interested in the reduction of wholesale distribution costs rather than in increasing costs.

The wholesaler-sponsored groups do not follow the retailer-owned cooperatives in this respect. They were originally service wholesalers in the grocery, drug and hardware fields offering ordinary wholesaling services. They have continued these and have even gone farther by giving advice at times to retailers and by hiring supervisors to call upon store members. Also such services as advice on store layout, location and management policies are offered for the retailers' use.

Private brands have been considered desirable by both groups of cooperatives as a way of meeting competition.

The wholesaler-sponsored groups, especially in the grocery field, used this method to a large extent while the retailer-owned groups have used it to a lesser degree. Private brands are also considered good advertising as they get the name of the article and the company fixed in the minds of the consumer.

Classification as to Title

Because of the different titles given to buying groups such as the Northern Wholesale Hardware Company it is well to try to determine the origin of these titles and what economic significance may be attached to them. Although different titles are used no one title is necessarily any more correct than another. However, by discovering why such titles were applied to this specific type of wholesaling, it may be brought out more clearly the type of organization dealt with in this thesis.

The Federal Trade Commission uses the term cooperative hardware chains, or voluntary chains, in referring to these institutions. Others refer to them as cooperative retail buying associations. T. L. Willis, President of the Northern Wholesale Hardware Company, refers to his organization as a mutually owned wholesale company. These are generally the classifications or titles applied to these retail-owned buying associations. Probably the

title which is most widely accepted is the one used by the Federal Trade Commission. In 1928 the United States Senate authorized the Federal Trade Commission to make a thorough investigation of chain store distribution and draw detailed reports of their activities. Included in this investigation was an analysis of cooperative buying associations in the grocery, drug and hardware fields which the Commission classified as cooperative chains.

The term chain is adopted mainly because the use of chain store methods is quite common among these organizations. The fundamental difference is that the units of a cooperative chain are owned individually whereas the units of a corporate chain are owned by a central organization. Cooperative or voluntary chains are in reality not chains at all because the retailers who are members thereof preserve their individual ownership of the stores which they operate. The members are merely bound by an agreement which can be terminated on a few days notice. Not only is individual store ownership completely preserved, but most of the management is also left largely or entirely to the discretion of the individual members, although this is not such an important distinguishing characteristic. Because of this lack of controlling interest in the cooperative establishments, the Federal Trade Commission used a separate schedule for the collection of data from voluntary

chains and always applied the word cooperative with the term chain in connection with these organizations.

As far as federal laws are concerned there seems to be no distinction made between cooperative chains and the regular corporate chains. The laws enacted after the Commission had completed the investigation made no division between chains and cooperative chains. Cooperative associations were not even mentioned with the exception of Section 4 of the Robinson-Patman Act which deals with income tax returns and this is fully discussed under the heading "Legal Aspects of Cooperative Chains".

Although no distinction has been drawn between corporate chains and cooperative chains by federal law, many states have passed chain store tax laws, some of which exempted the cooperative chain from these taxes. Thus it is apparent that the importance of this title does not only rest in the difference in organization but also in the various ways these establishments are looked upon by different state laws.

The title cooperative retail buying association is used by many authors, notably W. L. White, author of a book by the same title. This classification is merely descriptive of this type of organization and has no legal or economic significance. The term cooperative is used because members are cooperating in various ways for a

common purpose. The title, cooperative retail buying association, refers to independent retailers who act as a common wholesaler for their members buying in the name of the association and warehousing purchases. This does not include buying pools, clubs or syndicates. This title is probably the most explanatory of any and the one most commonly used.

When the title mutual owned wholesale company is used, the term mutual is used in the place of cooperative. In court decisions and in textbooks dealing with these organizations the term mutual has been used interchangeably with the term cooperative. However, the word cooperative is much more widely used. The term mutual is used in a few cases by companies in their titles, the outstanding example being the Mutual Drug Company of Cleveland, Ohio. This company is a drug association with one man holding at least 51% of the stock. The mere fact that the word mutual appears in the title does not indicate that the concern is truly a cooperative retail buying association.

Probably one reason for calling an association a mutual rather than a cooperative is the fact that there are different types of cooperatives. People commonly fail to distinguish between them and tend to class them all in one group with the idea that they all operate the same. However, a retail buying association is no more a mutual than a producers' or a consumers' cooperative.

Another reason for excluding the word cooperative from the title of these organizations is the opposition to them by competing service wholesalers and manufacturers. This opposition is generally brought about by service wholesalers refusing to buy manufacturers' goods if they sell to the cooperative buying association. Due to this pressure placed upon these associations, the smaller ones with less buying power frequently feel it of great importance for them to appear as much like a regular service wholesaler as possible in title.

CHAPTER III

LEGAL ASPECTS

OF COOPERATIVE RETAIL BUYING ASSOCIATIONS

To better understand the present position of cooperative retail buying associations it is necessary to inquire into the legal status of these institutions. One problem which has confronted retailer-owned cooperatives is that of price discrimination. Many times in the past these groups have felt that they have been discriminated against in favor of regular wholesalers. This point is best illustrated by the facts in the Mennen case.¹

This case was an outgrowth of discrimination by the Mennen Company against a cooperative retail organization. The Mennen Company gave regular discounts to all companies prior to 1917. However, the sales policy that went into effect following this date involved a classification of its trade into wholesaler and retailer. The company allowed to "wholesalers" or "jobbers" when selling in quantities of ten gross or more, a trade discount of 10% and 5% from its list prices, and a cash discount of 3%; while to its customers classified as "retailers", when selling to them in quantities of ten gross or more, it gave a trade discount of 5%. These terms resulted in price discrimination

1. Mennen Company v. Federal Trade Commission, 288 Federal 774, C.C.A. 2d., 1923.

between the company's customers buying in like quantities of the same commodities, since list prices were the same for both classifications. The Federal Trade Commission attacked this sales policy as an unfair method of competition in violation of Section 5 of the Federal Trade Commission Act and as a price discrimination in violation of Section 2 of the Clayton Act. The Commission ordered the Mennen Company to cease and desist from discriminating in net selling prices between wholesalers and retailers. The Mennen Company then petitioned the Circuit Court of Appeals, Second Circuit, to review the order of the Federal Trade Commission. The court reversed the decision of the Commission. In holding that this sales policy did not involve discrimination, the court said:

What the Mennen Company has done was to allow to 'wholesalers' who purchased a fixed quantity of their products a certain rate of discounts while to the 'retailers' who purchased the same quantities it denied the discount rates allowed to the 'wholesalers'. This does not indicate any purpose on the part of the Mennen Company to create or maintain a monopoly. The Company is engaged in an entirely private business and it has a right freely to exercise its own independent discretion as to whether it will sell to 'wholesalers' only or whether it will sell to both 'wholesalers' and 'retailers', and if it decides to sell to both it has a right to determine whether or not it will sell to the 'retailers' on the same terms it sells to the 'wholesalers'. It may announce in advance the circumstances, that is, the terms, under which it will sell or refuse to sell. . . .

In accordance with these opinions we have no doubt that the Mennen Company had the right to refuse to sell to retailers at all, and if it chose to sell to them that it had the right to fix the price at which it would sell to them, and that it was under no obligation to sell to them at the same price it sold to the wholesalers. It did not discriminate as between retailers but sold to all retailers on one and the same price scale. And it did not discriminate as between wholesalers but sold to all wholesalers on one and the same scale of prices. There is nothing unfair in declining to sell to retailers on the same scale of prices that it sold to wholesalers even though the retailers bought or sought to buy the same quantity the wholesalers bought.

The court went farther to point out that a purchaser's trade status is determined by his selling rather than his buying and that it would look beyond the corporate organization of the cooperative to discover the category in which the constituent members belong.

This decision gave the manufacturer the right to choose his own customers and class them as wholesalers or retailers. He may sell to wholesalers and retailers at the same price or he may sell to them at a different price. However, he must sell to all wholesalers at one price and to all retailers at one price whether it be the same as the wholesale price or not. Therefore, if a cooperative retail buying association be classified as a retailer it may not receive the same discounts as a "legitimate" wholesaler.

Since the passage of the Robinson-Patman Act there has been some controversy as to whether or not the Mennen Case will be followed. The Robinson-Patman Act was enacted following an investigation by the Federal Trade Commission of chain stores. It was aimed directly at chain store practices. The object of this act was to

amend Section 2 of the Clayton Act so as to suppress more effectually discriminations between customers of the same seller not supported by sound economic differences in their business positions or in the cost of serving them. Such discriminations are sometimes effected directly in prices, including terms of sales; and sometimes by separate allowances to favorite customers for purported services or other considerations which are unjustly discriminatory in their result against other customers.¹

Zorn and Feldman in their book give their reason for affirming the contention that this act will have no effect on the Mennen case in the following quotation:

Our reasoning with respect to the right of the chain-store system to receive the functional discount applies equally to retailer cooperatives. There is no reason to believe that the Mennen case will not be followed under the new Act. Accordingly, the granting of a functional discount to a true wholesaler, and its refusal to a cooperative will probably not subject a manufacturer to liability.

The same considerations lead to the conclusion that the granting of the functional discount to the cooperative may be dangerous in that it may cause injury to competing retailers who are not members of the cooperative organization.²

1. Burton A. Zorn and George J. Feldman, Business under the New Price Laws, Appendix III, p. 345.

2. Ibid., p. 186.

In further discussing the legal aspects of retailer-owned cooperatives there should be a clear distinction made between the different types of cooperatives. There are three groups of these associations: (1) cooperative associations of producers, usually farmers, organized for the purpose of selling their produce advantageously; (2) cooperative association of consumers, established for the purpose of permitting economical purchase of commodities of various sorts; and (3) cooperative associations of independent distributors, notably the so-called voluntary chains.

There has been much confusion because of failure to differentiate between these various groups. The first two, the producers and consumers cooperatives, are very similar and should not be confused with the third group, as has been a common error. Farm producer or similar type cooperatives under Section 101 of the Revenue Act of 1934 are given certain exemptions in the filing of Federal income tax returns. On the other hand, retailer-owned cooperatives do file income tax returns but do not pay taxes on the amount of earnings returned to members. In a cooperative system charges are made on members for the cost of operation and anything left after that is simply an overcharge which rightfully belongs to the members and is allocated to them on the basis of patronage dividends, that is, the amount of business done by the firm.

