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MANAGEMENT AIDS FOR SMALL-SCALE RETAILERS

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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The Ohio State University
1960

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CHAPTER I

INTRODUCTION

The role of "small business" in American political, social and economic life is discussed continuously and vigorously. From one point of view, small business is emblematic of freedom of competitive opportunity and is socially desirable as a safeguard against the political consequences of concentrated power. On the other hand, there is acceptance of the idea that corporate integration, high efficiency, and superior management are endemic to large-scale enterprise. One must recognize, then, that the prevailing concepts of "small business" tend to generate more emotionalism than perceptive understanding.

Need for the Study of Management Aids Available to Small-Scale Retailers

The need for a study of aids designed to improve the management of small-scale retail establishments is indicated by a number of factors. Foremost is the question of business failures. Data from Dun & Bradstreet, Inc., indicate that more than one-half of the business failures that occur annually in the United States are failures of small retailing establishments. Moreover, it is relatively rare for a retail establishment to fail because of reasons that are beyond the area of managerial control according to causes reported by informed creditors.¹ In

one study it was reported that inefficient management was the underlying cause of almost 85 per cent of retailing failures.\(^2\)

Many reasons have been advanced to explain why ineffective management is so prevalent among owners of small retail stores. Relative ease of entry enables individuals without either the necessary knowledge or, often times, adequate sums of capital to enter retailing. Moreover, the desire for self-employment and the apparent dislike for the discipline of employment in large-scale organisations may further encourage individuals with limited ability to enter retailing.

A more significant factor, however, is the unique character of small business enterprise. The distinguishing characteristic of small institutions is the absence of organizational specialisation in the performance of the management function. Large organisations are in a position to hire superior management and to obtain the services of specialists who can concentrate on the functional phases of their operations. They are in a position, therefore, to secure the best in sales management: well-trained accountants, competent personnel managers, buyers who are specialists in different lines of merchandise or materials and who know the sources of most favorable supply. In contrast, small-scale entrepreneurs must operate largely with non-specialists in many or perhaps even in all of these activities.\(^3\)


Since small business enterprises perform an essential function in an economic system based on the concept of private property, oriented toward a competitive market structure, and with a natural distrust of concentrated power, it is axiomatic that any improvement in the management performance of these institutions should be expected to contribute to the well-being of the economic system as a whole.4 A study of prevailing programs of management aids for small-scale retailers, then, should be expected to make a significant contribution to the accomplishment of this objective.

Information

Although a substantial body of literature has been published dealing with the subject of management aids for small-scale retailers, very little effort has been devoted to an intensive analysis and discussion of these materials. It is believed that no doctoral dissertation has been written in so far as this subject is concerned; moreover, research conducted in this study indicates that little if any regular and purposive analysis has been made by trade associations, wholesalers, government agencies, and manufacturers of prevailing programs of management assistance.

4Paul L. Brown made a strong case for this point of view as indicated by the following excerpt: "Small business continues to serve as the mainstay of this economic system...small business serves as a political umbrella for all private enterprise; it stands as a formidable barrier to the various schemes of state socialism or communism because it is the mainspring which renders the competitive mechanism 'workable.' Should small enterprise disappear, and total business activity come under the dictates of a relatively few giant concerns, the ultimate ownership and control of productive resources by the State is inescapable." The Economics of Small Business Enterprise (unpublished doctoral dissertation, The Ohio State University, 1944), p. 35.
Scope, Objectives, and Method of Study

Scope of Study

It is the purpose of this treatise to present a descriptive discussion, analysis, and constructive evaluation of management aids available to small-scale retailers.

While this investigation deals primarily with small-scale retailing, generalisations developed in the course of this analysis should be applicable to other small businesses. Since ineffective management is so prevalent among small business owners and managers, it is logical to assume that if more individuals learn and apply the rudiments of sound management, small business in general will provide a larger total product, sustaining more jobs and producing greater income.

Furthermore, improvement in the management of small business enterprises is also of interest to the consuming public for, in the long run, wastes and losses due to inefficient management and business failures constitute a burden on business which eventually becomes a social cost. This subject is, consequently, one that is of interest to the general public as well as to the business community.¹

Objectives

The primary objective of this study has been to ascertain the nature of management assistance programs currently available to

¹Paul H. Nystrom, "Opportunities for Improvement of Retail Management," American Marketing Journal, April 1936, Vol. XIV, No. 6, p. 156. While the economics of business failure is often emphasized, perhaps of greater importance is the loss of morale to the business owner. This experience may make it very difficult for the failing retailer to again show the initiative and daring which must characterise successful business operations. Beckman, Maynard, and Davidson, loc. cit.
small-scale retailers. Since the most critical problem confronting
small-scale retailers, in terms of their competitive position and
economic well-being, appears to be a general lack of skill in managing
their businesses, knowledge of existing programs provides a factual
background for developing effective means to combat this situation.

To broaden this investigation, personal interviews were conducted
by the writer with 272 small-scale retailers in Lexington, Kentucky,
in determining the extent to which these individuals utilize existing
programs of management aids; to arrive at suggestions for improving
prevailing programs; and to develop an insight into the concept of man-
agement and the role of small business as viewed by these entrepreneurs.

From a more general viewpoint, the problem concerning the lack
of managerial skill is essentially one of economics. In this sense,
economics is concerned with the allocation of scarce resources (with
alternative uses), in satisfying human wants which are of varying in-
tensities. Because human wants are more numerous than are the means for
satisfying them, problems arise that are associated with the allocation
of these resources in trying to maximize satisfactions. Consequently,
the manner in which the aggregate of individual firms in industries or
sectors of the economy utilize the resources at their command is ob-
viously a fundamental determinant in general resource allocation. 6

In encouraging small business, therefore, to observe more widely
the practices of intelligent management, we are in a sense

6William R. Davidson, Use, Productivity, and Space Resources in
Department Stores (unpublished doctoral dissertation, The Ohio State
University, 1951), p. 12.
demanding that important resources of the nation shall not be wasted through blundering use of them. Insofar as stagnation and failure among small business can be avoided through informed management, both the capital of the nation and values in a virile small-business population are conserved.

Small business cannot, of course, have its stability insured. Moreover, to point out that small business needs to raise the level of management is not to be patronising toward these institutions. For large-scale enterprise, "with all its tremendous advantages in financial resources, physical equipment, and top-flight know-how, recognizes and acts on the need of having its organisation, policy, and operations continually tested from within and by outside counsel." The small enterpriser, then, cannot afford to view his position with less realism and understanding.

While cognisance must be taken of the accepted point of view that there can be no return to laissez faire in the sense which the term is generally used, and in the incapacity of the individual system to regulate itself, it is equally imperative to emphasize the idea that

the cry of enterprise be not stilled, that the minority be allowed to have its chance, and that there be a thousand points in the larger system at which creative thought and effort may be applied... It is important that the spirit of competition shall be enhanced and not impaired. There must be an outlet for the creative urge, free play for the dynamic drive. In a society, as in the physical world, motion is inseparable from life.


8Ibid., p. 105.

The underlying objective of this study, then, is founded on the belief that a healthy and virile small business community will make a more significant contribution to the well-being of society.

Method of Research

In developing the data used in this research project, the following major sources were utilized:

1. Published material generally available in libraries. This included textbooks, technical books, Congressional hearings and reports, bulletins, mimeographed speeches, periodical literature, and newspapers. Among the periodicals and newspapers utilized for this purpose are the following:
   a. Harvard Business Review
   b. Stores
   c. Journal of Retailing
   d. The New York Times
   e. The Wall Street Journal
   f. The Journal of Marketing

2. Information relating to trade association activities was obtained primarily through correspondence with association officials, in personal interviews with association executives, and from trade association publications.

3. Personal interviews with governmental personnel, principally individuals within the Small Business Administration and the United States Department of Commerce, provided one source of information relating to these aids. Congressional hearings and committee reports, in addition to special publications issued by various departments were also utilized.

4. Correspondence and personal interviews were used in obtaining
information relating to the nature of management aids provided by
manufacturers and wholesalers.

5. Personal interviews were conducted by the writer with small-
scale retailers in Lexington, Kentucky, to obtain opinions and points
of view relating to their use or nonuse of existing information, and
in the development of suggestions for improving prevailing programs.

Because of the high degree of interest expressed in this study,
excellent cooperation was received. The more specific methodology
employed in carrying out the objectives of this study will be
explained in pertinent chapters which follow.

Time Covered by the Research

Most of the research for this investigation was done during the
period extending from 1955 to 1958. This was a particularly appro-
priate time for this study for a number of reasons. First, during this
period business conditions may be described as reasonably normal. Al-
though the period was marked by a rather high level of industrial ac-
tivity, instances of economic stress were also noted; this would indicate
that small-scale retailers might well have been operating within a
period in which their competitive effectiveness was tested. Their
reaction, then, to prevailing programs designed to improve the existing
level of management and, therefore, their competitive position, should
be viewed as being somewhat typical in so far as economic conditions
are concerned. Generalisations forthcoming from this analysis are
therefore not biased by reason of atypical economic conditions.

This period also includes the establishment of the first inde-
dependent department of the federal government, on a permanent basis,
with major responsibility for maintaining and developing the competitive position of small business organizations. Although the Small Business Administration was created on July 30, 1953, the Act provided for a two-year period of existence. This was extended for two additional years on August 9, 1955. After a one-year extension in 1957, the agency received permanent status with passage of the Small Business Act of 1958. Since the period during which this study was made includes the time necessary for the Small Business Administration to receive permanent status, it should provide a realistic basis for viewing the early efforts of this agency in accomplishing its objectives.

The Small Business Concept

Various criteria have been used in distinguishing "small" from "large" business organizations. Physical size expressed in terms of number of employees, total volume of sales, amount of income, total assets, or a combination of these, is the most common criterion used in defining small business establishments. In addition to various criteria associated with physical size, such factors as independence of ownership and the absence of specialized management have also been employed.

Congress, in the legislation creating the Small Business Administration, defined "small business" as

---

10Public Law 113, 83d Congress.
11Public Law 268, 84th Congress.
12Public Law 536, 85th Congress.
one which is independently owned and operated and which is not dominant in its field of operation. In addition to the foregoing criteria the Administration, in making a detailed definition, may use these criteria, among others: number of employees and dollar volume of business.

In the retail field, for example, an establishment is defined as "small" if its annual sales are $1,000,000 or less with the exception of general merchandise stores, new and used vehicle dealers, and grocer retailers; in the latter cases, an annual sales volume figure of $2,000,000 or less is used. The previous criterion that the firm not be dominant in its field of operation is also included.

A. D. H. Kaplan, while recognizing the somewhat arbitrary nature of definitions relating to small business, developed the following composite concept:

Size—arbitrary limits of $1,000,000 for volume of business, $500,000 for total assets, and 250 employees for personnel.

Financing—the equity capital of the small business is held within the circle of owner-managers and is thus obtained from plowed-in profits rather than the general securities market.

Area of Operations—small business is local in character and is dependent on the growth and well-being of the community in which it resides.

Management—the small firm should be a single independent organization directly under the supervision of its owners who are thus also its managers.13

Amid the rather wide differences of opinion relating to specific criteria to be used in defining small business enterprises, the concept

13Kaplan, op. cit., pp. 21-22.
is nevertheless basic and should be generally applicable. For each of these definitions, whether based on gross sales, number of employees, dollar value of assets or net income, is substantially equivalent to the criterion which defines a small business as one in which management decisions are made by one or two persons.

In developing an understanding of the "management concept" it is necessary to recognize, first, that management is a basic function in society. Furthermore, it is "the function of executive leadership anywhere." Narrowly conceived, the concept of management relates only to those institutions which are endowed with the responsibility for creating economic values. In a more profound and realistic sense,

14 To indicate further the nature of these differences additional definitions would include: The Census of Business concept which lists manufacturers within the classification of small business if they employ less than 100 people. In the field of distribution, sales volume is used in which wholesale establishments with annual sales of less than $200,000 and retail stores with sales of $50,000 or less are defined as small business. The Bureau of Labor Statistics defines small business in terms of an average for each industry based on volume of employment or sales. Still another concept is used by the Bureau of Internal Revenue in its Statistics of Income, which separates "small" from "large" business in terms of assets of $250,000. See U. S. Congress, House, Select Committee on Small Business, Final Report, 82d Cong., 2d sess., 1952, pp. 2-4. Joseph D. Phillips in his analysis selected the essential characteristic of "little businesses" in terms of "an absence or near absence of paid labor." Little Business in the American Economy (Urbana, Illinois: Illinois Press, 1955), p. 26.

however, "leadership and management, by whatever names they are called, are universal requirements of organisation anywhere."

The failure to recognize this fact lies at the core of certain misconceptions and misunderstandings which relate to the nature of "small" and "large" business organisations. Thus size, for instance, does not change the nature of the business enterprise, nor the principles of managing a business. While clearly there will necessarily be differences in methods or routines, "the fundamental principles of management and the approach necessary for the attainment of effective management are the same, irrespective of size."

What is different about "small business" enterprise, therefore, is not the fact that the head of a small firm needs less knowledge of management than his counterpart in large organisations. To the contrary, such an interpretation continues to have a noxious effect on creative thinking on the subject of "small business management."

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16 Ibid., p. 153.


18 E. F. L. Brech, Management: Its Nature and Significance (London: Sir Isaac Pitman & Sons, Ltd., 1955), p. 93. Thus it is in the application of these principles that differences arise; such distinctions, however, are of degree rather than kind. Ibid., p. 141.

19 Although the operations of small business enterprises "do not have the complexity of the highly departmentalized organisation, the small owner-manager is required on a smaller scale to meet the same general problems as his larger opponent. His personnel may consist entirely of himself. Even so, he must plan to coordinate the functions of buying, selling, financing, record keeping; he, too, needs continuous appraisal of his activities to see if they add up to a successful total operation." Kaplan, op. cit., p. 105.
Rather, the distinguishing characteristic of small business relates to the absence of specialisation in the performance of the functions of management, along with its corollary the further lack of specialised employees.\footnote{Beckman, Maynard, Davidson, \textit{op. cit.}, p. 153.} Furthermore, it is this absence of functional specialisation, especially in a dynamic and ever-changing economic environment characteristic of highly industrialised countries, which may cause serious loss of competitive effectiveness, not only when the business begins to grow and develop, but also in its early stages.\footnote{Davis, \textit{op. cit.}, p. 341. There is an important consideration inherent in these discussions. In terms of the "efficiency" of business organisations, the question of optimum size from the standpoint of management effectiveness cannot be given an authoritative statement due to the present state of ignorance on the subject. If there is, however, one "particular weakness...in smaller units, it is that the Chief Executive...seldom bothers to make any study of management or to realize that he has any need of it; yet, his need may be much greater than that of an executive in a group organisation." See Brech, \textit{op. cit.}, p. 142.}

Criteria to be used in definition of small-scale retailing.---

While the foregoing discussion indicates the major difference between "small" and "large" organisations, it is necessary to further explain the concept of small-scale retailing used in this treatise. For purposes of this analysis, the following criteria indicate the nature of small-scale retailing as viewed herein:

1. Business establishments which are primarily engaged in selling tangible merchandise to personal, household, or farm users.

2. Organisations characterised by an absence of specialisation in the management function, along with its corollary nonspecialised operative employees.
3. Institutions whose capital is supplied and ownership held by an individual or a relatively limited number of individuals.

4. Local businesses that find their chief market in and around their own community with annual sales of $2,000,000 or less.

**Classification of Management Aids**

For purposes of simplicity and clarification, the following classification of management aids provided by trade associations, government agencies, wholesalers, and manufacturers is employed:

1. Marketing management aids
2. Personnel management aids
3. Investment management aids
4. Management development aids
5. Miscellaneous programs

Programs designed to advance the level of executive leadership in marketing management include all business activities necessary to effect transfers in the ownership of goods and to provide for their physical distribution...excluding only operations related to changes in the form of goods normally regarded as processing or manufacturing operations.

In terms of personnel management aids, once again a functional approach facilitates this analysis. Consequently, the discussion is

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22 "Management aids" involve any organized program designed to improve the function of leadership, or management, in small-scale retail establishments.

23 Beckman, Maynard, and Davidson, op. cit., p. 4. More specific, these business activities include the functions of buying, selling, transportation, storage, standardization, risk-bearing, marketing information and research, and finance. For purposes of this study, the latter function is discussed in the analysis of investment management aids.
concerned with—

1. The field of management which has to do with planning, organising, and controlling
2. Various operative activities of procuring, developing, maintaining, and utilising a labor force in order that
3. The objectives and interests of labor itself are served to the highest degree.

Investment management, as used herein, includes those programs designed to improve the small-scale retailer's understanding of the contributions of managerial accounting and financial management in the effective operation of the business enterprise. Moreover, the investment management function includes aids available to small-scale retailers in the management of the assets of the business, as well as in the development and maintenance of those records necessary for healthy operation.

The fourth major type of managerial assistance consists of management development programs. These aids have as their major objective the development of attitudes and skills demanded of those individuals charged with the performance of the leadership function in small-scale retail enterprises. Their emphasis involves training in the development of "conceptual skill."  


25Mr. Robert L. Katz suggests that successful administration appears to rest on three basic skills which he defines as: technical skill, "an understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures, or techniques...Technical skill [hereover] involves specialized knowledge, analytical ability within that specialty, and facility in the use of the tools and techniques of the specific discipline;" human skill, is
General Organisation of the Study

The discussion and analysis which follows in the next six chapters is concerned with programs of management assistance available to small-scale retailers. Chapters II and III are devoted to an analysis of aids sponsored by trade associations. In Chapters IV and V the exposition relates to management aids supplied by federal government agencies. Chapter VI examines assistance programs available through wholesalers. This discussion is then followed by a description of manufacturer-sponsored programs.

The following two chapters (VIII and IX) are concerned with an analysis of the Lexington Retail Survey. Chapter I provides a general summary of the conclusions and recommendations resulting from the study.

This treatise, then, is concerned with four primary considerations: first, a description and analysis of selected management assistance programs available through trade associations, government agencies, wholesalers, and manufacturers; second, a determination of the extent to which respondents in the Lexington Retail Survey make effective use

the "executive's ability to work effectively as a group member and to build cooperative effort within the team he leads;" finally, conceptual skill, is the "ability to see the enterprise as a whole; it includes recognizing how the various functions of the organisation depend on one another, and how changes in any one part affect all the others; and it extends to visualizing the relationship of the individual business to the industry, the community, and the political, social, and economic forces of the nation as a whole. Recognizing these relationships and perceiving the significant elements in any situation, the administrator should then be able to act in a way which advances the over-all welfare of the total organisation." "Skills of an Effective Administrator," Harvard Business Review, January-February 1955, Vol. 33, No. 1, pp. 34-36.
of prevailing aids; third, the development of a select number of working hypotheses which explain reasons for the use or nonuse of these aids by respondents; finally, the presentation of an over-all plan of action to serve as a guide for establishing effective programs of management assistance for small-scale retailers.
CHAPTER XI

TRADE ASSOCIATION PROGRAMS BACKGROUND AND AIDS

Trade associations, like other institutions, have been subject to the law of change throughout their history. To understand the nature of these changes, their development must be approached from a historical perspective. As indicated later, these institutions have been influenced by exogenous as well as endogenous factors, and, in the interplay of these forces, have changed their character and the nature of their activities.

Although one of the earliest expositors of what is designated as "Classical" economics did not expressly use the term "trade association" in his discourse, the following statement is representative of an early and extreme viewpoint concerning the major function of these organizations:

People of the same trade seldom meet together even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.¹

In a quite different statement of association objectives, the Chamber of Commerce of the United States concludes:

A typical trade association is a voluntary, non-profit organisation that draws its members—firms and individuals—usually from a specific field of business and undertakes activities especially designed to assist its members to improve the branch of commerce they represent and, ultimately, to serve the public.²

**Historical Development**

With the existence of such disparate points of view, it is necessary to probe more deeply into the historical evolution of the trade association movement in the United States. The purpose of this detailed treatment is, first, to ascertain the changes which have taken place in trade association activities; and, second, to provide a background for determining the major function of these institutions in contemporary affairs.

**Period of Pioneering and Promotion (Prior to 1900)**

A review of trade association history reveals no record of a permanent organisation in the United States during the first half of the nineteenth century. Although there were local and state associations in existence prior to 1850, the origin of the modern national and interstate trade association is usually traced to the Civil War.³

The general absence of interest in trade associations during this period is explained in part by the lack of any real need for concerted

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business action by firms within a given industry.

Thus small plants supplied local needs, and business problems were largely an individual matter. Moreover, one of the major obstacles to trade association growth was the extreme individualism of competitors. Even when a few leaders in a particular industry succeeded in establishing an association, the majority of business men stood aloof and viewed such organizations with suspicion. As will be noted later, the modern association is a product of an industrialized economy in which competitive factors arising from the expansion of markets, and concomitant with this the establishment of large-scale business units, created conditions which were often times beyond the control of individual firms; the establishment of pools, trusts, holding companies, and trade associations was a logical outgrowth of these considerations. 4

An analysis of older trade associations indicates, further, that they were established to meet some common contingency or to resolve a specific issue rather than because of a general appreciation of the desirability and possibilities of such an alliance. 5 Although some regional and national trade associations had been established for almost half a century by 1900, only one hundred such organizations were in existence at that time. 6


6THBC, op. cit., p. viii.
Period of Growth and Expansion (1900-1920)

The close of the nineteenth century marked the beginning of a new period of trade association history, one marked by considerable growth and expansion. In part, this development paralleled industrial growth in the United States. Since local and state associations were not in a position to cope with management problems involving an entire trade or industry, the need for a new type of institution came into being. Moreover, federal legislation as well as economic problems affecting a particular industry could only be dealt with successfully by a national organization. Thus, while the emphasis on "price controls" and "restrictive practices" common to the earlier era continued, such activities were slowly giving way to expanding and to broadening the scope of association objectives.7

This expansion in association activities is explained by three major factors. First, a new philosophy began to permeate business relating to the desire to eliminate "unfair" and "uneconomic" competitive practices. This was further encouraged by the efforts of President Woodrow Wilson to curb and discourage price fixing tendencies, and to promote "fair trade" practices.8

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7Foth, op. cit., pp. 6-7.
8Legislation to advance these goals included the Clayton Antitrust Act, and the Federal Trade Commission Act, both enacted in 1914. As early as 1917, the FTC began to hold a series of conferences, then known as Trade Practice Summits and later termed Trade Practice Conferences, for the voluntary elimination of unfair competitive practices. Many national associations took the initiative in promulgating these rules for their respective industries. See Chamber of Commerce of the United States, Development of Trade Associations (Washington, D. C.: Trade Association Division, 1937), p. 7.
A second impetus to association development was the combined influences of governmental investigations and prosecutions of industrial combinations, and the existence of "unsound competitive" conditions. These forces encouraged the search for a more "effective" as well as "open" procedure in dealing with certain industry problems. The immediate solution to these vicissitudes was indicated in the form of a book written by Arthur J. Eddy. In this publication, the "open-price association" concept described the type of system considered to be of importance to business organizations in stabilizing prices and in eliminating "uneconomic" pricing practices. Although these "associations" were to become involved later in a series of litigations, the immediate effect was to encourage trade association development.

With the advent of the first World War, a final factor explaining the expansion of trade associations during this period is encountered. The entry of the United States in this conflict made the need for rapid mobilization of industry just as urgent and difficult as the mobilization of men. Due to these contingencies, the attitude of business men toward trade associations as well as

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10 Foth, op. cit., pp. 18-19. The term "open competition," or "open-price association" was used to describe a system in which prices of closed transactions and fundamental trade statistics were to be made known to both competitors and customers.
the views of government toward these organisations underwent considerable change.\textsuperscript{11}

From a quantitative point of view, associations during this period increased to more than one thousand organisations. It is also important to note that once again the \textit{principal} stimuli to the trade association movement was the demands of government on business during a period of national emergency. This was true during the Civil War and again proved to be the case during World War I.\textsuperscript{12}

\textbf{The Period of Discipline and Development (1921-1959)}

Developments which followed the successful completion of the first World War often times had their inception in previous periods. Thus the "disciplinary phase" of association history which came into focus during the 1920's had its legacy in the preceding period.\textsuperscript{13}

\textsuperscript{11}The unprecedented war demands changed, for instance, the attitude of government toward associations. The need by the government for information concerning stocks and productive capacities brought about the rapid creation of numerous agencies in Washington to deal with these problems. Thus, committees were organised through which orders were placed and production expedited. In fact, many of the statistical programs launched under the name of War Service Committees were created by national associations and, in other instances, formed the basis of future trade association organisations. Similarly, the attitude of business men toward associations changed. Complex and ever changing conditions, and the inability or refusal of government officials to deal with individuals or individual units in industry further encouraged business men to affiliate with an association. \textit{ Ibid.}, p. 22.

\textsuperscript{12}\textit{Ibid.}, op. cit., p. 343.

\textsuperscript{13}In the discussion which follows no attempt is made to ascertain whether the actions of the government were consonant with prevailing legalistic or economic thinking. Moreover, when such statements as "had an adverse affect on trade associations" are made, they indicate a conclusion without trying to adjudicate the issue.
This involved an increasing number of investigations, reports, and
complaints concerning trade association activities by the U. S. De-
partment of Justice and the Federal Trade Commission which served at
least temporarily to curb the expansion of these institutions. This
was especially true of two decisions by the Supreme Court of the
United States.\(^{14}\) Within two years, however, two additional decisions
were rendered which clarified the complexities of anti-trust legis-
lation relating to trade association activities.\(^{15}\) Although

\(^{14}\)American Colman and Lumber Company vs. U. S.; 257 U. S. 377
(1921); and, U. S. vs. American Linseed Oil Company; 262 U. S. 371
(1923). In the former case, the association operated an "open price
plan" in which detailed information relating to trade statistics was
disseminated to members. The Court condemned the plan because the
association went far beyond the mere exchange of information. In a
dissenting opinion (concurred in by Mr. Justice McReynolds and Mr. Ju-
tice Holmes—the latter writing his own opinion in the case)Mr.
Justice Brandeis stated: "The refusal to permit a multitude of small
rivals to cooperate, as they have done here, in order to protect
themselves and the public from the chaos and havoc wrought in their
trade by ignorance, may result in suppressing competition in the
hardwood industry." For the majority and dissenting opinions see:
United States Reports, Cases Adjudged in the Supreme Court, October
1921 to February 1922, Vol. 27 (Washington: U. S. Government Printing

\(^{15}\)Maple Flooring Manufacturers Association, et al., vs. U. S.;
268 U. S. 563 (1925); and, Cement Manufacturers Protective Associa-
tion, et al., vs. U. S.; 268 U. S. 586 (1925). In these decisions,
the Supreme Court ruled that information could be gathered, exchanged,
and discussed by members of an association provided that there was
no attempt or agreement to reach concerted action. Interest was also
manifest, during this period, in the form of an exhaustive study by
the Federal Trade Commission of association activities. While the
Commission was handicapped by difficulties in respect to statistical
proof in substantiating the study, the report issued from this inves-
tigation indicated that "open prices" did not of themselves make for
artificial stability of prices. See Senate Document No. 226, 70th
Congress, 2d Session; also, Chamber of Commerce, op. cit., p. 11.
associations throughout this period were recognised as being legitimate agencies for assisting business within existing laws, these court cases had an adverse effect on the trade association movement.\footnote{16}

With passage of the National Industrial Recovery Act of 1933, trade associations received what proved to be their most significant impetus to further expansion.\footnote{17} Hundred of new associations were formed to work with the National Recovery Administration in establishing "Codes of Fair Competition" under this legislation and the Agricultural Adjustment Act, both of which were enacted in 1933.\footnote{18}

The role of trade associations in the period immediately preceding and continuing through World War II appears to be somewhat nebulous. While there are examples of direct participation by trade associations in programs of government within such agencies as the Office of Price Administration, and the Office of Defense Transportation, there is also evidence that the government attempted to regulate and direct industry without the active cooperation of associations. In the post-war period, associations continued to expand

\footnote{16}{FNEC, op. cit., pp. 12, 13.}

\footnote{17}{Of the 1200 national and regional associations active in 1940, approximately 50 per cent were organised between 1920 and 1940. See Jay Judkins, Directory of National Trade Associations (Washington: Government Printing Office, 1956), p. vi.}

\footnote{18}{For an interesting account of these developments see: Arthur M. Schlesinger, Jr., The Coming of the New Deal (Cambridge, Mass.: Houghton Mifflin Company, 1959), pp. 87-152.}
in terms of number of institutions, total membership, and scope of activities.19

Summary of Historical Development

This panoramic view of the mainstream of trade association development in the United States indicates that these institutions, similar to cooperative organizations in labor and agriculture, are well established and accepted. Throughout their history they have, on the one hand, attempted to allay the rigors of trade competition through the establishment of price agreements, production quotas, and other trade restrictions. On the other hand, the "professional" side of association activities concerned with improving the operating effectiveness and competitive position of industry members must also be recognized.20

In summary, then, within an economic system which continues to believe in the "principle of competition," the conflict between the "professional activities" and "market control functions" of associations reflects, in the final analysis, a paradox which extends far beyond the narrow confines of the trade association movement.

19A recent survey indicates that of the 1,700 national and regional organizations in existence, 950 were at the manufacturing level; 350 serving wholesaling and retailing institutions; and 400 among the various business service groups. See Judkins, loc. cit.

Approach to Trade Association Programs

The preceding historical account of the trade association movement provides the background for a discussion of management aids available to small-scale retailers through the activities of these institutions. The primary objective of this analysis is to develop an awareness of the scope and nature of association programs currently available to retailers. There are two approaches which may be taken in accomplishing this objective. First, the quantitative nature of prevailing programs may be emphasized. Such an analysis, illustrated by a recent survey conducted by the Chamber of Commerce of the United States, provides information concerning the kinds of activities undertaken by associations. A second approach involves a diagnostic investigation of trade association programs and is designed to ascertain the nature of these activities, their content, availability, manner of presentation, and so on.

In terms of the former, a number of studies are currently available. One of the most exhaustive investigations involving association activities was made during one phase of the TNRC investigations and has been cited in preceding sections of this chapter. Moreover, a continuous analysis of trade association activities is engaged in by the Trade Association Division of the United States Department of Commerce. The aforementioned survey conducted by Mortensen is further evidence of this type of research.

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22 TNRC, op. cit.
Although the diagnostic method is somewhat unwieldy owing to the fact that it seeks to arrive at an understanding of the whole gamut of trade association programs, it is nevertheless the only realistic one that can be used to achieve the objectives of this investigation. To avoid unnecessary repetition, a case analysis of salient features of selected association activities will be undertaken.²³

Trade Association Programs: Types of Aids

Trade association programs are classified in terms of:
Marketing Management; Personnel Management; Investment Management; Management Development; and, Miscellaneous aids. Marketing management aids are discussed in the following sections of this chapter while the remaining activities are analyzed in the subsequent chapter.

²³ In selecting associations, it was necessary to develop a list of organisations primarily serving retailing institutions. This information was obtained from two publications: National Associations of the United States, 1949 ed.; and Directory of National Trade Associations, 1956 ed., both published by the Trade Association Division of the United States Department of Commerce under the direction of Jay Judkins. Personal letters were written to the major executives of these organisations requesting information, exhibits, illustrations, and so forth, concerning prevailing programs. Through the excellent cooperation of these organisations, a considerable quantity of information was received describing the nature of association programs. In certain instances, additional correspondence was necessary to obtain the kinds of information demanded by this study. Moreover, personal visits were also made to trade association offices and conventions. Finally, the library of the American Society of Association Executives in Washington, D. C., was visited in addition to the utilisation of regular library facilities. A listing of the most important trade associations used in connection with this and the following chapter is found in the bibliography of this study.
Marketing Management Activities

Functions of exchange.—The marketing functions of buying and selling are primarily concerned with change in the ownership of goods. In a majority of programs analyzed, considerably more effort has been devoted to the selling activity (including advertising, sales promotion, and personal selling) than to the buying function. Even so, there are illustrations of programs which integrate these two important functions.

One example is provided by the National Retail Hardware Association's annual publication of the Buyer's Guide and Sales Planner. This important aid includes:

1. The most important promotion for each month including two association sponsored nation-wide events—"Hardware Week" and "Family Gift Centers."

2. A list of departments which should have a major promotion for each month of the year, as well as lines within a department which receive special attention.

3. A list of traffic building items of the month with sufficient advance notice to provide adequate time for effective planning.

4. A monthly advertising chart to enable individual members to plan the size of advertisement to be used, a schedule of publication dates, total column inches to be used, and so on. Space is also provided for budgeting advertising expenditures and cooperative allowances. In addition, schedules for coordinating newspaper and radio advertising with interior store and window displays are provided.

