Selling Things the Hard Way

The Twentieth Century Fund examines the excessive distributing costs of the capitalist system in the United States. Monopolies and the middlemen. The consumer pays.

DOES DISTRIBUTION COST TOO MUCH? *A Review of the Costs Involved in Current Marketing Methods and a Program for Improvement. Factual Findings by Paul W. Stewart and J. Frederic Dewhurst of the Committee on Distribution of the Twentieth Century Fund: Willard L. Thorp, director of Economic Research, Dun & Bradstreet; Stuart Chase, author; Alvin Dodd, president, American Management Association; John P. Frey, president, Metal Trades Department, AFL; Carl L. Hamilton, Booz, Fry, Allen & Hamilton; Helen Hall, director, Henry Street Settlement; Hector Lazo, executive vice-president, Cooperative Food Distributors of America; Paul H. Nystrom, president, Limited Price Variety Stores Association; Robert G. Stewart, formerly director, Standard Oil Co. of N. J. Published by the Twentieth Century Fund. $3.50.*

BE IT ever so humble, your home shelters the shrine at which all business worships. For you have a dollar. It may not be an elastic dollar for you, but its cents and mills possess a capacity for infinite partition—so many to the producers of the goods you buy, and so many to that multitude of eager hands through which pass your grapefruit from Florida, your toothpaste from Jersey City, your automobile from Detroit, and your shoes from St. Louis. Following your dollar into its dispersion, you would find that it costs more to distribute commodities than to produce them. About 59 cents out of your dollar goes for distribution and only 41 cents for production.

We know a good deal about production, its costs, wages, and profits. We know that mass production has brought prices down, that efficiency in production has increased the per capita volume of commodities turned out by each worker. We have seen giant industries swallow smaller ones, and the little men making a steadily shrinking proportion of the total produced—whether it be in manufacturing, agriculture, or mining.

LESS KNOWN ABOUT DISTRIBUTION

The distribution of commodities has been subjected to far less examination, however. We have had little information with which to determine its efficiency, its costs, or the trends which foreshadow the destinies of your druggist, grocer, and favorite filling station. Clearly this sector of our economy deserves study. This is the world of selling and advertising, of Fuller Brush men, and the A&P, of tiny shops and R. H. Macy, and of those self-effacing middlemen who function mysteriously behind the scenes. It is here that the problem of the railroads enters. There are thirteen million people engaged in distribution, in some two million establishments. Is this system of distribution efficient? How much does it cost? Does it cost too much?

The task of answering these questions has been undertaken by a committee appointed by the Twentieth Century Fund. Their recently published findings lay bare the complicated mechanism of distribution and reveal its costs in more detail than any previous study. It was only in 1929 that the first Census of Distribution was taken by the federal government. This study is based on that and on the succeeding collections of data made by the Census Bureau in 1933 and 1935. The result gives us some idea of what distribution really costs, even if the committee cannot tell us "how much too much" that cost is.

We can see more clearly the amazing superstructure business has erected upon the shoulders of the primary producers, the industrial workers and the farmers. Equally revealing are the limitations of these capitalist economists. The composition of the committee was an attempt to enlist all viewpoints (John P. Frey representing labor!). But its philosophy is a compound of fictions, hopes, and naivete. The authors gravely announce that:

> Throughout this book it has been assumed that the important purpose of the various elements of the economic system—distributors, producers, capital, and labor—is not to serve their own individual ends except as a means of getting things to people and satisfying human wants. . . . The preservation of the status of any particular group of distributors is of secondary importance.

These defenders of the profit system thus obscure the profit motive. Yet by the very thoroughness of their factual findings they have unintentionally produced a powerful indictment of the whole profit system. And, as a by-product, the study reveals with equal unconsciousness that the small merchant is doomed to a lingering death by starvation.

Two issues of high importance are involved. If distribution costs too much, then the standard of living of the masses of the American people is suffering. If the small merchant is faced with impoverishment and extinction, then a great human tragedy and a major political problem cry for our attention.

In part, the picture of distribution today is the result of changing habits. In the years between 1870 and 1930 the population of the United States trebled, while the volume of commodities produced multiplied nine times. For every worker in all fields of production in 1870 there were three in 1930, but in distribution there were nine. Thus the increase in the number of workers in distribution corresponded closely with the volume of commodities circulated.