In Section 4 of the Robinson-Patman Act there seems to be an attempt made not to interfere with the practice of paying patronage dividends to members in producers and consumers cooperatives. This section reads:

Nothing in this Act shall prevent a cooperative association from returning to its members, producers, or consumers, the whole or any part of, the net earnings or surplus resulting from its trading operations, in proportion to their purchases or sales from, to, or through the association.

This section recognizes producer and consumer cooperatives but it says nothing of the dealers cooperatives. The bill as reported to the House included in this section the phrase, "or a cooperative wholesale association from returning to its constituent members" following the word "consumers" in the quotation above. Had the Senate not struck out this phrase the status of the wholesale association would have been much clarified. Although the Conference Committee did strike out the phrase it made the following comment:

The words 'or a cooperative wholesale association from returning to its constituent members', which appeared following the word 'consumers' in the Senate Amendment, have been eliminated. As so modified, this section serves to safeguard producer and consumer cooperatives against any charge of violation of the act based on their distribution of earnings or surplus among their members on a patronage basis. While the bill contains elsewhere no provisions, express or implied, to the contrary, this section is included as a precautionary reservation to protect and encourage the cooperative movement. Whether functioning as buyers or sellers, cooperatives also share under the bill guarantees of equal treatment and equal opportunity which it seeks to accord to trade and commerce generally.

With this clause omitted it leaves a question as to whether or not it applies to retailer and wholesaler cooperatives. Zorn and Feldman, however, have answered with this comment:

In view, however, of the expressed intention to safeguard cooperatives it is unlikely that the courts will hold the distribution of patronage dividends in such a case to be illegal. Nothing in Section 4 would require such a result.¹

From the quotation just made there seems to be slight danger of any court decision forcing the present practice of distributing patronage dividends to be discontinued by cooperative retail buying associations. Although these groups are not taxed on these earnings they do not escape taxation: they are taxed in the hands of those who earn them--the retail members of the cooperative organization.

Certain types of cooperatives have agitated for exemption from taxes. It is commonly thought that all cooperatives do have such exemptions. As a matter of fact, retailer-owned cooperatives pay all the taxes that other business organizations pay where they engage in taxable activities.

Retailer-owned cooperatives pay all license taxes, sales taxes, undistributed 'surplus' taxes, and all other forms of taxes imposed upon ordinary commercial organizations.

1. Ibid., p. 260.

As a matter of correct accounting procedure retailer-owned warehouse distributing units which do not have an income in the taxable sense are not subject to income taxes although they file returns with corresponding notations on these returns.¹

A third consideration of the legal phase of cooperative chains or voluntary chains as they are often called is the effect that state chain store taxes will have upon them. At the present time there are about twenty states which have enacted such statutes. The classification given to the cooperative buying organization by the Federal Trade Commission was the title cooperative chains. The question raised from this title is whether these cooperative chains are considered in the same category as the corporate chains and subject to the chain store taxes in the various states. The large majority of the states having chain store taxes sees no connection between organizations so they do not include the cooperative chain under their chain store tax laws. Some of them expressly exempt the retail-owned cooperative while others make no mention of them. This shows that some states do not recognize a similarity of these two groups. For example, the state of Idaho has expressly exempt voluntary chains from their graduated license tax on chain stores. By doing this the state has recognized the similarity of these organizations since it does not wish the one group to be

¹ Hector Lazo, Retailer Cooperatives: How They Run, p. 133.

taxed it has exempt it by law.

The state chain store legislation at present has no effect on cooperative or voluntary chains as those states that recognized them as a type of chain store have expressly exempt them. However, with growing opposition toward chain stores there is a possibility that such a tax may be passed in some states now now having the tax. If the state passing the tax should look upon voluntary chains as a chain and not as a group of independent retailers, it would be of utmost importance to these organizations to be exempt from such tax. Some chain store taxes are as high as \$500 per store in chains of over nineteen stores. Such a burdensome tax would do much to impede the progress of retail-owned cooperatives.¹

1. Beckman and Noble, The Chain Store Problem, Appendix I.

CHAPTER IV

HISTORY OF THE NORTHERN WHOLESALE HARDWARE COMPANY

The preceding chapters have described cooperative retail buying associations in general. They dealt with the history, classification and legal aspects of grocery, drug and hardware cooperatives. The following chapters are concerned with the Northern Wholesale Hardware Company, a cooperative buying association. To make a complete study of this company it will be necessary first to describe its history.

The Northern Wholesale Hardware Company was organized in August, 1923, by a few retail hardware dealers living in and around Portland. These retailers were agreed that steps should be taken to meet increasing competition. At that time the chain store movement was making rapid progress in the East. Its effect was already being felt on the Pacific Coast. The founders of the Northern Wholesale Hardware Company had foresight enough to see into the future and comprehend the problem of increasing competition which lay before them. They were convinced that within five years they and many other independent retailers would be forced out of business unless they could make

the necessary adjustments to meet the growing competition. This problem, they believed, could be solved through the pooling of orders by the group in order that they might take advantage of larger buying power and more efficient buying methods.

The Company, with a group of less than twenty members in the organization, first located in the rear of one of the member stores on Hawthorne Street, Portland, Oregon. This room soon proved to be too small and later in the same year a larger room in a building on Hawthorne Street near Grand Avenue was secured. By this time the Company had increased its membership to approximately forty members. The rapid increase in membership over such a short period points to a need for this type of organization. The Company was an infant organization with a low pecuniary strength and unless these incoming members could have seen the advantages in joining such a group there would have been little likelihood of this rise in membership.

A continuous increase in membership in 1924 again forced the organization to move to a location with larger warehouse facilities. The change was made to the Auto Freight Terminal Building where the Northern Wholesale Hardware Company remained for eight years. At the time of this last move the Company had increased its membership to nearly seventy-five. This growth showed an interest

in this type of organization by the independent hardware dealers in Portland and vicinity.

Several Seattle retailers were added to the group in 1925. These dealers had formerly been members of a hardware buying pool in Seattle, but the venture proved to be unsuccessful and the group dissolved. The admission of these members added to the buying strength of the Northern Wholesale Hardware Company. These new members were a definite asset to the concern since they had been previously affiliated in a buying organization with the same fundamental ideas as the Portland Company. The growth in the membership in that area became sufficient to open a warehouse in Seattle, which has continued to operate to the present time.

It was not until 1933 that the Northern Wholesale Hardware Company moved to its present location at 109 Southeast Salmon Street, Portland, Oregon. The warehouse is a conveniently located modern building on the main line of the Southern Pacific Railway. The Company now has a membership of 136 and a waiting list of twenty-three prospective members. These prospects, although they do not own stock in the corporation, have the privilege of buying from the Northern Wholesale Hardware Company.

At one time a warehouse was opened at Spokane but did not prove profitable and was closed. The Company estimates that it will take at least twenty-five members in a locality to profitably operate a branch warehouse.

The Northern Wholesale Hardware Company has been a pioneer. When the idea of hardware buying associations was conceived, it meant stepping into a new field. The conception and promotion of this new venture were entirely original with the founders of this Company. Although there were three hardware cooperatives in business in the United States prior to the time the Northern Wholesale Hardware Company was organized, they were small and unheard of in the Pacific Northwest so that their experiences gave no aid in organizing the Northern Wholesale Hardware Company. Little progress had been made by the retail druggists and grocers in cooperative buying associations on the West Coast. Such national cooperative chains as Red and White and Independent Grocers Alliance (I.G.A.) were just being organized. The first Red and White stores were opened in 1922¹ and the Independent Grocers Alliance was organized two years later.² These cooperatives did not spread to the West Coast until a few years later. In the drug field one of the earliest

1. W. L. White, Cooperative Retail Buying Associations, p. 6.

2. Ibid., p. 7.

retail cooperative buying associations was the Los Angeles Drug Company, organized in 1920.¹ This shows that prior to the organization of the Northern Wholesale Hardware Company in 1923, the idea of cooperative retail buying associations was not well established. Some of the largest cooperative chains were just being established in the East and it was some time before these made their appearance on the West Coast.

From the beginning the officers of the Northern Wholesale Hardware Company had been alert to make changes which they thought would make the company more successful. They have even made a thorough study of similar organizations in other parts of the country to check on the efficiency of their own system. This meant that the by-laws were revised from time to time so that now the Northern Wholesale Hardware Company and all similar hardware organizations operate on about the same basis.

1. Ibid., p. 13.

CHAPTER V

ORGANIZATION AND MANAGEMENT OF THE NORTHERN WHOLESALE HARDWARE COMPANY

Reasons for Organizing

There were fourteen reasons for organizing cited by retailer-owned hardware associations in answering a questionnaire for the Federal Trade Commission. Practically every answer involved the buying of merchandise at lower prices. Some of the other reasons given included the elimination of jobbers, competition of mail order houses, benefits of group advertising, and exchange of ideas.¹

Mr. T. L. Willis, president of the Northern Wholesale Hardware Company, gives three reasons for its organization. First, it permits dealers to buy in larger quantities in order to take advantage of quantity discounts. Second, it places dealers in a competitive position with jobbers on contract work on many items because of wholesale buying connections. Third, it gives aid and services to the dealers.

Of these, the reason given most emphasis is the first. When other people connected with the organization

1. Cooperative Drug and Hardware Chains, Senate Document No. 82, p. 24.

were asked about the reason for starting such an organization, nearly all their answers involved this idea of buying merchandise at lower prices. One of the early members, Mr. A. R. Quackenbush of Eugene, states that it was felt among the organizers that "they didn't believe they could stay in business if they couldn't buy on a better basis."

It is the aim of the Northern Wholesale Hardware Company to give its members an opportunity to compete with chain stores and mail order houses. There is a strong feeling that the small retail dealer is a definite asset to a community and therefore he should be given an opportunity to stay in business. This is based on social rather than on economic reasons. It is contended that it is the independent retailer who takes an interest in his community and is willing to contribute toward its welfare. He stands ready to back public-spirited movements because he lives in the community he wants to progress. In the case of chain stores or mail order houses the absentee ownership and the continual shifting of managers is not conducive to community interest and support. They are charged with being interested only in profits and the success of the organization and not as willing to support civic projects.