5. A compilation of more than fifty thousand product listing which are departmentalized to provide
While the National Retail Hardware Association is listed among the largest trade associations in terms of the number of members, illustrations of effective programs provided by smaller organizations are also available. The Gift and Decorative Accessories Association, for instance, offers a range of aids including a cooperative buying plan for various kinds of supplies. This Association also publishes a monthly report on "best selling" items as reported by retailers throughout the United States. Members may also request specific information relating to items for which sources of supply may be needed.  

24 It is interesting to note the process involved in the publication of the Guide. Statistical data concerning merchandising and marketing trends, operating information from "typical stores," and other related items are accumulated by the market research department. The merchandising department, at the same time, assembles and coordinates information obtained from approximately 100 field representatives of the 27 affiliated state and regional associations. Moreover, additional research is conducted at all industry levels to develop retail merchandising and promotion recommendations. Then, approximately six months before publication, the Sales Planner Committee meets to review and discuss the available data. This Committee includes representatives of all segments of the industry—retailing, wholesaling, and manufacturing.  

25 Many associations, such as the National Association of Retail Drugists, for instance, sponsor an annual merchandise show, often times in conjunction with their major convention, at which time merchandise displays by exhibitors provide an important source of buying information. In the 1957 Annual Drug Show, approximately 240 booths were available to exhibitors. Thus retailers were able to view merchandise assortments that might otherwise have been impossible; this is especially true of small-scale retailers who do not have the buying potential necessary to attract certain kinds of manufacturers and wholesale agencies to their places of business. Income, in the form of rental fees, also aids in defraying the cost of conventions.
The advertising programs of the Jewelry Industry Council and of the National Association of Music Merchants illustrate another major form of assistance provided by associations. Featuring national advertising, "Operation Cherub" sponsored by the Jewelry Council is designed to encourage consumers to buy their Christmas gifts from jewelry stores. Retailers are also provided with materials enabling them to coordinate their local activities with those of the Association. Similarly, the "National Music Week" promotion of NAMM is designed to increase consumer demand for industry products and services.

A different type of management aid is available through the Mobile Homes Dealers National Association. This activity originated with surveys among dealers which indicated that the problem of "servicing" mobile homes was considered to be the most important factor limiting sales. Available information also indicated that with the exception of very limited contacts between dealers and manufacturers, product service even during the warranty period was ineffective. Through the efforts of MIDMA, and with the cooperation of members, "Dealer Reciprocal Service Agreements" were developed to insure adequate servicing of products sold by the industry.

An additional illustration of trade association aids dealing with the functions of exchange is provided by the National Automobile Dealers Association in cooperation with the National Better Business Bureau. This program involved a listing of recommended standards
of practice for advertising and selling automobiles. Although establishment of such standards does not provide enforcement powers to sponsoring agencies, it is often times an effective procedure for eliminating false and misleading advertising by business firms, and in establishing realistic competitive practices.

A final type of management aid to assist retailers in performing the functions of exchange is illustrated by the activities of the Florists' Telegraph Service. This includes specific aids dealing with advertising, sales promotion, and training developed on a "do-it-yourself" basis. A file of advertising mats, radio copy, television cards, display banners, and direct mail ideas provides an effective plan for coordinating these facets of retail store operation. Moreover, a "sound selling series," in the form of phonograph records, illustrates selling ideas that may be incorporated in either an individual or group training program.26

Functions of physical supply.—While the functions of exchange are the principal and most essential marketing activities, goods must also be supplied if the marketing process is to be effective. The United Fresh Fruit and Vegetable Association, for instance, devotes major attention to these functions. This includes the preparation and dissemination of transportation data relating to traffic subjects of national and local interest.

26 The Bureau of Advertising, of the American Newspaper Publishers Association, also provides retailers with a variety of important advertising aids.
Another type of service is provided by the Monument Builders of America through its Freight Bill Auditing Department. This organization employs an experienced auditor who serves as traffic manager and is available for consultation on individual transportation matters. Moreover, through the process of auditing freight bills claims are initiated thereby minimizing further discrepancies.27

While these illustrations are primarily concerned with the external aspects of the physical supply functions, the National Association of Retail Grocers provides assistance to retailers in the movement of merchandise from the point of receipt by the store to the time these goods are purchased by consumers. The major aspect of this phase of the NARGS program is a series of teaching aids consisting of sound color slide films with supplementary printed materials.

A final and somewhat broader type of aid in this area is provided by the National Retail Merchants Association through two of its major divisions: Traffic, and the Store Management Group. Publications dealing with transporting, receiving, and storing goods are available through these divisions. One publication,

27 The National Stationary Office Equipment Association also employs a transportation consultant. One of the functions assigned to this individual is the preparation and revision of a "Freight Classification Manual" for industry products. While the "Manual" is not designed to solve the problem of excessive transportation costs, rating classifications and advice on selecting the proper carrier for various types of goods does provide an outline for intelligent study by members in controlling costs.
for example, deals with receiving, marking, reserve stockkeeping, and warehousing merchandise. Members also obtain reports covering prevailing practices within the industry in such areas as delivery schedules, cost data, and related matters.

**Facilitating marketing functions.**—A review of trade association programs available to retailers indicates that these organizations have in general devoted relatively little attention to the standardization function. Similarly, there was no evidence of an integrated approach to risk management. While a number of associations provide members with information relating the subject of insurance protection, these programs are quite limited in scope and do not involve the management of other phases of this function.

Each of the associations analyzed in this study maintained a variety of programs dealing with the marketing information and research function. One of the most prevalent types of research activities provided by trade associations is the publication of "Cost of Doing Business Surveys." While these analyses vary according to degree of specialization and detail, they generally provide rather complete information in the following areas: national sales data; operating cost and income ratios; operating ratios by store volume groups and geographical divisions; percentage breakdowns of general administrative and selling expenses; comparative operating ratios; and a summary of published data for previous periods.
Trade associations also engage in a variety of individual research projects of interest to members. These investigations may be carried on within the association or by outside agencies. In the latter situation, funds are allocated by the association to colleges, university bureaus, or private research organizations. The National Shoe Retailers Association illustrates one form of research undertaken by these institutions.

Because of the importance of style and fashion in the shoe industry, the National Shoe Retailers Association sponsors two annual shoe style forecasts for men's, women's, and children's shoes. These forecasts are published in advance of the two main buying seasons, spring and fall. The "Women's Shoe Style Forecast for Fall 1957" illustrates the nature of these publications. There are three major parts to this "Forecast." First, this publication contains a discussion of general trends within the shoe industry as well as information relating to the apparel field.

It is interesting to note the manner in which style-setting forecasts are developed. With the establishment of appropriate committees, style conferences are held twice each year to make available to the industry, far in advance of the buying season, information concerning trends in apparel, fabrics, leather goods and related fields of fashion having a direct bearing or influence on shoes. Following these conferences, the association's style committees meet to discuss and decide on the overall style picture for the season ahead. These committees, made up of approximately 40 shoe retailers and manufacturers, consider elements of the shoe style picture—silhouettes, pattern detailing, colors, materials, and heels. The discussions and conclusions are then recorded verbatim. This is then summarized, edited, and released in the form of "Shoe Style Forecasts."
This analysis is concerned with such topics as fashion shoes, their silhouettes, patterns, heels, materials, and colors. In the second part of the report a similar analysis is presented relating to "casuals, flats, and sport shoes." The final section deals with a discussion of "fashions" as they influence the design of shoes.

A less imposing form of marketing research, and yet one which, ostensibly, seems to be effective, is illustrated by two projects of the Retail Tobacco Dealers of America. These studies indicate that important information may be obtained through the expenditure of rather limited funds. Since the question of "trading stamps" was considered to be of interest, a brief questionnaire was mailed to members to determine prevailing practices and future plans relating to the use of stamps. A similar program was undertaken concerning plans to develop special "Father's Day" promotions.

In a second and more extensive project, a "Merchandising Survey" was conducted by the Association. This consisted of a single-page questionnaire which could be completed by members with a minimum amount of effort. In a later issue of the association "Newsletter," a summary of the results obtained was published.

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29 A serious limitation to research programs, and one involving considerable difficulty to association executives, relates to the problem of obtaining the cooperation of members in carrying out these investigations. The publication of "cost of doing business surveys," to cite one illustration, requires the cooperation of members if significant results are to be obtained. Moreover, some form of standard accounting must be used by members if the data are to provide a realistic bases for comparative analysis. While the
Another form of research activity has been developed by the American Association of Nurserymen. Originating in 1955, the Association sponsored a study to obtain information relating to the type, nature, and location of research projects of interest to individuals in the nursery industry. Information obtained involved projects which were either currently under investigation or recently completed. To indicate the broad task undertaken, the 1955 Survey represented a study of 209 agencies or institutions including:

- State Departments of Agriculture;
- Land-Grant Colleges;
- U. S. Department of Agriculture;
- Forestry;
- Commerce;
- Private Research Foundations;
- and Canadian colleges, universities, and divisions of the Ministry of Agriculture.

While the specific results of these investigations were not included, a catalogue of information relating to the nature of these projects and their location was provided.

The Association is also considering possible methods which might be used in collecting and distributing, on a continuing basis, the results and recommendations of research studies relating to industry problems. What is so signal about this effort is the cognizance which has been taken of one of the most difficult problems encountered in this area: the task of ascertaining the nature of a problem involving a uniform accounting system is discussed in a later section, experiences of association executives indicates that even when surveys are relatively simple, it is often times difficult to obtain the cooperation of members. One executive stated in a letter to the author: "In order to receive a comprehensive sampling of our members, it is usually necessary to request answers as many as three times before our statistical department can determine the results."
extent, and results of investigations designed to add to the existing
fund of marketing knowledge. Thus, the serious inability in many
instances to utilize the contributions forthcoming from a more
general dissemination of existing information, is perhaps the most
important limiting factor relating to these programs. A corollary
to this problem is the unnecessary duplication of effort which this
encourages.30

30 This disparity between "developing" a program and providing
for its effective "utilisation" is not restricted to the marketing
research and information function. In recognising the problem in-
volved in disseminating information obtained from research studies,
the AAN has at least given serious consideration to the matter.
Thus far, however, it apparently has been unable to arrive at a
workable solution.
CHAPTER III

TRADE ASSOCIATION PROGRAMS: TYPES OF AIDS (CONTINUED)

The preceding chapter was concerned with a detailed analysis of the history of the trade association movement in the United States, and with a discussion of marketing management aids available to small-scale retailers through the activities of these organizations. In the present chapter, this discussion continues with an analysis of trade association programs dealing with personnel management, investment management, management development, and miscellaneous aids.

Personnel Management Activities

The scope of personnel management activities as herein viewed includes the area of management responsibility relating to the functions of procuring, developing, maintaining, and utilizing a labor force. Some trade associations have outstanding programs

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1 Procurement involves locating sources of supply, interviewing applicants, given mental and physical tests, and so forth. Development calls for training and education, morale building, good communication between executive and worker levels of organization, and similar activities. Maintaining employees encompasses all activities that serve to support the skills and favorable attitudes of employees. While all of the foregoing impinge upon the utilization of labor, the latter activity is, of course, the focal point of all personnel effort because it is the effectiveness of the worker which is the key to the success or failure of all personnel plans. See Michael J. Jucius, Personnel Management (rev. ed.; Homewood, Ill.: Richard D. Irwin, Inc., 1953), pp. 18-19.

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dealing with these functions.

One of the most comprehensive endeavors to aid members in the performance of the personnel management function is the work of the American Association of Nurserymen. It is significant not merely because of its nature but equally because of the approach taken.

In developing this program, a committee on "Nursery Personnel Training" spent two years in determining, first, whether there existed a real need for training personnel; and, second, in ascertaining the feasibility of developing a curriculum which would adequately prepare the type of personnel demanded by the industry.

A questionnaire to determine the need for training personnel was mailed to the entire AAN membership. Results obtained from this preliminary study indicated the need for trained personnel with the greatest demand existing for general nursery foremen. Moreover, owners of "small nurseries" indicated a special demand for men with some formal education in the field and who, in addition, had the "capacity to grow with the business." The survey further disclosed that while a number of colleges and universities offered four-year courses in nursery work and related fields, these programs were primarily designed for the education of "managers" and "executives." Individuals in the industry were of the opinion, however, that there was a need for a special two-year course designed to train individuals to deal with current operating problems.
With the demand for trained personnel thus established, the Committee on Nursery Personnel Training then contacted over one hundred colleges and universities; an attempt was made to establish a suitable curriculum with at least one outstanding school in each major geographical region. Seven institutions were then selected with the recommendation that the closest possible cooperation be maintained with these schools by individual members in their respective areas.  

In the more limited area of "developing" operative employees, trade association activities follow one of two major courses: either a national, regional, or local institute is established; or members are offered a decentralised training program to be individually administered. The United Fresh Fruit and Vegetable Association affords an illustration of programs administered directly by trade associations. Training and merchandising institutes are designed to perform the over-all function of "increasing the sales of fresh fruits and vegetables at retail." Originally established under a contract with the United States Department of Agriculture, the program is now sponsored exclusively.

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2 To advance this program, the Association publishes pamphlets and brochures which are available to individuals contemplating a career in the nursery industry. Moreover, this illustrates the type of relationship which may exist between institutions of higher learning and trade associations in meeting their common problems.

3 This organisation, through its United Merchandising Institute, represents individuals at all industry levels, including shippers, growers, wholesalers, and retailers.
by the industry. To ensure that institutes are available to members at the local level, a trained staff of full-time instructors is responsible for establishing and conducting courses.4

The personnel management activities of the National Retail Hardware Association illustrate another important form of assistance for retailers. One of the interesting features of this program is the NRHA correspondence course for personnel in the hardware industry. Established in March 1956, the "Advanced Course in Hardware Retailing" is an industry effort to improve the competitive position of independent hardware retailers.5 Since this course of instruction concentrates on product knowledge and suggested selling ideas, several hundred manufacturers provided the Association with information

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4A staff of seven persons is in charge of this phase of the program. It has been estimated that more than 45,000 individuals have been trained in these one-day institutes. For wholesale distributors, two weeks of training are also provided by field personnel. The effects of these activities are significant when one recognizes that wholesale agencies are then in a position to carry this program to their retail accounts. Surveys made by the USDA indicate that after these training courses are completed, retail store sales increase and waste and spoilage are reduced.

5The Association indicates that without the support of industry groups outside the field of retailing, it would not have been possible to offer this type of aid to retailers in terms either of its present scope or nominal charge. The cost is $20 to retail employees and $35 for wholesale salesmen.
necessary for the preparation of some of the materials.\textsuperscript{6}

Although similar in certain respects to previous illustrations, the National Retail Lumber Dealers Association maintains centralised as well as decentralised educational programs for training operative employees. In the former, Retail Lumber Training Institutes are established at selected colleges and universities in the United States.\textsuperscript{7} For dealers unable to participate in these Institutes, or for individuals who desire to establish training programs at their places of business, the NRIDA also provides the materials necessary for a decentralised program.

Brief mention should also be made of other types of personnel management aids. The National Stationery & Office Equipment Association, for instance, provides members with a personnel selection program. An outside agency specialising in aptitude testing was employed to establish an over-all plan which includes interviewing, aptitude testing, follow-through studies, and so forth.

\textsuperscript{6}In addition, 25 manufacturers made major financial contributions to the project which is under the supervision and guidance of the School of Business, Indiana University. There are a total of sixteen volumes covering such topics as general management and salesmanship, product knowledge, in addition to one volume for the exclusive use of retail store owners. In this way, retailers may direct group or individual training classes in supplementing the correspondence course.

\textsuperscript{7}Now in its fourteenth year of operation, more than 184 Institutes have been conducted with a total enrollment of more than 6,000 individuals. The Institutes continue for 30 days and include a variety of subjects including: training in the nature and uses of products; accounting; advertising; financing; and pricing.
Trade associations also provide group insurance programs for personnel of member stores. A majority of these plans are underwritten by insurance companies and provide retailers with a type of service that might not otherwise be available. Finally, studies of sales compensation practices are conducted by associations to assist members concerning this phase of the personnel management function. The Smaller Stores Division of the National Retail Merchants Association, for example, has published two investigations concerned with "Compensating Sales People in Smaller Stores" and "Sales Training for Smaller Stores."

From the foregoing analysis it is apparent that trade associations make available to small-scale retailers a number of significant personnel management aids.

Investment Management Activities

One of the most important activities of an alert and progressive trade association involves the establishment of aids designed to assist members in performing the investment management function. Included in these programs are those dealing with managerial accounting and financial management assistance.

Managerial accounting.—In developing management aids to improve the small-scale retailer's understanding of the importance of maintaining and utilizing the records necessary for a healthy operation, trade associations perform an essential and significant function.
The programs of the Controllers' Congress of the National Retail Merchants Association constitute an outstanding example of this activity. In establishing accounting concepts to improve the economic performance of retailers, this organization offers a wide range of management aids dealing with such topics as inventory control, internal auditing, accounting systems, and related subjects. Two of the current activities of the Controllers' Congress merit special attention. These Concepts, "Expense Center Accounting," and "Merchandise Management Accounting," did not evolve solely as a result of the efforts of this organization; nevertheless, the leadership which it provided in developing and utilizing these ideas is well recognized.8

It is obvious that expenses incurred in operating a business may be classified for purposes of control and analysis in a variety of ways. One of the standard arrangements in department store retailing, and one that has served as a foundation for operating practices in the field, is the 17 natural-division classification established by the Controllers' Congress.9 While "functional" and "natural" classifications may be further integrated through "cross classifications" combining these two divisions, operating experiences

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8 Although the Controllers' Congress is primarily concerned with the operations of large-scale retail institutions in the department store field, many of the programs are equally applicable to small-scale retailing.

indicated that such a procedure was not entirely satisfactory in "managing" vis-a-vis "controlling" expenses in an effective manner. To bring new perspective in this area, the National Retail Merchants Association published in 1954, and later revised in 1957, a **Standard Expense Center Accounting Manual.** In this publication, expenses are classified by "centers of operations," or "work centers," with major emphasis placed upon "managerial concepts" emphasizing cost control rather than the cost finding approach of previous systems. 10 These "centers" then, are placed under the direction of a supervisor enabling expenses to be controlled by work centers; once established, moreover, they can be subdivided according to the natural divisions pertinent to the particular expense center. One of the important contributions of this approach is the fact that it provides the framework necessary for making use of expense data in productivity analysis. In the view of one of the recognized authorities in retailing:

> The real payoff to expense classification and expense comparison (both internal and external) must be better expense control, and that means better expense budgeting and better understanding of the factors which govern expense. For these purposes conventional dollar and percentage data have severe limitations because they simply reflect, without sorting out, the influences of

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such varied factors as change in dollar sales, change in physical workload, change in pay rates, and change in efficiency of workers. Although the problem of the retail store in coming to grips with these basic factors is inherently more difficult than that of the manufacturer, a good beginning has been made through the concepts of expense center accounting and production unit accounting.11

"Expense center accounting," then, is not only recognized as a significant accounting tool (along with "production unit accounting"), but this approach also proved to be a vital adjunct contributing to the development of another important concept—"merchandise management accounting."12

Although this idea is relatively new and has been applied in only a limited number of specific cases, it is possible to outline the following objectives:

1. A determination to distinguish more effectively between costs and expenses of various types of merchandise in order to provide meaningful information on which to base managerial decisions.

2. A realization that averages have been overused and abused with flagrant disregard for the necessity of pricing each piece or line of

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11Malcolm P. McNair, Operating Results of Department and Speciality Stores in 1957 (Boston: Harvard Graduate School of Business Administration, 1958), p. 48.

12The general philosophy of merchandise management accounting was first publicly advanced during the 1957 annual meeting of the National Retail Dry Goods Association (now designated as the National Retail Merchants Association). Among the original thinkers in its development were Mr. Sam Flanel, General Manager of the Controllers' Congress; Mr. Robert I. Jones, Partner, Arthur Andersen & Company; and Professor Malcolm P. McNair of Harvard University.
merchandise in accordance with the specific costs of handling it.

3. A desire to emphasize profit in relation to inventory rather than to sales.

4. A conviction that dollars are more important than percentages.13

Stated in a somewhat different manner, merchandise management accounting emphasizes

maximum dollar contribution by the department as the principal goal; a system that regards over-all contribution of a department or group of departments as the sum total of all item contributions; a method that treats each significant merchandise item as a piece of raw material out of which the department manager will "build a product" geared to the final satisfaction of the consumer by adding only those values that are important to the consumer of the final product.14

Basically, the purpose of this concept is to provide information to management which will permit a sound evaluation of the prospective profit contribution of any item of merchandise.15

Moreover this approach places primary emphasis on the functional cost per unit of merchandise for particular services, or "values added," rather than indiscriminate pricing according to a


15Reprint of address by Robert I. Jones before the Controllers' Congress Convention in Dallas, Texas, May 27, 1957.
predetermined average margin.\footnote{16}

While expense center accounting and merchandise management accounting appear to relate more specifically to large-scale retail establishments, this is not altogether the case. In fact, one of the first complete installations of its kind was made in a small-scale retail establishment.\footnote{17}

Although the foregoing analysis indicates the leadership exerted by the National Retail Merchants Association in the field of accounting and control, many significant programs have also been established by other trade associations. The National Sporting Goods Association's \textit{Uniform Accounting System} illustrates one of the most prevalent types of management aids available through trade associations. Based on a study among member-firms, this system was designed to serve the needs of retail sporting goods establishments. The NSGA program makes available to members the forms necessary for recording daily transactions and in the preparation of monthly financial statements. Although a published "Guide" includes instructions for the installation and operation of this plan, the Association also provides a consulting service to

\footnote{16}{It must be recognized, at the same time, that every store must cover the total of its expenses, retail reductions and profit goal in original pricing, no matter how individual items are priced. Consequently, the establishment of original markup goals will continue to serve some essential need regardless of the method which is used in setting individual selling prices. See Davidson and Brown, \textit{op. cit.}, p. 406.}

\footnote{17}{Florence Selden, "Cost Accounting Lifts Kay Baum Profit," \textit{Women's Wear Daily}, April 24, 1958.}
members without additional charge. 18

Another well accepted service provided by trade associations to retailers relates to inventory control procedures. The National Stationary & Office Equipment Association illustrates the manner in which data obtained from "cost surveys" may be applied to prevailing operating problems. In this case, data supplied by dealers indicated that the stock-turn ratio was rather low; a study was then made to ascertain the more important reasons for this situation.

It was discovered, during the process of investigation, that a majority of members seldom had available complete inventory data; moreover, relatively few members used a plan of merchandise control designed specifically for their individual needs. To aid members in developing a practical approach to the problem of inventory management, a private consultant was retained to develop a system designed for the needs of the industry. Although the "Inventory Manual" incorporates rather generally accepted fundamentals of inventory control, it is related to the stationary and office equipment field which enhances its utility.

Another trade association activity which deserves recognition relates to the general problem of records management, and is closely allied to the process of maintaining and utilizing

18 The complete cost of the system to members is $50. With adequate advance notice, the Association also provides direct assistance in establishing the system in member-stores.
accounting data. In this endeavor, the National Records Management Council is recognized for its exploratory efforts in the application of "scientific methods to paperwork control."

Founded in 1948 with the aid of a Foundation grant, this non-profit research organization was established to "aid in developing new standards and techniques to make paperwork simpler, better in quality and less costly." Significant to this analysis of management aids for small-scale retailers is the view of Robert A. Shiff, President of NRMC:

There is no significant difference between large companies and small companies, between private enterprise and local, state, or federal government. The government does not have any monopoly on unnecessary paperwork, and a small company can be as badly smothered in red tape as a large organization. 19

In the light of NRMC's experiences in establishing rather accurate outlines of the scientific approach to records management, three major control areas have been recognized:

1. Records "birth control," which prevents unnecessary forms and reports from coming into being, and limits record making to what is essential for effective operations.

2. Record-keeping Controls, which destroy the papers that have outlived their usefulness, and insure easy reference to and location of required records.

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3. Record-processing Controls, which streamline the system, cut costs, and improve the quality of required paper work.20

Since the Council is primarily concerned with research and educational work, additional demands for expanded services brought about the creation of Naremco, a wholly owned subsidiary. The latter organization operates as a management consulting service applying techniques and research experiences of the Council to “practical action programs” for clients.21

Prior to an analysis of the second major part of the investment management function (financial management assistance), it is necessary to recognize the inter-relationship between establishing and maintaining effective accounting records and the performance of the marketing information and research activity. As the preceding chapter indicates, the development of adequate and comprehensive data relating to costs of operation, margins, and profits among member-firms of trade associations necessitates the prior establishment of some uniform system of accounting. Thus trade associations make an important contribution toward a more effective performance

20 Ibid., p. 55.

21 While major emphasis has been devoted to an analysis of institutional problems among governmental units and large-scale business organizations, it is possible that a very significant contribution might be made to small-scale retailing through the application of these methods. Although small-business is not a "smaller facsimile" of large-business, problem-solving techniques within the conceptual framework of the "scientific method" are quite as applicable in small as large organizations.
of the management function in retail establishments by assisting members in establishing uniform systems of accounting and in the publication of industry operating ratios.

Although the National Retail Merchants Association issues one of the most comprehensive studies relating to department store retailing, many of the smaller associations also assist members through the publication of "cost of doing business" surveys.\textsuperscript{22}

Furthermore, associations issue a variety of aids dealing with the analysis of industry operating results.\textsuperscript{23}

Financial management assistance.---Two aspects of financial management assistance programs are discussed in this section. They relate to direct financial aid in the form of capital loans; and, second, assistance in the performance of the credit management function. In terms of the former, only one association analyzed in this study offers direct financial assistance to members, and this plan is quite limited in scope.\textsuperscript{24} An analysis of association

\textsuperscript{22}For a more detailed description see the following pages of this study—pp. 34, 36.

\textsuperscript{23}The analysis of "management development programs" in a later section of this chapter illustrates one way in which trade association members are assisted in utilizing these data.

\textsuperscript{24}This plan, established by the National Association of Retail Druggists, involved the establishment of the John W. Dargavel Foundation in 1952 in honor of the association's executive secretary. Original plans called for a capital fund of $250,000 to aid retail druggists and to assist students of pharmacy in financing their professional education. A second fund was also established to provide charitable assistance to druggists during periods of emergency.
aids relating to the credit management function, however, calls forth a much different conclusion. In this activity there are a multitude of examples in which trade associations assist members.

The Credit Management Division of the National Retail Hardware Association illustrates the manner in which these organizations have integrated credit management aids into their over-all program. In this case, for instance, the Association publishes a monthly magazine (Credit Currents), and a Credit Management Year Book in which practices and procedures in the field of credit management and current statistical data are discussed. To encourage members to expand the credit extension phase of their businesses, the Association developed the "IRSA Budget Plan" which contains information necessary for financing, collecting, and promoting credit sales. Forms essential to budget selling, including installment sales contracts, credit application forms, coupon books, and customer credit cards make this one of the most complete plans offered by trade associations.

In completing this phase of association programs, it is necessary to review the role of the National Retail Credit Association and its affiliated division, the Associated Credit Bureaus of America. 25 A "Code of Ethics," developed by NRCA provides a

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General summary of the functions of this organization:

1. To encourage the broadest use of consumer credit consistent with sound business principles and the welfare of the community.

2. To protect the interests of credit granters and customers alike by obtaining credit reports on all applicants for credit, by reporting to the credit bureau unsatisfactory credit experiences and by declining to sanction unsafe credit risks.

3. To educate the public in the proper use of credit as a relation of mutual trust, and to the value of establishing and maintaining good credit records.

4. To counsel and protect customers against the tragedy of going into debt beyond their ability to pay; to safeguard their credit standing by requiring payments according to agreement.

5. To cooperate wholeheartedly with other credit granters in matters affecting the business welfare of the community and the public good.

In more specific terms, this organization assists business men in developing an awareness of the importance of credit education, and in the advantages of establishing uniform credit practices; moreover, a number of texts and reference books have been published dealing with such topics as: retail collection procedures, credit management, the writing of collection letters, and so on. The National Retail Credit Association also makes available to members various types of application blanks, educational booklets, and advertising and sales promotion aids.

To facilitate the interchange of credit information among bureaus as well as members, The Associated Credit Bureaus of America, Inc., was established in 1906 as an affiliate of the National
Retail Credit Association. While the kind and scope of services rendered by the more than 2,000 local credit bureaus associated with the national organization differ somewhat, most bureaus offer a variety of reports which are available at the option of members. Since it is impractical for retailers in many instances to rely upon personal knowledge in making credit decisions, the formation of credit bureau organizations provides a vital aid in the effective performance of the credit management function.26

Finally, the educational programs of the National Association of Credit Men are recognized for their contribution to the subject of credit management. These aids include, on the one hand, formalized study in terms of educational programs designed for beginning credit personnel, those at the supervisory level, and for individuals at the policy making level of management. On the other hand, the Association sponsors credit management workshops for personnel in the industry.27

26Fm explaining this important aid, Professors Beckman and Bartels utilize the following statement: "The...bureau is to the retail credit grantor what the clearing house is to the banks. It is a pivot around which retail credit business may circulate with reasonable safety; it is a clinic for the chronic credit abuser; it is the pulse of the retail charge business..." Ibid., pp. 239-240.

27The National Institute of Credit, an affiliate of NACM, is responsible for promoting and administering programs designed for beginning personnel and for individuals at the supervisory level. An "Associate Award" for beginning personnel requires at least three years of business experience and successful completion of courses in economics, accounting, credit and collection principles, advanced credits and collections, and business correspondence; the "Fellow Award" for supervisory personnel includes the successful
In the aforementioned activities, educational programs are maintained by local chapters through colleges and universities, in local chapter classes, and by correspondence. The educational director of the Association is also available for consultation by local organizations in developing and expanding their activities.

**Management Development Activities**

One of the most significant trends in recent trade association activities has been the increasing attention devoted to "management development" programs. These activities include aids designed to develop the attitudes and skills demanded of individuals charged with the management or leadership function. While the "conceptual approach" takes cognizance of the functional character of business management, it strives for an integrated rather than a compartmentalized view of the business process; furthermore, this approach recognizes the important role of innovation as a significant force making for a dynamic economic system.

An important characteristic of these programs is the formation of schools and institutes for management personnel. Frequently, these activities are conducted at and with the cooperation of completion of an examination prepared by NIC and given by local associations. For individuals at the "policy making level," the Graduate School of Credit and Financial Management is held for a period of two weeks at Stanford University and Dartmouth College. Credit Management Workshops are held throughout the United States and extend for three days. Other educational activities include more limited clinics, forums, conferences, and lectures.
colleges and universities. The Furniture Store Executives Institute affords one example of this kind of program. Under the joint sponsorship of the National Retail Furniture Association and Northwestern University, the Institute is held annually for executives of home furnishings stores who have at least two years of full time experience in this field. The purpose of this program is to give experienced executives a "basic refresher course" in home furnishings retailing along with a view of current developments and to provide less experienced individuals with a foundation for further growth and development.

Since the Institute is located on the downtown campus of Northwestern University, students have an opportunity to visit the Furniture Mart when discussing pertinent phases of retailing. This is of special importance to retailers who may be unfamiliar with the intricacies of central market buying. The National Retail Furniture Association also makes available to members a number of other services relating to management development. Many of these activities in the form of specialized schools and institutes are conducted in cities throughout the United States.

The National Appliance & Radio-TV Dealers Association's "Institute of Management," and the National Retail Clothiers and Furnishings Association's Seminar illustrate further the kinds of subjects covered in association sponsored management development programs. In the former program, the facilities of the American University are utilized with a faculty consisting of university
professors, representatives from the Association, management
consultants, and industry personnel. Among the subjects discussed
during the week-long Institute are the following—

(a) Good management in appliance retailing; (b) The
professional appliance dealer; (c) Human relations
and communications; (d) Picking your store location;
(e) Retail merchandising; (f) How to use the "cost
of doing business survey;" and, (g) How to use
accounting statements.

The National Retail Clothiers and Furnishings Seminar involves
a two-week program held at the New York University School of Re-
tailing. Since the Seminar is partially financed by a group of
men's clothing and furnishings manufacturers, the fifty students
selected are equally divided among retailing and manufacturing
personnel.²⁸

Although the National Council for Small Business Management
Development is of recent origin, its major purposes may be outlined:²⁹

²⁸Additional illustrations include: The National Office
Furniture Association's Management Seminar at Michigan State
University; the management development program of the National
Retail Farm Equipment Association; and, the National Association
of Retail Grocery Stores' "Better Stores Program" designed to aid
retailers by keeping them informed on the latest developments in
the industry, and to provide beginning grocery store retailers
and their personnel with an understanding of the fundamentals
of sound food merchandising. The latter is in the form of a con-
tinuing education program which has received national recognition.

