

CHAIN DEPARTMENT-STORES

BY EDITH M. STERN

CHAINS of department-stores arose largely in the United States during the Coolidge-Hoover Inflation. Some of them were outgrowths of the large mail-order houses, which decided to take a stab at the retail business. Others were organized by throwing together stores already in existence.

Such reasoning as went into their formation seemed, on paper, to be logical enough. It was all based on a single and apparently simple principle; that the needs, tastes and desires were similar throughout the nation, and that in consequence chains could buy and operate more cheaply and therefore more profitably than stores working independently. With central financing, it was believed, a stronger monetary position would be gained; with central management, a higher type of executive could be put to work; with advertising centrally directed, its costs could be cut; with centralized control over expenses, a more efficient system of budgeting could be worked out; and above all, with quantity buying there would be enormous savings on the cost of everything purchased.

But not one of these theoretical benefits has worked out in practise. That central financing has been, to put it mildly, not a complete success is shown by the fact that all save a few of the chains are now either in the hands of receivers or under control of the banks. This weakness cannot all be blamed on the Depression, for the individually operated department-stores have not

crashed proportionately: in a city so large as New York, for example, only two independent stores have fallen into the hands of the banks. One chain, whose stock has since sold as low as \$1 a share, offered it to the public at around \$40. Even if the total volume of business had held up (which it did not) and if all the money subscribed had been received (which was not the case), the flotation cost was so great, and the invested capital so much, that a profitable turnover was impossible.

Still more devastating has been the débâcle of the hope of increased efficiency, without extra expense, by engaging and paying for a higher type of executive in the central offices, with a consequent saving on the payrolls of the local stores. Experience has demonstrated that competent executives cannot be eliminated in the individual stores if they are to be successful, since every store continues to present individual problems despite the most expert kind of central management. In other words, if a store manager of \$10,000 a year calibre is required for an independent store unconnected with a chain, a store manager of \$10,000 calibre is still required for that store, however many \$50,000 sachems sit behind mahogany desks at headquarters. This holds true not only of store managers but also of local executives. There may be expert buyers in the central offices, but because of local variations in demand it is essential that capable local buyers be retained. Also, there is an additional ex-

pense in the salaries of district managers who correlate the separate stores with the central offices.

In regard to the third mirage of economy, centrally directed budgeting, again the facts have not borne out the theory. Every store presents an entirely different problem, regardless of its class of clientèle or its volume of business, and thus standardized budgeting becomes impracticable. Too much depends on the physical and architectural layout of the store. On paper, there is no reason why every store doing, say, an annual business of \$3,000,000 should not manage with one window-trimmer and an assistant. But windows, unfortunately, are not made of paper, and if the store happens to be on a corner it may have twice as many windows as another store, similar in volume of business but located in the middle of a block, and one window-trimmer and an assistant cannot properly take care of it.

Again, in a store which consists of only two stories and a basement maintenance will naturally be less than in a store which requires the running of one or more elevators. Then there is the question of numbers in the sales force, which, as any department-store man knows, bears a more direct relation to the actual physical coverage of floor space than to volume of sales. Standardized budgeting, consequently, however soundly worked out by efficiency experts, has to be scrapped time and time again by store managers when the peculiar physical arrangements of individual stores have to be considered.

The same difficulties arise in the matter of centrally directed advertising. The best brains that money can buy lay out carefully conceived advertisements and send them out to all the branch stores of the chain, but how can advertising be standardized in ten, twenty, fifty or eighty dif-

ferent localities? Style demands vary; seasonal demands vary; local industrial conditions vary; and the advertising manager in New York simply can't keep attuned to the daily local conditions that are so important in advertising which depends on its immediate, next-day appeal.

Even if centrally directed advertising were suitable for use everywhere at the same time, which it is not, how could it be budgeted? The same quarter-page advertisement costs \$86 in Washington and \$250 in Philadelphia, a few hours away. The individually operated store can budget its advertising according to the prevailing volume of business and the cost of lineage, but if local managers were to use all the units of advertising that are sent them from headquarters the cost would soon make it impossible to do business. Their own judgment has to enter in; and again there is expensive duplication of function.

II

But blackest of all has experience turned the great white hope of the chain-department store—the economy and efficiency of central buying. Merchandise can be divided into two general classifications, hard lines or staples, and articles involving a style factor. In staples, at least, it would seem that the discounts made possible by quantity purchase should counterbalance any minor additional expenses incurred by elaborate organization. But even here the individual department-store comes out best. Though it is true that discounts vary proportionately with the amount of merchandise bought, the law of diminishing returns still runs, and there is an inevitable point beyond which reductions and discounts cannot go.