Organization

One can visualize more clearly the factors which contribute to the success of this type of cooperative retailer-owned concern by an understanding of the organization and management of this Company. From such a study conclusions may then be drawn as to the effectiveness and need of this unique method of wholesale distribution.

The organization of all cooperative retail hardware buying associations is very similar to that of the Northern Wholesale Hardware Company, varying mainly in minor details. The organization of this Company is outlined on the following page.

The Company is a corporation, incorporated in the state of Oregon. The 136 members are stockholders in the firm, each having equal voice in the election of the board of directors. The election is held every February at the annual stockholders' meeting. The board of directors consists of seven members, each of whom is elected for a period of two years. One year four directors are chosen, and the next year, three. At the present time the members of the board are T. L. Willis of Portland, president; N. A. Bonn of the Stadelman-Bonn Hardware Company, The Dalles, Oregon, secretary; Frank Travis of Shelton Hardware and Furniture Company, Shelton,

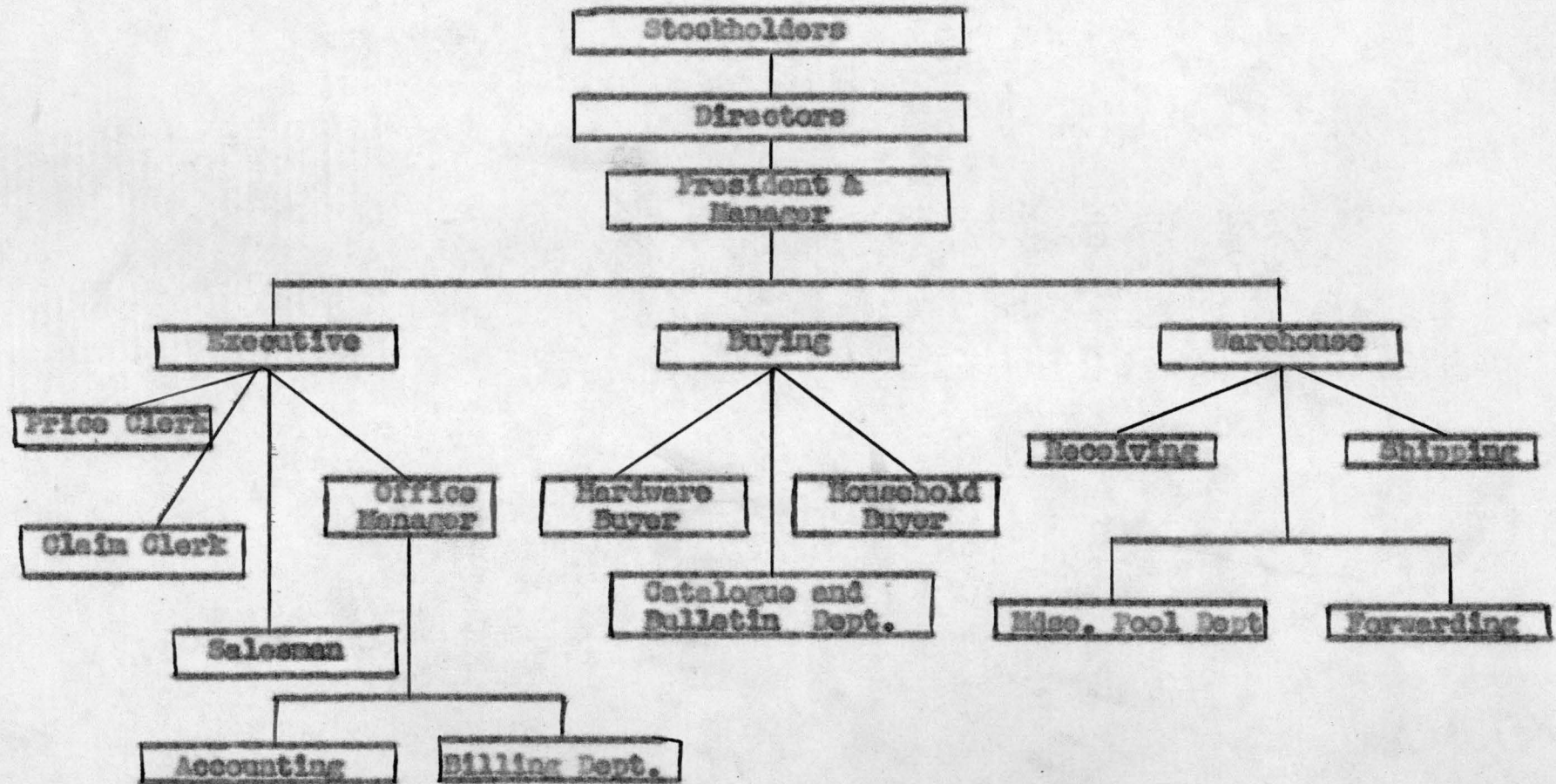
Washington; Stanley Yowell of Travis and Yowell, Bremerton, Washington, Frank L. Taylor, Reedsport, Oregon; J. M. D. Handsberry, Seattle, Washington; and T. H. Dingle of the Dingle Hardware Company, Coeur D'Alene, Idaho. Mr. Norris Ames of the Ames Hardware Company, Silverton, Oregon, is ex-officio chairman.

The board of directors has been carefully selected and has proved to be made up of men capable of directing the policies of the Northern Wholesale Hardware Company. The board meets on the third Monday of each month and the members have attended these meeting one hundred percent.

The president is also the general manager of the Company, with full responsibility over all branches of the entire concern. The three main branches of the organization are the executive, the buying, and the warehouse. It will also be noted that the price clerk and the claim clerk, as well as the four salesmen, fall under the direct control of the president.

The president has, in addition to the duties shown on the chart, the responsibility of handling matters which arise with dealers and the establishing of new lines of merchandise with manufacturers and jobbers. T. L. Willis, now president of this firm, has held that position for two years. Prior to that time he was a member and director of this firm, operating a retail hardware store.

ORGANIZATION CHART



The office manager is in charge of the accounting and billing department. In the buying division there are two different buyers: the head buyer who purchases hardware while the other buyer purchases only household merchandise. A third unit in the buying division is the catalog and bulletin department. This department makes up the bulletins which are frequently sent out during the year, and the circulars which are put out three or four times annually.

The third main division is the warehouse, with the warehouse manager in charge. The different departments in the warehouse division are the shipping, the receiving, the merchandise pooling, and the forwarding. This department encompasses the work entailed in the pooling of merchandise just received at the warehouse and going directly to the dealers. The merchandise pooling department refers to the pooling of orders from stock stored in the warehouse.

Financial Structure

The financing of this Company is mostly through common stock, there being no bond or preferred stock issues. Each member must purchase one share at \$500 par value.¹ The stock is not salable to the general public

1. At the present time there is a proposal before the stockholders to increase the par value of a share of stock to \$1,000. This is to increase capital so the Company will have a greater financial strength and use

but to members only. One vote is allotted to the holder of each share of Northern Wholesale Hardware Company stock. No dividends or interest are paid on these shares. The stock is issued only to hardware dealers who have been approved by the board of directors for membership. In order that the Company may keep control of the membership the stock is made non-transferable. Any stockholder wishing to retire from the association may not sell his interest to another hardware dealer or to his successor if he sells his business as a going concern. In the event that a member becomes insolvent, sells out, or wishes to withdraw from membership he must sell his stock back to the company. Should a member become insolvent and at the same time be indebted to the Northern Wholesale Hardware Company the amount of his indebtedness will be offset against the par value of his share of stock and only the difference, if any, is paid to him. This feature strengthens the position of the Company because in the event of the insolvency of the member it is protected from credit losses to the extent of \$500.

Other means of financing are through the retaining of patronage dividends and the use of bank loans. Bank less borrowed money. Should the proposal become effective the members will be allowed to leave their earnings in the Company to make up the additional \$500. This will greatly aid the smaller members who might find it difficult to invest this additional amount.

loans are self-explanatory but the term patronage dividend may need some explanation. A patronage dividend is a distribution of the net earnings or surplus resulting from trading operations, distributed to the members in proportion to their purchases from the association. The Company reserves the right to withhold payment of these dividends to build up inventories and help finance the business. They draw interest at the rate of six percent and must be paid within ten years from the end of the year in which the earnings were made.

Membership

The members are selected by the board of directors. The Northern Wholesale Hardware Company has been very careful in the selection of its members as they wish to limit membership to competent business men in good standing in their respective communities. The Company desires men who will be of value in the future development of the organization. Before a new member is taken into the Company he is put on a temporary selling list which gives him the privilege of buying from the Company at the same prices as the members. After a period of time the prospective member is taken into the organization upon mutual agreement. At the present time there are twenty-three prospective members.

The Company limits the number of retail members to one in a small town. In larger cities such as Portland, Spokane and Seattle, it allows one member to each neighborhood or district. By thus limiting the membership, members are not in competition with each other. Stock ownership is necessary to membership.

Semi-annual Conventions

The Northern Wholesale Hardware Company holds conventions twice a year in the Woodmen of the World Hall in Portland. These conventions are held every February and July for the purpose of displaying merchandise for the members. Between one hundred and one hundred twenty-five displays are set up on the floor of the auditorium by jobbers and factory salesmen who purchase display space at \$10 a table. This finances the expense of the convention which lasts for three days. During this time the members may examine the displays and place orders through the Northern Wholesale Hardware Company for any merchandise on display that they wish to purchase. The February convention is the main meeting as it is held in conjunction with the annual stockholders' meeting. At this meeting the election of officers is held, the business for the previous year is reviewed, and plans for the coming year are discussed.

The Company has developed a policy of inviting outside speakers to the convention banquet given by the firm to all salesmen and members and their families. These speakers talk on subjects which are of interest to hardware dealers. Representatives from such groups as the National Retail Hardware Association discuss the advantages of their associations and present-day problems confronting hardware dealers. Other outside speakers talk on modern methods of hardware merchandising. Such talks give members an opportunity to become better informed on up-to-date methods. For the past two years Dr. N. H. Comish, Professor of Business Administration at the University of Oregon, has been a guest speaker. He has discussed mainly more effective ways of operating retail stores.