²⁹The Council was formed in 1956 with a Ford Foundation
Grant. At the second meeting in 1957 the conferees voted to form
a permanent organization to be known as the National Council for
Small Business Management Development. According to the "1959
Proceedings" of the Council, there were 113 dues-paid members of
which 47 were listed as charter members. See Papers and Proceedings
1. Stimulate management development programs for small business.

2. Encourage research in all areas pertinent to small-business management.

3. Exchange ideas among members.

Miscellaneous Activities

Government and public relations.—This aspect of trade association activities was discussed in the preceding chapter. Moreover, since this phase of association programs is so commonly identified with these institutions, it is unnecessary to comment extensively on this function.

There is, obviously, an inherent right and obligation on the part of associations to advance the legitimate objectives of their members. Commensurate with this right, however, is the duty and responsibility to maintain programs which are also in the "public interest." In defining and evaluating the role of trade associations in this important area, a distinction must again be made between activities which seek to "allay the rigors of trade competition" and those designed to improve the operating efficiency and effectiveness of the industry. Paramount in any conflict, however,

must be the interest and welfare of the ultimate consumer, for only in such a manner can our marketing system be best evaluated and appraised.\textsuperscript{30}

Retailer-supplier relations.—Due to the increasing complexities in the relations between small-scale retailers and their sources of supply, trade associations are in a position to render a significant service to their members. While a number of legal questions may arise from such cooperative efforts, there exists a sound basis for concerted action. Thus efforts to provide some degree of bargaining power for members, in situations where inherent inequalities exist, may well result in improving the marketing process from an over-all as well as an individual point of view.

If small-scale retailers, for example, are unable to develop their potentialities due to uneconomic restrictions and limitations imposed by suppliers; or, if major differences in bargaining power impinge on the freedom of individual retailers to compete effectively, then the opportunity for cooperative action becomes significant. On the other hand, if concerted action results in programs which are detrimental to the well-being of society, they cannot be countenanced.

Store planning services.—A number of trade associations assist members in designing fronts, suggesting store layouts, and developing blueprints of fixture plans. The National Association

of Retail Grocers provides technical assistance and has also prepared a series of slide films to aid in store modernization. The National Association of Retail Clothiers and Furnishers retains the services of a firm of nationally known store architects that consults with members. Similar services are provided by other associations.

Summary of Trade Association Activities

The discussion in this and the preceding chapter has involved an extensive presentation of trade association programs of management aids. Three generalisations evolving from this study are summarised as follows:

1. Trade associations are in the main a product of economic, political, and social changes which occurred in the United States during the latter half of the nineteenth and the twentieth centuries. The "generic purpose" of these organizations was to restrict in some manner competitive pressures which resulted from an expanding system of communication and transportation and the subsequent limiting of geographical barriers as a natural defense against competition.

2. Trade associations also maintain an active interest in improving the operating efficiency and effectiveness of member-firms through the development of programs designed to accomplish this objective. There is, then, a continuing conflict within the trade association movement between the objectives of limiting the rigors of effective competition, on the one hand, and in the promotion of industry practices which increase the economic position of members, on the other.

31See Davidson and Brown, op. cit., p. 94.
Finally, trade associations are well-accepted and established institutions in business similar to their counterpart in labor and agriculture. The "principle of cooperative action," then, is not vis-a-vis the "principle of competition"; rather, it is realistic to conclude that the "principle of competition" may well be operative only through the existence of purposive concerted action. This is especially the case when there is an absence of relative bargaining power within an industry.
CHAPTER IV

GOVERNMENT PROGRAMS: BACKGROUND AND AIDS

In a broad sense, government aids to small-scale retailers embrace all facets of governmental activities including the maintenance of internal order and control, provision for external defense, the building and maintenance of public roads, and so on. Moreover, the contribution of government toward the establishment of an economic environment which encourages business growth and development is also important. In each of these endeavors, however, the role of government is not restricted to small-scale retailing since it extends to the well-being of the entire social system.

In this and the following chapter specific programs designed to improve the level of management performance in small-scale retailing establishments are analyzed. Even in these illustrations, however, it is unrealistic to label these activities as "small business" programs. While many of these aids are specifically designed for small business enterprises, their impact extends to other individuals and groups.

Historical Development

With the establishment of the United States Department of Commerce in 1913, federal action to promote the interests of
business was formalized. While this department was not specifically concerned with small business enterprises, its statutory functions empowered it
to foster, promote, and develop the domestic and foreign commerce, manufacturing, shipping and transportation facilities of the United States.¹

Although related functions subsequently have been assigned to or removed from the Department by legislative or Executive order, the purposes have remained substantially the same as those for which it was established.

Government aids to business have not been restricted, however, to activities of the Department of Commerce. While the initial responsibility of the Reconstruction Finance Corporation was to make loans to railroads and banking institutions in the United States, authority to make direct loans to business enterprises was extended under an amendment to Section 5d of the original act. Furthermore, a Small Business Division was established within the Office of Loans to evaluate applications for loans of $100,000 or less which had been declined by the field offices of RFC and forwarded by them to Washington.²

¹The Department of Commerce was so designated by the Act of March 4, 1913 (37 Statute 736; 5 U. S. C. 611). This act reorganized the Department of Commerce and Labor, previously established on February 14, 1903 (32 Stat. 826; 5 U. S. E. 591), transferring out of the former department all labor activities.

²During the 1940’s and especially in the post-war period, there was considerable pressure from Congress to expand the loan program of RFC. While the primary objective was to aid all businesses in financial problems associated with the national emergency,
A limited form of financial assistance to business organizations was also provided under Section 13b of the Federal Reserve Act of June 19, 1934. This provided that within limited circumstances, Federal Reserve Banks were authorized to make commitments to discount loans of financing institutions that were made to established industrial enterprises, to participate with these institutions in such loans, and to make loans directly. The major objective of this program was to provide working capital to organizations that were unable to obtain financial assistance from customary channels.

Special concern was given for the welfare of small business. In March 1945, for example, a so-called Blanket Participation Agreement program was initiated in which RFC guaranteed bank loans providing the loans met the terms of the blanket participation agreements made with banks. Loans were administered by banks except in those cases where the RFC purchased its agreed percentage. Due to certain criticisms of the BPA program, primarily by some bankers on the grounds that it encouraged loose lending practices by banks, in addition to stimulating inflation and the placing of heavy contingent liabilities upon the federal government, this program was replaced by the Small Loan Participation Program. Similar to the BPA program in its emphasis on deferred participation, it involved additional restrictions on the loan approval procedures. With the outbreak of the war in Korea, major emphasis was placed on lending to defense related activities upon certification of essentiality by the Defense Production Administration or any other designated federal agency as provided by Section 302 of the Defense Production Act of 1950. Moreover, under Section 714 of this Act, the RFC was authorized to make either direct or participating loans to small businesses certified by the Small Defense Plants Administration as being engaged in essential civilian or defense activities. U. S. Congress, Financing Small Business: Report to the Committees on Banking and Currency and the Committees on Small Business by the Federal Reserve System, Parts 1 and 2, 85th Cong., 2d Sess., 1958, pp. 259-260.

Ibid., p. 256.
With the establishment of a Small Business Unit in the U. S. Department of Commerce in 1941, further recognition of the special problems of small business was given. The duties of this branch were to

(a) study the small business segment of the nation's industries;

(b) determine the problems encountered by small firms because of their size; and,

(c) plan a program to assist the firms with their problems.

This activity had been initiated only a short time when the United States entered World War II. 4

The first major effort to bring small manufacturers into the mobilization program involved enactment of the Small Business Act of 1942. This legislation provided for the creation of the Smaller War Plants Corporation. The SWPC program was designed to make credit available to small concerns pending settlement of their government contracts, to encourage banks to lend to small business concerns engaged in war or essential civilian production, and to assist firms in the acquisition of surplus property needed for defense production. 5


5To meet the financing needs of businesses for war production, the government also authorized the guarantee by defense agencies of loans largely made by private financial institutions. Under Regulation V, issued in 1942, the Federal Reserve Banks acted as fiscal agents of the defense agencies in arranging loans. Small businesses were not, however, the major beneficiaries of this program. See U. S. Congress, Financing Small Business, op. cit., p. 257.
In January 1946 this program was abolished by Executive Order and its loan functions transferred to the Reconstruction Finance Corporation; aside from functions to assist veterans which went to the War Assets Corporation, the Department of Commerce assumed responsibility for the remaining activities. With these additional functions, the Office of Small Business was continued as a peacetime agency of the Commerce Department.6

An additional postwar development was the loan guarantee and insurance program of the Veterans Administration. Designed to aid veterans of World War II, the Veterans Administration was authorized in 1944 to guarantee, and in 1945 to insure, loans to veterans for purposes of establishing and expanding a business. While VA was not authorized to make direct loans, the Act provided that loans made by private lenders could be guaranteed within certain limits by the Veterans Administration.7 Although the quantitative amount of these loans played only a small role in bank loan portfolios, they did emphasize a relatively new type of credit arrangement.

6The major divisions of the Office included: (a) management; (b) industrial production; (c) finance and tax; (d) business practices. This office was later transferred to the Office of Domestic Commerce on June 30, 1949.

7Loans up to a maximum of $2,000, or up to 50 per cent of the unpaid balance when such loans were not secured by real estate, and to a maximum of $4,000 or 50 per cent of the unpaid balance for loans secured by real estate. The amendment of 1945 to the Serviceman's Readjustment Act provided that supervised lenders were in a position to elect to receive VA insurance against losses in place of a loan guaranty. U. S. Congress, Financing Small Business, op. cit., p. 261.
involving the making of loans to new or very small businesses.\footnote{8}{Ibid.}

With passage of the Defense Production Act of 1950, the Office of Small Business became a primary unit of the National Production Authority with major responsibility to assist small business organisations in dealing with problems arising out of defense programs. In 1951, Congress amended this Act and provided for the creation of the Small Defense Plants Administration.\footnote{9}{The programs of SDPA were similar to those of the Smaller Defense Plants Corporation during World War II, and in general provided for various types of financial assistance to small manufacturing establishments. In terms of financial assistance, the Reconstruction Finance Corporation remained the mechanism through which actual loans were made.}

Although originally scheduled to end on June 30, 1952, SDPA was extended by Congress to July 31, 1953.\footnote{10}{In evaluating the work of SDPA several additional facts need to be presented. First, during the 24 months of SDPA's existence, it was headed by a duly nominated and confirmed Administrator for only 13 months. Moreover, while a major share of its resources were devoted to military procurement and financial assistance, other functions included: (1) Certificates of competency were issued to small firms stating their ability to participate in defense contracts; (2) the Agency was granted authority to take prime contracts from Government procurement officers and to perform under such contracts by subcontracts with business firms; (3) the Administration was authorised to obtain for small firms a fair share of Federal contracts by encouraging holders of large prime contracts to utilise the idle productive capacity of smaller manufacturers; (4) defense pools were used to bring small firms into military production; and, (5) provision for production and management assistance was carried on through latter stages of its existence. See U. S. Congress, Senate, Select Committee on Small Business, \textit{Annual Report}, 83d Cong., 2d Sess., March 1954, pp. 7-9.} On the latter date,
President Eisenhower affixed his signature to Public Law 163 thereby establishing the Small Business Administration. As successor to the Small Defense Plants Administration, the Small Business Administration became the first peacetime independent government agency created for the sole purpose of advising and assisting the small enterprises of the nation.

Since a detailed analysis of the activities of the Small Business Administration is presented in this and the following chapter, it is only necessary at this point to outline the general duties and responsibilities assigned to this agency. In a report accompanying a favorable recommendation to the Senate bill establishing the Small Business Administration, the Banking and Currency Committee stated:

This bill is designed to adjust the present Federal program of small business assistance in order to help small business achieve its maximum development under current conditions. Your committee gave considerable thought to shrinking the scope of present Federal organizations operating in the field in order to meet the present requirements of small business. However, it is the best judgment of your committee that a more effective program for small business assistance at less cost to the taxpayers can be achieved by a new agency of the federal government possessing the exact authority required to assist small business in making its full contribution to the national economic system.11

11 See U. S. Congress, Senate, Committee on Banking and Currency, Establishment of Small Business Administration and Liquidation of Reconstruction Finance Corporation, Report No. 604, 83rd Cong., 1st Sess., 1953, pp. 1ff. Considerable interest was expressed by members of Congress relating to the alternatives of establishing the Small Business Administration as a unit within the U. S. Department of Commerce, and the creation of an independent agency. The proponents of the latter position, of course, were successful in establishing an independent agency.
The Small Business Act of 1953 contained two major divisions: Title I provided for the liquidation of the Reconstruction Finance Corporation by June 30, 1953, and an end to its lending authority on September 30, 1953; Title II of this act included a broad statement of policy expressing Congressional philosophy underlying the legislation and the powers and duties assigned to the Administration by Congress. In the "Declaration of Policy," there was included the following statement:

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression of growth of personal initiative and individual action be assured...It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible the interests of small-business concerns in order to preserve free competitive enterprise, to insure a fair proportion of the total purchases and contracts for supplies and services for the Government be placed with small-business enterprises, and to maintain and strengthen the overall economy of the Nation.12

The Small Business Administration, in elucidating and interpolating the intent of Congress, concluded that four major responsibilities had been assigned:

12The original Act, Public Law 163, contained a two-year provision for the Administration to carry out the purposes expressed in the legislation. On August 9, 1955, the life of SBA was extended and its powers extended (Public Law 268). In 1957, the life of SBA was again extended for a one year period with final approval by Congress of the Small Business Act of 1958 providing permanent status for the Administration.
1. Helping small business gain access to adequate capital and credit.

2. Assisting small business to obtain a fair share of Government procurement.

3. Aiding small business to obtain competent management, technical, and production counsel.

4. Making disaster loans to assist victims of floods and other catastrophes.

Summary of Historical Development

Congress has expressed itself on numerous occasions of the point of view that "small and independent business is an essential element of a free and competitive economic system." Although recognizing that major emphasis should be placed upon individual initiative and private enterprise, it has concluded that "in some areas Federal machinery is still required to enable small business to play its full part in the American economic system." While the political nature of these pronouncements must be considered, the basic tenet that small and independent business is an essential element of a competitive economic system cannot be contested.

The primary agency of the government providing assistance for small as well as large-scale enterprise has traditionally been the United States Department of Commerce. Additional programs include the establishment of such agencies as the Reconstruction Finance Corporation, the Smaller War Plants Corporation, the Small Defense Plants Corporation, and the Small Business Administration. The last named organization is the first peacetime independent government
agency created for the sole purpose of advising and assisting the small business enterprises of the nation.

**Approach to Government Programs**

In discussing the scope and nature of government aids to small-scale retailers, it is necessary to recognize, first, the contributions of the United States Department of Commerce and the Small Business Administration. In addition to these agencies, however, there are a number of significant aids currently provided by other government departments. Although these programs are acknowledged in various publications, they are often times omitted during discussions of government assistance to small business. The analysis of government aids in this and the following chapter includes, therefore, a representative view of current programs regardless of the sponsoring agency.

**Government Programs: Types of Aids**

From an historical point of view, federal government aids have been principally concerned with providing financial assistance to firms engaged in defense projects and in programs designed to assist small business organizations in obtaining military procurement contracts. Contemporary programs are broader in scope. The discussion which follows is concerned with a description of marketing management aids currently available to small retailers. In the following chapter an analysis is made of government programs
dealing with personnel management, investment management, management development, and miscellaneous aids.

It is necessary to recognize in the outset of this discussion that government aids in this and the following chapter are not limited to programs designed specifically for small-scale retailers. Moreover, although the application of many of these aids is readily apparent, this is not the case in every instance. Regardless of the degree of direct application, however, programs analyzed are in every instance pertinent to the subject matter of this treatise.\(^{13}\)

Marketing Management Activities

**Functions of exchange.**—Management aids available to small-scale retailers relating to the functions of exchange consist primarily of publications dealing with the activities of buying and selling. The Small Business Administration issues, for example, a series of seven management publications, many of which include information relating to these functions:

\(^{13}\)In some cases, as is demonstrated in the analysis of "marketing research and information" aids, for instance, data not organized purposefully provide only limited opportunities for utilization. This emphasizes the need for additional research studies to determine procedures for organizing these materials according to the demands of users. The process of systematizing and organizing the multitude of government programs of importance to business men does not appear to have engaged the interest of responsible officials. A similar point can also be made of Congressional hearings and reports.
A review of these publications reveals that they are written by personnel associated with the Small Business Administration, by professors, consultants, and specialists in the field, and involve primarily a "how-to" approach. The Small Marketers Aids, to illustrate further, vary in length from two to six pages with a majority limited to issues four pages in length.

The Small Business Administration also maintains a counseling program for small businesses through regional and subordinate field offices. This service is described in the following manner:

By means of its counseling program, the Small Business Administration provides assistance to small business owners and managers on a personal, face-to-face basis. This service is growing in popularity with businessmen who prefer to "talk out" a problem rather than to write a long letter detailing it. The Agency's counseling assistance ranges from help to those who are considering starting their own businesses to answering inquiries from experienced business proprietors who want to learn of the most advanced business practices and techniques.

14 This series, similar to one formerly issued by the U. S. Department of Commerce, originated with the publication in 1959 of Starting and Managing a Small Business of Your Own. Although other monographs are being planned, this is the first publication to date.

Presumably, small-scale retailers may obtain expert advice relating to the buying and selling activities in addition to other areas of management interest.

The U. S. Department of Commerce also aids retailers in the performance of the functions of exchange. The current status of this Department, in so far as small business is concerned, is difficult to define due to the rather indefinite relationship which exists between this agency and the Small Business Administration. Since one of the reasons given for establishing the Small Business Administration as an independent agency was the desire to centralize government programs in one department, the specific functions assigned to the Department of Commerce in assisting small business remain undefined.

A final source of assistance to small-scale retailers in performing the functions of exchange is available through materials issued by the United States Department of Agriculture. Although many of these publications are written from the viewpoint of ultimate consumers, they contain valuable information for retailers.

In *Home Freezers—Their Selection and Use*, one of the Department's publications, the analysis of selecting a home freezer to meet individual needs, costs involved in their operation, and the problem of servicing these appliances are applicable to the retail functions of buying and selling. Similarly, *Making a Dress at Home* contains information on the subject of selecting fabrics and patterns, and includes a discussion of the fitting process.
Functions of physical supply.—Only a limited number of publications dealing with the functions of transportation and storage have been issued by the Department of Commerce or the Small Business Administration. It is interesting to note, however, that the Department of Agriculture has published a number of monographs and pamphlets dealing with these functions as they relate to retail grocery store management. Two of these, Some Improved Methods of Handling Groceries in Self-Service Retail Food Stores and Unloading and Receiving in Retail Food Stores, illustrate the practical approach taken to the physical supply functions.

Facilitating functions.—There are several agencies and departments of government with responsibility for developing and enforcing various kinds of "standards." The National Bureau of Standards of the U. S. Department of Commerce is the single most important source of information relating to the standardization function. Although much of its work is directly associated with problems at the manufacturing level, many aspects of this program are of vital concern to retailers. In addition to testing materials

16 There are, however, publications relating to materials handling and transportation aids of interest to manufacturers.

17 Government aids relating to the "risk bearing" function do not analyze the subject to any great extent. What aids that are available describe the insurance feature of this activity, but even in this instance omit an integrated approach. Market finance, as previously indicated, is included in the discussion of Investment Management Aids in the following chapter.
and developing codes and specifications relating to physical
standards, the Bureau also maintains a "research associates program"
which is of special interest to small concerns. Under this service,
a group of business men can join together in employing Bureau
facilities and guidance in the conduct of research. 18

The Federal Trade Commission also maintains an active in-
terest in the standardisation function. As part of its responsi-
bility in preventing unfair competition, the Commission cooperates
with industries in formulating "Trade Practice Rules" which often
times give attention to standards to be used in labeling or
describing products. 19 One way in which small-scale retailers may
make use of "Trade Practice Rules" is to encourage their formulation
in eliminating unfair and uneconomic practices in industry. Re-
tailers must also be aware of the existence of these regulations,
when such is the case, and insist that they be followed.

Finally, the Food and Drug Administration and the Agriculture
Marketing Service assist in promoting and developing standards. Of
major interest in the former agency is the development of standards
under its jurisdiction as established by the Food, Drug, and Cosmetic

18. Federal Policies and Programs that Benefit Small Business,
Cabinet Committee on Small Business, distributed jointly by the
Department of Commerce and the Small Business Administration,
September 23, 1957, p. 3.

Davidson, Principles of Marketing (6th ed.; New York: The Ronald
Act of 1938; while the Agricultural Marketing Service is primarily responsible for the establishment and use of standards in the marketing of farm products.\footnote{ibid., p. 485.}

While many large-scale retail organisations maintain private testing laboratories to encourage the manufacturer of goods which conform to predetermined standards, such facilities are often times unavailable to small-scale retailers. This indicates, therefore, that small-scale retailers might well explore the possibilities of making use of government sponsored laboratory facilities for originating similar programs. This objective might well be accomplished through the individual or collective action of trade associations.

In the area of marketing information and research activities, government aids of assistance to small-scale retailers are so extensive that no single volume completely covers all publications or describes their contents.\footnote{The quantity of statistical information, only one aspect of the subject, is so voluminous that no single volume adequately explains the scope of these data. See Paul Wasserman, \textit{Information for Administrators} (Ithaca, New York: Cornell University Press, 1956), p. 97; and, Phillip M. Hauser and William R. Leonard, \textit{Government Statistics for Business Use} (2d ed.; New York: John Wiley & Sons, Inc., 1956).}

There are two basic kinds of government research aids of special interest to small-scale retailers. On the one hand, there are publications dealing with an analysis of methods, techniques,
and procedures involved in the research process. These aids provide general instruction to individuals who are actively engaged in research work either as one aspect of their avocation or as a full time endeavor. On the other hand, there are a multitude of programs designed to add to the existing body of marketing knowledge.

Publications such as *Making a Marketing Survey*\(^{22}\) illustrate the former type of activity. This pamphlet discusses the process of conducting a marketing survey, explains various types of research procedures and methods, examines certain problems associated with selecting a sample, and concludes with a description of developing a questionnaire and gathering and analyzing data.

Similarly, *Basic Information Sources*, issued by the U. S. Department of Commerce, contains several hundred sources of information of importance to individuals engaged in marketing research studies.

In addition to the aforementioned activities, there is a second type of government assistance relating to the marketing information and research function designed to expand the existing level of marketing knowledge. These aids, many of them of a quantitative character, have encouraged one author to conclude that "The United States government is by far the world's leading producer of

statistics, and the United States is the best statistically re-
ported nation in the world.  \textsuperscript{23}

Most of the quantitative information relating to retailing
institutions has resulted from various Censuses of Businesses.  \textsuperscript{24}
Among the kinds of information forthcoming from the enumeration of
retail trade are number of retail establishments, sales volume,
payroll, operations of single and multi-unit organizations, legal
forms of organization, and so on.  \textsuperscript{25} In the most recent Census of
Retail Trade, enumerated in 1954, two volumes of interest to re-
tailers include: Volume I—Retail Trade, Summary Statistics; and,
Volume II—Retail Trade Area Statistics. Volume I contains a
summary of statistics by kind of business, and geographic area,
while the latter publication includes a summary of separate

\textsuperscript{23}Wasserman, op. cit., p. 97. To facilitate the use of
these data, the following indexes are available: United States
Government Publications, Monthly Catalog, Business Service Check-
List, and Selected United States Government Publications.

\textsuperscript{24}Beeman, Maynard, and Davidson, op. cit., p. 575.

\textsuperscript{25}These data may be used by small-scale retailers in a num-
ber of ways although the magnitude of these aids poses serious
problems relating to their effective utilization. Thus retailers,
for instance, are in a position to use retail sales data in deter-
mining market potentials in specific trade areas. Moreover, trends
in sales volume are easily ascertained to assist business men in
dealing with questions of store location. Furthermore, the number
and kinds of retail stores in individual market areas is readily
available through Census publications. A factor limiting the
effective utilization of these aids, as previously indicated, is
the fact that apparently very little attention has been devoted
to organizing and summarizing these data in meaningful terms.
chapters for each State, the District of Columbia, Alaska and Hawaii; data relating to counties, cities, and standard metropolitan areas are also to be found in this publication.26

Information relating to the current level of retail sales and merchandise inventories are also available through publications issued by the Department of Commerce, the Federal Reserve System, and the Department of Agriculture.27 Government agencies also

26 The statistical organization of the federal government is decentralized with different agencies responsible for the collection, compilation, and analysis of statistical data in specified areas. To prevent duplication and to achieve some degree of integration, the Office of Statistical Standards in the Bureau of the Budget develops a single coordinated statistical system in the federal government. See Wasserman, op. cit., pp. 99-104.

27 Some of the more important of these publications are the following: Advance Retail Trade Report, which includes an advance monthly estimate of retail dollar sales volume for major kind-of-business groups, and is collected from a sub-sample of the Bureau of the Census retail trade reporting panel; Monthly Retail Trade Report, estimated monthly and comparative year-to-date sales of all retail stores by kind of business—chain store sales, sales by geographic regions and kind of business; Monthly Department Store Sales, issued by the Board of Governors of the Federal Reserve System and includes seasonally adjusted and unadjusted indexes for selected U. S. cities and metropolitan areas; the Board of Governors of the Federal Reserve System also publishes Monthly Department Store Sales and Stocks by Major Departments, Department Store Merchandising Data, Monthly Department Stocks, Weekly Department Store Sales, and the Retail Furniture Report. Finally, Retail Trade, published by the Agriculture Marketing Service of the Department of Agriculture, contains monthly estimates of sales relating to selected dairy products, fruits and juices with quarterly data by type of outlet, and annual data by family characteristics. Activities of the Federal Government in Distribution Research, prepared as a supplement to the remarks of Harry W. Ketchum before the "President's Conference on Technical and Distribution Research," Washington, D. C., September 1957.
conduct research studies of importance to retailers. Among the
research projects sponsored by the U. S. Department of Agriculture,
for example, are the following:

1. Studies of market organization and
   practices in marketing farm products.

2. Evaluation of effects of merchandising
   methods and practices on sales of and consumer
demand for specific farm products.

3. Studies directed toward improved methods,
   operating practices, equipment, materials and
   layout for wholesalers and retailers of farm
   and food products.

4. Household and industrial consumer
   preference studies.

As a facilitating agency disseminating distribution research
information, federal government departments also issue publications
of special interest to retailers. Since reference has been pre-
viously made to some of these publications, only a brief summary
is necessary at this point:

1. Distribution Data Guide—A monthly periodical
   issued by the Office of Distribution, U. S. Department
   of Commerce, which contains annotations of current
   publications, government and nongovernment, of
   interest to individuals engaged in distribution.

2. Business Service Checklist—Bi-weekly issue
   of materials published by the U. S. Department of
   Commerce and other agencies.

3. Survey of Current Business—A monthly issue
   of the Office of Business Economics (Department of
   Commerce) which includes a review of business
   conditions, feature articles, and a large number
   of statistical series including retail and
   wholesale sales.
4. County Business Patterns—This is a regular publication of the Bureau of the Census, Department of Commerce, based on information collected by the Bureau of Old-Age and Survivors Insurance.  

5. Small Marketers Aids—One of the publications issued by the Small Business Administration dealing with various facets of distribution.

6. Agricultural Situation—A publication of the Department of Agriculture of interest to retailers.

It is appropriate to conclude this analysis of the marketing information and research function by recognizing a further expansion in government programs of special interest to small business enterprises. Although the Small Business Act of 1953 authorized the Small Business Administration to maintain a "clearing house for

28 Although the data obtained is for purposes of administering the federal government's Old-Age and Survivors' Insurance program, it contains information which has many applications to marketing research studies by business firms. Thus, these data are tabulated and published in a form convenient for use by the business community; in addition, the Department of Commerce has issued a monograph, Market Analysis Tools, which describes the principal objectives of market analysis and some of the uses of this publication as a source of information in such analysis. This appears to be one of the few attempts to indicate methods which may be used in applying governmental data to specific business problems.

29 Other publications include: Management Aids for Small Manufacturers; Technical Aids for Small Manufacturers; Small Business Bulletins; The Small Business Management Series; Aids Annual Series; and, Starting and Managing Series.

30 See also: The Marketing and Transportation Situation; Agricultural Marketing; Demand and Price Situation; National Food Situation Reports; and, Agricultural Economics Research.
information concerning the managing, financing, and operation of small business enterprises, the Administration devoted only limited efforts to research activities. To further emphasize the importance of research and development activities, Congress passed in 1958 two important legislative acts: Public Law 536 (which amended the Small Business Act of 1953), and the so-called Small Business Act of 1958.  

This interest in research was expressed by Congress in the following manner:

Research and development are major factors in the growth and progress of industry and the national economy. The expense of carrying on research and development is beyond the means of many small business concerns and such concerns are handicapped in obtaining the benefits of research and development programs conducted at government expense. These small business concerns are thereby placed at a competitive disadvantage. This weakens the competitive free enterprise system and prevents the orderly development of the national economy. It is the policy of the Congress that assistance be given to small-business concerns to enable them to undertake and to obtain the benefits of research and development in order to maintain


32The discussion which follows is only concerned with the research phase of these Acts. Other features are discussed in the following chapter.
and strengthen the competitive free competitive enterprise system and the national economy. 33

Moreover, Congress further empowered the Small Business Administrator with specific duties to carry out the provisions of the Act. Contrary to the earlier legislation, the duties assigned to the Administrator were detailed as well as broad in scope.

In enacting the so-called Small Business Investment Act of 1958, Congress further manifested a serious interest in research and development programs. Thus, for the first time, appropriations were made for the expressed purpose of providing the Small Business Administration with funds to

make grants to any State government, or any agency thereof, State chartered development credit or finance corporations, land-grant colleges and universities, and colleges and schools of business, engineering, commerce, or agriculture for studies, research, and

33Section 9(a), Public Law 536. This program includes manufacturing, wholesaling, and retailing. Data available from the National Science Foundation indicates that approximately 10 billions of dollars were spent for research during the 1957-1958 period. Of this total, federal agencies provided approximately 60 percent of the funds. This was an increase from 53 percent for 1956-1957. It is also interesting to note that for this same period (1956-1957) industry received about 65 percent of the funds provided by federal agencies. This was an increase from 52 percent in 1953-1954. Congress, then, in passing the aforementioned Act recognized that small business enterprises were at a disadvantage in competing for these funds provided by the federal government. It is also interesting to note the limited discussion in the business press relating to what might be termed “research subsidies” to large-scale business firms by the federal government.
counseling concerning the management, financing, and operating of small-business enterprises and technical and statistical information...

The Administrator, in setting forth regulations governing the issuance of grants for research projects, has stated that funds may not be used by grantees for purposes of counseling small business owners and managers. Instead, the Small Business Administration purposes to serve as the focal point for distributing the results of these studies to interested agencies and individuals.35

It is also important to note the procedure followed in allocating these grants. Eligible institutions, for instance, are:

34The estimated budget of the Small Business Administration relating to the conduct of research and development was $2,562,000 for the 1960 fiscal year (no specific funds were provided during previous years). Fifty-two grants, ranging from $7,465 to $40,000, totaling approximately $1,900,000, were awarded by the Administrator extending from July 1, 1959, to June 30, 1960. See 12th Semiannual Report of the Small Business Administration (Washington: Small Business Administration, June 30, 1959), p. 101. The funds expended on small business research and development may be compared with the amount allocated to various agencies within the U. S. Department of Agriculture. The 1960 estimate of these funds, for example, is $106,372,000 for the conduct of research and development, and an additional $9,869,000 is designated for research and development facilities. See Special Analysis of Federal Research and Development Programs in the 1961 Budget (Washington: Bureau of the Budget, January 1960), pp. 12-13.

35See the Federal Register, January 28, 1959. With these additional responsibilities, an Office of Management and Research Assistance was established within the Small Business Administration. There are four divisions connected with this office: Management Development; Research Studies; Management Methods; and Counseling and Conference.
permitted to submit research titles and outlines of proposed studies to the Small Business Administration. These proposed research studies are then evaluated by the Small Business Administration and by the members of the Agency's Management Research Advisory Council. The Council members then make recommendations to the Administrator who later determines the institutions to whom the grants are to be made.
CHAPTER V

GOVERNMENT PROGRAMS: TYPES OF AIDS (CONTINUED)

Government aids dealing with the marketing management function were discussed in the preceding chapter. This chapter continues with an analysis of management assistance aids relating to personnel management, investment management, management development, and miscellaneous aids.