Moreover, the independent stores are not excluded from the blessings of quantity

buying. There are firms of buyers having headquarters in New York whose business it is to buy for various numbers of individual stores. The better among such firms work for a flat fee set according to the volume of business of the client store. By pooling the orders of its clients it can give them the benefit of large discounts. Even assuming that the buying office is not content with its legitimate fee—an occurrence rare among the firms—and fails to pass on the full discount, a substantial amount could be diverted to make up for the 3% to 5% which represents, at best, the proportionate cost of the central buying department to total central expenses.

What is more, the number of commissions offered to the buyers for the chains by manufacturers is probably larger than those offered to independent buyers. There is absolutely no check on the central, all-powerful buying organization in the chains. If a local buyer attempts to check up on them in an attempt to save his conscience, he may lose his job, since very likely he holds it at the pleasure of the very man he is trying to follow up. For two years one district manager attempted to discover why the cash discount on a certain article appeared in the books as only 7% when he knew that it should have been 8%. He never found out!

When one comes to the large class of articles which are not staples and in which the style factor plays an important part, the central buying scheme fails even more abysmally. No two department-stores, anywhere, have precisely the same demand, nor is there any adequate way of classifying them. Perhaps such gross extremes of costly error as the sending of \$1000 worth of snow equipment to a Miami branch store because it happened to be part of the standard inventory of that particular class of store could be obviated through a

classification by climate. But a hundred other elements of difference appear when style factors enter in.

The classification cannot be made according to volume of business. It cannot be made according to location or size of the town. The dress that is a best-seller in Philadelphia may not be so in Wilmington, an hour away, or in Chester, Pa., a much smaller town. Nor will the best-seller in Chester necessarily be one in Steubenville, O., which is about the same size.

A striking example of this sort of complication was presented by the case of some consignments of dresses to Williamsport, Pa. The competent store manager there made a survey of his ready-to-wear department and decided that the styles being shipped from New York were too advanced for Williamsport. He wrote in detail to the central office, requested shipments of six-months-old styles, and was laughed at for his pains. Four weeks later the New York buyer visited his Williamsport store for the first time. He stayed on the floor for one day, and, being also a man who knew his business, agreed unqualifiedly with the local manager. Yet neither can the problem be solved by sending six months old styles to all towns similar in size and type to Williamsport, because Springfield, O., which is comparable, demands nothing but the last word in fashion.

Another time it seemed logical in a central buying office to send a large consignment of washerettes (miniature size washing-machines) to Philadelphia. They failed to move. But when they were transferred to nearby Newark, also a good-sized industrial town, they sold rapidly. The answer is that Philadelphia is not an apartment-house town and consequently the demand there is for full size washing-machines. Now, no one not familiar with

local living conditions could have avoided making the mistake, but the duplication of freight alone cancelled any profit that might have been made when the machines were finally sold. In brief, the local buyer cannot be eliminated. Foresighted buying does not depend merely upon intelligence; it involves intimate, detailed knowledge of a myriad of local factors.

A further large loss in connection with centralized buying arises from delays—and delay is fatal to the profitable operation of department-stores because their profits lie largely in the rapid turnover of stock. The net profit on individual items in a well-conducted store is not a large one, rarely more than 5%. Where the money is made is by the reinvestment of capital again and again in rapid succession, and consequently it is essential that stock be kept moving. In order to effect this the buyer must keep his finger on the pulse of demand.

The most effective way of doing it has been worked out in the independent stores by a system of want slips. Want slips are notations made out by the salespeople of any articles requested by customers which are not in stock. Any buyer worth his salt goes over them daily before he leaves his office; they are the quickest, surest, most effective means of finding out what the public wants. But in the chains want slips are useless, for the multiplicity of stores creates such an amount of red tape that quick action becomes an impossibility.

Examples of the kind of bungling that ensue are innumerable. There is, for one, the case of the leatherette pillows seen by a store manager in a competing independent store. He bought one, forwarded it to the New York office, suggested who might be the manufacturer, and requested that a gross be sent him to be tried out. He waited. He waited some more. For

six weeks he waited, and then he received, not a gross, but only a dozen of the pillows. What had happened was this:

The sample pillow had caught the fancy of the New York buyer. In fact, he liked it so much that he decided to stock every store in his chain with similar ones, but the manufacturer was able to turn out only five hundred dozen, not enough to assign a gross to the original store. And not even the dozen which were finally received were sold. By the time they arrived the season for canoe pillows in that locality was past and they had to be laid aside (with the consequent tie-up of capital, so fatal to department-stores) until the next year.