The conventions have proved to be very successful as about seventy-five percent of the members attend and have an opportunity to see and order merchandise which they will be featuring in their stock for the next six months. It also gives members a chance to exchange ideas with other members and to become more familiar with the organization and set-up of the company to which they belong.

Fundamental Cooperative Principles

In discussing the organization of the Northern Wholesale Hardware Company it is interesting to observe

how closely this Company followed the fundamental principles for cooperative success set forth by the Rochdale Pioneers. These Rochdale Pioneers, because of adverse conditions, were seeking a more economical way of living. They formed a cooperative society which proved to be successful. In 1844 this small group from Rochdale was able to set forth the method which might serve as a guide to cooperative endeavor. The principles of success which they used were not as new as most of them had tried before but it was the combination which was essentially responsible for success. These principles are now recognized as fundamental, and a brief discussion of them follows:

1. Democracy of control. Each member shall have one vote and no more. The Northern Wholesale Hardware Company observes this principle and not only limits the members to one vote each but also to one share of stock, each with the same par value. The Company is democratic in this respect.

2. Limited interest on capital. Capital invested in the society, if it receives interest, shall receive not more than a fixed percentage which shall be not more than the minimum prevalent interest rate. The Northern Wholesale Hardware Company is not affected by this rule as it does not pay interest on capital invested in the business.

3. Savings returns. If a surplus-saving ("profit") accrues from the difference between the net cost and the distribution price of commodities and services, after meeting expenses, paying interest (wages and capital), and setting aside a reserve for other funds, the net surplus-saving shall be used for the good of the members, for beneficent social purposes, or shall be returned to the patrons as savings-returns (dividends) in proportion to their patronage. This is exactly the way the Company handles its net earnings. However, it reserves the right to retain these earnings for a time, paying interest on the amount in order to help finance the Company. The original idea was to abolish profits by giving back to the member what he created. The Rockdale Pioneers wanted business to be carried on as a service.

4. Unlimited membership. No reason shall exclude a person from membership except that his purpose might be to injure the society. The Northern Wholesale Hardware Company does limit its membership to one in a town. This principle does not necessarily apply to cooperatives in the wholesale field as they need a conscientious membership and they do not want their members to be in competition with each other. This principle is for a consumers' cooperative.

5. Voluntary expression of membership. A cooperative society shall be composed of individuals who voluntarily join. The Company wants only those to join who see the benefits of this type of organization and who want to become members. Any prospective member comes in of his own volition.

6. Cash business. Business shall be done for cash. To a consumer concern this is more important than to a wholesale organization. A wholesaler who sells goods to a retailer for credit feels that he will be repaid because the retailer will sell the goods to the consumer to pay the wholesaler. If he does not, the wholesaler may recover the merchandise from the retailer. However, in the case of consumer credit the consumer uses up the goods, leaving the seller nothing except the consumer's word that he will pay. Therefore, while doing business for cash is a fundamental principle for consumers' cooperatives, those engaged in the wholesale business may extend credit on a more economically sound basis. Credit is a wholesale function and service. The Northern Wholesale Hardware Company extends credit for two weeks except on goods for cash discounts which must be paid for within the discount period.

These comparisons show how closely the Northern Wholesale Hardware Company follows the fundamental principles for cooperative enterprises worked out by the Rochdale Pioneers nearly a century ago.

CHAPTER VI

LOCATION

Location of Warehouse Cities

The location of cooperative retail buying association warehouses is generally in large cities. This is true not only in the hardware trade but also in the drug and grocery fields. For example, in the drug business there are no retail owned cooperatives in cities of less than 50,000 population, and only five in cities of less than 400,000. In the grocery field the dispersion is somewhat greater. There are only five grocery cooperatives in cities of less than 100,000 and only nine in cities between 100,000 and 399,000 population.¹

Hardware retail owned cooperatives are located in some of the most important cities in the United States, such as Los Angeles, Kansas City, Philadelphia, Portland and Minneapolis, all over 300,000 population. The only warehouse city of less than 300,000 is Madison, Wisconsin.

It is evident from the foregoing examples that cooperative retail buying associations thrive best if their warehouse is located in a larger city. This is due mainly to the advantage of having a large number of members doing

1. White, op. cit., p. 122.

business in and around the warehouse city. Other advantages are the proximity of local sources of supply and the availability of transportation, such as railroad, truck and ship service.

The Northern Wholesale Hardware Company has two warehouses, one located in Seattle and the other in Portland. The Portland warehouse is the central wholesale house of the Company and contains the main office. Portland is a very desirable location from the standpoint of transportation, as wholesalers may receive shipments by railroad, truck, or boat.

Railroads enter Portland from the north, east and south. Through the Columbia and Willamette Rivers it has an outlet to the ocean. Hardware purchased in the East, if it is accessible to the Mississippi River or the Atlantic Ocean is shipped to Portland by boat at about one-half the railroad rate.

Besides being well situated from a transportation standpoint, Portland is the center of a semi-densely populated area consisting of the Willamette Valley, the Columbia River Basin, and southwestern Washington.

The Seattle warehouse is conveniently located mainly because it is in a thickly populated area and the center of a large group of members of the Northern Wholesale Hardware Company.

Practically all shipments are sent directly to the Portland wholesale house. If the shipment contains goods for Seattle, the Portland merchandise is removed and the car is sent on to Seattle. The dividing line between the two warehouses is from Chehalis, Washington, east to Wapato. The Seattle warehouse distributes merchandise from the coast as far east as Wapato and from the Canadian boundary south to Chehalis. The remaining members in eastern Washington, Oregon and Idaho receive their shipments from the Portland house.

Location of the Warehouse in the City

A good location may be a firm's best asset, or a poor one may lead to its failure. In this matter the Northern Wholesale Hardware Company has been very fortunate. Both of the company's warehouses are very suitably located. The Portland house is located at 109 Southeast Salmon Street. It is a modern concrete building, three floors in height with the main office of the company occupying half of the third floor. The building is 100 feet square with 30,000 square feet of floor space. A railroad siding of the Southern Pacific runs along the west side of the building. A loading platform built along the entire width of the building makes it very convenient to load and unload cars. Two large doors on the west side of the building make it very accessible for moving merchandise to the

store rooms. The south side of the building along Salmon Street is for truck loading. On the east side is an adjoining building, while on the north side is a vacant lot. The building is equipped with modern conveniences. The name of the firm is printed across the upper west side of the building giving the Company advertising value. The structure lies in the main part of the warehouse district in Portland and is very accessible for members and other distributors.

The Seattle branch, while not as large, is possibly better situated. It is located at 2246 First Avenue. The building is forty-five feet in width and 150 feet in length, with a floor space of 22,000 square feet. The building is very accessible to transportation lines, having a railroad spur next to it and a side for truck loading.

Both of these warehouses are rented by the Northern Wholesale Hardware Company. The Company's total rent and real estate charges are .428% of gross sales for 1938, whereas for regular hardware wholesalers for the year of 1927, such charges constituted 1.08 of net sales.¹ These figures, although not absolutely comparable, show that the Northern Wholesale Hardware Company pays far less rent per unit of sales than the service hardware wholesaler. This reduction in rent in proportion to sales is an advantage

¹ I. T. N. Beckman and N. H. Engle, Wholesaling, Appendix C.

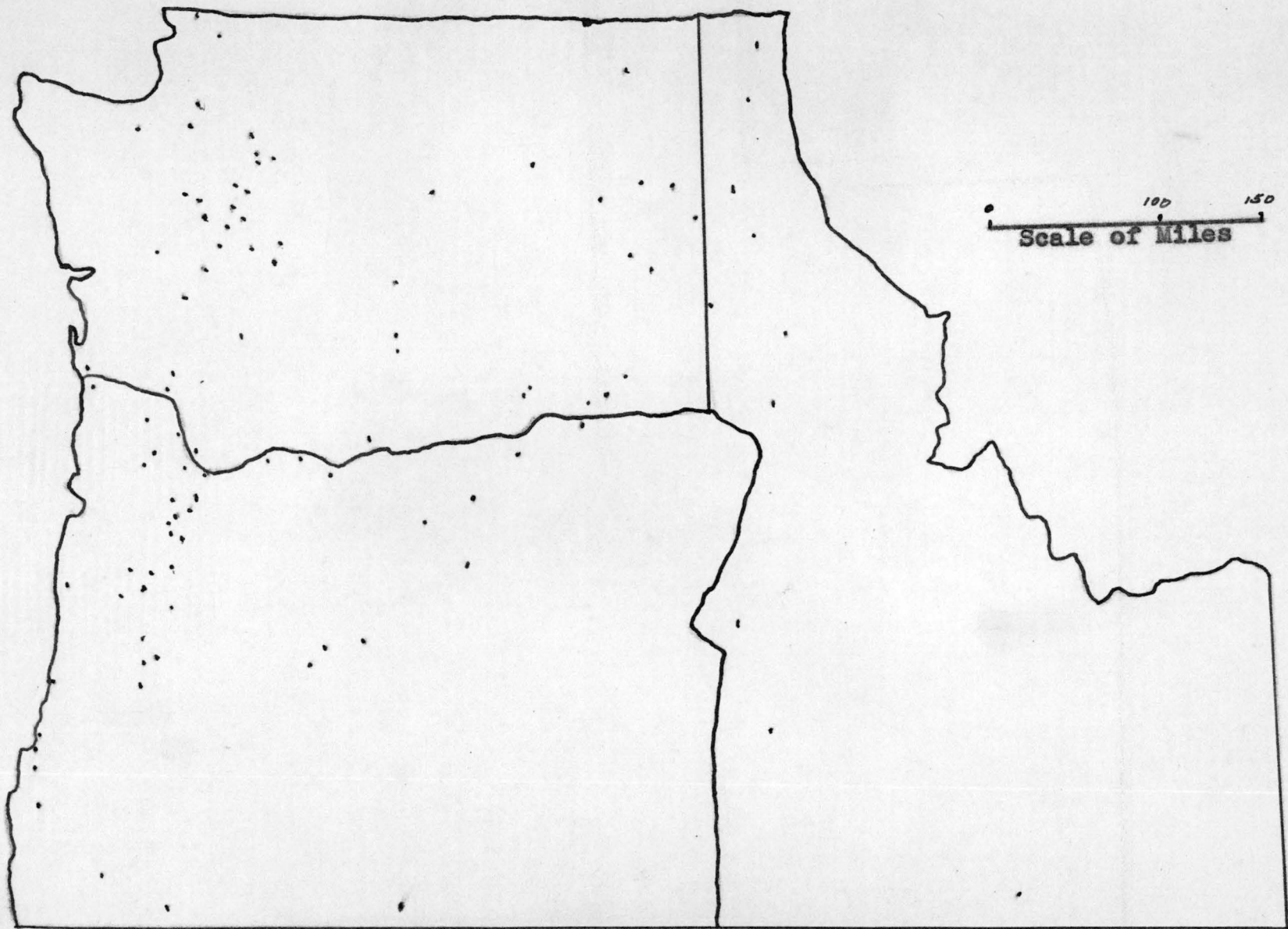
which is brought about by the type of business organization. Due to fast turnover and less use of storage space, a larger warehouse is not necessary. The desirable location of the wholesale houses can be traced directly to good management.