Of course, in 1870 living was vastly different. Fewer goods were bought ready-to-use, like foods and clothing. Many products and services we take for granted were unknown. But the committee is impressed with the 3:1 improvement in productive efficiency as against the practically static 1:1 relationship between the volume of commodities and the number of workers in distribution.

WHY THE COST?

Obviously it cannot be solely a matter of efficiency. Anyone who has worked for a department store, or a chain, or even in a busy grocery, will disprove that charge. The committee tells us that distribution does cost too much. But why? This book gives many reasons: too much competition in offering goods, too many brands of similar products, too many outlets, unnecessary and costly services, too much competitive advertising, too much emphasis on variety of choice and on style.

Thus, to take some of the more fantastic examples, on a single block in one city seventeen milk companies were making deliveries. There are as many as ten thousand brands of wheat flour and 4,500 brands of canned corn. The spread between actual production cost and retail selling price of a $1.95 cotton dress is 114 percent, but on a $39.50 dress it is 216 percent. A man's hat that costs $1.70 to produce sells for $3.50, but one produced for $3.74 retails at $10—the consumer pays $1.80 for the marketing of one and $6.26 for the other! As for the homely cabbage, it takes one dollar of the consumer's money to buy as much cabbage as the farmer sold for 11 cents.

The committee tells us that in the distribution of commodities there is too much competition, too many brands, and the like. But knowing the nature of business, can we ascribe the high costs of distribution to a matter of degree? No, the committee has mistaken the *effects* of our system of distribution for the *cause* of its excessive costs.

The key to the high cost of distribution is only to be found in the workings of capitalism itself. The very postulate of competition is enough to explode the naive assumption in the excerpt quoted above. And surely, when monopolies stifle competition, few will assert that their stranglehold is an example of social service. Since profits are made only by the circulation of commodities, since the manufacturer buys raw materials and machines and labor power only in order to sell commodities, distribution is the bloodstream which feeds the whole organism.

In 1929 the total paid by the ultimate consumer for commodities was $65,000,000,000, of which $39,000,000,000 went to the cost of distribution. Of that $39,000,000,000, 26 percent was manufacturers' selling costs, including national advertising; 23 percent was the share of transportation; 18 percent went to wholesalers and other middlemen; and 33 percent to retailers. (See chart on page 25.)

The advertising and selling costs of manufacturers amounted to $10,000,000,000. In other words, the surplus value created by labor not only helped pay for the operating expenses and profits of middlemen and retailers, but it directly furnished the initiating drive of the whole process. With this money the manufacturers could proceed to ram their goods down the throats of wholesalers, retailers, and consumers even though they offered "sales resistance." But these middlemen and retailers are handling commodities to make a profit, too. They do not resist. The consumer, properly conditioned, demands the goods. So all together plunge into the furious business of passing the commodities along until the total of all the transactions amounts to $218,000,000,000 to transmit to the final consumer $65,000,000,000 worth of goods.

The Bureau of Labor Statistics of the U. S. Department of Labor has recently published data on earnings and hours in the manufacture of electrical products which have an interesting correlation with the facts presented by the Twentieth Century Fund study. Here is a predominantly monopoly industry, fifth in rank among all manufacturing industries in terms of employment, and third in wages. The profits of General Electric, Westinghouse, and Western Electric are substantial (for the nine months ending Sept. 30, 1939, Westinghouse made a profit of $9,000,000 as against $6,000,000 for the same period in 1938). Remember that the figures in this Labor Department report include the smaller firms, which do not operate as profitably. In this industry wages constitute 21.9 percent of the total value of products and 36.4 percent of the "value added by manufacture." No wonder that in an industry with a high proportion of skilled workers 60 percent of them receive under 72 cents an hour.

FOR SELLING AND ADVERTISING

Turning now to the survey on distribution we find that manufacturers of electrical products in 1931 (a pare-the-expenses-to-the-bone year) spent 20 percent of their net sales for selling and advertising. The wholesalers of electrical goods operated on a cost of 18.6 percent, and the retailers on 34 percent of their net sales. It is clear then that the "value added by manufacture" was far more than the government data indicate. The figure (36.4 percent) may help to measure the manufacturers' profits but it is only part of the surplus value created.

It is primarily the productive enterprises which furnish the drive and explain the consumers' "frivolous" demands. It is only in the domain of "service" that the retailers have added more frills in competition with one another. But the root of that competition must be traced back to the producers. It is they who abstract only part of the surplus value labor creates and dangle the rest as a bait to the distributors.