Personnel Management Activities

The United States Department of Labor provides small-scale retailers with a number of personnel management aids. Many of these programs are the primary responsibility of the U. S. Employment Service and affiliated State Employment Services. These aids are available without charge and include:

1. Determining the basic requirements of particular jobs and locating workers who have the necessary qualifications;

2. Selecting workers qualified to meet job requirements through improved interviewing and testing techniques;

3. Analyzing the cause and assisting in the reduction of excessive personnel turnover;

4. Setting up personnel records;
5. Utilising veterans' service training in civilian occupations.1

Another important service provided by the U. S. Department of Labor is the publication of important statistical data relating to the personnel management function. This program is under the authority and responsibility of the Bureau of Labor Statistics. One of the Bureau's publications, Employee Earnings in Retail Trade, indicates the nature of these aids. This report is based on data obtained from a survey of approximately 28,000 retail stores classified in terms of geographical regions, kind of business, location, and employment size.2

The Department of Labor, moreover, engages in research designed to improve the maintenance and utilization of a labor force. While a majority of these studies relate more directly to manufacturing establishments, with slight modification many of them are also applicable to the field of retailing.

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2The Bureau of Labor Statistics, in cooperation with State agencies, has developed a comprehensive body of current and historical data relating to State and area statistics dealing with employment, average weekly hours, and average weekly and hourly earnings. This information is summarized to facilitate its use in the Guide to State Employment Statistics (Washington: Bureau of Labor Statistics, May 1957).
Another major Government agency maintaining programs related to the personnel management function is the Office of Education. Management aids available through this agency are primarily the responsibility of the Distributive Education section. Operating under a local-State-Federal cooperative relationship, the U. S. Office of Education under the George-Barden Act offers financial assistance to local authorities in carrying out the objectives of this program. One phase of this activity involves the establishment of classes for individuals employed in business organizations. Small-scale retailers, therefore, are in a position to utilize these services in training operative employees. Since local and State school systems have general responsibility for organizing and supervising classes of instruction, courses may be tailored to meet the individual needs of small business organizations.

The Office of Education also issues bulletins and monographs which may be used in training retail personnel. Selling Home Furnishings, prepared by the Office of Education in cooperation with the National Retail Furniture Association, includes the materials

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3 The United States Department of Health, Education, and Welfare.

4 Illustrations of management development courses are discussed in a later section of this chapter.

necessary for a complete retail training program. Furthermore, discussions concerning product knowledge, selling techniques, and training methods enable retailers to use this publication either for group or individual instructions.

In addition to the foregoing illustrations of government programs, the Small Business Administration, the Department of Commerce, and the Department of Agriculture also issue publications dealing with personnel management aids. The Department of Agriculture, for example, makes available to interested users a number of management aids relating to the personnel management activity. Although these aids are more readily applicable to retailers of food products, they are not restricted to this industry. In terms of the training function, for example, Improving Performance of Retail Food Store Cashiers and Improving Efficiency of Retail Grocery Clerks illustrate the practical nature of these aids. 6

Investment Management Aids

Managerial accounting.—Government aids to small-scale retailers relating to managerial accounting activities consist primarily of publications that adhere to generally accepted accounting principles and practices. These aids vary from those which are relatively brief and cryptic to others involving a more

6The Department's Consumer Buying Guides also contain materials of value in training retail personnel. In Men's Suits, How to Judge Quality, one of this series, a non-technical but information analysis is given of ideas particularly useful to retailers of men's clothing and furnishings.
detailed and lucid presentation. A listing of selected titles serves to illustrate the nature of Small Business Administration publications in this area:

1. Records Management in Smaller Stores
2. Basic Stock Control for Small Stores
3. Fundamental Records for Small Marketers
4. Are You Kidding Yourself About Your Profits
5. Cost Control Pointers for Small Marketers

Although these publications contain information that is useful to small-scale retailers, many of them do not provide a comprehensive view of the subjects discussed. Instead, they are designed to introduce specialized topics to the reader with the expectation that sufficient interest will be created to call forth additional study. Thus, as the author of one of these aids concludes:

Those who want advanced information would do well to study a comprehensive textbook. Many good ones are available. Those who want special techniques to meet unusual situations should consult an accountant.

A somewhat different type of assistance is provided by the Internal Revenue Department. In addition to the general counseling service of this Agency, the publication of an annual Tax Guide for Small Business was begun in 1956. It was designed for sole proprietors, corporations, and partnerships, and provides answers to

most federal tax questions for small businessmen in terms of federal income, employment, and excise levies. The Guide also contains information relating to tax provisions either in establishing a new business or in the sale or other disposition of a going concern.

Financial management assistance. — Since 1953, the Small Business Administration has had the only significant government lending program for small business. There are essentially two major types of loan activities available through this agency: the Financial Assistance Program, which includes business and disaster loans under the Small Business Act; and the Small Business Investment Company Program under the Small Business Investment Act.

The Business Loan Program involves four kinds of financial assistance to small business establishments: Deferred Participation Loans; Immediate Participation Loans; Direct Loans; and, the Limited Loan Participation Plan.


9The Small Business Administration has also given special attention to loans involving: Hospital, Convalescent and Nursing Homes; Hangar Loans; and Fisheries.

10In each of these programs, major emphasis is placed upon private sources of capital. In the Small Business Act of 1953, for instance, and in later amendments, Congress emphasized "private loan sources." Section 7(a), Public Law 536 (an Act to amend the Small Business Act of 1953) in empowering the SBA to make business loans states: "(1) No financial assistance shall be extended
Deferred Participation Loans are those in which a bank or private credit institution advances the capital needed while the Small Business Administration agrees to purchase upon demand by the lending institution an agreed portion of the unpaid balance.\(^{11}\)

In the Immediate Participation Plan either the Small Business Administration or the private lending institution agrees to purchase from the other, immediately upon disbursement, an agreed percentage of each disbursement.\(^{12}\)

Direct Loans are those made directly by the Small Business

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pursuant to this subsection unless the financial assistance applied for is not otherwise available on reasonable terms. (2) No immediate participation may be purchased unless it is shown that a deferred participation is not available; and no loan may be made unless it is shown that a participation is not available. (3) In agreements to participate in loans on a deferred basis under this subsection, such participation by the Administration shall not be in excess of 90 per centum of the balance of the loan outstanding at the time of disbursement.\(^{11}\)

\(^{11}\)Business loans may not exceed $350,000 with the following exceptions: a corporation formed and capitalized by a group of small-business concerns with resources provided by them for the purpose of obtaining for the use of such concerns raw materials, equipment, inventories, supplies or the benefits of research and development, or for establishment of facilities for such purposes... the limit to such loans shall be $350,000 multiplied by the number of separate small businesses which formed and capitalized such corporation. See Section 7(a), Public Law 536. This provision is not to be confused with loans to Small Business Investment Companies under Public Law 699 discussed later in this chapter.

\(^{12}\)As previously mentioned, SBA may not participate in an immediate participation loan unless it is shown that a deferred participation loan is not available.
Administration to the borrower when no participation by a private lending authority is available. Finally, the Limited Loan Participation Plan is designed especially to assist small retail, wholesale and service establishments, although other businesses are also eligible, which are unable to pledge as much tangible collateral as is required for regular business loans.13

A second phase of the Small Business Administration's Financial Assistance Program relates to the Disaster Loan Plan.14

In this program, the Small Business Administration is empowered to make loans, either directly or in cooperation with banks or other lending institutions, to individuals who have suffered property losses because of floods or other catastrophes.

The Small Business Administration, in addition to the aforementioned business and disaster loan programs, is also responsible

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13In applying its loan-security requirement, the Small Business Administration varies its emphasis on collateral as compared with earning ability from loan to loan. The "Limited Loan Program," established in 1956, illustrates this flexibility. In these loans, the SBA accepts the bank's judgment of the borrower's creditworthiness—an appraisal that may place little or no emphasis on tangible collateral. See U. S. Congress, Financing Small Business, op. cit., p. 264.

14Section 7(b)(2), Public Law 536. These loans, as they apply to small business, require that the concern must suffer substantial economic injury as a result of...drought or excessive rainfall, as determined by the Administrator, in addition to the President's declaration of a major disaster area, or the Secretary of Agriculture's statement that such drought or excessive rainfall constitutes a production or economic disaster in such area.
for making loans to Small Business Investment Companies under the so-called Small Business Investment Act of 1958.\textsuperscript{15} The intent of Congress in enacting this legislation is included in the following "Statement of Policies"

\textit{It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small-business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity and long-term loan funds which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply; PROVIDED, HOWEVER, that this policy shall be carried out in such a manner as to insure the maximum participation of private financial sources.}\textsuperscript{16}

Again, as the foregoing statement indicates, emphasis is placed upon "private enterprise and individual initiative" in providing additional capital sources to small businesses. Under the terms of this Act, the Small Business Administration licenses small business investment companies which are privately owned and operated. These companies then are authorized to provide equity-type capital and long-term loans to small business concerns.


\textsuperscript{16}Public Law 699, Title 1, Section 102.
This legislation also provides the Small Business Administration with authority to assist State development companies and local development companies in the financing of small businesses in their areas.17

Management Development Activities

The Administrative Management program of the Small Business Administration illustrates one type of government assistance dealing with the management development function. In this program,

17Under provisions of the Act the Small Business Administration is authorized to buy subordinated debentures from the small business investment companies in order to assist in the creation of their initial operating capital. Investment companies must have paid in capital of at least $300,000 to operate under this Act; one-half of this amount must be provided by the stockholders of the enterprise in which case the Small Business Administration may then invest another $150,000 in the form of subordinated debentures—long-term debt which will rank ahead of common stock but behind other indebtedness in case of liquidation. In addition to supplying one-half of the initial minimum investment of $300,000, the Small Business Administration is authorized to lend up to an additional amount of $150,000 to these firms. Although the companies are privately owned and operated, the federal government has a continuing interest in their operation since the Small Business Administration bears responsibility to the public not only licensing them, but also through the process of making direct financial contributions as stated above. See 12th Semiannual Report Small Business Administration (Washington: Small Business Administration, June 30, 1959), p. 59. The New York Stock Exchange has drafted a new set of rules to encourage the listing of small business investment companies' securities on the Exchange. According to preliminary reports, special standards will apply primarily to small business companies registered under the Small Business Investment Act of 1958, as well as under the Investment Company Act of 1940. See "Big Board Acts to Spur Listing of Small Firm Investment Companies," The Wall Street Journal, March 25, 1960, p. 8.
emphasis is given to the "administrative" aspect of business management; moreover, these courses are based on the assumption that while small business executives are familiar with the operative phases of their organizations, they do not have an opportunity to consider adequately the administrative problems relating to the over-all management, or "conceptual approach," to the enterprising process.

In carrying out the objectives of this activity, the Small Business Administration assumes neither educational nor financial responsibility; rather, the Administration serves as cosponsor and actively promotes the program by providing SBA publications and in visiting with organizations and educational institutions in soliciting their participation. Although these courses are not standardized, the following list appears to be representative of the subjects discussed:

1. Effective Management
2. Money Management

Administrative Management courses are scheduled and financed by sponsoring organizations and usually involve a registration fee to participants. In one of these classes held at the University of Louisville (Kentucky), eight meetings were scheduled with instruction provided by professors from the university and outside lecturers. A registration fee of $50 was charged to each participant. In a course involving six weeks of instruction at Jacksonville, Florida, a fee of $20 per enrollee was required; while a ten-week course at Marquette University involved a $40 registration fee. Under the sponsorship of ten organizations in Fort Worth, Texas, six sessions were held in which no registration fee was required.
3. Credit
4. Accounting
5. Marketing
6. Customer and Employee Relations

The Small Business Administration also makes available to small business organizations management development publications as well as assisting these organizations through the Department’s counseling service.\(^\text{19}\)

The Department of Commerce engages in similar programs.

\(^\text{19}\)A review of Congressional hearings relating to the subject of "management development" or "management education" in small business organizations indicates that some members of Congress view this activity with extreme hostility. A representative view of this position (and one which, in the opinion of the writer, has discouraged the Small Business Administration from undertaking new and progressive programs in this area) is contained in the following exchange between Representative Brent Spence, Chairman, House Committee on Banking and Currency and the then Administrator of the Small Business Administration, Mr. Wendall B. Barnes.

The Chairman: "I have often heard your proceedings spoken of as to teach the American businessman the know-how. I think that would be a fine thing, in the undeveloped areas of the world, to teach undeveloped people know-how, but I think it would be a rather difficult thing to send somebody out of a bureau in Washington to teach the American businessman how to run his business, if that was the general purpose of it, and I think the American businessman would resent that."

Mr. Barnes: "I think he would, too, Mr. Chairman."

The Chairman: "Yes, sir. That is what I want to know. Because a man will say, "Well, I have run my business for 35 years, and I have gotten along all right, and I wanted a loan, and they sent some fellow out of Washington to tell me how to run it; I know his ire would not subside for quite a while."

Mr. Barnes: "That is why we do not, in connection with a loan, if all he has asked for is a loan, in effect tell him how to run his business..."

The Chairman: "However well qualified your employee may be, I don’t think he is in a position to give the businessman who has operated his business for a long time, advice as to how that business should be run..." See U. S. Congress, House Committee on Banking and Currency, Hearings, Extension of the Small Business Act of 1953, 84th Cong., 1st Sess., 1955, pp. 56-57.
to assist small business owners and managers.

The United States Office of Education also maintains an active interest in management education for small businessmen through its Distributive Education program. Since one of the objectives of this activity is to reduce business losses due to unsound management policies, there are instances of active cooperation between this Department and the Small Business Administration.

Although the Distributive Education program is federally sponsored, it is an integral part of the public school system and, as previously stated, is under the control of state and local authorities. The strategic location of these services provides a realistic medium for carrying management training to local areas throughout the United States.20

In the State of Kentucky, for instance, thirteen vocational schools have been established to provide specialized vocational training for industrial and business occupations. These schools are administered and supervised by a board of education and supplement rather than replace the regular program of the public secondary schools. Moreover, the distributive education phase is designed to serve high school students in their regular course

work in addition to providing training for individuals employed in retail, wholesale, and other distributive occupations. Finally, a teacher-coordinator is employed in each of the Kentucky vocational schools with primary responsibility for serving individuals who are not enrolled in the high school program. Since each of these area schools is organized so as to serve several counties within its jurisdiction, classes may be established within any community of the state.

Miscellaneous Activities

So that a complete view of the government function as it relates to this treatise might be presented, attention will be given to several additional activities. In fact, it can be persuasively argued that the single most important task of government is to promote an economic environment in which the "principle of competition" may prosper and expand.21 One of the more important aspects of this objective is the maintenance of competitive "equality of opportunity" for businesses irrespective of size or

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21 Professor John M. Clark indicates a rather one-sided emphasis among average business men who want government to establish a "favorable climate" for business in which they construe this to mean "letting business alone to work out its own problems..." In a broader view, "favorable climate" includes some positive action on the part of government beyond the "let alone policy." Thus he states that this matter is two-sided; the climate needs to be favorable on both sides of the fence; and the success of governmental policies can be seriously affected by the business climate in which they are received. Economic Institutions and Human Welfare (New York: Alfred A. Knopf, 1957), pp. 239-260.
status. In this endeavor, the U. S. Department of Justice and the Federal Trade Commission are charged with major responsibility for the elimination and prevention of monopolistic and unfair methods of competition.

While the Department of Justice does not furnish direct assistance to small business organizations as such, indirect aid is available through the Department's Antitrust Division. Apart from the litigation function, a Small Business Unit has been established within the department to which complaints from small business firms are channeled concerning matters unrelated to pending investigations or cases. In this Unit, moreover, such complaints are reviewed to determine whether substantial questions of antitrust violation may exist. After reviewing these questions, the complaints are then transferred to one of the litigating sections, if this course of action is indicated, or discussed with the complaintant should the evidence fail to substantiate such action.22

22How the Department of Justice Helps Small Business ("Small Marketers Aids No. 17," Washington: Small Business Administration, November 1956), pp. 1-4. In the Small Business Act as amended, there is the provision that: the Attorney General is directed to make, or request the Federal Trade Commission to make for him, surveys for the purpose of determining any factors which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of the administration of this Act. The Attorney General shall submit to the Congress and the President, at such times as he deems desirable, reports setting forth the results of such surveys and including such recommendations as he may deem desirable. Section 10(c), Public Law 536.
With special responsibility in protecting businesses from "unfair competition," the Federal Trade Commission also provides important assistance to small business enterprises. In administering the Federal Trade Act, the Clayton Act as amended by the Robinson-Patman Act and six other related statutes, the main objective of the Commission is "to protect and promote competitive business and to protect the interests of the purchasing public."\(^{23}\)

In July 1954, a special Division of Small Business was established by the Federal Trade Commission to advise and assist small owners in using the services available to them. While such guidance is not legally binding, it aids small business owners in adopting practices that are consonant with prevailing regulations. This Division is also in a position to assist individuals in obtaining relief from unfair practices of competitors.\(^{24}\)

In concluding this discussion of miscellaneous government aids, it is necessary to recognize the impact of the federal tax

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\(^{24}\)The consultation procedure involves: (1) Analysis of Commission and Court precedents as they relate to particular problems; (2) utilization of the combined knowledge of the Commission; and, (3) giving informal consultative guidance relative to individual problems. Ibid., p. 3.
system on the small business segment of the economy.\textsuperscript{25}

The most recent expression of Congressional interest in this subject was manifest with enactment of the Small Business Tax Revision Act of 1958.\textsuperscript{26} While it is unnecessary for purposes of this study to analyze the technical features of the Act, it is important to note the main purpose of this legislation as indicated in the following statement incorporated in a report by the Senate Select Committee on Small Business:

The purpose is to give the maximum assistance which is necessary for the continued existence and growth of small business as it has been known in this country, consistent with current revenue needs...Unless a climate is maintained in which such concerns may grow and prosper, our economic system cannot survive. If only the large are to be given opportunity, business will continue its present course of amalgamation which will result in domination by a few giant concerns.\textsuperscript{27}

\textsuperscript{25}Although the foregoing analysis has not been limited to management aids available to small-scale retailers, an analysis of programs designed expressly for small business establishments in manufacturing and/or the service fields have been omitted. The Small Business Administration, for instance, aids manufacturers in such areas as procurement and sales assistance, production, and technical assistance.

\textsuperscript{26}Public Law 866, 85th Congress.

Summary of Government Activities

The foregoing discussion of government aids indicates that, from a historical perspective, these activities have been primarily concerned with providing small-scale manufacturers with financial assistance during periods of national emergency and in encouraging these firms to participate in government defense contracts.

With the establishment of the Small Business Administration in 1953, there came into existence the first peacetime independent agency devoted solely to the task of aiding small businesses in the United States. Although this agency continues to place major emphasis on financial assistance programs and those relating to government procurement, there has been a recent increase in the number of activities dealing with the "management function" in small business establishments. These programs deal primarily with an expansion in research activities and in the establishment of a "Management Development Division" within the Office of Management Research Assistance. Thus far, however, the process of assisting small business owners and managers in acquiring the rudiments of sound management practices has not been accepted as a vital part of government assistance programs.
CHAPTER VI

WHOLESALE SPONSORED PROGRAMS

Wholesalers, as a result of the generic character of their operation, perform a variety of marketing functions of strategic importance to small-scale retailers. They anticipate the demands of retailers, assemble numerous commodities from a number of widely scattered producers, provide storage reservoirs at convenient points of dispersal, aid retailers in financing their businesses, and render advice and assistance in other important areas.1 In each of these illustrations the contribution of wholesalers to the economic well-being of small-scale retailers is apparent.

Historical Development

So that contemporary developments may first be placed in proper perspective, it is essential to understand the historical evolution of wholesaler sponsored programs of management assistance.

Prior to 1900

Most of the wholesaling in the United States prior to the nineteenth century was divided between frontier trading posts and general stores, on the one hand, and the activities of importers on the other. It was only after the expansion in domestic manufacturing that there came into being the demand for specialised wholesale middlemen to market this output.²

During the first half of the nineteenth century most wholesale houses in the United States, whether the business was combined with that of manufacturing, importing, or retailing, did not specialise; instead, they carried a variety of merchandise in a single line or in several lines of goods. These developments may be summarised in terms of the following distinct trends:

1. The separation of wholesaling from importation, and the establishment of wholesale houses which were no longer concerned with the performance of retailing functions in addition to their major interest.

2. The increasing specialisation in certain lines of trade, which originated in the second quarter of the century, became of increasing importance with the expansion and growth of domestic manufacturing.

3. Finally, the introduction of a number of different types of middleman, and the further expansion of wholesale middlemen in each of these fields of operation.³

²Ibid., p. 80.
³Ibid., pp. 80-84.
Twentieth Century Developments

The first two decades of the twentieth century were characterized by a continuation of the evolutionary process of institutional change in wholesaling. In viewing these changes, as well as later developments, two primary considerations merit additional analysis. First, changes took place in terms of the wholesalers’ conception of their function in the marketing process; and, second, "organisational changes" occurred which resulted in a further integration of the wholesaling and retailing functions.

Although the aforementioned change in the view of wholesalers toward their function is somewhat enigmatic and difficult to define, its importance may be indicated in several ways. One wholesaler interviewed for purposes of this investigation expressed this point of view as follows:

We are classified as "jobbers," but this is really not correct. We must think as retailers and only by moving goods through retailers do we move our goods.

Another wholesaler made this observation:

For 109 years we sold merchandise and felt that this was our job. Now, with our stores, we feel that our number one task is to move merchandise out of the retailer’s store...but, of course, we still have accounts where all we do is to sell to them because that is all they want us to do.  

4 Ibid., p. 84.

5 This point of view is explained in a somewhat different manner in an analysis where the "merchandising distributor" is defined in terms of a wholesaler who operates in true business
The recent origin of these ideas is evidenced in the following statement by a pioneer writer in the field:

Ten years ago, it is probable that the average wholesaler would have said that he was little concerned with the retail merchant outside of receiving his order and securing payment for it. Progressive wholesalers today realize that their interests in the goods they sell actually extend beyond the retail merchant to the ultimate consumer. Successful wholesaling depends upon the maintenance of a certain sales volume which carries with it a fair amount of profit. To secure these results, a wholesaler must not only have the right goods at the right time and place, but must sell such merchandise in sufficient quantities to a large number of satisfied customers. This can only be achieved through proper cooperation and timely assistance to the retailer in the solution of his merchandising problems.\(^\text{6}\)

The second major twentieth century development in wholesaling relates to certain "organisational changes" which have taken place in marketing. Although there is a direct relationship between this factor and the one discussed in the preceding section, the implications of this point are sufficiently different to warrant further analysis.

With the growth of corporate chain units at the retail level partnership with his retail dealers and factory sources...offering services geared for today's marketing conditions, performed for minimum cost...being selective in the lines he handles without being a specialist in just a few fields...and concentrating his sales efforts and assistance with dealers who concentrate most of their purchases with him. "What Is This New Look in Wholesaling?" Hardware Retailer, May 1958, p. 5.

during the 1920's, with the resultant integration of wholesaling and retailing, and often times manufacturing functions, competitive pressures were exerted on small-scale retailers and their wholesaler-suppliers. In viewing the economic basis for the emergence of the corporate chain retail system, Professor Haflebower indicates that their success reflects the introduction of two important innovations:

1. Taking advantage of developments in transportation and communication, they coordinated wholesaling and retailing within one ownership rather than through market transactions. This organizational change, along with rationalization of the retailing operation, resulted in a new and substantially lower production function for carrying out the total distributive operation.

2. From their beginnings, the enterprises that blossomed into the mass distributors offered a new and less costly "product" in the sense of less retail service, for which there seems to have been a tremendous latent demand. They pioneered in offering a lesser variety to choose from and in concentrating on volume items sold on low margins, and in selling not only for cash and without delivery but also with less prompt service. Preceding competition also had failed to provide for the sale of two or more "products" at different prices in the same store, or in varying types of outlets, to as large a degree as the mass distributors found that consumers wanted.

Confronted with the outstanding success of the corporate chain store system, independent merchants at the wholesale and retail levels resorted, in turn, to two quite different methods of meeting this competition. On the one hand, there were efforts to attack these institutions on moralistic and idealistic grounds in trying to turn public opinion against the chains. Moreover, independent retail and wholesale merchants were active in sponsoring various types of anti-chain store legislation.8

A second and more effective approach involved the adaptation of chain store techniques to the operation of independent wholesale and retail establishments. It is within this latter development that organisational changes evolved with a similar integration of market transactions by independent wholesale and retail merchants. In applying the principle of functional integration, in terms of voluntary and cooperative group action, independent wholesalers and retailers demonstrated that the competitive advantages of the corporate chain system could be applied within the existing framework of individual ownership. While this development occurred to a greater degree in the grocery field, important illustrations in non-good lines demonstrates that the principle is

Applicable to other lines of trade. 9

Approach to Wholesaler Sponsored Management Aids

The interest of wholesalers in originating programs of management assistance to improve the competitive position of small-scale retailers illustrates the dynamics of the marketing process in the United States. Since the introduction of these aids is of relatively recent origin, it is to be expected that the development of substantive programs is still far from being universal.

In line with the objectives of this treatise, major attention in the discussion which follows is devoted to wholesaler sponsored aids potentially available to retailers in Lexington, Kentucky. While all of the specific programs herein described may not be available to retailers in other geographical areas, it is nevertheless true that they are indicative of the kinds of aids provided by progressive wholesalers throughout the United States.

To facilitate this analysis, a case approach involving three distinct types of "organisational relationships" between

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9In the hardware field, for instance, one company (Marshall-Wells, Duluth, Minnesota) has franchised over 500 retail hardware stores in the United States and approximately 200 in Canada. In the variety field (as discussed later in this chapter), Butler Brothers has franchised more than 2400 Ben Franklin units. A similar policy is followed in the drug industry by the Raxall Drug Company and the Walgreen Company. The Western Auto Company also franchises Associate Stores in addition to operating units as part of the corporate chain. Ibid., pp. 36-38. See pages 149-150 of this study for a discussion of the relationship between the "voluntary chain" concept and the "franchising system" of distribution.
wholesalers and their retailer accounts is utilized. These relationships are defined in terms of "unaffiliated wholesalers," "voluntary group wholesalers," and "retailer owned cooperatives."

The first major type, "unaffiliated wholesalers," includes wholesale establishments who do not maintain formal contractual agreements with retailers. An analysis of the McKesson & Robbins Company's programs of management assistance illustrates the nature of current aids available through the services of these institutions.

In the second form of organizational relationship, wholesalers take the initiative and induce a number of retailers to affiliate with them contractually for purposes of cooperative action. The Ben Franklin program, established by Butler

10 This approach is a departure from the preceding analysis of management aids available through trade associations and government agencies. The primary reasons for this approach are twofold: first, the desire to present a comprehensive view of wholesaler sponsored programs and, second, the need to avoid unnecessary duplication in this analysis. In selecting specific firms for this analysis, two criteria were paramount: the program had to be potentially available to small-scale retailers in Lexington, Kentucky, and firms designated for detailed analysis must be recognized for their leadership in this field.

11 As a national wholesaler recognised for its leadership in the field of distribution, this organisation maintains a variety of aids of special interest to drug store retailers. This firm was selected for detailed analysis on the basis of the nature, scope, and integrated character of its programs of management assistance. While these aids are not representative of the "typical" programs sponsored by "unaffiliated wholesalers," they serve to indicate the kinds of assistance provided by the more progressive and enlightened firms.

12 Beckman, Engels, and Bussell, op. cit., p. 207.
Brothers, is an outstanding example of assistance which may be provided by "voluntary group wholesalers."13

In the final type, "retailer owned cooperatives," retailers take the initiative and act cooperatively in the ownership and operation of a wholesale house.14 For purposes of this study, management aids provided by the Kentucky Food Stores are analyzed.15

After completion of the discussion of management aids sponsored by McKesson & Robbins, Butler Brothers, and Kentucky Food Stores, the concluding section of this chapter analyzes other wholesaler sponsored aids potentially available to retailers in Lexington, Kentucky.

McKesson & Robbins, Incorporated: A Case Study

The McKesson & Robbins Company illustrates the nature of management assistance programs available through "unaffiliated wholesalers." Although founded in 1933, this firm assumed national

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13 The purchase of Butler Brothers by City Products Corporation was completed in March, 1960. Following completion of the sale a new corporation was formed (B. T. L. Corporation). It is not possible at this point to determine the impact of this change on the organization.


15 This organization operates a warehouse in Lexington, Kentucky. Although similar organizations operate in other parts of the state, this organization is the most important "retailer owned cooperative" in the Lexington retail market.
importance with the merger in 1928 of sixty-eight independent
drug wholesalers. 16

Marketing Management Activities

One of the important buying aids provided by McKesson &
Robbins is the Drug Store Opening Order Book. 17 Included in
this publication are the following: a listing of suggested items
to be stocked by drug stores, complete departmentalization into
retail division, and suggested retail prices. The format of this
service enables retailers to receive orders by departments thus
minimising the problems of checking and displaying merchandise as
it is received. For merchants who desire further assistance, a
"fixture-index" is also available which further minimises the
shelving time required for these operations.

A second publication available to retailers is the annual
catalog of Christmas and gift merchandise. Since this publication
is illustrated with products identified by manufacturer, it offers

16 Because of the financial manipulations of one of the
organizers of this merger, the firm was forced into reorganisation
under the Bankruptcy Act in 1938. In 1941, new management assumed
leadership of the organization. Since that time, McKesson has
continually expanded its operations. In physical year 1959, the
firm realised an annual sales volume of $513,985,693, the largest
in its history. See "McKesson & Robbins: Salesman," Fortune,
July 1952, p. 132.

17 The firm also publishes a "Hospital Reference" for hospi-
tal pharmacist and purchasing agents which includes a buying
guide for approximately 12,000 items by product name, manufacturer,
and therapeutic class.
a convenient aid for planning and promoting the sale of holiday merchandise. Similarly, the Book of Sundries is an annual issue which provides retailers with a practical buying guide for these items. Profitunities, a monthly magazine type issue, features current promotions, buying information, and featured products.

While the foregoing illustrates the nature of buying aids available to retailers, perhaps of greater importance is the wide variety of selling aids issued by the firm. One of the major aspects of this activity is the "Store Event Service." In the view of an executive of the firm,

Few retail pharmacists are able to plan promotion events that will build store traffic and strengthen them against chain drug or non-drug promotion activity. They are not fitted for this work by education or experience and, except for the agency outfits, they are led into it by no other leadership.18

Recognizing this situation, the "Store Event Service" is designed to make available to retail drug stores special sales events which are planned and directed by McKesson Sales Managers and Assistant Sales Managers.19

18 Included in a letter received by the author from an executive of the firm.

19 These individuals work closely with druggists on all phases of planning the event, writing the advertisement, and conducting the program. The firm also provides special premium merchandise which is available in promotional quantities, store event mats, and other materials. Plans for 1957, for instance, provided for 1600 store events.
Another aid provided by McKesson is the development of at least two national advertising and merchandising programs each year. The firm obtains the cooperation of from 6,000 to 12,000 druggists in these promotions, as well as the active participation of from 12 to 26 manufacturers, both of whom assist in defraying the cost of this program.20

McKesson also introduced in 1955 an "Advertising Hat Service" for retail accounts. For a nominal cost retail druggists receive a weekly advertisement which is available in a variety of sizes. This service, administered by McKesson salesmen, features nationally advertised items and manufacturers' consumer specials.

In terms of the physical supply functions, the most important service available to retailers is the establishment of conveniently located warehouse facilities where representative lines of merchandise are available. The fact that the company operates 78 wholesale drug establishments indicates the effort which is expended toward the accomplishment of this objective.

As a special service to process pharmaceutical orders, and to provide detailed information on these products, McKesson established the so-called "Rex McKay" Plan. This program, based on the belief

20 An example of such a promotion was McKesson's "Your Merry Christmas Drug Store" offered in 1957. Twenty-six manufacturers and more than 10,000 druggists participated in this promotion. A special 8-page color section was purchased in The American Weekly covering 36 markets, with 1000 line ads in 32 other markets.
that retailers often require better than normal service on pharmaceutical products, is designed to accomplish two objectives.

First, the plan is designed to insure that manufacturers' products be delivered to retail druggists with the least possible delay.

In the second place, it also serves as a clearing house for information on prescription drug products. Specialized employees, known as "Rex McKay" in each of the company's 78 drug houses, are responsible for keeping the sales force abreast of current developments, as well as answering questions from customers relating to pharmaceutical items.