Number of Employees

The Northern Wholesale Hardware Company employs a total of thirty-two person. Twenty-three people are employed at the Portland warehouse, five are employed at Seattle, and four are traveling salesmen. Of the twenty-three employed at the Portland warehouse, ten are employed in the warehouse proper and thirteen in the office. At Seattle, one person, the manager, does all the office work and managing. The other four persons are employed in the warehouse. The four salesmen employed are assigned territories, one salesman working out of Spokane, one out of Seattle, and two out of Portland.

Location of Members

The 136 members are located in the states of Oregon, Washington, and the western portion of Idaho. The large majority of members are centered around Portland, the Willamette Valley, and Seattle. Of the total number, sixty-six members live in Oregon, fourteen reside in Portland, with fifty-two outside the warehouse city.



LOCATION OF THE 136 MEMBERS OF THE
NORTHERN WHOLESALE HARDWARE COMPANY

There are sixty retail members in business in the state of Washington. Twelve of these live in the city of Seattle, leaving forty-eight scattered over the rest of the state. Idaho contains ten stockholders in the Northern Wholesale Hardware Company, most of whom live close to the western boundary of the state. These ten members are scattered more than four hundred miles apart, extending from Bonners Ferry near the Canadian boundary to Oakley, near the Nevada line. All of these Idaho members, and about as many in eastern Washington and a few in southern Oregon, are beyond a three hundred mile radius of Portland.

While the drug and grocery trade, in which over sixty percent of the members are located in the warehouse city, there are only twenty-six, or 19%, in the two warehouse cities.

With this data at hand, it is evident why the Company does not have a delivery service. It is also plain that the Company will not be able to offer members residing a long distance from the warehouse the same advantages as those that do business close to Portland. A member living in Idaho or in eastern Washington will not receive as quick service as one nearer the warehouse city. Also, this applies to the advantage of contact with personal salesmen. Several of the members doing business some distance from Portland are not in any sales territory and therefore are

not visited by a Company salesman. Unless there is a rapid increase in membership in these distant locations so a closer warehouse may be installed, these members will not have the advantages of those nearer the warehouses.

CHAPTER VII

BUYING AND ORDER FILLING

The following chapters will discuss the wholesale functions performed by the cooperative retail buying associations. The five main wholesale functions to be discussed are buying, selling, delivery, credit and storage. The Northern Wholesale Hardware Company does not perform all of these functions nor does it perform them to the same degree as other retail-owned cooperatives. A comparison will be drawn between this Company and other cooperatives in the drug, grocery and hardware trades to better illustrate present policies of the Northern Wholesale Hardware Company. The chapter now deals with the function of buying.

It is through the function of buying that the retailer-owned cooperatives, by pooling the orders of retail members, hope to obtain wholesale prices and discounts given by manufacturers. The buying practices of cooperatives are very similar to those of service wholesalers. Purchases are made for warehouse stocks. Some method of control is generally used whereby the buyer is informed when the quantity of some line of merchandise is low and

a certain additional quantity is needed. Managers and buyers of both service and cooperative wholesalers must also be alert to changes in prices.

Sources of Buying

The Northern Wholesale Hardware Company purchases about eighty percent of its merchandise direct from the manufacturers. This is by far the largest single source of obtaining goods, although other channels are used to some extent. Should the Company need merchandise in a hurry which it does not have in stock it sends to some local Portland jobber for such "pick ups". This is especially true of plumbing fixtures. Another source of buying is through importers, from whom the Company purchases about five percent of its merchandise.

Opposition of Manufacturers

Because this Company buys eighty percent of its merchandise direct from manufacturers it is important that it be recognized as a "legitimate" wholesaler and be entitled to regular wholesale discounts. From the first there has been much opposition to selling to these buying groups. Four out of five hardware cooperatives stated that they had difficulty when first organized in securing wholesale discounts from manufacturers and the same four indicated that they still have trouble in this respect.¹ In the drug

1. Cooperative Drug and Hardware Chains, p. 26.

and grocery fields it is stated that over seventy-five percent of the manufacturers recognize established cooperative wholesalers as "legitimate" wholesalers.¹

At the present time some manufacturers still refuse to sell to the Northern Wholesale Hardware Company or recognize it as a wholesaler. The Company has found, as have similar firms, that the most pressure is placed on them during their time of organization. As they grew and became well-established with an increased buying power this pressure was greatly reduced. The recognition of these cooperatives by manufacturers is illustrated by the following remarks of a manufacturer:

Retail grocers' associations and cooperative buyers are growing at such a rate that we believe it is good business to sell to them. If we did not, someone else would.

Another states:

We'll sell to practically all so-called 'mutuals'. They have developed such a large volume of business that the independent manufacturer must recognize them or suffer serious loss of business.²

This shows why manufacturers desire to sell to buying associations after they have become going concerns.

Refusal of manufacturers to sell to cooperatives is based on the fact that they show a preference toward service wholesalers. They feel that if they cannot sell to

1. W. L. White, Cooperative Retail Buying Associations, p. 66.

2. Ibid.

both they will sell to the service jobber because he can do most for them. The belief that the manufacturer cannot sell to both service jobber and cooperative associations is best explained in a letter from a sales manager of a large company selling to hardware stores:

In the distribution of our goods we are concerned in getting them into the hands of as many dealers as possible, and we do not care whether or not the American Purchasing Company distributes the goods; but of course, we cannot afford to sell this concern direct or to have any of the jobbers know that we are aware of goods going to them; and we therefore suggest that you get in touch with the _____ Hardware Company and see if you cannot get them to have this car shipped to Pensacola instead of Savannah, and let them ¹ dispose of it as they see fit from Pensacola.

Cause for Refusal of Manufacturers to Sell to Wholesale Cooperatives

The bulk of the pressure has been brought by regular service wholesalers who have threatened the manufacturers that if they continued to sell to them they must cease selling to cooperative buying associations. The manufacturers refrained from selling to cooperatives because of the possible ill-will from wholesalers and not because of their own desires. This point may be brought out more clearly by referring to a quotation from the records of the Mennen case:

¹ I. White, op. cit., p. 75. Brief of counsel for respondents, Federal Trade Commission v. Southern Hardware Jobbers Association.

. . . the resentment on the part of the line wholesalers . . . is very considerable, and concerns like the Mennen Company are put in a most unfortunate position. . . The whole issue in this case . . . is going to be as to exactly what the Mennen Company and all other manufacturers similarly situated are to do . . . when they stand confronted by the old-line wholesalers, on the one hand, and these new companies coming in, on the other. Our relation is that desire to be friendly to both.¹

Stock of Merchandise

The Northern Wholesale Hardware Company carries hardware and household merchandise. Although there was no estimate given as to the number of items carried in stock, the Company aims to carry all the items regularly displayed by a moderate sized hardware store. Such stock as heavy farm implements and heavy appliances are not handled by the Company.

Discounts

The Company takes advantage of both cash and quantity discounts. The cash discounts received by them are extended to the members, and the terms are generally 2/10 N/30. In order to obtain these discounts it is necessary that the members purchase uniform articles to enable the Company to order in sufficient quantities to secure the discounts. For this reason the Northern Wholesale Hardware Company does not carry as complete a stock as most regular

1. Federal Trade Commission v. Mennen Company, transcribed record, p. 78.

regular wholesalers, although their stocks are becoming more complete as the concern grows. These discounts aid materially in giving the members goods at lower prices. One member listed the use of these discounts as one of the main reasons responsible for the success of the organization.

Stock Control

In order to keep informed as to which lines are fast moving and which lines are slow, which lines are coming in and which ones are going; and, probably more important, to determine when to order and how much, it is well to have a method of stock control. The Northern Wholesale Hardware Company has in the past used a system of stock control which affected only major items. At present the Company is installing a new system of control, but information on this new system was not available at the time this thesis was written.

Stock Turnover

Regular wholesalers operating in the hardware field have on the average a stock turnover of about three and a half times annually. In contrast to this figure the Northern Wholesale Hardware Company has a stock turnover of nearly ten times a year. This number seems relatively high when it is compared with the drug and grocery cooperatives.

In a survey made in 1926 by W. L. White, the average stock turnover for drug cooperatives was found to be 7.4 times annually, while the grocery turnover average was reported at 13.7 times.

The reasons for this high stock turnover of the Northern Wholesale Hardware Company are twofold. First, the limited amount of merchandise kept on hand at the warehouse; and second, the pooling of orders whereby most merchandise is shipped directly on to the retail member without being taken in to the warehouse. This is a saving over the method used by the service wholesaler who must first warehouse his order and then salesman into the field to sell it.

Price

This Company adheres to a one-price policy. Their price is set at a figure to cover the cost of merchandise and operating expenses. Of course the prices are modified by competitive conditions and changes in the market price. In addition, the prices of some articles are fixed by the manufacturer, the company abiding by these prices.

It is not the aim of the Northern Wholesale Hardware Company to disturb the market by cutting prices. It wants to be able to furnish its dealers with goods at a figure which will enable the dealers to sell at the present market price and make the necessary profit to remain in business.

This Company is against the policy of cutting prices and disturbing the market in order to obtain a few more sales.