But this does not comprise the whole sad tale. Meanwhile, the competing store, where the pillows had first been seen, had been unable to re-order from the original source because of the large order given by the chain. But being able to work directly, without intermediary, its buyer hastened to another manufacturer, had the pillows copied, and sold over a thousand dozen in two weeks!

Again, there is the case of the store manager who sent in a requisition to the central office to purchase pongee (which is as much a department-store staple as sugar is a grocery staple) at a certain price. After two weeks the New York office answered that it could not be obtained at this price, as it had risen a cent a yard. The local manager wrote, "Buy it anyway."

Two more long and dreary weeks elapsed. Another letter arrived from the New York office. This time the cost of pongee had gone up another half cent; was it still wanted at the increased price? Frantically, the store manager telephoned to New York, "Buy!" The following day he received a third letter. New York headquarters had not booked the order

because it had discovered that it had a contract for pongee at the old market price of a month before, and would forward the goods as soon as they were received.

The store manager, wise in the ways of chain stores and wishing to hold his position, which, like most executive positions, had been filled from headquarters, did not insist on the immediate delivery he knew was necessary. Two weeks later the case of pongee arrived by express, and when the difference in the cost of expressage and in freight was figured in, the cost of it was approximately the same as if it had been shipped by freight in the first place, and at the higher price.

In the meantime, the store had missed sales, not only on the initial order of one case but on duplicate orders of two cases more, and its silk department had suffered materially both in actual business and in good-will, for hundreds of customers had to be told that there was no pongee in stock, which seemed as strange to them as if a grocery store had turned them away when they asked for sugar.

III

So much for wastages that can be considered in terms of dollars and cents. But there is another steady, omnipresent drain in the chain department-stores which, though more subtle in its manifestations, is equally fatal. This is the appalling wastage in human energy that the system involves—a wastage almost incredible to anyone who has not had direct experience of it.

It is no mere sentimentality to say that a happy and contented employé is the most efficient. The employés of the chain department-stores, from the highest to the lowest, are neither happy nor contented. There is not a local executive who would

not jump at the chance to work for an individually owned store. There is not a capable man who continues to work for a chain after he finds a way of escape. The turnover of personnel is tremendous. Everyone is hopeless about his own future, and nearly everyone is hopeless about the future of the system. All work in a dreary atmosphere of discontent, of confusion and of frustration.

To a very large extent this discontent is found even in the apparently enviable men on top, the executives in the central offices. If they are intelligent—and most of them are—they cannot help realizing that their offices are largely unnecessary, when time and time again it is brought to their attention that individual local direction is more important than anything they can do. But in order to hold their jobs they must continue to prove to the stockholders that they are needed. They must continue to send out orders, directions, advice, circulars and memoranda. They must continue to show large savings effected by quantity buying, though they know from unhappy experience that thousands of dollars worth of merchandise that will be snapped up in Topeka may languish, unsold for months, in Spokane.

The organization is so huge that they cannot possibly keep in touch with what their colleagues are doing, and so they frequently find themselves in idiotic positions because of sending out conflicting orders. The president of one organization, for example, sent a letter to one of his store managers congratulating him on his good sales record and urging him to redouble his efforts, as the inventory of his store was still too high. In the same mail the merchandise manager wrote a letter to the same manager also congratulating him on his sales showing, but giving him orders to increase his stock immediately.

Going down the hierarchy, the next in command are the district managers. Their positions are responsible, but maddening. One district manager, happening to be in San Antonio, received a note from the central office to the effect that, since he was in Texas, he should take a run over to Amarillo to clear up a little matter that had arisen in the branch store there. Apparently the central office did not know that the distance between Amarillo and San Antonio is about the same as the distance between New York and Chicago.

But educating his superiors in geography would barely scratch the surface of a district manager's troubles; he simply has too many stores under his direction to cover them adequately. In one district, by no means untypical, the manager, a hard-working, conscientious soul, had not yet been able to visit all his stores at the end of two years. Another district manager, in the course of one year, traveled 69,000 miles by automobile in an attempt to cover his territory; sometimes he visited stores in as many as five towns in one day, and consequently inspected them inadequately. The subdivision of present territories would cause an increase of district costs fatal to the general budget and, what is more, would destroy the very *raison d'être* of arrangement of stores into districts.

Mail is another one of the district manager's afflictions. He is steadily pelted with so many communications from central department heads who must justify their existence, and he receives so many letters from the stores under him, that he is swamped. Even if he had nothing else to do it would be impossible for him to read all this, much less digest it and act upon it intelligently. One desperate district manager engaged an assistant whose sole function it was to read and sort the mail.