Not only do the producers use this power to drive competitors out of business. They use it, in some cases, to drive the independent merchant to failure. Thus, at recent hearings of the Temporary National Economic Committee the spokesmen of the smaller independent oil producers "charged that the majors can afford to sell gasoline at little or no profit because of the profits they make on their crude production, refining, and especially their pipelines; that these profits are used to 'subsidize' the sale of products at prices so low that the little independent (drawing his profits from sales alone) cannot exist." (*Business Week*, Oct. 21, 1939.) Since the majors had an income of 28.4 percent on their investment, while the smaller producers made 9.4 percent, "the majors are progressively eliminating the retail gasoline station handling independent brands, and tying up retail outlets with exclusive contracts."

Clearly the committee's explanation of the excessive costs of distribution must remain superficial when it fails to grapple with the basic factor of capitalism itself. What recommendation, then, has the committee to offer? Here again we meet a painful theology:

> The main difficulty in determining whether excess cost or waste exists is that of establishing a workable criterion. The most satisfactory procedure might be to prepare a blueprint of the potential efficiency of an imaginary, perfectly functioning planned economy, and draw a contrast. On such a basis there is no doubt that the demonstrable waste of our present system would be tremendous. But would we want such an economy even if we could have it? Much of the waste that would appear on the basis of such a comparison must be regarded as the price paid for our particular type of economic system, which, waste and all, most of us prefer. We accept and adhere to certain social and political principles coming under the general terms of democracy and freedom of opportunity.

From so much flag-waving comes the breeze of enlightenment. These "principles," for instance, permit the establishment of a filling station on each of four corners of the crossroads. They permit some sixteen thousand brands of face powder and one thousand brands of canned salmon. In such cases, say the authors, "the efficient use of resources clashes with freedom of opportunity." They present still another "basic" principle, that of freedom of choice for the consumer "as well as freedom for the use of all kinds of blandishments by those who are trying to persuade him to buy. Much of our present distribution cost, due to the 'frivolous' demands of consumers and their resistance to standardization, must be charged against this principle."

Obviously, therefore, the recommendations of the committee are something less than startling. They advise an expansion of consumer education, dissemination of government reports on standards, informative labeling, a pricing system which would openly add to goods the costs of credit, delivery, return privilege, etc., with cash-and-carry cheapest. They propose consumers' guides, and cooperatives, and high school courses on consumer problems. For the business man they suggest government and commercial research in cost accounting, more and better statistics on distribution, the repeal of all legislation restricting free development of the various distributive agencies—chain store taxes, discriminatory state laws, and the like. They call for the strengthening of anti-monopoly laws to eliminate price-fixing and other profiteering practices.

It is with an almost audible sigh of relief that the reviewer of this book in *Printers Ink*, the advertising trade journal, says:

> A rather large bill of particulars is thus presented. Significantly, perhaps, none of these reasons for high costs is a new discovery. Each has been recognized for a long time and each has received much attention. Also significant is the fact that most of the problems are not much nearer solution today than they were when discovered.

His emphasis on "significance" is vague—possibly he was amazed that the committee did not propose socialism as the solution! For him, and for other writers for trade papers—whose existence is made possible by advertising and the multiplicity of brands and outlets—there is gratification in the committee's finding that much advertising is a force for social good, speeding the introduction of improved products and making possible lower prices by mass production. Actually, the study points to the wastes and competitive extravagance of advertising as well. Nor am I sure that socially minded dentists would agree that the tremendous sums spent for toothpaste advertising are worthwhile because they "make for better living . . . and promote habits that are socially desirable—such as the regular brushing of one's teeth." One does not deny women the right to enhance their charms by pointing to the huge waste in drug and cosmetic advertising, where manufacturers spend almost 30 percent of their net sales for selling and advertising alone.

In short, the recommendations in this book will not correct the excessive cost of distribution, for the forces of profit-making produce a hydra-headed monster which cannot be subdued by a little lopping off here and there. The very organization of our industry is a factor in the high cost of distribution. Of the 3,073 counties in the United States, 106 produce almost 70 percent of the manufactured commodities. Nearly 94 percent of our factory output is produced by less than 32 percent of the manufacturers. This concentration is one force leading to the multiplicity of outlets and the wastes in our transportation system, which, incidentally, deserves a special study of its own as an accomplice in the costliness of distribution.