Management Problem in Buying

One problem which faces the management of the cooperative retail hardware association concerns the number and variety of items carried by the Company. The members of the largest hardware cooperative associations voted to simplify stocks carried and develop quantity buying power by requiring members through contract to carry all lines of certain brands of merchandise. This group felt that this plan,

which is similar to chain store practices, was the only way which would reflect the real strength of the Company.¹ Only two of these organizations have made any attempt to limit the number and variety of items carried.²

The Northern Wholesale Hardware Company is faced with the same problem. Although the Company does not require members to contract to carry certain lines, the management finds it necessary to limit the number and variety of articles in order to take advantage of pooled buying. This makes it necessary for the manager to find out which particular varieties the members most desire. Practically every new line introduced is accompanied with this problem.

1. Cooperative Drug and Hardware Chains, p. 25.

2. Ibid.

Summary

The prices paid by the Northern Wholesale Hardware Company and other cooperatives cannot be said either to be higher or lower than those paid by regular wholesalers. There is little reason to believe that this Company has a greater buying power than service wholesalers, or cheaper transportation rates; yet the assumption might just as reasonably be made that the Northern Wholesale Hardware Company, being recognized by most manufacturers as a "legitimate" wholesaler, buys on the same terms as other wholesalers.

The question which arises is--does the company show a saving by not carrying a line comparable to service wholesalers? If the Company is able to supply members with the merchandise they request, then the reduction of its stock is indeed a saving. However, if the Company is unable to supply its members with merchandise, these members must look to other wholesalers. In this case, the Company has shifted the burden of a large stock onto other wholesalers, and has inconvenienced its own members to the extent that they will have to look elsewhere for their goods.

Filling Orders

The Northern Wholesale Hardware Company has devised a very unique plan of filling orders. The plan has been

developed from the experience and careful observation of the management. When an order is received by the Northern Wholesale Hardware Company, either by salesman, telephone or mail, it is given a number. This number is taken from the register book in which every order has been recorded. This register book may be said to be the heart of the entire order system. It may be used as an index for all orders received by the Company, through which one may, by looking up the number of his order, go to the files and produce the original copy.

After the order has been given a number a copy is made out in triplicate. The original copy is white, the duplicate is yellow, and the third copy is pink. The white or original copy is left in the office to check against, while the yellow and pink copies are sent to the warehouse where they are used to fill the orders. After the warehouse employee has filled the order and checked over the number of items, he indicates on the pink invoice if the Company is out of some particular line of merchandise. The pink copy is sent back to the office and the yellow copy is sent out with the order.

Upon reaching the office the pink copy first goes to the price clerk who puts down the prices; then it goes to the biller who bills it and makes out the invoice. If it has been noted on the pink copy that certain items are

not in stock, a notation is placed on the invoice telling the customer that the particular goods are not in stock at the present. The note indicates when they were or will be ordered. Also, the member is informed as to when this merchandise is expected to reach the warehouse. The invoice is then sent out the same evening.

This method of filling orders has proved to be very beneficial to the Northern Wholesale Hardware Company, and though it is difficult to point out the merits of this system over those of other companies, it might be said that the officers of this Company are very well satisfied with this effective method of handling orders.

CHAPTER VIII

SELLING

One of the greatest economies of cooperative buying associations is the saving made by reducing wholesale selling expenses. Through taking advantage of a reduced sales force and fewer retailers' services these concerns have been able to decrease selling expenses. In examining the selling structure of the Northern Wholesale Hardware Company, the different methods used in selling should be discussed in order to determine whether or not the Company actually does reduce selling expenses.

Salesmen

One of the largest selling expenses of regular service wholesalers is salesmen salaries and commissions. The total sales force expense of the wholesale hardware business in 1937 was 4.82% of net sales.¹ In comparing this figure with cooperative wholesale associations there is a marked contrast. Many grocery and drug and hardware cooperatives do not employ any salesmen while others will use as many as five or six. However, the total sales force expense for cooperatives using a sales force is materially smaller than that for similar service wholesalers. One

1. See Appendix.

cooperative grocery association, with net sales of over \$1,000,000, had a total sales force expense of only .45% of net sales.¹ The Northern Wholesale Hardware Company employs four salesmen at an estimated expense of .773% of gross sales.²

Retail cooperative buying groups show a large saving by reducing the sales force expenses, as is evident by the foregoing data. As a general rule the number of salesmen employed by hardware cooperatives is less than the number hired by service wholesalers. Four companies reported a total of thirteen salesmen who personally call on retail members, while three reported a total of eleven telephone people to take orders.³

The Hall Hardware Company does not use salesmen. Most of its orders are sent in by mail. Mr. G. E. Hall, president, feels that his company not only receives a saving by not employing salesmen but that manufacturers selling direct to his company obtain a savings because they do not need to use as many salesmen. In the following quotation he points out these facts:

We have reduced by more than 50% the average cost of distributing hardware and we have given our public the benefit of the saving. We have reduced the cost of manufacturers' selling and brought our own selling down.⁴

1. White, op. cit., p. 34.
2. See Appendix.
3. Cooperative Drug and Hardware Chains, p. 26.
4. G. E. Hall, "Simplifying Hardware Selling", Nations Business, November, 1929, p. 192.

The four salesmen employed by the Northern Wholesale Hardware Company make personal calls on members. These salesmen are contact men, or educational salesmen, besides performing their regular duty of soliciting orders. It is their duty to contact the retail member once or twice a month and check over the dealer's stock to see if he is short on any particular line and to help him introduce new merchandise. He also encourages members to fill out promptly the orders to be mailed in. Salesmen are paid on a commission basis. They solicit 15% of the orders received by the Company. The members are divided into four areas and each salesman is given one district. One territory includes Portland and an area surrounding it within a radius of sixty miles. Southwestern Oregon comprises another territory. The third area runs from Seattle to Yakima, taking in the surrounding territory, and the fourth area comprises northern Idaho and eastern Washington.

Bulletins

Although cooperative retail buying associations, by reducing the number of their salesmen, have decreased the selling expenses, the lack of personal selling may be a handicap as well as an advantage. The Northern Wholesale Hardware Company has realized this fact and to keep its members better posted as to merchandise on sale it has turned

to issuing bulletins. These bulletins give a list of merchandise which the members have an opportunity to purchase at a favorable price. Bulletins are issued irregularly throughout the year, some coming out as often as two or three times a week and again others two or three weeks apart. Some issues may contain only the line of merchandise, while others may list several lines. Mr. T. L. Willis, president of the company, estimates that through issuing bulletins, members have an opportunity to purchase between 485 ~~to~~ 525 different lines a year. In commenting upon the effectiveness of the bulletins, G. E. Hall, manager of the Hall Hardware Company of Minneapolis, says:

Our catalogue is a duplicate of the one other hardware wholesalers give their salesmen. The only difference is that we give the catalogue and prices to the retailers themselves.¹

It has been pointed out by critics that reliance on bulletins may be detrimental to cooperative buying associations. The reason given for this was that the success of the members rests upon the ability of the manager and buyers. If the retail member depends on the merchandise listed in the bulletin, unless it is a quality line at a reasonable price, he will not have an opportunity to receive better merchandise at better prices since he is depending upon the bulletin for his information. The

1. White, op. cit., p. 43.

independent dealer who is not connected with a cooperative buying group receives information from manufacturers' salesmen as well as from those of different service wholesalers. On the other hand, a member of a cooperative, if he is loyal, may have a limited source of information. These critics conclude that the members of cooperative retail buying associations have very limited sources of information and that the responsibility for keeping members informed of attractive offers and current market prices rests solely with the manager and buyers of the association.

However, it does not seem that this charge applies to the retail hardware buying associations. With the exception of one group these establishments are not opposed to manufacturers' salesmen calling on them. One of these stated that for certain speciality lines manufacturers' salesmen "are the best kind of sales help that we have".¹

It may be further pointed out that none of the retail hardware organizations require their members to purchase any specific amount of merchandise from their concerns, although two companies recommended that their members purchase certain lines or amounts.²

The Northern Wholesale Hardware Company has no objection to manufacturers' salesmen visiting its members. Neither does it require members to purchase any specific amount of goods from it. It might be said that this

1. Cooperative Drug and Hardware Chains, p. 27.

2. Ibid., p. 26.

Company is in competition with other concerns in dealing with its own members. Therefore the responsibility placed on the management of this Company to supply members with information is comparable to that placed on managers of service wholesale firms. In other words, the retail members are free to buy from other sources if they are able to obtain more desirable prices.

Inasmuch as some types of cooperatives do require the purchase of minimum amounts of merchandise from the association, it is a strong point in favor of the Northern Wholesale Hardware Company that it does not require its members to purchase goods on this basis.

Sources of Orders

Although the Company uses salesmen, orders come largely through other sources. The greatest number of orders come by mail, it being estimated that 55% of the total are received through this channel. G. E. Hall states that 95% of all orders received by his firm are by mail.¹ This is due mainly to the policy of not using personal salesmen.

About 20% of the orders received by the Northern Wholesale Hardware Company come by telephone. This method is used more advantageously in the drug field where few or no salesmen are employed. This system of order taking can-

1. G. E. Hall, op. cit., p. 192.

not be utilized extensively by the Company because so many members are located quite a distance from the warehouse cities.

A final source of orders for this Company is by personal calls of members at the warehouse. About five percent of the orders taken come from this source, the local members calling at the warehouse, usually with a delivery truck.¹ Following is a table of sources of orders:

	<u>Percentage of Total</u>
Mail	55
Telephone	20
Salesmen	15
Personal calls	<u>5</u>
	95

Dealer Helps and Services

Although the Company has been able to show savings due to reductions in selling expenses, what has it been doing for its members in the way of increasing their sales? A list of services supplied by many regular hardware wholesalers includes the following:

1. Advise to retailers through the salesman as to the best methods of displaying merchandise.
2. Coaching retailers and clerks as to the quality of merchandise and most effective selling methods.

¹ These figures are merely estimates made by Mr. Willis, president. This accounts for the fact that the total does not equal 100%.

3. Assisting retailers by furnishing them with plans of stock control and accounting.

These are a few of the many services extended by regular wholesalers. Retail buying associations are in a better position, however, to give additional services, such as advertising, uniform store layout, and weekly specials.