Personnel Management Activities

In line with efforts to aid retailers improve their operating practices, McKesson & Robbins makes available to retail druggists a number of training programs. One of the important parts of this activity is the one-day "Drug Store Sales Training Courses" under the direction of McKesson Sales Managers. These sessions provide text material and films prepared by the company.21

Courses of instruction are also available in more specialized areas in which three hours are devoted to selling practices, and an equal period to product information. The "Photographic Sales

21The text, Drug Store Selling Made Easy, is written by Mr. Herman C. Nolan, president of the firm. It incorporates rather generally accepted selling practices and applies them to drug store retailing. This booklet may also be used by retailers for group or individual training. The meetings, sponsored by the company, usually last for about six hours of actual instruction time.
Clinics," for example, include product instruction in cameras, films, and accessories. Manufacturers participate in these clinics by taking over the responsibility for instruction relating to product knowledge. To provide retail personnel with an added incentive, a "Certificate of Achievement" is awarded to those who attend these training sessions.22

Other Managerial Aides

One of the most extensive aids provided by McKesson is the Modernization Service for retail drug stores. In making this service available to retailers, the company employs drug store design and modernization personnel to assist in this task. While there is no extra charge for this service, it appears that the activity is largely supported by the sale of drug store fixtures.

Store modernization personnel are also available for consultation, often times at divisional offices, to discuss individual problems of store layout, and to provide merchandising advice relating to current trends in the industry. An annual drug store modernization conference is also sponsored by the company in addition to presentations at local retail meetings.

The company also maintains a fixture finance plan for retailers

22The 1957 Annual Report states that the company has assisted in training more than 75,000 drug store employees in retail selling; moreover, the company plans to further increase this effort. See McKesson & Robbins Annual Report for the Year Ending March 31, 1957, p. 6.
who desire this service. The plan, administered by the C. I. T. Corporation, provides that new fixtures may be installed with a minimum down payment of 25 per cent. McKesson takes the order and then turns the papers over to C. I. T. for administration. Contracts under this plan require payments in equal monthly installments, and may extend for a period up to 36 months.

Butler Brothers: A Case Study

"Voluntary group wholesalers," the second form of organizational relationship between wholesalers and their retailer accounts, take the initiative and induce a number of retailers to affiliate with them contractually for purposes of cooperative action. Although wholesaler sponsored voluntary chains vary in many details, the basis of operation is similar in all cases. To illustrate the kinds of aids available through these institutions, a detailed analysis of Butler Brothers follows.

Butler Brothers originated in the year 1877 as a general merchandise wholesaler servicing thousands of retail accounts.

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23 Beckman, Engle, and Bussell, op. cit., p. 207.


25 The writer is indebted to Mr. M. G. Crums, Sales Promotional Department, Butler Brothers, for supplying a major part of the material used in this section. This includes extensive personal correspondence, sales promotion aids, and other publications issued by the organization.
throughout the United States. Owing to the competitive limitations of this type of operation, the firm discontinued these functions entirely; in their place, the resources of organization were devoted to the merchandising of independently owned Ben Franklin Stores. 26 As one executive of the firm stated:

We believe that old line wholesale methods with their attendant inefficiencies are fast becoming obsolete. Handling what the buyer thinks will sell, and seeking orders from store to store, makes for high selling costs, and places a burden on the wholesaler-retailer arm of distribution that ends up in a competitive disadvantage for the retailer. 27

26Sales by the wholesaling division declined from $126,847,000 in 1948, to $78,584,000 in 1955. Throughout this period there was a transition from the general wholesale operation to a franchised store plan. At one time, for example, Butler Brothers maintained approximately 200,000 catalog accounts; prior to 1948, however, the company began the process of closing out these retail accounts. Moreover, active accounts in non-variety lines of trade were also discontinued. Finally, "Federated" store accounts (retailers who were franchised by Butler Brothers in the dry-goods field) were discontinued as rapidly as these retailers were able to find other sources of supply. Since 1955 the wholesaling service has been limited to Ben Franklin franchised stores. It is interesting to note that in 1949, for instance, Ben Franklin stores made gross purchases from Butler Brothers amounting to $29,644,000; wholesale sales at that time totalled $67,065,000. By 1958, sales to Ben Franklin stores amounted to $104,188,000. In addition to the Ben Franklin program, Butler Brothers also operates three other divisions: ?? Scott Variety Stores with annual sales in 1958 of $14,658,763; 7 Butler Brothers Department Stores with a volume of $18,149,257; and, finally, 155 T&Y Stores with sales in 1958 of $29,609,765. See Butler Brothers 81st Annual Report, 1958, pp. 8-10.

27Included in a letter to the author.
The essence of the Ben Franklin program is summarized in the following words:

A variety store under the Ben Franklin program is a more valuable property than one depending on the sustained health, energy and day to day resourcefulness of any one individual no matter what his background or experience may be.\(^2\)

The management staff of the Ben Franklin program, similar to the corporate chain system, is organized so that merchandising, operating, and promotional planning are coordinated by specialized personnel. Moreover, this plan is based on the proposition that successful retailing requires the following conditions:

1. Right location
2. Sound lease
3. Good store layout
4. Proper fixtures
5. Planned opening
6. Personnel training
7. Bookkeeping records
8. Dependable merchandise sources
9. Merchandise control
10. Operating procedures
11. New goods
12. Sales promotion
13. Effective advertising
14. Community acceptance

\(^2\)The franchise for these establishments includes these provisions: (a) It is an individual voluntary agreement; (b) permits use of the Ben Franklin name, which is a registered trade mark; (c) calls for a franchise fee ranging from $180 to $750 depending on the size of the store; (d) includes a cooperative rebate on annual purchases over $30,000; and, (e) contains an outline concerning a definite basis for the sale of a store should the franchise holder wish to dispose of it.

\(^2\)Opportunity and Security in a Retail Business of Your Own, undated publication issued by Butler Brothers, p. 5. The major operating divisions of the organization are as follows: Merchandise Division; Sales Promotion Department; Display Department; Store Accounting Division; Zone Manager; Store Planning Division; Store Opening Superintendent; and Store Location Division.
In the analysis which follows a more detailed description of the Ben Franklin plan is presented as it relates to the subject of wholesaler sponsored programs of management assistance.

**Marketing Management Activities**

*Functions of Exchange.*—Perhaps the "core" of the Ben Franklin program can be described in terms of the following principle of "basic stock merchandising."

All good modern merchandising starts by finding from the experience of many stores the precise items and precise price lines which the public favors rather than basing such decisions on instinct of an individual or the record of one store. Basic stock merchandising is making use of all factual data available to pre-determine before goods are bought which articles and what price lines will please consumers. Basic stock merchandising rests upon the assumption that if a store will handle only goods which have been proved by experience to be readily salable, it will move fast, investment will be reduced, turn quickened, markdowns minimised, and maintained mark-up increased.30

The application of this principle in the Ben Franklin plan involves, first, the development of a "Basic Check List" based on pre-determined best selling items; second, responsibility for keeping the list current; third, instituting changes in response to consumer preferences; and, finally, the supplementation of the "list" with seasonal merchandise guidance. Thus by making merchandise comparison studies of chain store sales and manufacturers'  

30 Incorporated in a letter received from an executive of Butler Brothers.
production records, in addition to analysing data obtained from franchised stores, Ben Franklin buyers are in a position to provide a significant service to independent retailers. Moreover, by maintaining a certain uniformity between individual stores, retailers are in a position to apply one of the strategic competitive advantages of the corporate chain store system to their individual operations. 31

While the major part of this plan is the development of the "Basic Check List," a multitude of other aids are provided as a means of implementing and making effective the over-all objectives of this program. In terms of the advertising and sales promotion function, for example, a six-month promotional calendar is issued and includes the following items:

1. An operating and promotional publication issued monthly
2. Window schedules, window photographs and trimming instructions
3. Standard counter layouts
4. Feature counter layouts
5. Hat service, talking signs, and price cards
6. Radio spot advertising
7. Week-end specials program

31 This point of view is further explained by the following statement obtained from an unpublished paper written by an executive of the firm: "...the main strength of the program stems from the uniformity between stores in merchandise lines...the only basis upon which the functions of merchandising, operation and promotion can be coordinated. Through this uniformity enormous buying power is achieved." Thus, for instance, the combined buying power of more than 2,400 Ben Franklin stores obviously commands favorable recognition in the markets. Moreover, contact through Butler Brothers provides an economic basis for obtaining this business. Finally, private brand identity enables independent retailers to obtain still an additional advantage that might not otherwise be available to them.
Each month promotional, display, and selling materials are prepared by individuals who devote their entire time to aiding Ben Franklin owners in the management of these activities. For peak selling periods during the year, major sales promotions provide a coordinated merchandising plan which includes circulars, posters, newspaper ads, and so forth. Since this function is performed by specialists who serve the more than 2,400 units with materials prepared in a printing plant owned by Butler Brothers, it is reasonable to assume that the unit cost is less than would be required for any one individual store.

Functions of physical supply.—There are two main features to the physical supply functions of the Ben Franklin program. On the one hand, the company publishes a Operating Handbook for store owners which includes a number of references to problems encountered in the operation of a retail store, in addition to an outline of standard procedures used by chains and other successful variety stores. Included in this publication, for instance, is an analysis of various aspects of the physical supply functions such as stock-keeping, receiving, and marking merchandise.

A second feature of the physical supply function relates to

32 The Sales Promotion Department also provides materials for a "Grand Opening Sale" introducing the store to the community. A Store Opening Superintendent is assigned to each new store to aid in supervising the hiring of store personnel, layout of the merchandise, conducting training programs, and arranging for store opening publicity.
the warehousing of merchandise for Ben Franklin stores. The physical features of this plan involve the operation of seven strategically located warehouses.33

Facilitating functions.—The foregoing description includes references to the facilitating functions of standardisation, risk bearing, and marketing research. In concluding this section dealing with marketing management activities, it is only necessary to mention briefly certain additional aspects of the marketing research activity. In terms of this function, one of the special aids available to retailers is provided by the Store Location Division. Thus an entire division within the firm is devoted to finding suitable locations for Ben Franklin stores. This involves, for example, detailed surveys and analyses of recommended towns to determine the "mathematical opportunity for success." Data relating to population, trade areas, shopping habits, spendable income, traffic counts, strength of local competition, size of building, and so forth, illustrate the kinds of information gathered

33These warehouses, all of which are leased, are located in the following cities: Minneapolis, Minnesota; Los Angeles, California; Des Plains, Illinois; Dallas, Texas; Kansas City, Missouri; Memphis, Tennessee; and Baltimore, Maryland. Three of these units (Los Angeles, Memphis, and Kansas City) were opened in 1957 with floor areas of 92,000, 170,000, and 210,000 square feet respectively. The 1958 Annual Report issued by Butler Brothers indicated that two additional warehouses are being planned to serve stores in the Southeast and Northwest sections of the country.
and analyzed by this division.²⁴

**Personnel Management Activities**

Although no one division within the organization is devoted to the personnel management function, Ben Franklin stores have available a variety of important aids in this area. First, the aforementioned *Operating Handbook* contains information relating to procuring, developing, maintaining, and utilizing a labor force. In terms of the former function, personnel forms and records are provided as well as job descriptions for operative positions in retail stores. Information relating to the employment of new sales personnel and part-time employees is also available. Moreover, retailers are provided with suggestions for establishing store rules and policies relating to this activity. Finally, the remaining personnel management functions are covered in terms of suggested pay schedules, working hours, vacations, purchase discounts and similar matters.

Another important personnel management aid involves a training program for operative personnel prior to the opening of a new store. As mentioned above, the Store Opening Superintendent is responsible for this activity. Finally, Zone Managers make scheduled calls

²⁴ Through data obtained from the operation of Ben Franklin stores, the Store Location Division has been able to develop consolidated figures which provide a guide to the amount of investment required, and income that might be anticipated with reference to store volume potentials. Moreover, this information is available on a geographical basis which further enhances its value.
once a store is opened and retailers have an opportunity to discuss personnel problems as well as other operating details with these individuals. 35

Investment Management Activities

Managerial accounting.--One of the important management aids provided by Butler Brothers is the establishment of a bookkeeping system that provides retailers with essential investment, expense, and profit information. This "profit control system" is installed by Accounting Supervisors who set up the necessary records and teach the steps of daily operation to the owner or to an individual selected by him for this position. The Accounting Supervisor also makes occasional return visits to give additional assistance and to insure that the system is functioning properly. If the store owner prefers, a bookkeeping service by mail is also available. This service reduces office detail to a minimum and enables the owner to spend additional time in other areas of operation.

Ben Franklin retailers are also provided with a merchandise control system. Again, the basis for this plan of inventory control is the aforementioned "Basic Stock Check List." Thus the check list is more than a statement of best selling items, for it includes a departmental schedule of the number of items which should be in stock and on display at all times; it also indicates

35 The duties of Zone Managers are discussed in greater detail later in this chapter.
when to take a stock count, when to buy, how much to buy, and which related items are to be displayed together. Since the total merchandise investment is determined by store volume and then balanced by departments, the merchandise control system is established on a factual basis.³⁶

Financial Management Assistance.—The Ben Franklin plan contains only limited equity capital financing assistance for retailers. In most cases, except in rather limited instances when important requirements are met, anyone starting a store is expected to have the necessary capital.³⁷

Management Development Activities

Since a number of management development aids have been analyzed in the foregoing discussion, and in as much as the entire Ben Franklin program may be approached from this point of view, it is only necessary at this point to mention briefly the functions

³⁶This information is further classified according to "staple goods" and "seasonal items." For seasonal merchandise, a selected list of available merchandise is provided along with suggested guides for item selection for stores of varying sizes.

³⁷This consideration is of increasing importance. For example, a retail store located in the southeastern section of the United States, according to consolidated figures released by Butler Brothers, with annual sales of $145,000 requires an investment of $53,000; a store located in the mid-south section with sales of $88,000 requires an investment of $40,000. While these units realize an average return on investment of 34.7 per cent and 32.1 per cent respectively, it is obvious that the number of interested individuals with these capital requirements is limited.
of Zone Superintendents. A field staff of 270 trained retail men spend their entire time in Ben Franklin stores. Retailers, therefore, have available to them at the local level guidance and counseling relating to the operation of their stores. In this capacity the

Zone superintendent helps to organize, systematize, and simplify routine store work. He also works with the store owner on forward planning for seasonal events and promotions. He assists in the training of sales people, teaching counter layout, window trimming and other phases of store work which requires demonstration to supplement instructions in Ben Franklin manuals and monthly publications.38

Finally, the Ben Franklin Store Manual includes an analysis of retail management in the variety store field.39

**Miscellaneous Activities**

The Store Planning Division provides assistance in selection of store locations and assists in plans for store lighting, layout, and stock room operating facilities. Furthermore, this division develops store front design for new stores, or for the remodeling

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38 See Opportunity and Security in a Retail Business of Your Own, op. cit., p. 11.

39 The contents of this publication include: (a) Ordering and Reordering Staple Merchandise; (b) Ordering and Maintaining Records on Seasonal Merchandise; (c) Ordering and Maintaining Records on Staple-Seasonal Toys; (d) Ordering and Maintaining Records on New and Promotional Merchandise; (e) Ordering and Maintaining Records on Automatic Stock Control Plans; (f) Receiving, Marking, and Distributing Merchandise; (g) Store Plans; (h) Store Display; (i) Customer Service; (j) Physical Maintenance and Housekeeping; and, finally, (k) Records.
of existing establishments. Finally, Butler Brothers employs a group of "lease location" men who assist in determining the amount of rent a store can pay and still have a successful operation. These individuals are also directly responsible for supplying leases designed to protect the investment of store owners.\(^4\)

**Kentucky Food Stores: A Case Study**

Kentucky Food Stores illustrates the nature of management aids provided by "retailer-owned cooperatives."\(^4\) As previously defined, the distinguishing characteristic of this type of institutional relationship is the ownership and operation of a wholesale warehouse on a cooperative basis by independent retailers.\(^4\)

In order to understand the functions performed by the Kentucky Food Stores organization, it is first necessary to indicate the major factors behind its development.

\(^4\)The established objectives of this division are to insure that each franchised store lease contain a fair rental in keeping with the retail sales potentials for the life of the lease, and to guarantee that a suitable building is available, with adequate protection, for a specific number of years.

\(^4\)Material for this case was obtained from an interview with Mr. W. L. Murray, General Manager of the Kentucky Food Stores, and from an unpublished "History of the Kentucky Food Stores," written by Mr. Murray. Personal interviews were also conducted with retail members of the group. Although this organisation operates only in Central Kentucky, its activities are similar to the kinds of aids available through retailer-owned cooperated groups in the grocery field in other parts of the United States.

Although a charter was issued to the organization in May 1934, the organizing process began in the spring of 1938 with the formation of a Retail Grocers Association. Later in the fall of the same year, a State Association was formed. One of the early contributions of these associations, in terms of the later development of the Kentucky Food Stores, was the opportunity it afforded members to become better acquainted with each other as individuals. These meetings, for example, enabled retailers to realize that not only were they faced with mutual problems but, furthermore, that many of the difficulties encountered could be solved through cooperative action.

With the advent of World War II, the advantages of cooperative action became even more apparent. Operating problems associated with war-time controls, price regulations, and so forth, enabled these individuals to recognize benefits that could be realized through cooperative action. Moreover, experiences obtained during this period encouraged many of these individuals in their belief that independent retailers could "meet or beat their competition" provided they were in a position to purchase merchandise at competitive prices.

In February 1944, a meeting was held at which time the following proposal was submitted to the distributors of three nationally advertised brands of canned foods:
Should the members of this association give...bene fide orders for car loads of canned goods with the assurance that this merchandise...be picked up in our own trucks on arrival of the cars and a check left on the doorsteps of the warehouse, would the association then receive the advantages of the operating cost of warehousing the merchandise, sending a salesman out to sell it to the stores and making deliveries of the same?

Since a negative response was received to this query, it then became apparent to the leaders of the association that if they were to be competitive in the post-war period, it would be necessary to form a retailer-cooperative group.*3

Prior to the actual formation of this organization, visits were made throughout the country viewing similar operations. This resulted in the establishment of the Kentucky Food Stores with an initial membership of thirty-two retail grocers, more than half of whom paid an initial fee of $500.4

*3 One individual in the group stated "the old line jobbers started with the wrong assumption. They often times asked the wrong questions 'How much can we charge retailers on these items?' rather than 'How can we make these retailers competitive'!"

4 In September 1944, members agreed to increase the fee $100; in July of 1946, the amount was increased to $1500. The current charge is $2900 with an additional increase of $100 scheduled for 1960. It is also interesting to note that Kentucky Food Stores (although formed as a non-profit organization) elected to pay all taxes that are normally assessed to business organizations. One of the major reasons for this decision, according to Mr. W. L. Murray, General Manager, was the desire to establish the firm in the market on an economic basis without receiving special consideration.
Marketing Management Activities

From its inception the primary purpose of the Kentucky Food Stores has been "to buy and warehouse merchandise at the lowest dollar." As a result of this objective, there evolved a very close integration of the exchange and physical supply functions.

First, in terms of the buying function, executives of the organization emphasize the point that merchandise must be purchased at competitive prices. This idea is summarized in the following statement by an executive of the firm:

If you cannot buy as cheap as chains then you have a difficult time competing with them. But if you can do as good a buying job as chains, then you can be competitive.

To assist members in performing the advertising function, the organization employs an individual who prepares advertisements and other sales promotion programs for members. Although these aids appeared to be rather ineffective during the initial phase of their development, personal interviews with members and executives of Kentucky Food Stores indicate that this program is now considered to be quite significant.

Coordination of selling and warehousing functions.—Similar to other progressive types of wholesale establishments, the Kentucky Food Stores issue a bi-monthly pre-printed order form to

45 Members of the organization believe that manufacturers like to do business with the group and that they are in a position to receive additional considerations so long as they are bonafide and legally permissible.
members. This bulletin is indexed and includes, among other information, the various sizes of merchandise available, the pack, codes, cost to the stores, suggested retail price, a complete description of promotional merchandise, and a listing of important merchandise lines featured by major competitors.

Since the warehouse sequence is similar to the order form sequence, a logical procedure for assembling merchandise is followed, thus eliminating unnecessary and time consuming duplication of effort. An IBM system is used in the warehouse with a card maintained in a tub file for each case of merchandise included in the inventory.

Although a majority of retail members in the Lexington area pick up their orders at the warehouse, delivery service is provided to members for an additional one per cent charge.

**Pricing policies.**—Since the primary objective of this cooperative is to enable retail members to purchase merchandise at competitive prices, it is to be expected that the pricing policies of Kentucky Food Stores would reflect this purpose.

Executives of the organization indicate, however, that it is sometimes difficult to obtain the cooperation of members in carrying out this policy. To overcome this reluctance, retail members purchase such items as soap, shortening, and poultry at the "net price," which is defined as the billed price less any discounts received. For sugar, coffee, evaporated milk, cigarettes and other tobacco products, the cooperative takes the two per cent
cash discount with retailers paying the invoice price. In produce items the firm operates on a four per cent mark-up; finally, a two per cent margin is obtained on general groceries, canned goods, cereal, and so forth, in addition to the two per cent cash discount.

**Investment Management Activities**

The Kentucky Food Stores organisation provides only limited financial assistance to retailer-members. The inability of the firm thus far to aid more directly in this area is one of the current factors limiting its growth. In the words of one executive of the firm:

The large chains may see a good location possibility; they then simply go to the owner, make plans, tell an insurance company of their needs, and the first thing you know there is a new building and a modern store.

For Kentucky Food Stores, the process of establishing a new store is significantly different. A modern supermarket of the type operated by corporate chain systems requires a minimum investment (in Lexington, Kentucky) of from $150,000 to $250,000. The opportunity for this firm to obtain retailer-members who are in a position to obtain this amount of capital is quite limited. Consequently, this limits the organisation's ability to locate stores in advantageous trading areas; moreover, there is a more subtle factor which affects adversely the competitive capabilities of the organisation. Members are encouraged, for example, to accept the proposition that they can perform the necessary marketing functions
more efficiently and effectively than their larger competitors.
this requires, often times, a good physical plant with adequate
facilities. Thus one of the competitive advantages of large-scale
retailers relates more to their capacity to command capital re-
sources in obtaining choice store locations than it does to their
performance of the marketing functions in a more effective manner.46

Personal and Management Development Activities

Due to the aforementioned objectives of the Kentucky Food
Stores, the organisation maintains only a limited number of per-
sonnel and management development aids. Although the importance
of these activities is recognised, a discussion with an executive
of the firm brought forth the following comment:

We can only do a limited job with this
although it is very important. We believe that
it would be fine to get a good young man and to
develop further plans for improving retail manage-
ment in the stores. But again this takes time
and it also requires money.

With these limitations in mind, however, the organisation does
encourage member-stores to utilise the principles of good display.

46Some members have discussed the possibility of establishing
a new corporation to finance the operation of retail stores in
strategic locations in the Lexington market. Thus far, however,
this proposal has not resulted in any definite decision. As another
possible source of capital funds, it is interesting to note that
executives and members of Kentucky Food Stores have apparently
failed to investigate the possibility of utilizing the services
of the Small Business Administration.
and to advance the general level of management. \textsuperscript{47}

**Other Wholesaler Sponsored Programs**

While the foregoing analysis illustrates the kinds of management aids available to small-scale retailers through the activities of McKesson & Robbins, Butler Brothers, and the Kentucky Food Stores, it is important to mention aids sponsored by other wholesalers.

**Unaffiliated Wholesaler Sponsored Aids**

Merchants Wholesaler Grocery Company, a Louisville branch of the Greasy Company, provides small-scale retailers with a number of management aids. \textsuperscript{48} Mr. Norman Ilar, vice president and

\textsuperscript{47}In 1959, the largest individual store of the Kentucky Food Stores was purchased by a large corporate chain. Discussions with members of Kentucky Food Stores indicated that, in their opinion, the purchase of this store was designed to limit the competitive position of the cooperative. Again, insofar as members express themselves, they conclude that their business as individuals has increased as a result of this sale. Their reasoning is that since the corporate chain already operates several stores in Lexington, many of the former customers of the retail-member now trade at other Kentucky Food retail outlets.

\textsuperscript{48}Merchants is the largest of eight such operations maintained by the Greasy Company. Other branches are located in: Evansville, Indiana; Columbus and Toledo, Ohio; Huntington and Clarksburg, West Virginia; and Hagerstown and Cumberland, Maryland. Operating a fleet of 28 trucks, Merchants delivers to more than 800 stores with a 75-mile radius of Louisville. See Carroll V. Dowden, "Big Business from Small Servings," The Courier-Journal, April 14, 1957.
general manager of the firm, attributes a good part of the success
of the organization to the followings:

1. It offers promotional and advertising
counseling. Through Merchants, a retailer has
the opportunity to pool his advertising budget
with those of other stores.

2. A store-planning and engineering service.

3. An insurance plan which, for a charge of
about 25 cents a month, will insure the customer’s
account.

4. An accounting service which enables Merchants
to advise retailers on financial matters relating
their operations to other stores of a similar size. 59

These services are optional, however, with retailers having the
responsibility for determining the extent to which these aids are
utilized.

The Kentucky Ignition Company (Lexington, Kentucky) provides
its dealers with a different type of service. As a representative
of specialized equipment manufacturers for cars and trucks, this
firm recognized the need for training automotive technicians.
Consequently, technical schools were sponsored, either alone or in
cooperation with manufacturers, for purposes of training and de-
veloping these individuals. Employees of the Kentucky Ignition
Company also assist service jobbers located throughout the state
in establishing similar courses of instruction. Since jobbers may
attend several schools sponsored by the firm, they are aware of the

59 Ibid.
operating procedures used, and with some assistance are then in a position to develop their own schools.

**Voluntary Group Wholesalers**

Although the aforementioned analysis of the Ben Franklin operation sponsored by Butler Brothers is indicative of the kinds of management aids available through "voluntary group wholesalers," additional programs relating to other lines of trade further explain the nature of these aids. In this connection, for instance, Lexington retail grocers have available two major plans: the Independent Grocers' Alliance and the Shopworth program of the United States Wholesale Grocers Association. The former is sponsored by the Sistrunk Company, while the Shopworth plan is handled by the Bryan-Hunt Company, both of Lexington. The essence of these programs is summarized in the following statement made to the author by an executive of the Sistrunk Company:

> We do the complete job for our retailers. And, in turn, we have to keep up with the ideas of grocery retailing. We can compete with chains on a costing basis, however, we must also keep up

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50 Although Sistrunk was an early member of I. G. A., certain operational difficulties were encountered, "some of which were due to the company, and others to retail members," and the group was dissolved. In 1952, the operation was reorganized under the direction of an individual who joined the firm after several years of experience as a food broker. The Bryan-Hunt firm also illustrates the nature of current changes unfolding in wholesaling. Operating as a full-service grocery wholesaler for more than 100 years, this organization is now concentrating on the Shopworth voluntary chain program.
with them in intellectual terms and this is a more difficult job. We need, then, a national organisation to aid us further in this area of ideas...this is the critical point. And this is where MMA is important to us.

In the drug field, retailers in Lexington may obtain a Walgreen agency or affiliate with the Rexall Company. In the former, for instance, aids available to retailers include private branded products, specialised advertising aids, and store planning assistance. Moreover, a Walgreen representative makes regular calls on agency accounts to assist them in their operations. One of the important functions of these individuals is to keep retailers informed on merchandise items currently in demand.

Finally, the Western Auto Supply Company plan illustrates the kinds of management aids available to retailers in this line of trade.\footnote{The Western Auto Supply Company, founded in 1909, was predominantly a mail order operation during its early years. In 1935, the "Associate Store Plan" was initiated. Starting with a total number of 37 dealers, the current total is in excess of 3,600. The company also operates more than 360 units of its own.} Among the services provided to retailers are the followings:

1. Assistance in finding suitable towns as well as locations within these communities.

2. Guidance in store layout, placement, and arrangement of merchandise.

3. The preparation of a definite schedule for installing store fixtures, assembling and display of merchandise on tables and bins as shown in the store blueprint, pricing of merchandise with
preprinted bin tags, and the establishment of a bookkeeping and merchandise control system.

4. Advice concerning the selection of an opening inventory stock and the preparation of advertising promotions.

5. Training in retail fundamentals in one of Western Auto’s centrally located schools.\(^5\)

**Retailer-owned Cooperative**

Although the Kentucky Food Stores is the only retailer-owned cooperative in Lexington, Kentucky, there are illustrations of similar groups in other parts of the state. While most of these institutions are in the grocery trade, there are firms operating in other lines of trade. One illustration, Star 5 & 10, operates in the Louisville (Kentucky) market area and is primarily concerned with cooperative advertising and buying.

**Summary of Wholesaler Sponsored Aides**

The two most significant developments in the field of wholesaling during the twentieth century have been, first, the change which has taken place in the wholesaler’s conception of their function in the marketing process and, second, the integration of wholesaling and retailing functions. The programs of management aids discussed in the foregoing analysis reflect these developments.

\(^5\)Since many Western Auto Associate Store owners have little or no previous retail experience, this is an important part of the over-all plan. The training program consists of seven major areas: (1) Fundamentals of retail operation; (2) Effective advertising; (3) Inviting store appearance; (4) Forceful sales effort; (5) Merchandise investment; (6) Investing expense dollars; and (7) Store records.
On the one hand, "unaffiliated wholesalers" who do not maintain formal contractual relations with their retail accounts have developed important aids. Although "unaffiliated wholesalers" who operate on a national scale supply retailers with a wider variety of these materials, this study indicates that wholesale houses who operate in local markets also offer significant aids.

On the other hand, "affiliated wholesalers," either in terms of "voluntary group" or "retailer owned cooperatives," have made considerable advance in integrating the wholesaling and retailing functions within the existing framework of independently owned establishments.

In summary, then, it is apparent that enlightened wholesalers operate on the premise that their primary task is to move merchandise through their retail dealers to consumers. The programs of management assistance discussed in this chapter reflect the importance of this concept.
CHAPTER VII

MANUFACTURER SPONSORED MANAGEMENT AIDS

The foregoing analysis provides insight into the nature of wholesaler sponsored programs of management assistance. In the discussion which follows emphasis is given to aids sponsored by manufacturing concerns.

Historical Development

Although only limited information is available relating to the origin and development of manufacturer sponsored management aids, it is possible at least to outline the historical background of these programs. In explaining this absence of historical reference to manufacturer aids, two factors appear to be significant.

First, many of the early programs took the form of personal selling, advertising, and sales promotion assistance. Since

1A review of the early issues of Printers' Ink and Sales Management magazines, for instance, indicates that manufacturers were primarily interested in these activities. A selected list of articles includes: "Chevrolet to Feature Dealer Advertising Campaigns," Sales Management, September 5, 1925; "Manufacturer Signs Up Dealers for Newspaper Advertising," Printers' Ink, March 23, 1922; "This Sales Plan Made Overstocked Dealers Order More Goods," Printers' Ink, January 12, 1922; and "Suit Manufacturer Helps Dealers Sell Hats and Shirts," Printers' Ink, March 30, 1922.

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"dealer aids" were actually used as an adjunct to the aforementioned functions, they were not recognised as separate and distinct services. In the second place, manufacturers in general either failed to recognize the need for establishing formalised programs to assist their retail dealers or were not in a position to allocate the firm's resources to this function.

A distinct change in the attitude of manufacturers toward management aids appears to have taken place, however, during the second decade of the twentieth century. Although the fact that a change actually took place and the reasons behind this development are difficult to document, the available evidence suggests that economic considerations were paramount. Thus in summary fashion, the 1920's ushered in a new era in which the major problem confronting manufacturers was no longer centralised solely in "foma utility" activities; instead, the increasing manufacturing capacity of these organisations forced them to recognize the importance of the marketing phase of their operations.

Commenting on this change in emphasis, a writer for Sales Management magazine stated:

Three years ago, when Sales Management printed its first article on radio distribution, manufacturers laughingly told us they were not interested in distribution problems, because the industry's only problems were in the production department. They were content to sell radios to anyone who could pay the bill. As a result everybody has taken a hand in radio selling...from barbers and cigar stores to great department stores. Few have made
money...many retailers have lost money on radio departments. The Radio Corporation, seeing the handwriting on the wall, has begun to tighten up on sales policies in order to raise the standards of the radio outlets...²

Similarly, this idea is expressed by another observer in the following manner:

The elevation of Edwin S. Mills, general sales manager, to the position of vice president of the Illinois Steel Company, a subsidiary of the U. S. Steel Corporation, is more significant than appears on the surface. There have been so many sales managers elevated to the vice president's chair that Mr. Mills' promotion is not unusual from that standpoint. But up to this time the United States Steel Corporation has believed its principal problem was a production problem...By electing a third vice president (the other two involving production men) the steel corporation goes on record as believing that continued dividends depend not alone upon being able to make something well, but also upon being able to develop a market for it...³

In explaining the basis on which manufacturers during this period established programs designed to assist their retail dealers, an executive in the clothing industry summarized these considerations as follows:

Since it is not within the power of the average merchant to secure the advantages of training, discipline and education on a large scale without assistance, it becomes the duty of the thinking manufacturer to extend his hand...