IV

Still more unfortunate is the position of those poor wretches, the store managers. They have no sense of security, for chain department-stores seldom give them contracts. They call themselves checkers; on the huge board of the chain they are jumped about from place to place and have no chance to become acclimated anywhere. Always they find themselves in conflict with the central executives, who do not, and cannot, appreciate their peculiar individual problems. And always, for two reasons, these central executives are in the better position.

First, they are physically in closer contact with the heads of the organization. If they wish to complain of a stubborn, unreasonable local manager they need only run in to the office next door, while the helpless local man must write or telephone, and then cannot be sure whether the recipient of his grievances has digested his dinner or not and how he will react to them. Second, the store manager has most likely got his position through the very central executive with whom he differs, and holds it subject to that personage's pleasure, for it is inherent in the chain store scheme that important executive positions shall almost always be filled from headquarters.

The same relationship with the general staff holds true for local buyers and department heads, with an added complication. In individual firms, if they use the kind of New York buying office described above, the store buyer is the boss, and the buying office, to whom the store pays a fee, is the hired hand. Obviously, that buying office does all it can to please and render service to its clients. But in the chains the positions are reversed and the relationship of buyer to buying office

works backward. Here the local buyer is the hired hand, and his store is the servant, not the master, of the central office. An entirely different psychology results; a psychology which has unfortunate effects on the disposition and consequently on the efficiency of the local buyer when he sees customer after customer being turned away because articles for which he has sent in requisitions have not been stocked.

If the store manager could take it out on his minor executives perhaps he might find some compensation, but here too he is blocked. Though he is given responsibility, the authority to fulfill that responsibility is withheld. He is powerless to hire or fire his subordinate executives because they, like himself, are usually placed from headquarters. Perhaps he is given assistants with whom it is impossible for him to work. Perhaps he will have to witness gross inefficiency in his staff and be unable to do anything about it.

There is the instance of the store manager who suspected a buyer of dishonesty. He felt almost certain that the man was a thief and if he had not been a slave to the chain store system would have fired him. But it is one thing to say, "Mr. Jones, will you please tender your resignation?" and quite another to write to the central office, "Please dismiss Mr. Jones, who I believe has been stealing," and thereby not only incur the unpleasant danger of a libel suit but perhaps even lose one's own job in case Mr. Jones, who has been appointed by the same superior, is teacher's pet. So this manager waited watchfully, and months later he caught the buyer in *flagrante delicto*. But meanwhile the balance sheets which he had to turn in and for which he was accountable had suffered to a serious extent.

One might assume that all this would result in a life of carefree gaiety for the

minor executives, but it does not. Like their immediate superiors they too feel helpless and insecure. Job fear is rampant throughout the entire staff. The turnover in the upper personnel is rapid, and a remote shift in the central offices, or a shift made by the district manager in order to accommodate himself to a shift in the central offices, may tumble them all out of their jobs, like so many wooden soldiers in a row. However much they may have pleased the man under whom they actually work, there is little help for them.

Furthermore, however satisfactory their work may be, it is unusual for advances to be made within the store. An assistant buyer in Oshkosh may work himself to the bone and be duly appreciated by the buyer and the store manager, but if that buyer and manager are shifted to Kankakee, and if Mr. X in New York has a nephew whom he wishes to place as buyer in Oshkosh, there is, in most cases, no friend at court to further the interests of the assistant and advance him to the position of buyer.

Going still further down the line, the sales staff has its own troubles. Salespeople, of course, are hired by the local executives, so they do not often encounter the uncongenial associations which cause so many executives to leave the chain stores. But they may work like Trojans and present a magnificent showing of sales without necessarily furthering their own interests. If the business of the chain as a whole has fallen off, their store, with the others, will have to suffer a salary cut. As for their hope of promotion within the store, it is almost *nil*. There is little expectation that a salesperson will ever rise to be a buyer, for the good jobs are filled from the central offices, and it is hardly to be expected that the president of the cor-

puration can keep in personal touch with the excellent work of Miss Smith at the handkerchief counter in Des Moines. So the humblest saleswoman, like her superiors, becomes imbued with the "What's the use?" point of view so detrimental to good work.

V

Finally, there is one more factor which, almost alone, would be sufficient to spell ruin for the chain department-store scheme. The department-store is unlike any other kind of store. Of all businesses it involves the most fundamental human relationship, the most complex and personal connection with the consumer. This connection is not maintained by the mere giving of value. Different customers will patronize different department-stores for exactly the same article at exactly the same price because of the intangible but all-important factor of good-will, which depends on the personality of the store. The independently operated department-store has a distinctive personality. Its owner takes pride in it; it belongs to him; it is his creation; he beams upon it. His attitude toward it is the same as a woman's toward her home, and just as the layout and number of rooms in two homes may be identical, and the furniture similar, yet each home have a personality reflecting that of its mistress, so it is with department-stores.