Naturally, there are changes going on in the field of distribution. The committee points to trends that show the independent middleman is losing ground, although cooperative wholesalers have proved some source of strength to the retailers in their battle against the chains. The chain stores themselves are growing, particularly the larger sectional and national chains. The swift rise of this group is illustrated by the chart on page 25, which shows that the larger chains have been increasing their share of the total retail sales of the country, at a lower expense, while the independent merchants as a whole have been losing sales, with their expense mounting.

Actually, grouping all independents together obliterates the problem of that great majority of the independents on whom the assault of the economic system falls, the smaller merchants. It is they who struggle desperately to keep their chins above water.

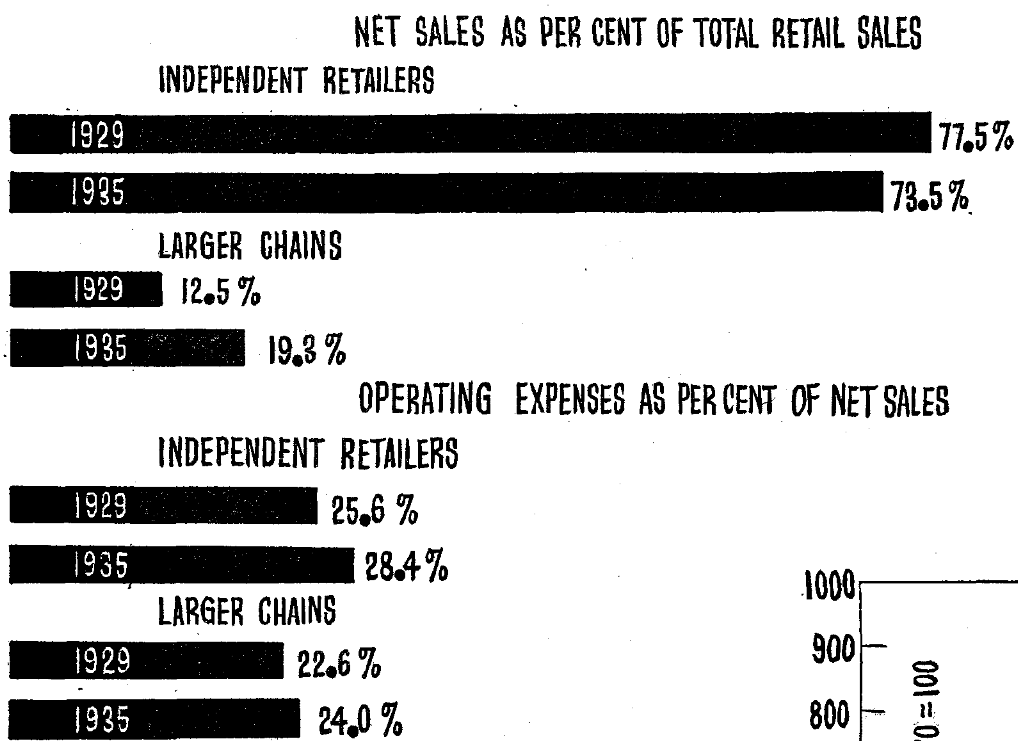
The report gives but scanty information on the profits of distribution. Its averages lump the corner grocer with the A&P grocery chain. From this it appears that the total profits are not large. Manufacturers' "distribution profits," wholesalers' and retailers' profits together amount to 3 cents out of every dollar paid by the consumer, or 5 percent of the total paid for distribution. (The study segregates manufacturers' production costs and distribution costs, but it also insists on an artificial distinction between manufacturers' production and "distribution" profits. How a manufacturer can make any profit at all if he does not sell his goods remains a mystery.)

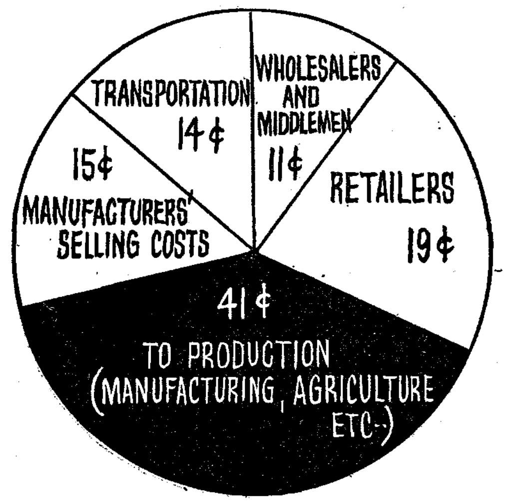
Even from the limited figures available we do know that the profits of manufacturers are from two to three times higher than those of all distributors put together. (When we consider large-scale production, we might well include the industrialized agriculture of California and other states.) For this reason, the manufacturers can launch that overpowering barrage which throws up the multitude of outlets and fractures the consumer's dollar.