³Editorial, Sales Management, April 17, 1926, Vol. 10, No. 8, p. 628
he must be able to show them how to determine
what they have in stock, what the sales experience
of others have revealed, what items they carry are
not called for and what items that are called for
they do not carry. If dealers have these records
before them daily, they know their needs, cannot
become overstocked, and will avoid unnecessary
markdowns. 4

Although the foregoing discussion indicates the increasing
interest of manufacturers in assisting their retail dealers during
the 1920's, this recognition was not universally accepted. Never-
theless, this review indicates, first, that manufacturers were
forced to recognize the importance of the "marketing function,"
and second, as an outgrowth of this consideration, manufacturers
who distributed their products through independent retail insti-
tutions became increasingly aware of the need to assist these
organizations. 5

4B. J. Cahn, "Radical Tendencies Threaten to Undermine
Distribution," Sales Management, March 20, 1926, Vol. 10, No. 6,
pp. 411-412. This organization, B. Kuppenheimer & Company,
provided dealers with a variety of management aids.

5Although the "franchised dealer system" did not originate
during this period, important changes were instituted in which
manufacturers assumed additional responsibilities. This was true
in the automobile industry, in the aforementioned discussion of
radio retailing, and in the practices of leading tire manufacturers,
as well as other industries. See "Case Studies in Business Dis-
tribution Policies of Tire Manufacturers," Harvard Business Review,
Approach to Manufacturer Sponsored Aids

Prior to an analysis of manufacturer sponsored aids, it is necessary to recognize the similarity among the operations of individual franchised retail outlets and voluntary chain organizations sponsored by retailers or wholesalers. In some cases, for example, manufacturers franchise retail outlets and provide these organizations with a comprehensive variety of management aids. The Brown Shoe Company, the various divisions of the International Shoe Company, and theRalston Purina Company illustrate the kinds of aids available to franchised dealers by manufacturers. In other instances a corporate chain may franchise retail outlets in a manner similar to the Howard Johnson operation. A third type of arrangement involves a "franchisor" who operates no retail outlets of its own as is the case of MIDAS Muffler Shops and some of the petroleum companies. In each of the aforementioned cases,


An independent motor lodge operator, for example, is charged $7,500 for a franchise. In addition, there is a minimum charge of $8.50 per room per month, or 5 per cent of gross monthly rentals, whichever is greater. Restaurant operators also pay $7,500 for a franchise and agree to buy exclusively from Howard Johnson ice cream, candy, frankfurters, clams, fruit sauces, syrups and other fountain supplies, coffee, candies, and paper products. See "Howard Johnson Planning More Additions to Its Chain of 79 Motor Lodges in '60," The Wall Street Journal, April 8, 1960.

these organisational relationships bear a very close resemblance to the voluntary chain concept discussed in Chapter VI of this study.

The discussion which follows is concerned with a cross-section view of manufacturer sponsored programs of management assistance. This approach is similar to the procedure followed in preceding chapters dealing with trade association activities and government aids.

Manufacturers included in this analysis were selected from those generally respected as having the most progressive management. Moreover, in line with the objectives of this study, consideration was given to organizations within each of the major lines of retail trade insofar as their programs warranted inclusion.9

Manufacturer Sponsored Programs: Types of Aids

Marketing Management Activities

Since manufacturers' aids to small-scale retailers evolved in part as an adjunct to advertising and sales promotion activities, it is logical to expect that one of the most prevalent types of management assistance would continue to be found in this area.

9For purposes of this study, the following lines of trade were excluded: eating and drinking establishments; liquor dealers; and second-hand store retailers. See Appendix A for the reasons for not including these lines of retail trade.
Even so, the analysis which follows indicates that enlightened manufacturers have considerably broadened the scope of these programs. This development is evident not only in terms of marketing management activities, but is also apparent in the other functional areas.

Functions of exchange.—The Bell & Howell Company illustrates the nature of advertising and sales promotion aids available to retailers. One of the most aggressive promotions of this firm was a so-called "5 for 5" program which extended from March 26 through June 30, 1957. Designed for five special events (Graduations, Mother's Day, Weddings, Easter, and Father's Day), this promotion contained national as well as local advertising. In coordinating the activities of retailers, the firm mailed full-color blowups of all national advertising for purposes of window and interior displays. Retailers also received special window displays, seasonal headlines, and a representative group of other sales promotional aids including paper bags and warpping paper. Finally, Bell & Howell made available to retailers an extra five

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10 The distribution policy of this organization is oriented toward direct dealers, although a selected number of wholesalers are also utilized. A majority of these aids are, therefore, designed for retailers.

11 A total of 34 national ads were used in such magazines as: Holiday, Life, Parents, New Yorker, Time, Modern Photography, Popular Photography, U. S. Camera, and Home Movies.
per cent cooperative advertising allowance.12

A somewhat different type of program is provided by General
Mills, Inc. These aids include the rotation of retailer's inven-
tories, exchange of unsalable merchandise, and a variety of sales
promotion and advertising campaigns. The latter activities are
illustrated by the "GAB State Tray Promotion" which featured ad-
vertised brands of flour other than Gold Medal. For this campaign,
consumers were offered specially flagged bags of flour, in 25 and
50 pound sizes, which included certificates entitling the purchaser
to redeem them for serving trays.

To introduce this campaign, a four-page, four-color newspaper
advertisement was used. The company also sponsored a two-week
radio campaign throughout the region in which the promotion took
place, with similar programs for television stations. Finally,
grocers were provided with point-of-purchase and window displays,
ad sheets, newspaper inserts, and other sales promotional
assistance.

The Clustt, Peabody Company illustrates still another form
of advertising, personal selling, and sales promotion assistance.
Salesmen of the firm receive monthly portfolios which contain

12To be eligible for this allowance, retailers were required to: run at least 5 ads from the suggested list; put in a Bell &
Howell window for at least three weeks; and, finally, mail news-
paper tear sheets and a snapshot of the window to the company.
The five per cent credit was then given on purchases made of
"eligible equipment" shipped between March 26 and June 28, 1957.
information relating to national advertising and sales promotional materials available to Arrow shirt retailers. These portfolios are shown to retail accounts when they inspect the Arrow line several months prior to its delivery to the store. Retailers then receive a seasonal promotion plan book when the merchandise is shipped, which elaborates on the material shown in the portfolio. Plan books generally contain proofs of tie-in mate for insertion in local newspapers, display sketches, reproductions of mailing pieces, and suggested copy for radio spot announcements and store-wide promotions. The primary emphasis of these aids is to "localize the campaign and bring the consumer into the store."13

In addition to the aforementioned advertising, personal selling and sales promotion aids, manufacturers also assist retailers in terms of the buying function. While such assistance tends to be rather limited when contrasted with selling aids, a number of important programs warrant attention at this time. For the most part, these aids relate more directly to inventory control plans, and are designed to provide retailers with factual information on which to base their buying plans. The Tober-Saifer Shoe Manufacturing Company, St. Louis, Missouri, illustrates the nature of these programs.

13A description of the Cluett, Peabody Company program was obtained through a personal interview and in correspondence with Mr. Peter G. Mackenhaust, Manager Educational Activities.
Based on a study by the Company's research department, the objective of this activity was to provide the "key to balanced buying." In the operation of this plan, retailers were provided with special forms containing space for recording information relating to sales and inventory classified according to the types, colors, and materials of shoes sold during past seasons. From this information, "open-to-buy" figures for current needs might then be ascertained. Illustrations and descriptive materials were also available to assist the firm's accounts in putting this system into operation.

A more comprehensive plan of inventory control is available to retailers who operate under the Merchants Service plan of the International Shoe Company. One of the primary features of this program is the emphasis given to the establishment of "classifications" for "types" of shoes. This approach expedites stock-turns since it is designed to prevent duplications resulting from purchases of new merchandise. Moreover, the emphasis on "type" control is carried over into the store through the stock arrangement which further facilitates the control of inventories.

In operating this program, the sales record functions both

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1 Data used in the program were obtained with the assistance of the National Shoe Retailers Association and shoe retailers throughout the country. The basic purpose of the plan was to assist retailers in planning purchases in order to "maintain a balanced stock leading to greater sales and maximum profits."
as a part of the "stock control" and the "accounting system."
From these a Daily Work Sheet is compiled which contains: the
genral classifications of shoe sold, and the type, size, width, 
cost, and selling price. The Daily Work Sheet is also used to

develop a "Composite Size Record," and the "Sales Records by Price 
and Type."15

Physical supply functions.—Due to the increasing cost of
physical supply activities, manufacturers are increasingly aware of
the importance of these functions to retailers. Thus manufacturers,
for example, are improving their methods of storing and moving
goods to retailers. The Ely & Walker distribution center located
in Memphis, Tennessee, illustrates the nature of current practices
designed to improve the flow of merchandise to retailers. Operated
as a branch warehouse of Burlington Industries, this facility pro-
vides a distribution center of 500,000 square feet and is stream-
lined for efficient operation through the use of a modern conveyor
system, data processing equipment, and with almost complete
automation.

Manufacturers are also active in establishing programs de-
signed to minimize dealer inventory investment and maximize stock

15 The former provides for the recording of shoe sizes sold
under each classification, while the latter enables retailers to
maintain a permanent record summarizing each day's sales by type and
price range. At the end of the month, a complete record of all
sales is then available for study and analysis. It is also obvious
that data relating to the movement of merchandise by price range,
size, and type provides retailers with an invaluable guide in the
task of balancing current inventory with future purchases.
turnover. The Phyllis Shoe Company's "In Stock" service provides an example of these aids. This activity, outlined in a letter by one of the executives of the firm to dealers, is summarized in the following statement:

We think it is vital to every retailer to be connected with a good in-stock service. Only in that way can you keep your inventory low and still have shoes as you need them...It has never been our feeling that we should tell you how to operate...You are far smarter in retailing than we are. But we do think it is our duty to discuss the shoe business with you as we see it. We strongly feel that our function of in-stock manufacturing is of greater importance to the independent shoe retailer and department store and that your success is vital to ours.

Facilitating functions.—Although manufacturers are vitally interested in the standardization function, direct assistance to retailers appears to be rather limited. For the most part, retailers assume that products purchased by them will meet the store's specifications, and the efforts of manufacturers to satisfy this requirement are often times unknown to their dealers.16

Although reference has been made to "risk management" aids sponsored by manufacturers, specific programs dealing with this important activity are quite limited. Such is not the case.

16 This may work to the competitive disadvantage of small-scale retailers. For instance, the fact that large-scale retailers often times maintain their own testing facilities enables them to not only insure that goods meet rather well established standards but, in addition, also assist manufacturers who often times are unable to maintain adequate quality controls without this aid. These retailers are then in a position to use important advertising ideas in appealing for consumer patronage.
however, with marketing research assistance. In terms of this function, manufacturers are expanding their research activities and encouraging retailers to undertake studies of their own.

The Cluett, Peabody Company's consumer study entitled "What Men Want in Shirts" illustrates one type of manufacturer sponsored research project. This study, published in 1957 and compiled from data obtained by Forbes Research Inc. and the Market Research Corporation of America, provided the company with data relating to: men's preferences for shirt fabrics; color types; collar styles; colors; cuffs; and related matters.

The second type of marketing research assistance is illustrated by the Ralston Purina Company's "Market Survey Kit," a program designed to assist dealers in undertaking their own research studies.

In the first phase of this activity, the company acquaints dealers with the "Why and How of a Market Study." Since this aid is oriented toward research activities for prospective Purina customers.

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17 The major objective of this study was to assist company salesmen in explaining to retailers the market potential for Arrow white shirts. The Forbes Research part of the project involved a two phase consumer study of "motivation" and a "quantitative consumer attitude" analysis of a national sample of the shirt wearing population; the Market Research Corporation of America's task was to obtain information from a national panel of 6,000 households.

18 Information relating to this phase of the Purina Company plan was obtained from correspondence with Mr. John McGinty, Manager, Sales Promotion, and in discussions with Mr. Robert W. Jones, salesman of the firm.
dealers, a considerable part of the program is designed for these individuals. Nevertheless, these aids are equally applicable for established dealers who desire to obtain a better understanding of their market potentials. The "Survey Kit" aids dealers in determining the following:

1. The extent of the trade area.
2. The number of feed and farm supply buyers who normally buy in the market—and the number of these that may be attracted to and sold by a "Checkerdale Capacity" dealer.
3. The kinds and amount of "shows, feedstuffs, and farm supplies" to be sold annually.
4. The kinds of facilities, services, and programs required to sell the estimated volume.
5. The amount of capital required and the net profit that can reasonably be expected.

To obtain the above information, the company offers a suggested procedure consisting of three major steps:

1. Collect the facts required from all courses.
2. Recap and coordinate all facts.
3. Prepare the sales presentation showing the market opportunity and the profit opportunity.

This is then followed by a detailed outline suggesting how these three phases may be completed, together with a list of the tools available to accomplish this objective. Not only does the Ralston Purina Company provide dealers with the necessary forms, outlines, and other materials necessary for conducting a market survey, but company salesmen assist retailers at the local level in completing the analysis. ¹⁹

¹⁹The methodology used by the company is also of importance. First, a pre-tested plan to assist dealers is developed; then necessary forms and written instructions relating to the actual application of the plan to individual cases is presented; finally,
Personnel Management Activities

The Chrysler Corporation illustrates one form of personnel management aids available to retailers. In this phase of the activity, major emphasis is given to the training and development of operative personnel. This involves both centralized as well as decentralized training. The former is now carried out in the Chrysler Corporation Training Center located in Centerline, Michigan.

In training service technicians, for example, classes have been

and perhaps most important, trained salesmen are available for consultation as well as direct participation with dealers in the use of this program—at the local level. For prospective dealers, supplied with these data and often times accompanied by the local Purina salesman and the district credit manager, the likelihood of obtaining the necessary capital from local financial institutions is thereby enhanced.

Information relating to this program was obtained from correspondence with the following executives: Mr. Ralph A. Mortensen, Manager, Manpower Development; and Mr. T. E. Sebuls, Sales Training Promotion Manager. Company publications further explained the content of these aids.

This facility, dedicated prior to the introduction of the 1957 model car, is a two-story structure with 85,000 square feet of space. The first floor houses rooms for technical service training which are fully equipped with modern service and repair equipment. Room is also provided for a cafeteria and an auditorium that seats approximately 500 people. The second floor contains 17 conference rooms with capacities ranging from 10 to 350 individuals. The center is also equipped for effective training with slide films, moving pictures, displays, working models, and so forth. With one exception, the class in the "Science of Effective Selling," all courses and materials are paid for by the Sales Training Department with trainees paying transportation costs to and from Detroit and living expenses while there.
offered in these areas:

1. Torque-Flite and Power-Elite Transmissions
2. Power Steering
3. Air-Conditioning
4. Over-Drive
5. Twelve-Volt Electrical Systems
6. Power Brakes
7. Tune-Up
8. Body Sealing and Adjustments

The training schedule for the third quarter of 1957 further illustrates other kinds of programs available to dealers:

1. Business and Financial Management (5 days)
2. Retail Sales Management (5 days)
3. Used Car Management and Merchandising (5 days)
4. Service Management and Merchandising (5 days)
5. Parts and Accessories Management (5 days)
6. Truck Management and Merchandising
7. Retail Automotive Accounting (5 days)

The Ralston Purina Company sponsors a second type of personnel management program in which major emphasis is on training at the local level. This includes a number of "Home Correspondence" courses as well as a series of training sessions directed by Ralston Purina salesmen. The correspondence courses consist of 14 lessons each with a study booklet, film, record, and quiz. In "How to Feed and Manage Turkeys," for example, the discussion includes: the objective of the turkey program; the importance of good breeding; protein requirements; medication; sanitation factors;

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22 Four of these courses were available at four different dates extending from July to September; four others were scheduled for three periods; while the Retail Sales Clinic was scheduled for four meetings between August and September. Other programs were also available in Atlanta, Georgia, and a special "Field Retail Sales Clinic" was conducted in key markets throughout the United States.
and management considerations.

Once these materials have been studied by the trainee, a written examination is then taken and mailed to the “Dealer Training Department” in St. Louis, Missouri. Upon successful completion of the 14 lessons, individuals receive a “Checkerboard Serviceman Certificate.” In September 1957, the company expanded this program with the establishment of “Field Training Courses” on a nationwide basis. Designed for key dealer employees who have completed the “Home Correspondence” phase, this activity includes instruction in product knowledge and sales techniques. Since much of the instruction is carried out by Purina salesmen, the company supplies these individuals with a comprehensive outline including a teaching manual, visual aids, examinations, and related materials.

The Ford Motor Company further illustrates the nature of manufacturer sponsored aids relating to the personnel management function. Each of the company’s “Selling Division” maintains a sales training program involving slide films, movies, and booklets. To assist dealers who have encountered consumer sales resistance, a “Flying Squadron” meets with dealer sales managers for a five-day training session.

While manufacturers place major emphasis on developing and utilizing a labor force, examples of programs dealing with

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23 Data relating to the Ford Motor Company was obtained in correspondence with Mr. R. J. Eggert, Marketing Research Manager.
procuring and maintaining operative employees are also evident. The General Motors program, for example, includes assistance in such areas as: the recognition of the number of salesmen necessary to achieve specified sales potentials; and the recruiting, training, and compensation of these individuals.24

Investment Management Activities

One of the most prevalent kinds of manufacturer aids available to retailers relates to the investment management function. In the analysis which follows attention is given to two different types of assistance: managerial accounting and financial assistance aids.

Managerial Accounting Aids.—The Business Management Department of the Studebaker-Packard Corporation assists dealers in the performance of this function.25

Prior to the establishment of this division, dealer contact was the responsibility of the Merchandising Management Department. It soon became apparent to the company, however, that without standardized accounting the benefits derived by the dealer from this

24 Information for this program was supplied by Mr. R. F. Schweetemoller, Manager, Dealer Organization Department, Sales Section. A personal visit was also made to the General Motors Training Center in Memphis, Tennessee.

25 The following executives of this organization provided information relating to this activity: Mr. W. F. Turner, Assistant Manager, Business Management Department; Mr. Thomas A. Torrance, Sales Promotion Coordinator. Other phases of the Studebaker program were explained by Mr. E. J. Challenger, Assistant General Service Manager, and Mr. M. L. Weaver, General Service Department.
counsel would be quite limited. The first Standard Accounting System was established in 1937 and, except for infrequent minor changes, remains in effect today. Until 1950, the major portion of the field representatives' time was spent in installing accounting systems, instructing bookkeepers, and in obtaining financial statements. When it became evident that sufficient financial statements were being received from dealers, the "Business Management Program" was established.

In this activity, dealers furnish the South Bend, Indiana, office with a copy of their financial statements indicating current financial conditions, data relating to the previous month's operation, and the year-to-date results. Analyses and studies are then made to assist top management in the dealerships in policy making decisions. The dealer's zone office also receives a copy of these statements, with contact being made with dealers who appear to be in need of management assistance. Once accurate accounting information is available, counsel and assistance by the "Business Management Manager" can be more meaningful to dealers.26

26Similar services are available through other automotive manufacturers. The Chrysler Corporation maintains a "Retail Automotive Accounting Conference" to explain such subjects as: Dealer Uniform Accounting System; Profit Development; Financial Statement Preparation and Analysis; and so forth. The General Motors plan, in existence for more than 30 years, involves: the development and installation of an accounting system tailored to meet the needs of an automobile dealership; instructing the dealer's bookkeepers and accountants in maintaining the system; deriving information from the system; and so forth.
Another illustration is the Ralston Purina Company’s “Dealer Business Management” program.⁷ Although the Purina Company offered dealers a limited financial counseling service as early as 1944, the current program originated in 1953.

Similar to the Studebaker-Packard program previously discussed, the Dealer Business Management plan is based upon the maintenance of meaningful financial statements. In establishing this plan, local Purina salesmen and district credit personnel work directly with dealers. The company prefers to schedule quarterly conferences with dealers timed to come after the credit department has had an opportunity to process dealer statements. More than fifty separate ratios are computed which are then available to dealers for individual analysis.

In the “DBM” conference, the dealer, salesman, and creditman review the statements, after which possible steps in profit planning are then discussed. From this analysis, a detailed program is established in which the dealer decides the course of action suitable to his operation. These quarterly conferences, in which the company creditman participates with the salesman and the dealer, continue for approximately one year. From then on the creditman may attend these meetings only once a year although

⁷Information relating to the “DBM” program was obtained from an interview with Mr. Sanford C. Wise, Manager, Dealer Money Management Department, and in attendance at one of the dealer-salesman meetings held in Columbus, Ohio.
he continues in most cases to process quarterly statements in his office, and mails "analytical reports" with his comments to dealers. Where dealers prepare monthly statements, "IBM" conferences are usually scheduled on a monthly basis for dealers and salesman, with the creditman supplying a fully processed statement every quarter. 28

Financial Management Aids.—Manufacturers, in addition to providing retailers with a variety of managerial accounting aids, also make available to dealers a number of financial assistance programs. These involve supplying retailers with mercantile credit and, in certain instances, providing them with equity capital financing. One of the serious problems encountered in ascertaining the importance of these aids, however, whether sponsored by wholesale or manufacturing establishments, is the dearth of available data relating to this subject. 29

A recent study directed by the Federal Reserve Board adds additional light to this subject although the conclusions developed

28To further expand this activity, a Business Management Seminar was held in Columbus, Ohio. This was the first meeting attended jointly by salesmen and dealers.

29Professors Beckman and Bartels state, for example, that "There are no data by which the total volume of mercantile credit can be accurately determined or even approximated. It is possible, however, to gauge the tremendous extent to which such credit is used from the U. S. Census of Wholesale Trade figures for wholesalers...From such data it is evident that about 90 per cent of all sales by wholesalers are made by establishments doing credit business and that about 90 per cent of the latter's sales are credit sales." See Theodore H. Beckman and Robert Bartels, Credits and Collections (6th ed.; New York: McGraw-Hill Company, 1955), pp. 166-167.
were, in certain phases, also limited by inadequate data. While the limitations involved in presenting a simple and comprehensive view of how small business or any of its major segments is financed must be recognized, one phase of the Federal Reserve study indicated that

the principal sources of loanable funds to small business are—and have been for many decades—
the commercial banks and nonfinancial businesses
which extend trade credit and other forms of interbusiness financing.\(^30\)

In another phase of this project, it was further concluded that, first, a substantial part of the inventories carried by small businesses is financed by the use of ordinary accounts receivable credit. Moreover, small businesses with well established relations with their suppliers are in a position to slow up their payments in case of temporary adversity or, in case credit from other sources diminishes, without fear that suppliers will cut off the flow of merchandise to them. For assistance other than "open-book" credit, a limited number of large suppliers analyzed in the Federal Reserve study purchase customers' installment notes or other accounts receivable; in the automobile industry, a more detailed analysis of which is presented in a later section of this chapter, the leading development has been the establishment

of financial affiliates to provide capital to dealers. Similar programs are also available in such industries as farm equipment, appliances and television sets, carpets and draperies. In each of the above areas, financial arrangements between retailers and their suppliers reaches its most mature development where exclusive dealer relationships exist between very large companies and relatively small businesses. The petroleum refining and marketing industry is a prime example of this relationship.31

In automobile retailing, one of the few areas where detailed information is available, some equity capital is supplied to small business. The three major manufacturers, Chrysler, General Motors, and Ford, to illustrate the nature of these aids, have arrangements through which long-term capital is offered to dealers.32 This program was initiated in 1929 by General Motors through the establishment of Motors Holding Corporation, and later reorganised into a division of the company. To individuals believed capable of successfully operating a dealership, funds are available for the establishment of an agency and for the expansion of existing facilities. A minimum of 25 per cent of the required capital must be supplied, after which the Motors Holding Division will provide the remainder. An essential feature of the plan includes provision

31 For a more complete analysis see Ibid., pp. 484-495.
32 Ibid., p. 119.
for an orderly transfer of General Motor's stock ownership to
the individual dealer.\textsuperscript{33}

Chrysler and Ford currently have similar plans for dealers-
ships with the latter furnishing up to 80 per cent of the required
capital. As in the General Motor's plan, the dealer has the oppor-
tunity to purchase Ford's ownership in the retail establishment.\textsuperscript{34}
In the Chrysler "Dealer Enterprise Plan," established in 1954, the
company will supply up to 75 per cent of the capital required for
a dealership.\textsuperscript{35}

\textbf{Management Development Activities}

While many of the foregoing programs relate to the manage-
ment development function, manufacturers provide retailers with
specific aids relating to this function. The General Electric
Appliance Company illustrates one type of assistance in this im-
portant activity.\textsuperscript{36} This program consists of three different
phases: first, the company sponsors five-day Sales Seminars for

\textsuperscript{33}\textit{Ibid.}
\textsuperscript{34}\textit{Ibid.}
\textsuperscript{35}\textit{Ibid.}
\textsuperscript{36}Information relating to this program was obtained from the
following sources: personal interviews and correspondence with
Mr. Roy G. Baker, Sales Training Specialist, and other executives
and personnel of the firm; two visits to Appliance Park, Louis-
ville, Kentucky, one of which involved participation in a Sales
Seminar. Information was also provided by a review of company
publications.
Sales Counselors; second, General Electric makes available to
dealer salesmen courses of instruction at “Sales Colleges”; and,
finally, Dealer Management Clinics are provided for top management
personnel in retail outlets.37

In the Sales Seminars, centralized at Appliance Park, Louis-
ville, Kentucky, company salesmen spend five days discussing such
subjects as: Ratio Analysis for Retail Appliance Dealers;
Accounting; the Development of Budgets (operating, sales and
advertising); Dealer Development; Promotions and Contests; Pro-
duct Presentations; and Sales Territory Analysis.

While these subjects are designed to benefit the sales per-
sonnel of General Electric, major emphasis is given to the appli-
cation of these materials to retail accounts. In terms of finan-
cial management considerations, for example, sales personnel
analyze various aspects of financial statements; the steps involved
in developing a dealer operating budget; interpreting financial
statements; the nature, importance, and application of ratio
analysis; and similar matters.38

37General Electric maintains 26 sales and distribution sales
for appliances, a majority of which includes a sales trainer with
responsibility for establishing training programs at the local
level. Moreover, sales training specialists from Appliance Park
spend part of their time conducting training sessions and visiting
dealers within these areas.

38The case method is used with many of the illustrations
supplied by participants. Prior to coming to Louisville, counselors
are required to prepare actual cases which are mailed to the Training
Department. These materials are then assembled and made available
The General Electric "Sales Colleges" are available at the district level and are designed primarily for dealer salesmen. Emphasis in these classes is placed upon the development of selling skills.

In the Dealer Management Clinics, the final aspect of the General Electric program, attention is given to top management personnel in the dealerships. The objectives of this program are outlined in the following statements:

In our division we are working hard at the job of putting our dealers in position to take advantage of this expanding market...with a strong training program for retailer sales personnel...we are trying to develop (in addition) a program for training dealers in the art and science of business management. At GE we feel that good business management at the retail level is the key to most retail profits—a much better key, for example, than the dollars of margin that the retailer can count from any particular sales. The dealer who knows his costs and makes his investments wisely is the one who will profit from the expanded consumer interest in 1959 and in the growth years ahead.39

In terms of the mechanics of these Clinics, the company recognizes that dealers should be as nearly compatible as possible

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39Mr. P. A. Tilly, General Manager, Sales and Distribution Department, Major Appliance and Television Receiver Division. Quoted in Home Furnishings Daily, January 2, 1959.
This document contains text that is difficult to read and interpret. It appears to be a page from a book or a document, but the text is not legible due to the quality of the image.
TABLE 1.—Subjects covered during General Electric's two-day dealer management clinics

I. Store personality
   A. Survey
   B. Determine potential
   C. What group appeal
   D. This determines the type of operation
   E. Location-expansion-addition

II. Finance
   A. Importance of records
   B. Use records can serve
   C. Understanding of balance sheet and profit and loss statements
   D. Ratio-analysis
   E. Illustrations

III. Budgeting
   A. Why budgets
   B. Types of budgets
   C. How to prepare
   D. How to use budgets
   E. Break-even analysis
   F. Control of expenses

IV. Store Personnel and Operation
   A. Number needed
   B. How to hire
   C. How to compensate
   D. Training required
   E. Importance to operation

V. Credit and its application
   A. Types of plans
   B. Choice of plans
   C. Advantage and disadvantages
   D. Control
   E. Responsibility
TABLE 1—Continued

VI. Advertising
   A. Purpose
   B. Types
   C. Control
   D. Follow-up
   E. Budget

VII. Service
   A. Importance
   B. Necessity of records
   C. Handling reserves
   D. Trade-ins
   E. Control

VIII. Summary
   A. Examples of record forms
   B. Discuss accounting manual
   C. Action plan
   D. General discussion

The Cities Service Petroleum Company's plan for management development, while similar in objective to the foregoing discussion, is designed for petroleum distributors. Directed by Mr. L. T. White, Manager, Business Research and Education, these aids assist distributors in improving their own operations in the belief that they will then be in a position to assist their retail dealers. As members of the American Petroleum Institute, personnel of this company are active in the promotion and expansion of Jobber Management Institutes and in other educational activities of this organization.

Cities Services also makes available to distributors a number of publications relating to the operation of their enterprises. One of these issues, Cities Service DISTRIBUTOR, includes an analysis of specific operating problems. The company encourages wholesalers to utilize the services of the Small Business Administration and, in certain instances, serves as a distributor for publications issued by this agency.

\[42\]Information relating to this program was obtained from correspondence with Mr. L. T. White and Mrs. Nathalie Ronis and in review of publications issued by Cities Service.

\[43\]Jobber Management Institutes enable from 20 to 30 jobbers to attend classes at colleges and universities and other educational institutions for two or three day periods. Subjects covered usually include: financial management; personnel management; and other operational areas. Special courses are also available for sales and service personnel employed by jobbers.
In the automobile industry, one of the special programs available to retailers relates to merchandising and training courses for sons and relatives of dealers. The General Motors program, for example, originated in the late 1930's and has been in continuous operation except for the war period.

One of the most effective programs used by the Ford Motor Company brings together in each district the most successful dealers along with individuals who need management counsel. According to one executive of the firm,

We have found that the dealers that need help are more willing to listen to the suggestions and comments of other dealers who have successfully solved problems.

Miscellaneous Activities

The foregoing discussion illustrates the nature of manufacturer sponsored aids relating to marketing management, personnel management, investment management, and management development functions. The analysis which follows summarizes the nature of other programs available to retailers.

Manufacturer-retailer relations.—Manufacturers appear to be increasingly interested in the general subject of "dealer relations." In part, this interest stems from repercussions resulting from the somewhat arbitrary control exerted by manufacturers in certain instances and in the uneven bargaining power of these organisations and their retail accounts. In the automotive industry, for example, (in what must be viewed as an outgrowth of
Congressional hearings and the unfavorable publicity toward manufacturers) major executives were placed in charge of "dealer relations." Mr. Ivan L. Wiles (Vice-President in charge of Dealer Relations, General Motors) outlined the duties of his office in the following manner:

My particular function was established for the primary purpose of creating a new line of communications from our dealers to the management of General Motors Corporation. Dealers are now able to visit, phone, or write my office concerning matters which they believe should be brought to the attention of our top level executives. They are assured that such communications will be held in confidence where desirable so that they will not be embarrassed in their normal relations with our field sales organization. From the viewpoint of the Corporation, it was clearly understood that my office operates independently of the Vice President in charge of distribution staff and from the sales and distribution activities of the General Motors' passenger car and truck divisions. Responsibilities for marketing and distribution rests in other hands...

The Bell & Howell Company, as one aspect of its dealer relations program, maintains a "Retailers' Advisory Council."  

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44 Congress also passed the so-called "Good Faith" bill (Public Law 1026) providing franchised automobile dealers with the right to sue their respective manufacturers in a federal court if the dealer proves that the manufacturer failed to exercise "good faith" in carrying out the franchise or in terminating it. See Charles M. Hewitt, "The Furer over Dealer Franchises," Business Horizons, Winter 1958, Vol. 1, No. 1, pp. 86-87.

45 Personal correspondence with Mr. Wiles.

46 Information relating to this program was obtained from correspondence with Mr. Carl Schreyer, Vice President in charge of Marketing and in his article "Improving the Company-Dealer Relationship," Aspects of Modern Marketing, Report No. 15 (New York: American Management Association, Marketing Division, 1959).
The Council originated when the company invited ten of its largest customers to Chicago for a three-day session relating to the operating policies of Bell & Howell. Since this meeting proved to be successful, executives of the organisation decided to expand the program. So that dealers who were not invited to the original meeting would not have a feeling of "jealousy and envy," a democratic election was held among the entire dealer organisation.67

Prior to the arrival of elected members in Chicago, dealers are mailed a form on which they list the problems which they want their elected representatives to discuss. This information is then mailed directly to the elected members. The representatives then advise Bell & Howell of the subjects that dealers desire to be discussed; those topics make up the agenda for the meeting.48

Bell & Howell also participates in "periodic inventories of dealer attitudes." These studies, performed by outside

67 Early in 1954, dealers were informed that the country had been divided into fifteen regions and that they were to nominate the best qualified retailers to represent them. When nominations were received, the three nominees from each area who received the most votes were listed; dealers then voted again to select their representatives. Votes cast in the final election were mailed by dealers direct to the Master Photo Dealers' & Finishers' Association, Jackson, Michigan. The final tally of votes was then forwarded to Bell & Howell and the winners announced.