In the chain store scheme it is inevitable that the stores are largely devoid of that personality. There is some attempt to overcome the lack by drawing on local men for executive positions wherever possible—especially in the smaller towns, where a "Good morning, Mrs. Brown," is worth a multitude of bargains—but

somehow the supply of local men never seems to be sufficient; they prefer to work independently to the last gasp; and the staffs continue to be drawn from the reserves of the larger towns and cities. Thus there is no way out. Department-stores simply cannot maintain distinctive personalities under a system which owes its very existence to central control and standardization.

Today only two of the six chains that were floated during the boom are still solvent. One of the wrecks is no longer even listed on the big board. The stocks of the two survivors, on July 31 last, sold for an average of about one-fifteenth of their boom prices, while the Dow-Jones industrial averages, on the same date, were at least a quarter of their all-time high. The stocks of the mail-order houses have reflected the general advance in prices a little more; as I write, they are now worth about one eighth of their previous highs. But even this mild rise is due more to the expectation of increased mail-order business with the revival of the farmer's prosperity than to the earnings of their retail branch stores.

As for the innumerable smaller department-store chains which never attained the dignity of board listings, it is a safe estimate that over 70% of them are insolvent. Only such chains as were formed over a long period of pre-boom years by individual merchants setting up new stores when they found that the field of their initial venture was saturated, or by the gradual banding together of their resources by merchants in diverse towns, show even faint signs of life. They present fewest of the phenomena of typical chain store operations; they are nearest the individual department-store; and they are therefore the only groups likely to survive.

AMERICANA

CALIFORNIA

LAST onslaught of the local Methodists upon the Demon Rum, as reported by the Long Beach correspondent of the *Los Angeles Times*:

In a drastic bone dry resolution, the Southern California Methodist Conference today voted to expel from church membership any member who drinks beer, legal or otherwise, after being admonished by a pastor.

The resolution, adopted in the closing minutes of the convention, placed the conference squarely behind the Eighteenth Amendment and against any attempt at its liberalization.

Under the resolution, expulsion from church also faces anyone connected in any manner with the sale of beer if he or she is found guilty after a trial and then "evinces no real humiliation." In this category would come anyone who applies for or obtains a beer license or even an attorney acting for a client engaged in the sale of the brew.

A similar penalty awaits property owners who use or rent their places for the dispensation of beer. A soda fountain located on a member's property and engaged in beer selling, it was pointed out, is liable to bring that member to trial and expulsion from church under the far-reaching resolution.

From the same paper:

A wedding on the stage of the Realty Board Auditorium Saturday night probably will go down in the annals of Los Angeles marital unions as the most unusual yet recorded.

Dr. W. H. Graves, naturopath and chiropractor of 2330 West Eighth street, took for his bride Miss Carol Anita Hofer of 2718 West Eighth street, while several hundred followers of nature trails watched.

The auditorium stage was set with leafy boughs. It represented a path through woodlands trod by the nature lovers on their Sunday hikes, when formal wearing apparel is replaced by shorts as the men and women of nature clubs trek into the depths of woodlands.

In the orchestra pit were a piano and a violin. The curtain rose on the leafy setting. Across the stage trooped several hikers, friends of the bridal pair. The hikers were applauded by their friends in the audience, which broke into a storm of commendation when the bridal couple made its entrance. The bride wore an abbreviated hiking costume and the bridegroom wore shorts. All the hikers were in shorts.

The first lines spoken by the featured pair had to do with how nice the woodland spot was for such a meeting. Weary from their hiking, the two reclined upon a leafy couch, to eat apples. The two-piece orchestra played an appropriate number, "Sleep," as the couple slept. At this point entered a tiny Cupid in the person of Claire de Rome, who has never in her life tasted cooked food. The bridal couple do not eat cooked food, nor do their friends.

Cupid, or Claire, amid great applause, shot a dart at the sleeping couple, whereupon a minister, the Rev. E. P. Shannon, entered and the couple rose from their couch of nature. A few words, different from the time-worn ritual, and the two were made one.

The minister left the stage and the two again reclined on the leafy couch, after which Cupid once more entered, to send another dart in their direction, on which they awakened again and compared notes on what had transpired. The lines spoken by the pair at this point indicated that what had taken place was of the stuff of which dreams are made.

"Why," said the bridegroom, "I had the strangest dream—"