Dealer services have been offered mostly by cooperative chains in the grocery field. They generally offer weekly specials, local newspaper advertising, rearrangement of store interior, and uniform store front. Also, missionary men are sent out to give personal advice to retail members as a feature of dealer services. However, in the hardware field retailer cooperatives are not service agencies. Four of them recommend uniform store layout for members, and between twenty-five and eighty percent complied with the request. Three companies recommend uniform counters, and one requires uniform store fronts. The Hall Hardware Company of Minneapolis urges members to paint their stores uniform orange and blue to display across the front of the store the company's large sign featuring "Our Own" trade-mark. The company reports that an effort is made to have the inside of the stores as clean and attractive as possible, but it does not work for a uniform interior arrangement of variations in size, shape and location of store buildings. The company states

further that "the importance of uniform store appearance can not be overestimated. It trade-marks the store to the public and has a direct advertising value to every store. Chain stores long have recognized the importance of unified store appearance." Going farther into the services offered by retailer cooperatives, the hardware groups do little advertising in comparison with those in the grocery trade. Only one group reported regular newspaper advertising, while three others did irregular advertising through this medium. Two companies used handbills or direct mail.¹

The Northern Wholesale Hardware Company does not offer its members many dealers' services. This particular phase of wholesaling has been given serious thought by the officers and they plan to increase their services to dealers in the future. At the present they furnish the retail member with a circular, store banners, and window trimming. These circulars are about newspaper size, containing several pages of items and prices, including specials. The Company organizes and publishes them and sends them to the retail members at cost of printing. The members then mail them to their customers. Among the other services offered by the Company is the personal advice given by salesmen.

1. Cooperative Drug and Hardware Chains.

There is a wide field of services which the Northern Hardware Company might offer to its retail dealers. There is the possibility of uniform store fronts and uniform store layouts, which was stressed so much by the Hall Hardware Company. Along with this, uniform accounting systems and stock control methods could be established. Coaching dealers and their employees regarding more effective selling methods and better ways of displaying merchandise would also aid in more rapid stock turnover. Other chain store methods as shifting unsaleable merchandise piling up in one store to stores in which they will sell better might also be employed. Some of these changes might involve certain problems which may not prove to be practical. It would probably require the employing of a full-time supervisor who is an expert service man to continually contact the members. Should the membership prove to be too large, two such supervisors might be necessary. Only one cooperative hardware chain employs such supervisors who visit the members twice a year. Another reason why the Company should not offer some of these services is that small businesses might be unable to stand the expense of remodeling store interiors and of constructing uniform store fronts. In order to meet competition from other firms the Northern Wholesale Hardware Company may have to develop a service department as

was the case of the Hall Hardware Company, the largest cooperative in the field.

The Northern Wholesale Hardware Company sells to both members and non-members. The non-members are sold to as prospective members and are given a company price book and allowed to purchase goods from the company. After a period of probation a non-member is accepted as a member if the set-up is suitable to both the prospect and the company. About ten percent of net sales are to non-members. They receive no patronage dividends but what profit the company makes on them is divided among the regular members. Any specials given to the company by the manufacturer are extended to members.

The company does not feature regular weekly or monthly special sales.

CHAPTER IX

DELIVERY

Regular wholesalers generally make deliveries to retail stores. This function, however, is not performed as extensively by cooperative retail buying groups. The drug and grocery cooperatives usually delivery to retail members in and around the warehouse city and even to members doing business in distant cities, for a certain charge. Deliveries to most of these more distant members are made to the local freight depots rather than directly to the dealers. The hardware cooperatives differ in this respect, as none of them have delivery systems of any kind, either free or with a charge.¹

The difference between these groups lies in the location of members. The grocery and drug cooperatives average 65% to 66% of their members in the warehouse city and the 34% or 35% outside the city are usually located in the near vicinity. Some reported delivering within a radius of thirty-five miles of the warehouse city.²

Cooperative hardware groups do not have the bulk of their members in the central city. For example, the Northern Wholesale Hardware Company has about 10% or 11% of

1. Cooperative Drug and Hardware Chains.

2. White, op. cit., p. 62.

its members in Portland and nearly 9% in Seattle. This leaves about 80% of the members outside the warehouse city. These members are scattered over an area comprising the states of Oregon, Washington, and western Idaho.

This company, like the others, does not offer any delivery service. It owns no trucks itself and when it is necessary to purchase merchandise from local jobbers to replenish an inventory, a local transfer company is engaged to deliver the goods to the Company's warehouse. All shipments to members are sent out on railroad or truck lines. Local merchants in and around the warehouse cities often send their own delivery trucks to the warehouse to do their own delivering.

The fact that the Northern Wholesale Hardware Company does not make deliveries to members does not mean that the cost of delivery is actually reduced or entirely eliminated, but merely that it is shifted to the retailer. If the Company does not extend this service the members must use their own trucks or use the common carriers. It is difficult to determine whether the cost of performance is greater or less in the case where the retail member assumes the function of delivery. None of the cooperative associations have introduced this service, and considering the large area over which the membership is distributed it would appear to be more economical to let the retail member assume this function.

It is possible that those retailers doing business close to the warehouse cities can perform the delivery function at a saving. If they do not keep their delivery equipment busy in their regular retail business they can utilize it more efficiently by hauling merchandise from the warehouse than by allowing it to stand idle.

HOWARD BOND
MADE IN U.S.A.

CHAPTER X

CREDIT

Another function of wholesaling is the extension of credit. The retail-owned cooperatives perform this function at a saving over the method used by regular service wholesalers in extending credit. Regular wholesalers in the hardware trade generally give thirty to sixty days credit, whereas retail buying associations generally extend credit for a week only, with some granting a two-week period. In the grocery trade a large majority of these organizations give credit for ten days or less. Some, however, extend it to thirty days. The tendency of these grocery firms in the last five years is toward the cash-and-carry policy, eliminating credit entirely. The retail-owned druggist associations average from seven to ten days in the extension of credit although some require cash on delivery.

The Northern Wholesale Hardware Company is more liberal in this respect than are the cooperative drug and grocery chains. It extends credit for a two-weeks' period. All bills fall due on the first and fifteenth of each month. In order to encourage prompt payment all bills become delinquent five days after they come due.

As a penalty to members who allow their bills to become delinquent an interest charge is levied. Any members who have continually failed to meet financial obligations within five days after they fall due may be dropped from the membership of the Company if the board of directors deem such action advisable.

There are a few items, however, such as paint, on which the manufacturers extend credit to the Northern Wholesale Hardware Company for a period up to three or four months. The Company in turn passes this same credit period on to its members, not requiring payment from them until it has to pay the manufacturer. This system has proved to be very satisfactory and has given the Company ample funds with which to take advantage of cash discounts.

Due to the strict credit policy of the Northern Wholesale Hardware Company, its losses from bad debts have been very small. The members have adhered to the policy of prompt payment of bills so that the credit risk is almost negligible. As a specific example of this the loss due to bad accounts for the year 1937 was less than two dollars. This shows that the Company is selecting members with good credit standings. It also points to the fact that the members have been interested in the good standing of the Company as shown by their willingness to keep their accounts paid up.

Reasons for Dropping Members

Although no exact data were given on the number of members that have been dropped from membership, it was stated that only now and then has such an occurrence taken place. The only reason given for members discontinuing relationships with the Company was the failure of the member to pay his bills to the Company within the designated period. This is evidence that the Company is very strict in the application of its credit policy.

Even though the Company does not extend credit for as long a time as regular service wholesalers, it may be considered as an advantage to this type of organization. It is essential for this Company to take full advantage of its buying power as purchasing at a lower price is the cardinal reason for its existence. One method of buying at lower prices is taking advantage of the cash discounts offered by manufacturers. With credit extended for only two weeks it gives the Company a better opportunity to obtain cash discounts because there is uniformly more cash in the business.

As compared with independent wholesalers, curtailed credit extension is a saving to the Northern Wholesale Hardware Company. This saving comes from paying less interest on capital owned or borrowed than the service wholesalers who must use large amounts in carrying accounts.

Because service wholesalers extend credit for a much longer period their interest charges are a much higher percentage of net sales. The average wholesale hardware firm has interest costs about six times those of the Northern Wholesale Hardware Company.

Through the curtailing of credit and by reducing risk through their strict credit policy, the Company has been able to reduce the cost of extending credit. A question, however, arises as to the effect of this policy on retail members and other wholesalers. If it is necessary for the retail member to borrow in order to pay cash twice a month, some of the expense has been shifted from the association to the retail member. The independent wholesaler will assume a greater risk if he has to extend credit to those not able to pay cash every two weeks and consequently not able to belong to a cooperative association. He also assumes a heavy risk if members of such associations who have used all their funds in purchasing from the association are still in need of merchandise and consequently buy it from the service wholesaler and take advantage of his liberal credit terms. This is another reason why the service wholesaler must charge higher prices than the cooperatives.

CHAPTER XI

STORAGE

A final wholesale function carried on by cooperative retail buying associations is carrying a stock of merchandise for delivery.

This function is carried on by the Northern Wholesale Hardware Company although not as extensively as by the regular service wholesalers. The Company rents a warehouse in which it carries a small stock. The aims of the Company are to have enough merchandise in the warehouse to fill the small orders of members. It is not deemed necessary to carry large stocks as the larger orders are pooled and sent directly on to the manufacturer. When the goods arrive at the warehouse each member's portion of the order is sent directly to him. This does not require storage space in the warehouse.

The policy of carrying a smaller stock may be considered an advantage for the Company, as it requires less money to be tied up in inventories leaving the Company free to use it in other ways. It may be considered a disadvantage from the viewpoint of the member who is inconvenienced by not being able to have his orders filled promptly.

In certain lines the Company has an agreement with the Portland distributors whereby they carry the stock, and the Northern Wholesale Hardware Company may draw from it when a sale arises.

It is seldom necessary for the Company to take a markdown on its goods. Because of the high stock turnover and small inventory kept in the warehouse only a sudden lowering of prices would cause the Company to markdown its merchandise.

According to W. L. White, retailer-owned cooperatives apparently perform the function of storage at the same cost as the service wholesaler.¹ One might conclude then that the Northern Wholesale Hardware Company does perform the storage function at a saving. This saving, however, is mainly due to carrying a smaller inventory rather than through a more economic method of handling goods.