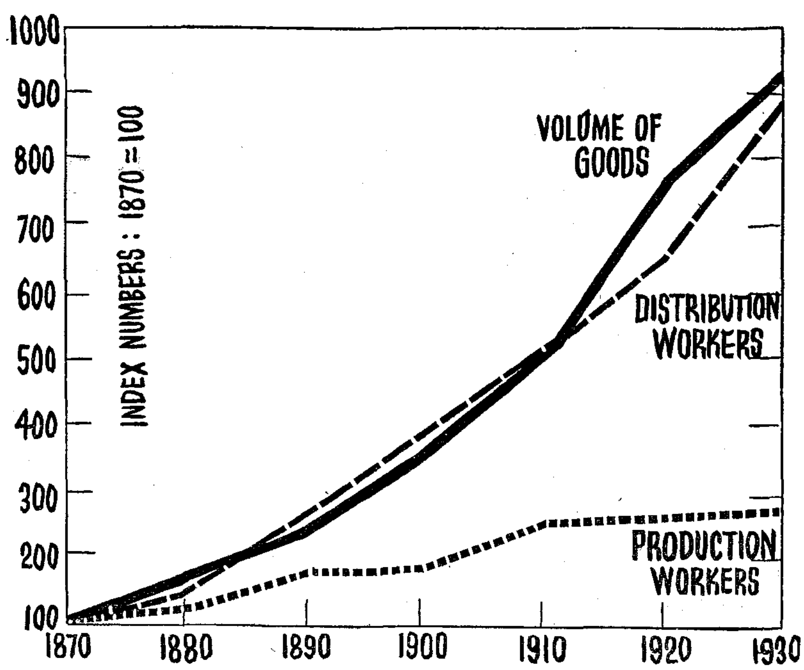
THE CHAINS

Naturally, the pickings are much richer in some cases than in others. They're best for the chains and the powerful independents. The chain stores offer a minimum of service, yet they grow. They pass on to the consumer only a tiny portion of the savings their method of operation makes possible. Strangely enough, the book does not point this out although its own figures show it: Independent retailers get their merchandise from wholesalers and direct from manufacturers and other producers. The operating expense of all wholesalers is over 13 percent of their net sales. The distribution costs of manufacturers range from 9.2 percent (textiles) to 38.8 percent (drugs and toilet goods). The chains, on the other hand, buy direct from manufacturers and distribute the goods through their own warehouses. These warehouses, corresponding in function to the wholesaler, operate on an expense of 4 percent of net sales. In addition, the chain stores receive larger discounts from the manufacturers and lower prices in return for larger orders. Their great volume gives them the power to apply pressure for all sorts of secret discounts and allowances in addition.

Even on the available figures, the superiority of the chains in purchasing power is evident. On drug products the chains receive discounts amounting to 10.1 percent of their net sales, while the wholesalers' discounts amount to 4.5 percent. On food products the ratio is 3.6 percent for chains to 2.3 percent for wholesalers. On tobacco it is 5 percent for chains to 1.4 percent for wholesalers.







Darryl Frederick

CHAINS CROWD OUT THE LITTLE MAN. *Above: While the small independent retailer's share of the market fell from 1929 to 1935 by 4 percent, the chains grabbed up 6.8 percent of total business. Notice that the increase of operating expenses is about the same; the independents bore that increase on less business; the chains on more. Above, right: The graph shows where the consumer's dollar goes. Notice the large slice of 59 cents which goes to wholesalers, middlemen, for transportation and manufacturers' selling costs. Right: Since 1870, the physical volume of goods produced has zoomed. Notice that the increase in distribution workers has kept pace with the volume of goods produced, but has far outstripped the growth of production workers.*

Small wonder that the independent wholesaler is slipping.

> We have assumed [says the committee] that what we want in this country is an economy which guarantees the greatest amount of individual freedom —consistent with the public welfare—to set up a business, to operate it, and even to fail if we cannot make a go of it.