48 During the 1957 meeting, for instance, among the subjects discussed were the following: Effectiveness of Field Representatives; Repaid and Guarantee Policy; Industry Marketing Policies; Trade Discounts; National Advertising; Sales Promotion; and so forth.
agencies, are considered to be very important by executives of the company. In summarizing the approach of Bell & Howell to the subject of dealer relations, Mr. Carl G. Schreyer has written:

"We don't want the dealer merely to "handle" our products; we want him to sell them. We operate on the philosophy that we are selling not to a dealer but THROUGH him. If our merchandise just gathers dust on the dealer's shelf, we might as well have put it in one of our stock rooms. In short, a photographic-equipment manufacturer must have active dealer support in order to be successful."

**Store planning aids.**—Manufacturers also assist small-scale retailers in the area of store-planning and layout. Chase, Peabody & Company, for instance, maintains a store-planning service that is available to its customers without charge. This program includes sketches of recommended building design, photographs of model fixtures and equipment arranged to scale, blueprints of floor plans, and scale models of each type of fixture. Manufacturers who provide a somewhat comparable service include: the Brown Shoe Company, the International Shoe Company, the Scott

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49 One analysis conducted by the University of Chicago in 1955 and repeated in 1957 involved mail questionnaires to 1,000 dealers. In both of these studies, the company received a 60 per cent response.

50 Schreyer, op. cit., p. 78. It is also interesting to note in this connection that company products are sold through camera stores, department stores, jewelry and drug stores, for example, rather than through exclusive dealers.
Paper Company, and the Goodyear Tire and Rubber Company.\textsuperscript{51}

**Summary of Manufacturer Sponsored Programs**

The foregoing analysis indicates that substantive programs provided by manufacturers are of relatively recent origin. Moreover, it is also apparent that the interest of manufacturers in assisting retail dealers resulted from the emergence of the marketing function as one of the major activities in business institutions.

Although many of the initial programs were viewed by manufacturers as an adjunct to the selling function, contemporary programs are much broader in scope. One of the significant trends in recent years has been the establishment of management development aids designed to improve the over-all performance of the management function in retail stores.

Aside from manufacturers in the food industry, most of the organisations analyzed in this study who maintain rather extensive programs of management assistance either make use of the so-called "franchising system," or employ some other form of selective distribution.

\textsuperscript{51}Paul L. Brown and William E. Davidson, *Retailing: Principles and Practices* (New York: The Ronald Press, 1953), p. 194. Manufacturers of store fixtures and equipment, construction materials, and similar items also aid small-scale retailers in store planning. Since these organisations are primarily concerned with "industrial goods," their activities are not analysed in this study.
CHAPTER VIII

LEXINGTON RETAIL SURVEY: UTILIZATION OF MANAGEMENT AIDS

In order to test on a limited scale the extent to which small-scale retailers have knowledge of and utilize the multitude of management aids available to them, a survey was conducted by the author among selected retailers in Lexington, Kentucky. The objectives of this survey were twofolds: first, to ascertain the extent to which respondents make effective use of prevailing programs of management assistance; and, second, to determine the reasons behind their use or nonuse of these aids.

Research Methodology

This survey is both quantitative and qualitative. In terms of the former, each of the retailers interviewed was asked to indicate the extent to which use was made of prevailing programs sponsored by government agencies, manufacturers, wholesalers, and trade associations. Although the length and diffuseness of the replies made for difficulties in the quantification of interviews, it was possible to classify these discussions into pre-established categories of the kind presented in the tables of this study.

To achieve the qualitative goals of the survey, interviews
were conducted in such a manner as to encourage respondents to discuss in detail the reasons behind their use or nonuse of these aids; the nature of the operating problems confronting their enterprises; their opinions and attitudes relating to these programs; and, finally, to advance suggestions for improving the effectiveness of these aids.

Due to the pioneering character of this project, major emphasis has been necessarily placed on the qualitative phase of the investigation. From data obtained during the interviewing process, working hypotheses (e.g. ideas, inferences) were formulated thereby bringing perceptive insight into an heretofore unexplored area. Whenever possible, quantitative data supporting these hypotheses were utilized.

The Sample

The Lexington metropolitan area, from which the sample was drawn, is co-extensive with Fayette County, Kentucky. In selecting the respondents to be interviewed, a "judgment" sample was used. It was evident that a "probability" sample would be inappropriate for purposes of the Lexington Survey. Thus a sample selected in a "random" manner from the total universe of retail establishments within the Lexington metropolitan area, or from within each of the major kinds of retail establishments contained in the Standard Industrial Classification Manual, would not necessarily provide the information demanded.
There are, for instance, significant differences in the kinds of management aids available to automobile dealers on the one hand, and retailers of grocery and food items on the other. A "random sample" drawn from the Lexington universe would not insure, then, that representative data were obtained. Moreover, a "random sample" selected from a stratified group (grocery and food stores) would encounter similar difficulties. In certain instances, grocery retailers affiliate with a retailer or wholesaler-sponsored group; on the other hand, some grocery retailers operate on an "independent" basis with no formal or informal contractual relations with their suppliers. Similarly, in other lines of trade, some drug store retailers are franchised accounts while others do not maintain such a close relationship with their suppliers. In each of the aforementioned cases, the selection of a sample in a random manner would not of itself insure that representative data were obtained.

In using a "judgment" or "purposive" sample, respondents were selected with respect to certain known characteristics of the total population. In form, this procedure differs from "stratified random sampling" in that the units included in the sample are selected purposively rather than by a random method.¹

¹Morris H. Hansen, William N. Hurvits, and William G. Hadow, Sampling Survey Methods and Theory (New York: John Wiley & Sons, 1953), Vol. 1, pp. 71-72. The following sources were also utilized in developing the methodology for this phase of the study: Harper W. Boyd and Ralph Westfall, Marketing Research (Homewood,
As noted in Appendix A, personal interviews were conducted with 272 retailers. The classification of respondents is also explained in that section in addition to a description of an "exploratory survey" conducted by the author in Columbus, Ohio, prior to the Lexington Survey.

**The Interviewing Process**

Respondents were first informed that neither their identity, nor that of their firm would be revealed. In almost every case, interviews were conducted either with the owner of the firm, or a member of the immediate family. The great majority of respondents were communicative and appeared to be favorably disposed toward the survey.

It is also important to note, however, that the breadth and scope of the data obtained depended to a considerable degree on the rapport established between the interviewer and the respondent, and on the background and experiences of the latter. Consequently, there was considerable variation in the length of the individual interviews and in the substantive quality of helpful information obtained from interview to interview. Each of the 272 interviews

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was conducted by the author of this treatise.

Specific illustrations of ideas expressed by respondents can be found in the quotations presented in this and the following chapter.

**Interpretation of Survey Findings**

Since the Lexington Survey did not involve the selection of a sample in a random manner, it is not possible to determine the sampling error present in the survey findings. Moreover, percentages have been calculated in all tables for purposes of comparability in the presentation of findings. Caution should be used, therefore, in reading these figures. In each of the tables, the number of respondents is listed along with percentage figures to further facilitate the interpretation of these data. It should also be noted that little attention is given to small differences and that emphasis is placed, instead, on those situations where marked variations are present.

Finally, the intent of the Lexington Survey has not been to arrive at definitive answers that apply to all retailers in the United States; rather, the primary purpose of the survey has been to formulate working hypotheses which might then be interpreted on the basis of the findings of other parts of the study; in the light of existing knowledge relating to this subject; and in providing a methodological framework designed to encourage further research studies in this area.
management type of management, management and management type of management.

A further analysis of these data reveals that the most frequently mentioned management type is the efficiency management function.

Second, the 65 per cent management programs dealing with the.

Revealed that some degree of resistance, no resistance to management. Table 5 shows the management in terms of major responses in the interpretative. In the nature of the.

Interpretative response program.

Table (Table 4)

Interpretative response program.

Table 4 summarises the types of management that have been most frequently mentioned by respondents.

When viewed in terms of the major responses that can.

Degree of role: leave alone, direct and indirect resistance.

Table 2 indicates the frequency, degree of importance, and government sponsorship. The degree of management resistance by major trade associations.

As can be seen in Table 2, 27 per cent of the respondents
TABLE 2.—The number of respondents by line of trade, using programs of management assistance, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Total Number of Interviews</th>
<th>Number of Respondents Utilizing Aids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>48</td>
<td>34</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>33</td>
<td>19</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>34</td>
<td>19</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>26</td>
<td>9</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>31</td>
<td>17</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>28</td>
<td>14</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>58</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>272</strong></td>
<td><strong>155</strong></td>
</tr>
</tbody>
</table>

Sources: Personal interviews conducted by the author with 272 small-scale retailers in Lexington, Kentucky, 1955-1956.
<table>
<thead>
<tr>
<th>Percentage of Respondents Utilising Aids</th>
</tr>
</thead>
<tbody>
<tr>
<td>70.8</td>
</tr>
<tr>
<td>57.6</td>
</tr>
<tr>
<td>55.9</td>
</tr>
<tr>
<td>34.8</td>
</tr>
<tr>
<td>54.8</td>
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<tr>
<td>50.0</td>
</tr>
<tr>
<td>85.7</td>
</tr>
<tr>
<td>53.5</td>
</tr>
<tr>
<td>57</td>
</tr>
</tbody>
</table>
TABLE 3.—Percentage of respondents utilizing programs of management assistance classified on the basis of sponsoring organizations, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number of Respondents Utilizing Aids</th>
<th>Percentage of Respondents Using Manufacturer Sponsored Aids</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>34</td>
<td>5.9</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>19</td>
<td>73.7</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>19</td>
<td>68.4</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>9</td>
<td>44.5</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>17</td>
<td>94.1</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>14</td>
<td>35.7</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>12</td>
<td>91.7</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>31</td>
<td>61.3</td>
</tr>
<tr>
<td>All Retailers Using Aids</td>
<td>155</td>
<td>54.2*</td>
</tr>
</tbody>
</table>

*Adds up to more than 100% because some respondents made use of more than one sponsoring agency.

Sources: Same as Table 2.
<table>
<thead>
<tr>
<th>Percentage of Respondents Using Wholesaler-Sponsored Aids</th>
<th>Percentage of Respondents Using Trade Association-Sponsored Aids</th>
<th>Percentage of Respondents Using Government-Sponsored Aids</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.0</td>
<td>11.8</td>
<td>11.8</td>
</tr>
<tr>
<td>21.1</td>
<td>5.3</td>
<td>...</td>
</tr>
<tr>
<td>31.6</td>
<td>15.8</td>
<td>...</td>
</tr>
<tr>
<td>33.3</td>
<td>33.3</td>
<td>...</td>
</tr>
<tr>
<td>11.8</td>
<td>11.8</td>
<td>...</td>
</tr>
<tr>
<td>28.6</td>
<td>57.1</td>
<td>21.4</td>
</tr>
<tr>
<td>50.0</td>
<td>25.0</td>
<td>58.3</td>
</tr>
<tr>
<td>12.9</td>
<td>25.8</td>
<td>19.4</td>
</tr>
<tr>
<td>40.7*</td>
<td>20.7*</td>
<td>12.9*</td>
</tr>
</tbody>
</table>
TABLE 4.—Percentage of marketing management, personnel management, investment management, management development, and miscellaneous aids used by respondents, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number of Respondents Utilizing Aids</th>
<th>Marketing Management Aids (Per cent)</th>
<th>Personnel Management Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>34</td>
<td>65.3</td>
<td>...</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>19</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>19</td>
<td>68.4</td>
<td>21.1</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>9</td>
<td>44.4</td>
<td>35.3</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>17</td>
<td>35.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>14</td>
<td>35.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>12</td>
<td>100.0</td>
<td>8.3</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>31</td>
<td>58.1</td>
<td>19.4</td>
</tr>
<tr>
<td>All Respondents Using Aids</td>
<td>155</td>
<td>68.4*</td>
<td>10.3*</td>
</tr>
</tbody>
</table>

*Adds to more than 100% because some respondents utilized more than one type of these aids from more than one sponsoring agency.

Sources: Same as Table 2.
TABLE 5.—Percentage of manufacturer sponsored aids used by
respondents, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number of Respondents Utilizing Aids Sponsored by Manufacturers</th>
<th>Marketing Management Aids (Per cent)</th>
<th>Personal Management Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>2</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stores</td>
<td>14</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>13</td>
<td>69.2</td>
<td>30.8</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>4</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>16</td>
<td>31.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>5</td>
<td>60.0</td>
<td>...</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>11</td>
<td>90.9</td>
<td>...</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>19</td>
<td>42.1</td>
<td>26.3</td>
</tr>
<tr>
<td>All Respondents Using Manufacturer Sponsored Aids</td>
<td>84</td>
<td>63.1*</td>
<td>15.5*</td>
</tr>
</tbody>
</table>

*Adds to more than 100% because some respondents utilized more than one type of manufacturer sponsored aids.

Source: Same as Table 2.
<table>
<thead>
<tr>
<th>Investment Management Aids (Per cent)</th>
<th>Management Development Aids (Per cent)</th>
<th>Miscellaneous Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15.4</td>
<td>7.7</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>25.0</td>
<td>50.0</td>
</tr>
<tr>
<td>87.5</td>
<td>12.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>40.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>15.8</td>
<td>21.1</td>
<td>47.4</td>
</tr>
<tr>
<td>26.2*</td>
<td>9.5*</td>
<td>16.7*</td>
</tr>
</tbody>
</table>
to advertising, sales promotion, and personal selling activities. Included in these programs were cooperative advertising allowances, point-of-purchase displays, and advertising aids. The importance of buying aids to respondents varied according to the individual lines of trade.

General merchandise and drug store retailers, for example, frequently mentioned the importance of buying assistance supplied by manufacturers. These aids related to such matters as advice from salesmen in the selection of merchandise, "stock-checking" aids, and related activities. In the drug store field, "detail men" were relied upon to keep retailers informed on new product developments within the industry. While a few retailers mentioned other marketing activities, programs dealing with the exchange functions were the only ones consistently referred to by respondents.

Although investment management aids were listed by 26 percent of the respondents who use manufacturer sponsored programs (Table 5), over one-half of these individuals operate gasoline service stations. The two most frequently mentioned types of aids in this area were "credit cards" supplied by major oil companies and financial assistance during "local price wars."2 In terms of

2Service station dealers were especially critical of the damaging effects of "price wars." Most of these individuals expressed the opinion that "price wars" were precipitated by the major oil companies. The amount of financial aid received by dealers was not uniform. In certain instances, for example, losses were shared equally by the dealer and the company; in other cases the dealer assumed the burden for the first loss (the differential

TABLE 6.—Percentage of wholesaler sponsored aids used by respondents, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Businesses</th>
<th>Number of Respondents Using Aids Sponsored by Wholesalers</th>
<th>Marketing Management Aids (Per cent)</th>
<th>Personal Management Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>34</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>4</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>4</td>
<td>66.7</td>
<td>...</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>3</td>
<td>66.7</td>
<td>33.3</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>2</td>
<td>50.0</td>
<td>...</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>4</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>6</td>
<td>50.0</td>
<td>16.7</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>4</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>All Respondents Using Wholesaler Sponsored Aids</td>
<td>63</td>
<td>76.2*</td>
<td>3.2*</td>
</tr>
</tbody>
</table>

*Add to more than 100% because some respondents utilized more than one type of wholesaler sponsored aids.

Source: Same as Table 2.
<table>
<thead>
<tr>
<th>Investment Management Aids (Per cent)</th>
<th>Management Development Aids (Per cent)</th>
<th>Miscellaneous Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.8</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>16.7</td>
<td>...</td>
<td>16.7</td>
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<tr>
<td>66.7</td>
<td>33.3</td>
<td>33.3</td>
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<td>33.3</td>
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<td>16.7</td>
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<td>25.0</td>
<td>...</td>
<td>100.0</td>
</tr>
<tr>
<td>20.6*</td>
<td>4.8*</td>
<td>11.1*</td>
</tr>
</tbody>
</table>
manufacturing) functions.

In terms of the former, respondents frequently indicated that in their opinion many local wholesale organisations were too small to be of real assistance to retailers. A retail druggist replied in the following manner:

I think wholesalers do more than manufacturers but the difficulty is that many wholesalers are really too small to do very much in the way of assistance. Now, the larger ones do a great deal in the way of assisting retailers. For instance, in setting up my store, I received assistance from a wholesaler in Cincinnati. This firm put in a stock of merchandise for my store and then gave me a three-year period to pay them back.

Of more importance in explaining the degree of utilisation by retail grocers is the extent to which there has been a voluntary integration of wholesaling and retailing functions. This is true among cooperation chains, whether wholesaler or retailer sponsored groups, and also among unaffiliated retailers. The following statements are indicative of the comments of respondents who are members of a retail sponsored group:

It is essential to belong to an organisation such as this. Before we joined, I went to my suppliers and tried to get them to work with us, and I told them that we had to be competitive. They did not do anything for us, however. In today's market you have to be competitive, and since our warehouse is a nonprofit operation, we can get merchandise at competitive prices. Also, you must have advertising and sales promotion, and small merchants have a hard time doing this by themselves.
Another retail member of this cooperative stated in a similar manner:

Buying and advertising advantages are the primary reasons for belonging to a group such as we operate. In this operation, we actually own goods cheaper than the chains. We operate our warehouse on a nonprofit basis, just trying to cover expenses. Although we actually make a little money in this operation, we are not interested in that aspect. In terms of one of our major competitors, they provide central warehousing, for example, in Louisville; and they have to truck items to Lexington. Since our warehouse is located here in Lexington, we have an advantage over their operation. It costs them 6 per cent to operate their warehouses; we do considerably better than that.

Retail members of wholesaler sponsored voluntary groups in the grocery field were equally enthusiastic about the advantages of this type of association. One retailer summarized this point of view as follows:

I have been in the grocery business for 17 years and came in as a charter member of this group. This is the only way to operate today; you have to work together if you want to be competitive. Of course, the main advantages are found in cost savings resulting from your purchases. And you have to obtain these savings if you want to be competitive. We pay to join the organisation, and then we are charged a certain amount each month for advertising based on the amount the individual store purchases. You see, it works like this. I actually operate much like a chain store manager. Everything I purchase is billed through the wholesale house, even bread, potato chips, and similar items. These salesmen come in to my store, check the stock, make out the order and then I sign it. Then they take it down to the wholesale house and they bill me for the merchandise, along with
my regular purchases, each week. I also receive a "pre-printed form" from the wholesale house which I fill out and send in. Then they deliver the merchandise each week, and I write one check for all of my purchases during that week. Thus, I do not have to spend a lot of time interviewing salesmen; they simply come in, check my stock, and when I receive the merchandise I simply write one check for all of my purchases, those delivered by the wholesale house and those received from other sources. This enables me to do nothing but hard work. In addition, about every two or three months some fellows from the national group come to Lexington and we have meetings. They go over merchandizing plans and programs with us; they are pretty learned fellows and do a good job.

Although interviews with respondents in the survey revealed that wholesaler-retailer sponsored groups offer members substantial services, it is also apparent that unaffiliated wholesalers are continually increasing the integration of wholesale and retail functions on an informal basis. One wholesaler, for instance, offers retail grocers an opportunity to cooperate on a voluntary basis with no contractual obligations involved. In this case, retail store identification is also available although, again, the retailer has the option to either use, or not make use of these signs. The following reaction is typical of the comments made by respondents who use this type of service:

It wouldn't pay me to join the retailer-sponsored group in Lexington. For example, it costs about $4500 to join this group. In addition I would have to buy a truck to pick up my merchandise, and also hire a man to drive it for me. That would be too expensive for me, and besides, I could buy another store if I had that much money. As far as one of the (formal) wholesale-sponsored groups is concerned, I can go down to one of the
wholesalers and buy at about the same price as members. For other items I buy from a nearby wholesaler. He delivers on Tuesday and I do not have to pay until the following Monday; in this manner, I have an opportunity to get back some money before I have to pay for the goods; thus my profit is in my inventory. Recently this wholesaler also started placing a page advertisement in the Lexington newspaper, and he also does some radio advertising. This doesn't cost us anything. On these specials, I take a smaller mark-up, and he takes a smaller mark-up, and it works out fine. I may not make any money on these items, averaging only from 5 to 10 per cent mark-up, but I don't sell anything below cost either. This wholesaler also breaks cases and still sells to me on a cost-plus-four per cent mark-up. I bought this store from a man who was about 75 years of age. His average sale was about 70 cents, the best I can figure, and mine now averages $3 or more. He bought products in case lots and had many items that did not sell very quickly. I decided to stock a variety of goods to obtain the highest possible turnover; thus, the opportunity to buy in less-than-case lots works out very well for me. I think this has been one of my major points: with a greater variety of goods, my customers are buying more items so that even if I have the same number of accounts I have almost tripled my business during the ten months I have had it.

Four respondents in the survey maintained either formal or informal relations with wholesaler-sponsored groups in lines of trade other than the grocery field. In these instances, the

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A conversation with another retail grocer indicated that for small operators, a critical factor may well relate to the extension of credit for the period of one week. One retailer indicated that when he went into business three years ago Lexington wholesalers would not extend credit to him for the critical period of one week. (He mentioned personal reasons which appeared to make him a poor credit risk.) A wholesaler in a town near Lexington did extend this credit, however. The retailer indicated that his first month's sales amounted to $2,000; for the third year's operation, sales were $275,000.
respondents emphasized the importance of this type of cooperative association. One franchised dealer summarized the program in the following manner:

This is my second store; the other one is located in another city. In this store, I buy just about everything from the wholesale operation; in my other store I purchase more from outside sources. This is a very good plan; for example, they have schools that you attend for two weeks in which they teach you about the business. I didn't have any experience in business and this was of assistance to me. Then they help you in setting up your stock, in displaying the inventory, deciding on the kinds and amount of stock to carry, and so forth. Then I had one man who stayed here a month, and another who stayed six weeks in getting me started; in some of the smaller stores they do not stay that long. Then my representative was here to help me, and he comes around more often until the store gets going. In addition, there were eight other people from the organization who came in and worked with us during our formal opening. It is a good organization. In terms of financial aid, you must have the necessary capital although they do aid you two times a year. For example, they have a January show in which they display merchandise for spring and summer: lawn mowers and so forth. We place our orders at that time, and we do not have to pay until June and July (we pay one-half in June and the balance in July). The same process takes place in May when we buy our fall and Christmas merchandise. On these items, we pay on December 24. They know that we couldn't buy that early, and that we wouldn't warehouse the merchandise unless they offered some type of financial assistance; thus it is also good for them. It aids them in their buying, in determining how much they will need, and in moving merchandise out of their warehouses. They simply draw up trade acceptances and we sign them and, as I have indicated, make the necessary payments at the stated time.
Trade Association Programs

The limited extent to which respondents utilize trade association aids is indicated in Table 3. Among respondents who make use of trade association programs, however, the type of aid most frequently mentioned related to "miscellaneous" activities (Table 7). These responses were primarily concerned with "government-retailer" and "manufacturer-retailer" relations. On the other hand, a limited number of respondents indicated that they received significant advantages from their membership in these institutions. One small retail grocer operator stated:

I belong to the Kentucky organization and I think the best thing I receive from them is advice or suggestions. They aid in telling about current practices in the field, prices of chain stores on certain items, and other information. Of course, they are mostly social organizations; they have dinners for members, and so forth.

The findings of the Lexington Survey may actually understate, however, the true importance of trade association activities and manufacturer sponsored aids. As a result of the aforementioned voluntary integration of the wholesaling and retailing functions, especially in grocery retailing, trade association and manufacturer sponsored programs may be channeled through wholesalers. Thus retailers, for instance, may affiliate with a local, state, and national association simply by becoming a member of a voluntary group. In this way, although individual retailers do not use the services of trade associations, these aids may be extensively
TABLE 7.—Percentage of trade association programs used by respondents, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number of Respondents Using Trade Association Aids</th>
<th>Marketing Management Aids (Per cent)</th>
<th>Personal Management Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>4</td>
<td>50.0</td>
<td>...</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>1</td>
<td>100.0</td>
<td>...</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>3</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>3</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>2</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>8</td>
<td>25.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>3</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>8</td>
<td>4.0</td>
<td>...</td>
</tr>
<tr>
<td>All Respondents Using Trade Association Sponsored Aids</td>
<td>32</td>
<td>28.1%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

*Add to more than 100% because some respondents utilized more than one type of trade association sponsored aids.

Source: Same as Table 2.
<table>
<thead>
<tr>
<th>Investment Aids</th>
<th>Management Aids</th>
<th>Development Aids</th>
<th>Miscellaneous Aids</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Per cent)</td>
<td>(Per cent)</td>
<td>(Per cent)</td>
<td>(Per cent)</td>
</tr>
<tr>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
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<tr>
<td>...</td>
<td>...</td>
<td>...</td>
<td>100.0</td>
</tr>
<tr>
<td>9.4*</td>
<td>25.0*</td>
<td>56.3*</td>
<td></td>
</tr>
</tbody>
</table>
utilized by wholesalers in improving their own operations and in assisting retailers.

In a similar fashion, advertising allowances supplied by manufacturers are oftentimes allocated to the wholesale operation; again, although retailers do not use the credit granting services of manufacturers, the fact that these organizations extend credit to wholesalers also aids the latter in making similar services available to their customers.5

Government Sponsored Programs

Thirteen per cent of the respondents in the Lexington Survey utilize aids sponsored by government agencies (Table 3). When viewed in terms of the "types of aids" used (although the responses were too limited to be significant), all but a small percentage of retailers mentioned "miscellaneous" programs (Table 3). Primary emphasis in this area related to the benefits derived from "fair-trade" legislation.6 Some interesting observations were made by retailers in terms of this type of legislation. The following statements indicate the position of retailers who favor

5Discussions with Lexington wholesalers indicated that they utilize the services of trade associations and manufacturers in the manner outlined above.

6Many retailers were unable, apparently, to distinguish clearly between "fair-trade" laws (resale price maintenance legislation) and "unfair trade laws."
TABLE 8.—Percentage of government sponsored aids used by respondents, Lexington, Kentucky, 1955-1956

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number of Respondents Utilising Government Sponsored Aids</th>
<th>Marketing Management Aids (Per cent)</th>
<th>Personnel Management Aids (Per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>4</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessory Stores</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>...</td>
<td>...</td>
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</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>3</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>7</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>6</td>
<td>83.3</td>
<td>...</td>
</tr>
<tr>
<td>All Respondents Using Government Sponsored Aids</td>
<td>20</td>
<td>25.0a</td>
<td>...</td>
</tr>
</tbody>
</table>

*aAdd to more than 100% because some respondents utilized more than one type of government sponsored aids.*

Source: Same as Table 2.
<table>
<thead>
<tr>
<th>Investment</th>
<th>Management</th>
<th>Development</th>
<th>Miscellaneous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aids</td>
<td>Aids</td>
<td>Aids</td>
<td>Aids</td>
</tr>
<tr>
<td>(Per cent)</td>
<td>(Per cent)</td>
<td>(Per cent)</td>
<td>(Per cent)</td>
</tr>
<tr>
<td>25.0</td>
<td>...</td>
<td>75.0</td>
<td></td>
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<td>...</td>
<td></td>
</tr>
<tr>
<td>66.7</td>
<td>...</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>...</td>
<td>...</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>15.0*</td>
<td>...</td>
<td>85.0*</td>
<td></td>
</tr>
</tbody>
</table>
resale-price maintenance laws? In the opinion of a retail
grocery owner

The best thing that would help small retailers
would be to have a good fair trade law. We have
a law now on cigarettes and for the first time
we are making money on these items. But retailers
kick around sugar, etc., and the best thing they
could do would be to have a fair-trade law on
all items. Kentucky has a fair-trade law on
other items but it isn't enforced.

Another retail grocery store owner stated:

The only thing for government to do is to pass
fair trade laws. We have fair trade on a few items
and these are good. On cigarettes there is a
minimum price below which you cannot sell, but
you can price as high as you want to. This is
the first time we have made money on this item;
if you had fair trade on every item the chains
wouldn't last any time. We give better service,
grant credit, provide delivery, and the chains
wouldn't last long against us.

A retail hardware dealer indicated:

If fair-trade were properly enforced it would
be the best law on the statute books. But not
many manufacturers enforce it. And what it takes
is for the manufacturer to stop selling to an
outlet if it sells below the fair-trade price.
But not many manufacturers do that.

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The position of "fair-trade" legislation in Kentucky
appears to be as follows: The general fair-trade law was declared
unconstitutional by the Court of Appeals in June, 1958 (see General
Electri vs. American Buyer's Cooperative, Inc., 316 SW 2d 354,
June 13, 1958). Minimum resale prices are still in effect, however,
involving sales of "alcoholic beverages" which are covered by a
different statute (KRS 224). Under the latter, minimum resale
prices are established on sales from: distillers, blenders,
producers, etc., to wholesalers; wholesalers to retail dealers;
and retailers to ultimate consumers.
Although one drug store owner stated that small businesses would continue without fair-trade laws, he nevertheless indicated that he favored these statutes:

Are bacon, bread, and potatoes important foods? Well, fair-trade is just that important. It's the best thing that has ever happened to small merchants. Where would the working man be without unions, farmers without their programs? Well, the same thing holds true for small merchants and fair trade... but don't think that the small merchant must have fair-trade to exist. He will be here anyway, with or without fair trade... I just can't see the agitation against fair-trade. The newspapers complain in editorials of fair-trade, but they are among the worst offenders. Here I have to carry their papers and they want me to sell them at the price that I pay for them. The only thing is that we do make 2 cents on each Sunday issue sold... but I just can't see why there is so much opposition to fair-trade.

Other respondents in the Lexington Survey, however, were equally critical of fair-trade laws. Nevertheless, there was general agreement among retailers that businesses should be prevented from selling merchandise below their cost price. One retail grocery owner, with 15 years of experience in a chain operation, summarized his views as follows:

The only real advantage of chains is their mass displays; and the biggest bugaboo is the fact that these organizations take a special item and run it as a lost leader. They take Maxwell House coffee, for instance, and sell it for 49c although it costs them much more... then they take soaps, sugar, and so forth, and sell these for a small mark-up. Then they take slower moving items and take a longer mark-up on these goods. Of course, I used to tell them that the reason for the slow turnover on these items was
due to their pricing policies. If you take all of their prices, I think that we are competitive. But they take the leaders, sell them below cost, have mass displays, and that is the only way they are ahead of independents. In my opinion, I think that all stores should be prevented from selling goods below their cost plus a certain percentage to do business. I don't care if a fellow wants to sell at cost, all of us can do that. But I do not think that retailers have the right to take items and sell them below cost.

In this connection, another retailer offered the following suggestion:

Chains have advertising and other appeals, but I think customers will do just about as well with us as with them. Of course, they advertise coffee at 49¢ a pound, but they place a limit of one on each purchase, and they also require you to buy $5 or $10 in order to get this special. I think that it is all right for an individual to sell items below his cost price. However, I do not think that a retailer should be permitted to either place a limit on the number of items that can be purchased, or require the consumer to make a minimum purchase. 5

Although respondents frequently mentioned the need for additional capital resources, an overwhelmingly large number of retailers had not applied for loans administered by the Small Business Administration and other government agencies. Although discussions with respondents failed to reveal how many actually had made formal application to the Small Business Administration, 6

5 In this connection, it might be possible to enact legislation similar to the "tying contracts" provision of the Clayton Act. In this way it might be illegal, for example, to offer specific products for sale with the stipulation that other products (or the purchase of a minimum order) must also be purchased.
it is clear that less than 4 per cent of the retailers interviewed in the Lexington Survey were aware of the nature of financial aids sponsored by government agencies. Only one respondent indicated that a loan had been received from the Small Business Administration. This case involved a $5,000 ten-year disaster loan.

In explaining the limited use which respondents in the Lexington Survey make of government sponsored financial aids, the following comment by a hardware retailer is significant:

The problem of capital is the most important one facing small business. It is relatively easy to go to the bank, at least it has been thus far, and borrow $1,000 for say 60 days. But that doesn't help very much. I have heard that the Small Business Administration makes loans, say for 20 years, at a reasonable rate of interest (i.e. 4-5 per cent). But I also have heard that it is almost impossible to obtain loans from this agency. And that you have to have almost a sure profit operation in order to obtain such loans. If one has this in the first place, then he really wouldn't need this type of loan. The government says, and everybody says, that small business is the backbone of the economy. Still, the government doesn't do anything, or only a small part of what it should. That, of course, is understandable since you can't organize small businessmen and we have no organization lobbying for us... You can't even organize the hardware merchants in Lexington.