1. White, op. cit., p. 85.

CHAPTER XII

CONCLUSION

The foregoing chapters have discussed factors which have contributed to the success of cooperative retail buying associations, and particularly those factors which apply to the success of the Northern Wholesale Hardware Company. In the past social conditions were revolutionized by the industrial revolution. This brought about an economic change in our productive system which gave rise to the method of mass production. Mass distribution followed, and this change forced the independent business man either to change his method and techniques or to face business failure.

Many independent merchants who saw into the future turned to cooperative methods for the solution of their problems. The cooperative retail buying association plays a large part in the distribution of goods in the United States, although it is one of the newest forms of business enterprise.

The fundamental reasons for forming retailer-owned cooperatives were to re-establish competitive equality and to make it possible for the retail members to meet the

competition of modern-day organized mass distribution. Cooperative buying associations are not primarily a movement to bring about lower market prices through more efficient distribution. They are purely a defensive movement brought on mostly for self-preservation. It was the chain store, the mail order house, and the department store that effected the lowering of market prices, and it was the independent merchant trying to remain in business that was responsible for the retailer-owned cooperative movement.

Much has been said about the competition of the chain stores to cooperative drug and hardware chains. At present the independent druggists still do seventy percent of the retail drug business, while in the hardware field over ninety percent of the retail business is done by independent merchants.¹ The competition in the hardware field is not from true hardware chains but from other types of chains that skim the cream by handling the fast moving hardware merchandise.

Appraisal of Cooperative Retail Buying Associations

Have these organizations obtained their objective of competing successfully with other business groups on a basis of price, quality, style and service? On the basis of 1930 figures, Beckman and Engle concluded that corporate

1. Hector Lazo, Retail Cooperatives: How to Run Them, p. 16.

chains are able to sell a little more cheaply than the cooperative associations.¹ These cooperatives have been able to stem the tide of chain stores to a considerable degree and to keep large numbers of independent merchants in business. Through large-scale buying and efficient selling the retail members have made a saving. The average saving was estimated to be 2.5% in the grocery trade and slightly over 4% in the drug trade.² However, the real test for cooperative buying associations is whether or not they serve society. Unless they are beneficial to the ultimate consumer, they are of no economic value. Cooperative chains are able to sell merchandise to consumers at lower prices than can the unaffiliated independent stores.³ This indicates that they are economically sound and socially desirable.

Having concluded that these cooperative organizations are economically sound, it seems logical to assume that the Northern Wholesale Hardware Company, inasmuch as it typifies this type of distributive association, is also of sound character. The founders of this institution started it along the right lines. However, this Company's success is not due entirely to the fact that it is a cooperative retail buying association. Good management has

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1. T. N. Beckman and N. H. Engle, Wholesaling, p. 570.
 2. W. L. White, op. cit., p. 145.
 3. Beckman and Engle, op. cit., p. 572.

also been a significant factor in the success of this Company; and like any other business it must be capable of solving its own problems.

In discussing this Company it was pointed out that it performs four of the five wholesale functions to some degree. Contrary to the statements sometimes made of these groups, however, it does not eliminate the necessity and cost of performing a single function.

The wholesale function of selling is performed by the Company mainly through bulletins and salesmen. It also sends out circulars three or four times a year to aid retail members. Outside of the aid given by salesmen, it renders practically no services to its dealers. The savings which the Company obtains through selling are mainly by using the bulletin instead of salesmen.

The Company does its buying in large quantities, taking advantage of both cash and quantity discounts. Through the pooling of orders of nearly a hundred and fifty retailers it is able to purchase goods at wholesale prices. It extends all cash discounts to the retail members. Even though the Company has been faced with the opposition of some manufacturers who refuse to sell them goods, at the present the pressure has been lightened mainly due to larger buying power.

The function of credit is extended by the Company for two weeks. Although this is a longer credit period than customarily extended by most cooperative chains, it is considerably shorter than the credit period of the regular service wholesaler.

By keeping a light stock on hand at the warehouse, the Company is able to perform the storage function at a small figure. Also because of the small stock of merchandise kept in the warehouse the Company need not rent as large a building as a regular service wholesaler doing a similar volume of business.

The function of delivery is not performed by the Northern Wholesale Hardware Company. Although this is considered a saving to the Company, the retail member must meet this expense of delivery so the Company merely shifts this function to its members.

Advantages

The most important advantage from the members' standpoint is the saving which accrues through dealing with this Company. There is no true criterion to use as a basis for estimating the percent of saving through dealing with the Company, as such savings depend on the members' other buying connections. One retail dealer doing business with the Northern Wholesale Hardware Company estimated his savings from five to ten percent, or an average

of about eight percent. Another member was unable to estimate his possible saving because of certain buying connections in the east. It is logical to assume that unless a member can buy at a saving from this Company, he will purchase his goods elsewhere.

A second advantage is the ability to operate at such an extremely low overhead. Although the Company has been able to operate at a figure less than half of that of the regular wholesaler, it must be pointed out that the Company does not perform all the wholesale functions, nor each one to the same degree as the regular wholesaler. For this reason, the Company has shifted some of its overhead burden either to retail members, to manufacturers, or to other wholesalers. The efficient management and the co-operation of the members are responsible for a large share of the Company's reduction in overhead.

A third advantage is the opportunity offered the smaller members to obtain favorable prices. The small retailer seldom has an equal opportunity to purchase merchandise as cheaply as a large city retailer who is able to buy in large quantities. Every member of the Northern Wholesale Hardware Company receives the same goods at the same price regardless of the size of his business. This is definitely an advantage to the retail member who has a smaller clientele.

A fourth advantage which typifies this Company may also be considered a problem of the Company. Competitive jobbers have quoted exceptionally low prices to members of this organization, even naming lower prices than to their regular trade. This is an advantage in that it forces the jobber to take less profit in order to match prices with the Northern Wholesale Hardware Company, and it is a problem in that it tends to encourage members to buy from other sources. This problem has been common among other cooperative hardware buying associations.

Disadvantages

There are certain disadvantages as well as advantages which the Company has to face. It is evident that members located four hundred miles or more from Portland find service rather slow. Some of these members do not receive the personal calls of the Company salesmen. Further, it was shown that the Company has not offered many dealers' aids to its members. Other than circulars, it does no advertising. There are no special sales given regularly by members which are promoted by the Company. If a member opens a new store or remodels an old one, there is no Company man present to aid with an opening sale. Little personal advice is given to dealers and no schooling is given to members on displaying or selling merchandise. The Company has not developed a uniform system of interior

layout, store front, or accounting system. This is a large undeveloped field which other cooperative hardware companies have found necessary to enter.

Reasons for Success

Mr. T. L. Willis feels that the success of his organization is due in a large part to the fact that each member feels that this organization is his own. Each wants it to be successful because it will be to his benefit. Members have attended stockholders' meeting regularly and have been willing to serve as directors. The interest of the directors is shown by their perfect attendance at meetings. Directors have been close to the business and are vitally interested in its success. These men have been applying Marshall's theory of substitution to the management of this concern.¹ They have substituted their own management in which self-interest leads them to be industrious for the absentee managership of a large corporation which gains its advantage from large-scale operations.

Mr. A. R. Quackenbush of Eugene, a former director of the Company, attributes a large degree of the Northern Wholesale Hardware Company's success to a strict policy of requiring bills to be paid on time.

These are only a few of the many reasons for this Company's success. Were it not for the cooperation of

1. Alfred Marshall, Principles of Economics, Vol. 1, Chapter IX.

the members and the ability of the directors and manager to meet the Company's problems, it would not enjoy the business standing it has today.

A prosperous future for the Northern Wholesale Hardware Company seems assured when all of these conclusions are taken into account. The limitations of this concern, however, must not be overlooked. The Company has a natural geographical limitation. It will be difficult to expand its membership further to the east because of the distance. It also has limited its membership to one in each town. There is no reason to assume then that this Company will be subject to a rapid growth in membership. Also, the Company is not adapted to handling heavy steel items or many large electric household appliances.

There are several factors, though, that point to its future success. The Company has met with less resistance from manufacturers as its buying power has increased. This will tend to give it more equal buying privileges with competing firms.

There is little reason to believe that chain store competition will interfere with the Northern Wholesale Hardware Company's progress. The chain store has made only small inroads in the hardware business. They can handle only articles which are adapted to mass distribution. In pointing out the fact that this type of competition

need not be a future problem to hardware dealers. Mr. G. E. Hall, president of the Hall Hardware Company of Minneapolis, says:

Many articles can be distributed by chains and mail order houses better than the independent dealer can distribute them. But many more items, those that require the personal service of the dealer, and in this field if the independent retailer is a real merchant, he need not fear the competition of mass distribution.¹

Broadly speaking, the Northern Wholesale Hardware Company has been a great buying aid to its 136 retail members. It has given them an opportunity to combine their buying power and face the present competitive conditions.

¹ G. E. Hall, "Simplifying Hardware Selling", Nation's Business, November, 1929, p. 192.

A P P E N D I X

MODERN
BOOKS

**OPERATING EXPENSES OF THE WHOLESALE HARDWARE
BUSINESS, 1937, and the NORTHERN WHOLESALE
HARDWARE COMPANY, 1938**

Operating Expense	Northern Wholesale Hardware, 1938, % Gross Sale	Wholesale Hardware Business, 1937, % Net Sales	Difference, Greater or Less*
Total Sales Force	.773	4.82	4.047
Advertising	.740	.46	.28*
Wages of Receiving & Shipping Force	2.591	2.30	.291*
Executive & Office Salaries	2.465	4.48	2.015
Office Supplies, Telephone, Wires	.582	.82	.238
Rent & Real Estate	.428	1.08	.552
Heat, Light, Power, and Water	.143	.19	.047
Insurance, Taxes	.629	1.66	1.031
Repairs, Depreciation	.104	.38	.276
Loss from Bad Debts	---	.59	.59
Interest Expense	.579	.42	.159*
Traveling	.173	---	.173*
Warehouse	.092	---	.092*
Miscellaneous	<u>.090</u>	<u>.36</u>	<u>.27</u>
	9.389	17.56	8.171

* Source: "Overhead Expense in Wholesale Hardware Distribution", The National Wholesale Hardware Association of the United States, 1937.

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