Even to fail—for that the small merchant has indeed plenty of opportunity. But many bang on, taking the leavings which grow more and more lean. The little business man is today the vestigial representative of the bourgeois American dream. He is the repository of the sainted fictions of American opportunity, tied to the chariot of big business.

Be efficient or die, he is told. But he is efficient enough as a slot machine—and nobody expects a slot machine to have desires of its own. Even in 1929 over 40 percent of all stores had a sales volume of less than $33 a day. By 1935 more than three out of every five stores were in this class. Since the average operating expense of a retailer is around 30 percent of his net sales, and his profits at best are around 2 percent or less, the small merchant lives and works for his landlord, his creditors, his bank, and his local utility companies.

In 1929 there were 1,543,158 retail stores in the United States, and their number had actually increased to 1,653,961 in 1935. The big operators, in 1929, represented only 1 percent of all the retail stores in the country, yet they did 25 percent of the business. That was as much as all the little men did, and they ran three-quarters of all the stores. In 1935 the big fellows, reduced to 0.6 percent of all stores, garnered 26 percent of the retail volume. And the small retailers, who by 1935 represented four out of every five stores, got exactly the same share of the business. (As small merchants I include all doing less than $20,000 annual net sales.)

GOING OUT OF BUSINESS

If a merchant is affluent enough to incorporate his business, he may be comforted to know that one-half of the corporations in all branches of distribution have been making no profit at all. If he is too puny for the corporate toga, he can launch out by himself—a rugged individualist. In that case, since the average life of all American business is five years, he hasn't long to wait before he loses his money. According to a study made in Pittsburgh during 1925-34, one out of every five grocers went out of business each year, and practically half of all grocers going into business were unable to finish their first year. In Buffalo, data on stores going out of business each year showed grocers 36 percent, shoes 22 percent, hardware 16 percent, and drugs 13 percent.

True, on the score of efficiency the chains can demonstrate greater skill in merchandising. But consider also that chain store units are located in heavy buying areas, in selected spots, that they are backed by advertising, skilled in "loss leader" selling, able to put over their private brands at high profits, and expert in driving their workers. They give a minimum of service and extend little or no credit. (Ask any WPA worker whether he ever got credit at a chain store.) Thus, taking all independent stores, the sales per dollar of wages are $5.45, while in the chains they are $8.49. In combination grocery and meat stores the chains get twice as much in average annual sales per employee than the independents. In the supermarkets, operated on a self-service basis, the rate must be still higher.

Further complicating the plight of the small merchant are the changing habits of the American consumer, the use of the automobile for shopping, "style consciousness," the search for variety, and the like—mainly generated by national advertising. Particularly do these affect the smalltown dealer. Practically half of all retail stores are located in towns of five thousand and under—a little less than half of the population lives in such towns. Yet these stores do less than one-quarter of the business. Even if we take into consideration their slightly lower operating expense, it would appear that the *average* compensation of the smalltown retailer was around $25 a week in 1929. But in 1935 retail sales had declined more than 26 percent under 1929, while rents, light, and other costs have not gone down nearly so much. It is therefore generous to estimate proprietors' compensation in the small towns at from $800 to $900 a year, average. And this includes the pay of the wife, the son, the daughter, all helping behind the counter.

MARGINAL DISTRIBUTOR

Caught in the gears, the small retailer lubricates the distribution system — and is squeezed dry by it. While the standard of living was rising he managed to live comfortably, or at least survive. But the whole system is slowing down. The present boomlet will burst—should we be dragged into this war his fate will be all the swifter. Today the small merchant is the marginal distributor, so to speak. His very existence makes possible larger profits for the powerful chains and the big independents.

Against the forces crushing him, the retailer tilts an impotent lance. Fair trade laws, chain store taxes, discriminatory state legislation: these are part of his defense. In effect, the small merchant is pressing for decentralization, struggling to restore free competition, trying to push back the hands of time. He becomes a natural prey to "radical" schemes. He may hate the big fellows, but he is devoted to the ideals of profit-making and unlimited opportunity. All too often his resentment and desperation have been directed against labor. The statistics reveal the preconditions for his receptivity to fascist appeals, if statistics can foreshadow a state of mind.

To win the small merchant to his side is a problem for the whole labor and progressive movement. Surely it is to his immediate interest to endorse and fight for increased WPA appropriations, social security, federal housing projects. He should be a principal supporter of nationalization of the banks and the railroads, which put such a burden on him. Certain of his demands, too, must receive the support of the progressive movement; it's high time to study them and help guide the little retailer.

But his dilemma is too deeply rooted for cure. The committee responsible for the book under review could not face the solution because it "would raise problems far beyond the area of distribution itself, although [they admit] some of the most pertinent considerations appear in this wider area." To present the actual significance of their findings it has been necessary to dig out the meaningful facts. They did not dare enter that "wider area." For the answer to their question, "Does distribution cost too much?" is that *capitalism* costs too much.

ROBERT STARK.

The Fascist Styx

ACROSS THE DARK RIVER, *by Peter Mendelssohn. Doubleday, Doran & Co. $2.50.*

THE unbelievable incident was in all the newspapers. In the spring of 1938, the Nazis forced all the Jews out of Kittsee, a little Austrian village near the Czechoslovakian and Hungarian borders. But where were they to go? Neither of the neighboring states wanted them. Driven back and forth, they were at last allowed to stay on an old foul abandoned barge.

Through Peter Mendelssohn's imaginative realism, the novel becomes a moving reproduction of the historic event, as well as a composite symbol of the post-war Ahasuerian man whose uprootedness is so complete as to deprive him even of a no-man's land. These hunted Jews (among whom are "Aryan" anti-Nazis) cannot even be refugees. Here, alienation has reached the psychological ultimate. Their suffering is so intense, so relentless and ceaseless that one must laugh to be able to endure the story of their tragedy.

Ernst Bloch has pointed out that the exile who knows why he is forced to leave his country and is aware of his political responsibility is by no means uprooted. But Mendelssohn's motley group does not understand why it is being persecuted or who its enemy is. Hence, they are psychologically paralyzed. As one of them puts it: "I cannot fight a thing that hides in the dark under brushes and in the undergrowth . . . I cannot fight something that runs away from me and never stands up to me. I cannot fight the darkness."

Still, positives emerge from the story. The various class elements merge to "socialize" their losses; they learn communality of living. Most basic of all, as they begin to sense the principles behind their fates they acquire something of a psychological home. And this is precisely what the fascists cannot have. Their tactics reveal fear, a nervous fear of the "Jew"—an undefined, ubiquitous adversary who must be endlessly combated. It is the human constant that they are up against, the indestructible element that must spell their ultimate defeat. In this sense, it is the fascists who are doomed to roam aimlessly on the dark Styx, as the others gather their communal strength.

HARRY SLOCHOWER.

The Boy Grows Up

NIGHT OF THE POOR, *by Frederic Prokosch. Harper & Bros. $2.50.*

MR. PROKOSCH is the possessor of a lush, romantic style of writing and a lush and romantic attitude toward life. A best-selling novelist since his earlier books, *The Seven Who Fled* and *The Asiatics,* he has now turned his attention to the native scene.

It is of some significance that the first two books, about the Orient, were written by a young man who is said never to have visited the locales he described. And it is difficult, in reading *Night of the Poor,* to believe that the author, like his protagonist, has made the painful journey on foot and hitch-hiking from Wisconsin to Texas. The novel, largely concerned with the growing pains of the male adolescent, persists in finding lush romanticism in the life of the wild boys and girls of the road; even their diseases, their hardships, their starvation, exhaustion, demoralization are "thrilling." For that reason the narrative fails to achieve what its author obviously intended—a universal treatment of the threshold years of adolescence and young manhood, and a pervasive sympathy with the outcasts of this rich American continent. These major themes are seen through pale pink glasses, with an emphasis on adjectives, and for all the validity of the experience the material might have been assembled in any reference library.

ALVAH BESSIE.

A Soldier's Life

NO ARMS, NO ARMOUR, *by Robert Henriques. Farrar & Rinehart. $2.50.*

THE authorship of this book gives it an expose flavor. It isn't often that officers in the British Army write novels to show that reflection comes hard in His Majesty's Service, or that the favoritism, boot-licking, and flat stupidity are as bad as large numbers of people have always supposed. But the expose, on the whole, is gentle. Major Henriques is concerned with the problem of "emergence" (mental and spiritual) in the army. His hero, young Lieut. Tubby Windrush, emerges for 373 pages, starting strictly from nothing: gentleman product of Public School, healthy, loving horses, liking army life because it doesn't make him think. Three friends—his girl, a disillusioned subaltern, and a gently philosophical major—push him on the agonizing road toward con-