In certain instances, respondents mentioned SBA loan programs, for example, but were unable to explain the kinds of aids available. In other cases, retailers indicated that "too much red tape" would be involved in government loans although no formal investigation had been made. In still other instances, respondents might have discussed the possibilities of government loans with bankers or personnel from SBA, but again no formal application had been made.
Conclusions Relating to the Extent to Which Respondents Utilize Prevailing Programs of Management Assistance

In generalizing from the data presented in the foregoing discussion, it is necessary to recognize that the absence of serious research studies dealing with management aids for small-scale retailers precludes the establishment of reasonable "quantitative standards" by which this phase of the Lexington Survey may be evaluated. Thus it is not feasible at this point, for instance, to ascertain whether more or less than 57 per cent of the respondents in the survey should logically be expected to utilize prevailing programs (see Table 2).

When viewed in "qualitative" terms, however, it is possible to conclude that prevailing programs are of limited aid to retailers in their performance of the management function.

Within this generalization it is also necessary to outline, at the same time, important qualifications based on the data obtained in the survey. In grocery retailing, for instance, respondents generally expressed the opinion that wholesaler sponsored aids are of prime importance in enabling small-scale retailers to be competitive. This situation is applicable to "affiliated" and "unaffiliated" wholesaler organizations, although the activities of the former were mentioned more frequently. In terms of the kinds of aids mentioned by grocery retailers, foremost was the opportunity to obtain cost-savings in buying through an integration
of wholesaling and retailing functions. Of lesser importance was the ability to engage in cooperative advertising and sales promotion activities.

In other lines of retail trade respondents expressed less interest in programs of management assistance. In a limited number of instances, however, trade association aids, manufacturer sponsored programs, and government activities were mentioned by respondents. A food store dealer, for example, expressed considerable support for the variety of aids provided by a manufacturer. Similarly, an individual retail druggist evidenced interest in aids available through a wholesale house. Trade associations were mentioned, and, in a still more restricted sense, government programs were also recognized.

When the aforementioned qualifications are evaluated, however, data obtained from the Lexington Survey indicate that respondents do not make extensive use of prevailing programs of management assistance provided by trade associations, government agencies, manufacturers, and wholesalers.
CHAPTER IX

LEXINGTON RETAIL SURVEY: WORKING HYPOTHESES

The discussion in the preceding chapter indicated the limited extent to which respondents in the Lexington Survey utilize programs of management assistance available through government agencies, trade association, wholesalers, and manufacturers. In addition to these quantitative findings, it is also necessary to search for qualitative insights into the reasons explaining why respondents either make use of, or fail to utilize effectively, existing programs. A detailed and extensive analysis of the data obtained in the Lexington Survey has resulted in the formulation of a select number of working hypotheses which are discussed in this chapter.

These generalizations are discussed, first, in terms of three working hypotheses of a general nature relating to personal characteristics of respondents; this is then followed by an analysis of specific working hypotheses relating to available programs.

General Working Hypotheses

There are three generalizations relating to the personal characteristics of respondents which explain in part why these
individuals make only limited use of available programs:
(1) "individualistic" character of small-scale retailers; (2) inability of respondents to define the nature of their management problems; and (3) the ineffective performance of the management function by small-scale retailers.

**Individualism of Small-Scale Retailers**

The limited use by respondents of available programs of management assistance is explained in part by the extreme individualism of small-scale retailers. The following comments by respondents in the survey illustrate the nature of this individualistic thinking:

The best thing the businessman can do is to stay away from government. If a fellow cannot make it alone, he should work for someone else.

The government cannot guarantee business. It depends on the individual in that he may want to work short hours, and so forth. A business can't stop; it must slowly grow or else it is no good.

It is up to the individual. We've had enough socialism already.

I have never used the services of the government; furthermore, whatever I have has been accomplished on my own without any outside help.

The biggest difficulty is the unwillingness of individuals to stick it out. I'll bet that in the fifteen years I've been here, there have been forty changes in the three service stations located near my business. A fellow thinks this
is an easy thing and comes in expecting to make a lot of money real quick. Then he has someone take care of the place, and he goes off driving. The first thing you know he is out of business.

The sociologist, David Riesman, and his collaborators in The Lonely Crowd, further document the "individualism" of the small business entrepreneur in terms of the "inner-directed" personality:

If we wanted to cast our social character types into social class molds, we could say that inner-direction is the typical character of the "old" middle-class—the banker, the tradesman, the small entrepreneur, the technically oriented engineer, etc.—while the other direction is becoming the typical character of the "new" middle class—the bureaucrat, the salaried employee in business, etc.¹

The inner directed personality indicates that the source of direction is "inner" "in the sense that it is implanted early in life by the elders and directed toward generalised but nonetheless inescapably destined goals."² In line with this thesis, interviews conducted in the Lexington Survey revealed that respondents remain oriented to "individualistic values" in which the success or failure of their endeavors remains solely a matter of personal concern. These discussions clearly revealed the point of view that it is in some way outside the accepted rules of conduct to seek

²Ibid., p. 37.
assistance in the operation of a business enterprise. Within this framework, there is a pronounced tendency to view in critical terms the efforts of "outside" organizations, and especially federal government agencies, to assist in the process of managing a business.

There is, however, something of a paradox in the fact that some respondents viewed with considerable favor the enactment of certain kinds of legislation. Many, but not all, respondents indicated that the effective enforcement of "fair-trade" legislation (resale price maintenance laws) would contribute considerably to the well-being of small-scale retailing.

Even so, it is clear that the "individualistic" thinking of respondents in the Lexington Survey seriously limits the effective utilization of many types of existing programs. Thus, so long as small-scale retailers believe that the use of outside programs of management aids is in some way contrary to the "rules of free enterprise," it is logical to conclude that these activities will not accomplish their primary objective.

Inability of Respondents to Define the Nature of Their Management Problems

Discussions with respondents raised serious doubts as to their awareness of the major problems confronting their organizations. In many cases, for example, respondents were either unaware of, or unwilling to discuss, what they considered to be
their major operating problems. Moreover, among those retailers who expressed specific difficulties, the most frequently mentioned factor was their inability to obtain sufficient capital resources. In the latter situation, it appears that often respondents, although mentioning specific problems, failed to identify critical issues. This point is illustrated by a discussion with a grocery retailer.

In this case the retailer indicated that he had previously operated a grocery store and that the operation had failed because "credit" was extended to his customers. In the present location, merchandise is sold only on a cash basis. Through intensive discussions it became apparent that this retailer did not really understand the difference between credit, a neutral factor which may be "abused" or "used," and credit management, the effective management of the credit function.

If small-scale retailers are to use effectively programs of management assistance, it is clear that they must first recognize the nature of their major management problems. Moreover, it is illogical to assume that individuals will seek management aids without first realizing the need for such guidance.

Ineffective Performance of the Management Function by Small-Scale Retailers

Since data obtained from Dun & Bradstreet, Inc., as explained in Chapter I of this study, reveal that the most important single
cause of business failures among small business organisations is the limited management abilities of these individuals; it is logical to conclude that this is an important factor explaining why respondents make only limited use of prevailing programs.

Moreover, the nature of these organisations (the absence of specialisation in the performance of the management function) emphasises the fact that small-scale retailers are continually confronted with critical, immediate problems. Against these current pressures, it is often difficult for small business entrepreneurs to take the necessary time to study and apply prevailing aids to their individual operations; furthermore, such an environment of expediency discourages small-scale retailers from participating in dealer-education programs requiring time away from the business. Since many small business owners are not analytical by nature, they will probably not of their own volition undertake the type of systematic study required if effective use is to be made of current programs.

Extensive discussions with respondents also revealed that they are not aware of personal limiting factors involved in

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4 Ibid.
managing their businesses. Without such recognition, and amid continuous pressures to deal with operating problems of immediate interest, aids which place initial emphasis on self-development are unlikely to achieve a significant degree of effective utilization.

**Specific Working Hypotheses**

The foregoing analysis advanced three general propositions which bring insight into the underlying reasons for the general norm by respondents of prevailing programs of management assistance. In the discussion which follows, working hypotheses of a more specific nature are developed according to the sponsoring institutions involved.

**Government Sponsored Programs**

As indicated in the preceding chapter, among respondents who utilize programs of management assistance, 13 per cent mentioned aids sponsored by government agencies (Table 3). With the existence of such a multitude of aids as outlined in Chapters IV and V of this study, it is of serious concern to realize that such a small percentage of respondents make use of these programs.\(^5\)

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\(^5\)For a similar conclusion see Ibid., p. 124. Private conversations with personnel from the Small Business Administration and the U. S. Department of Commerce revealed that, in the opinion of these individuals, small business owners and managers unfortunately make only limited use of government programs.
In seeking insights into the reasons for this general nomie
of government aids, three working hypotheses are advanced. These
inferences cast considerable light on the prevailing situation.

The concept of small business.--Many respondents in the
survey assumed that the definition of "small business" used by
government agencies did not apply to small-scale retailing.
Regardless of the definition of "small business" currently used
by the Small Business Administration and other government agencies, the manner in which small businessmen view this concept is of
equal importance. When respondents in the survey were asked to
explain their nomie of government aids, they frequently replied
that their businesses were too "small" for them to participate in
these programs. Three responses, illustrative of this view, are
contained in the following comments by retailers interviewed in the
survey:

You know what the government calls small business don't you? I think I read in the paper
that it is a business with $250,000 capital, or
a little less, and it doesn't go down very far.
And besides, you would need a group of lawyers
in order to explain how to go about trying to
obtain this assistance.

In the view of a retail furniture store owner:

I've read a lot about these programs, however,
when the government speaks of small business it
is thinking, or so it seems to me, about a business
that does say $200,000 to $500,000 in sales, and

6A summary of these definitions is contained in the
following pages of this treatise: pp. 10-14.
not about the little fellow who may do from $35,000 to $50,000.

A retail grocer replied:

In terms of government aids, when they speak of small businesses they are not talking about a retail grocery store such as I operate. They may be talking about a manufacturer who does $5,000,000 worth of business, and they assist them in competing with manufacturers who do $200,000,000. But for retailers such as me this is still big business. And I am quite sure that if they came here, or if I went to them seeking assistance, that I could not get it because I am too small.

Retailer-government relations.--A second working hypothesis relating to the general notion of government aids by respondents is the serious misunderstanding of these individuals relating to the function of government in the United States economic system. Discussions with respondents indicated that their views of the government function are quite limited in scope. Frequent mention was made, for instance, of the "burden" of maintaining records for government agencies, of the "complications" involved in meeting tax responsibilities, and of the "red-tape" of these and other programs. The following responses indicate the attitudes found among respondents in the survey. A retailer of paints and supplies stated:

There is too much red tape with the government. We have to do the government's bookkeeping for them.

A ladies ready-to-wear retailer replied:

Business records for the government are a very complicated matter since I do most of my
own bookkeeping. It is very difficult to keep up with this part of the business. It seems that the government should encourage individuals to go into business for themselves rather than making it more difficult. This is the essence of the free-enterprise system.

In the opinion of a drug store owner:

The government is the real cause of the difficulty—with all of the records necessary for this purpose and with no reimbursement for doing the job of the government.

In these and other comments of a similar nature, there is clearly an unrealistic view of the government function in the United States economic system. In this connection, Dr. Theodore N. Bookman has clearly pointed out that the "failure to consider government as a factor of production forces one to conclude, at least inferentially, that the share of value added that is paid by a business concern to government is a gratuitous payment, exacted from it as a toll somewhat in the manner of the old 'Robber Barons' and for similar ends."

Thus, the failure of respondents to understand the productive character (value added) of government activities has created conditions in which this aspect of government services is overlooked. In such a situation, it is possible to explain the emphasis which respondents place on the cost (input) side of government

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activities without viewing the value added (output) created by these expenditures.

The availability of government programs.—Small-scale retailers do not have "reasonably free access" to programs sponsored by government agencies. Since neither the Small Business Administration nor the United States Department of Commerce maintains field offices in Lexington, Kentucky, it is concluded that respondents interviewed in this study do not have reasonably free access to aids provided by government agencies. While the former maintains an office in Louisville, Kentucky, and the latter maintains a similar place in Cincinnati, Ohio, discussions with respondents revealed that they are unaware of the procedure to be followed in contesting these agencies. This is not to infer that the problem of "nonutilization" might be solved simply by opening an office in Lexington (the SBA formerly maintained an office here); however, it does indicate that the problem of obtaining assistance is further complicated by the absence of local facilities. A retailer of interior decorations observed:

I've tried the telephone directory to see if a local Small Business Administration office was located in Lexington, and they do not have an office here. I even tried the

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8Small-scale retailers in these cities, for example, might also be unable or unwilling to contact local government offices in an effort to utilise these aids. Moreover, it is also possible that small business owners and managers in these cities, for example, might be unaware of the fact that local offices are maintained.
banks and they do not know where these offices are located. I'd have to write a letter to Washington, and that takes a long time. They used to have an office here, and they should have one now, but they do not.

It was also apparent (from discussions with respondents) that small-scale retailers in the Lexington Survey frequently were unaware of the existence of a special government agency with the sole responsibility for assisting small business. In a number of cases, respondents mentioned reading about the government's interest in small businesses, but they were unable to mention tangible evidence of this fact. One of the most frequent comments in this connection is illustrated in the following statement made by a retail grocery owner:

They talk a lot about helping small business, President Eisenhower and his group, but I cannot see that they have done anything.9

Manufacturer Sponsored Programs

As indicated in the preceding chapter, 54 per cent of the respondents in the Lexington Survey who make some use of management assistance programs mentioned aids sponsored by manufacturing

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9It can be argued, of course, that more has been done to assist small business under the Eisenhower administration than was true of any previous period. This argument rests on the establishment, for example, of the first peacetime agency with sole responsibility to assist small business; the liberalization of small business loans first through the establishment of the SBA and then by passage of the Small Business Investment Act of 1958; and similar activities. To respondents in the Lexington Survey, however, these important programs were either not recognized or appeared to be too intangible for them to appreciate.
establishments (Table 3). Moreover, the most frequently mentioned type of manufacturer sponsored aids related to the functions of exchange. Only 18 per cent of the respondents mentioned other types of programs. Among the individuals in the latter group, almost 50 per cent were gasoline service station retailers.

In the discussion which follows, the extensive use by respondents of manufacturer sponsored programs relating to the functions of exchange is explained in the first working hypothesis; this is then followed by two additional hypotheses which advance reasons behind the general nonuse of other kinds of programs available through the activities of manufacturers.

The allocation of resources.—The degree to which manufacturers allocate resources in the development of management aids influences the extent to which these programs will be utilised by small-scale retailers. It is apparent from data obtained in the survey that the pervasive character of advertising and sales promotion aids is the primary factor explaining why respondents mentioned these activities more frequently than other types of programs. Although other factors also influence the utilisation of manufacturer sponsored programs as indicated in other parts of this chapter, the most significant reason explaining the extensive use by respondents of aids dealing with advertising and sales promotion relates to the quantity of programs available, and the consequent ease with which they may be obtained.
The following hypotheses provide insight into reasons why respondents do not make more effective use of manufacturer sponsored aids.

Retailer-supplier relations.—One factor explaining the diffidence with which respondents view manufacturer sponsored programs relates to the degree of animosity expressed by respondents relating to these institutions. Owing to the relative uneven bargaining power existing between small-scale retailers and manufacturers, respondents often times expressed the view that a serious conflict existed between their personal objectives and those of their major manufacturer-supplier. With this type of attitude, it is reasonable to assume that programs sponsored by manufacturers will not be accepted in the spirit of cooperation so necessary if these aids are to be used effectively by retailers.

The following statements are indicative of the opinions of respondents relating to the subject of retailer-manufacturer relations. A retailer of ladies and men's shoes stated:

Major shoe manufacturers have become so large and control so much that it is hard for an individual to get along with them. These firms are so dictatorial, and tell you what you can and cannot carry in the way of merchandise lines, that the retailer has a hard way to go.

In the view of an automobile retailer:

There still is pressure on dealers, but the dealers are resisting this pressure today. I realize that I must sell cars, that I have
certain overhead expenses, and that the only way I can stay in business is to sell cars. But I refuse to be pushed... I was away attending a meeting and a district man came in to see my son. He wanted to do things while I was not here; my son, however, threw him out of the place. I came back and talked with the zone manager, and I told him to have this man in here by 9 a.m. to apologize to me and to my son. He was here, too!

A veteran automobile retailer stated in a somewhat similar vein:

The trouble with company representatives is that they have been so "brainwashed" by manufacturers in terms of selling automobiles that this is just about all they think about. And they do not consider how to aid the dealer. I know of a situation where a fellow was going into a new dealership. Rather than give this retailer two lower priced cars, and one in the medium line, he started out with a sports model, a medium, and a higher priced model. When the representative came in to see me I told him that he had really fixed up this new dealer and that the sports model would remain until the fellow went out of business. Well, we finally sold the sports car for the dealer, and he didn’t stay in business more than six months. If this representative had worked with the dealer he could have been a 12-15 car retailer and would at least have been able to accomplish that much. A small retailer who takes care of his business, offers good service, and so forth, will be able to make it. But you have to know how to stand up to the companies. They try to pressure the dealer, but we tell them that we want so many cars and this is all we will take.10

10 The automobile industry provides an excellent illustration of the extent to which retailer-supplier relations influence the utilization of management aids by retailers. Although Chapter VII points out the kinds of important aids available through major automobile manufacturers, the Lexington Survey indicates that only limited use is made of these programs. The primary reasons for this discrepancy appear to be (1) the limited degree of common understanding between dealers and manufacturers, and (2) the belief on the part of retailers that dealer representatives are not in a position to offer constructive advice and suggestions. Changes in the industry since the Lexington Survey appear to have had a salutary effect on retailer-manufacturer relations, however.
The unrealistic nature of manufacturer sponsored aids.---
Discussions with respondents indicated that many retailers are unprepared, either through training or inclination, for the type of analytical study necessary for the effective utilization of manufacturer sponsored programs of management assistance. Similarly, the Lexington Survey revealed that when programs are planned, organized, and controlled in terms of the needs of small-scale retailers, a higher degree of utilization can be anticipated.

In this connection, respondents who make effective use of manufacturer aids indicated that not only are these programs planned in terms of the needs of small-scale retailers, but they are administered, usually at the local level, in a manner that minimizes the conflict which might exist in terms of the objectives of these institutions.

Trade Association Programs

The general norma by respondents in the Lexington Survey of trade association programs (Table 3) is explained in the following working hypothesis.

The failure to recognize the potential advantages of trade association programs.---A majority of respondents in the survey were not members of either a national, state, or local trade association. 11 Furthermore, among retailers who maintain

11 Four associations mentioned most frequently included: the National Retail Hardware Association; the National Automobile Dealers Association; the National Retail Grocers' Association; and the National Retail Druggist Association.
membership in these organizations, the most frequently mentioned advantage of this affiliation related to the activities involving "retailer-manufacturer" or "retailer-government" relations. At the same time, a limited number of respondents indicated that other functions were of greater importance. The latter view is contained in the following comments made during the survey by a retail lumber dealer:

We are members of the National Association of Retail Lumber Dealers and also the Kentucky Lumber Dealers Association. They have management meetings and so forth, and they really have too much discussion for me. I took our yard man to New York one time and paid his expenses so that he could attend these meetings. You can't discount trade associations; they are very good and a progressive business man should belong to them.

A somewhat different opinion of trade associations is contained in the following statements:

My association could be of assistance, but it isn't really. All they are interested in is social affairs. They could accomplish something, but frankly they do not help very much.

In the opinion of another retailer:

I did belong to a national association, but I did not see that they did anything for me. I did not use their services so I am no longer a member of this organization.

Another retailer replied:

I don't think that we have a very active association in Lexington. I attended a couple of meetings and I thought that they were mostly social affairs. If I want to have entertainment,
then I will invite my friends to my home and have the individuals when I want to be with. At one meeting, they showed an old Laurel and Hardy film, and I felt just like they had slapped me in the face. I didn't go back either because I felt that they had wasted my time.

In summarising these views, the contribution of trade associations in such areas as marketing management, personnel management, investment management, and management development is not well recognised and accepted by respondents. This stems in part from the fact that a majority of respondents are not active members of these organisations. There is also reason to believe that some trade associations, although maintaining a wide variety of aids as outlined in Chapters II and III of this treatise, have nonetheless hesitated to emphasise the "professional" aspect of their services. Moreover, trade associations have not generally attempted to classify members in some meaningful way, thereby facilitating the use which might be made of these aids. Thus, for example, a small-scale retailer will probably have somewhat different needs, for instance, than would be the case of larger retailer members. Unless trade associations and other sponsoring institutions recognize this fact, it is unlikely that a higher degree of utilization will be forthcoming in so far as small-scale retailers are concerned.
Wholesaler Sponsored Programs

Among respondents who utilize programs of management assistance, 41 per cent mentioned aids sponsored by wholesalers (Table 3). In terms of the individual lines of retail trade, the most extensive use was found among retail grocery store owners and managers. The relatively high incidence of utilization found among retail grocers may be explained by a number of factors.

First, the competitive pressures exerted by integrated corporate chains created conditions which encouraged independent small-scale retailers to be receptive to plans designed to improve their market position. Moreover, independent wholesalers viewing these developments assumed the initiative in providing programs to improve the competitive position of their dealers. Thus, independent wholesalers and retailers recognized that only through cooperative action could they, in the long-run, expect to justify their existence in the marketing of food products. This conclusion is stated in the following working hypothesis which adds considerable insight into the reasons why wholesaler sponsored aids are utilized by retailers.

Recognition of common objectives.—The close association maintained between retailers and their wholesaler-suppliers has resulted in the voluntary integration of wholesaling and retailing (and in certain instances manufacturing) functions. Although the analysis in Chapter VI of this treatise indicates that differences
exist between the kinds of aids available through "affiliated" and "unaffiliated" wholesale houses, the Lexington Survey reveals that even among the latter a considerable degree of voluntary integration is to be found.

Among affiliated groups, respondents overwhelmingly endorsed the competitive advantages of these institutional arrangements. As previously mentioned, of special importance to retailer-members is the opportunity afforded to obtain savings on purchases and the ability to advertise on a competitive scale. Although each member of affiliated wholesale organizations mentioned the former, some of the smaller retailers stated that they were not large enough to participate in advertising programs sponsored by cooperatives.

Interviews with retailers who do not belong to "voluntary" chains revealed, nevertheless, that purchases are concentrated with one or two wholesalers. In one case, a local wholesaler provides retailers with an opportunity to participate in an "informal" group. Thus, for example, retailers may purchase from other sources of supply; no quantity limits are imposed; less than case lots of merchandise may be obtained; and monthly advertising and sales promotion aids are provided.

This study has also revealed that affiliated wholesale houses maintain direct relations with manufacturers and trade associations, and serve as a focal point for coordinating the activities of these institutions and their retailer-members.
Although the most extensive utilization of wholesaler sponsored aids was found in the grocery field, respondents in other lines of trade also mentioned the importance of these institutions. Again, retail members of voluntary chains were especially satisfied with the services available to them.

Finally, respondents indicated that, in their opinion, a majority of local wholesalers were too small to maintain substantial programs of management assistance. The primary services of these institutions included: first, providing a ready source of supply of merchandise; and, second, supplying retailers with limited financial assistance in terms of mercantile credit. Although the latter activity may be limited to the extension of credit for a period of one week, discussions with small-scale retailer grocery owners revealed that this may in fact be one of the most significant aids available to them.

Conclusions Relating to Working Hypotheses
Derived from the Lexington Survey

This chapter has been concerned with the exposition of a select number of working hypotheses relating to the reasons for the use or nonuse by respondents of prevailing programs of management assistance. These generalizations relate, first, to general working hypotheses having to do with personal characteristics of respondents; and, second, with specific inferences relating to available programs.
On the one hand, there are personal characteristics of respondents which limit their effective use of management aids. On the other hand, the activities of sponsoring agencies may either encourage or place severe restrictions on the extent to which these programs are utilised.

Although a majority of these working hypotheses advance reasons why respondents do not make extensive use of programs of management assistance, the foregoing analysis also outlines the kinds of programs which have a relatively high degree of utilisation.
CHAPTER X

SUMMARY AND RECOMMENDATIONS

This treatise is based on the underlying belief that a more effective functioning of the economy as a whole will be forthcoming from an advance in the performance of the entrepreneurial function by small-scale retailers. In accomplishing this objective, prime emphasis must be placed on the educational process whereby the faculties and capacities of these individuals to effectively manage their businesses are enhanced.

The function of management assistance programs, as envisioned by the author, is to provide the framework within which the individual is afforded an opportunity to develop and make more effective use of what creative and original talent he may possess.

After a review of the purposes of this study, factors limiting the effective utilization of prevailing aids are analyzed. In part, these considerations relate to certain inadequacies of existing programs resulting from factors over which sponsoring institutions exert considerable control. On the other hand, the limitations of existing aids are also examined from the viewpoint of personal characteristics of small-scale retailers which impede their effective use of these programs.

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This analysis is then followed by the formulation of a conceptual framework which serves as a guide for sponsoring agencies in establishing effective programs of management assistance for small-scale retailers. Since this approach emphasizes the functional character of management aids, it is equally applicable to all segments of small-scale retailing.

Purpose

A major purpose of this study was to develop a comprehensive view of management assistance programs available to small-scale retailers through the activities of trade associations, government agencies, wholesalers, and manufacturers. Extensive discussions and personal correspondence with representatives of sponsoring agencies, in addition to readings in the business press, provided the background for the first phase of this original and pioneering study.

A second purpose was to test in a limited area the extent to which small-scale retailers make effective use of prevailing aids in the management of their businesses. This phase involved interviews with 272 small-scale retailers in Lexington, Kentucky. So far as research conducted in this study revealed, this is one of the first serious efforts designed to ascertain the extent to which small-scale retailers utilize available programs of management assistance.
A third purpose of this study was to determine why respondents in the Lexington Survey utilised, or do not make extensive use of, prevailing programs of management assistance.

**Limitations Common to Prevailing Programs over Which Sponsoring Institutions Acquire Control**

Inadequate planning, organising and controlling of management assistance programs

This analysis of the myriad programs of management assistance indicates that there is a serious absence of significant research dealing with small-scale retailing. Except for a limited number of instances, sponsoring agencies appear to have planned and instituted management assistance programs without first carefully determining just what kinds of aids would be most useful to small-scale retailers.

The Small Business Administration has thus far been unable to exert the type of leadership in this area which might have been anticipated. Although this agency was initially granted the authority to undertake research activities, no special funds were allocated by the Congress for this purpose. Consequently, a majority of SBA appropriations were used for purposes other than research. In the Small Business Act as amended (Public Law 85-536, Public Law 85-699) funds were allocated to the Small Business Administration for the expressed purpose of making research grants. Thus the Small Business Administration was authorised to make one
grant within any one state in any year. A project may extend for a longer period of time, however, as provided in the grant agreement.

Due to the recent origin of the aforementioned legislation, it is too early for a realistic evaluation of this program. Certain comments may be made, however, with reference to the procedure followed by SBA in making research grants. In implementing the provisions of this legislation, the Administration determined that interested institutions and agencies should submit to SBA proposals for research studies. To assist in examining and making recommendations with respect to the relative merits of these applications, and to furnish advice on the grant program, a Management Research Advisory Council was established. The final decision relating to the selection of grantees remained, however, the responsibility of the Administrator.

This procedure appears to be unrealistic and ineffective for a number of reasons. First, since SBA has been dealing with problems associated with the management and operation of small business organizations for six years, it should have been in a position to publish an a priori list of research projects in which it was interested and to make initial grants on the basis of this information. (Although SBA published a list of titles to aid prospective grantees in submitting research proposals, the purpose of this information was to serve as a guide to interested
institutions rather than to provide a specific statement of areas considered to be of prime importance.) Instead, as mentioned above, major responsibility for submitting proposals was shifted to colleges, universities, and other eligible institutions. Without having available to them a comprehensive list of research areas considered to be primary interest to SBA, and in the absence often times of a historical background in small business research, it is unrealistic to anticipate that interested institutions would be in a position to submit proposals based on the needs of small business organizations.

A review of the research titles approved by SBA in 1959 (the initial grants) and 1960 suggests, for instance, that approximately one-half of these projects deal with subjects that are ostensibly local, state, or regional in character. In this connection it appears that a distinction should be made between problems of a local character, in which case research might be financed by state, local, or private institutions, and considerations basic to the small business segment of the economy.

A second reason for questioning the procedure involved in making SBA grants relates to a comparison between the grantees in 1959 and those awarded contracts in 1960. In this connection, approximately one-half of the research grants in 1960 involved institutions not included in the former year. Although many reasons may be advanced to explain this change, one main cause
may well be the desire on the part of SBA to "rotate" the benefits derived from grants among interested organizations. Regardless of the possible merits of this procedure, serious problems may be encountered if such is the case. For example, colleges and universities, on submitting proposals and receiving a grant, may then add to their respective staffs. If a renewal is not forthcoming the following year, serious administrative problems may be encountered. This type of consideration might serve to discourage many institutions from applying for grants; or, as seems more likely, grantees may be inclined to place less qualified individuals in charge of projects rather than recruit more competent researchers.

A final limitation of the procedure used in the SBA grant program stems from an interpretation of the term "counseling" by the Administration. Although Congress authorized the Small Business Administration to make research grants for "research and counseling...," the Administration interpreted this to mean that "counseling" activities are to remain the sole responsibility of SBA. Presumably this interpretation means that grantees will conduct research which will then be studied and analyzed by the Administration, with SBA assuming the responsibility for disseminating this information to interested individuals and organizations. As a later section of this chapter points out, inadequate and ineffective methods of communication limit the effective utilisation
of prevailing programs of management assistance. It appears somewhat unrealistic, in the light of this situation, for the Small Business Administration to place such narrow limits on research grants for purposes of "counseling" small business owners and managers.

The foregoing discussion indicates, then, that the absence of significant research studies dealing with the management and operation of small business enterprises will not be overcome so long as current policies of the Small Business Administration are in effect. This conclusion is based on the belief that leadership, in terms of research activities, must be exerted by SBA. Since manufacturers, wholesale agencies, and trade associations are private institutions, it is difficult to criticize their role in this area. With specific powers granted to SBA by the Congress, however, it is assumed that a different relationship exists between this agency and the small business community.

**Hostility of retailers toward the activities of sponsoring institutions**

Interviews with respondents in the Lexington Survey revealed that a significant degree of resentment toward the activities of sponsoring agencies limits the effective utilization of management aids by retailers. This was especially true of programs sponsored by government agencies and manufacturing organizations.
Respondents viewed government activities, for example, primarily in a "nonproductive" or "restrictive" sense. As a result, the "productive" character of government services (the contribution or "output" obtained, for instance, from the imposition of taxes) is unrecognized. This provincial view toward the government function seriously impedes the effectiveness of prevailing aids.

A similar feeling of animosity is also evident in the area of manufacturer-retailer relations, especially under the following conditions: (1) when manufacturers maintain a strict policy of selective distribution; (2) when the threat of franchise cancellation would, in effect, force the retailer out of business; and (3) when, due to unequal bargaining positions, manufacturers exert almost unilateral control over their retail accounts.

Inadequate study of the management function in small-scale retailing

This research dealing with management assistance programs indicates that sponsoring agencies maintain an unrealistic view toward small-scale retail management. Although "size" does not change the nature of the business enterprise, nor the principles of managing a business, the absence of managerial and employee specialization in small-scale retailing (the prime characteristic of these institutions) creates specific problems which have been inadequately, if at all, considered by sponsoring agencies.

This intensive analysis of current programs indicates further
that, except in limited instances, there is an absence of literature designed to assist small business executives in the development of managerial skills without discussion in the classroom. Moreover, only limited effort has apparently been made to classify prospective users so that information may be tailored to fit the needs of these individuals. One basis of classification, for instance, might be of a functional nature so that programs dealing with marketing management activities would be readily available to retailers confronted with problems in this area. One class might relate, moreover, to retailers who are currently thinking about expanding their operations.

A special advantage of this approach is that it encourages retailers and sponsoring organisations to think in "functional" rather than "institutional" terms. As a result, retailers would not be so likely to view their individual operations as being "unique" or "different." Data obtained in the Lexington Survey indicated, for example, that such a rationale was often times advanced to explain reasons for not using available programs.

The apparent lack of understanding on the part of sponsoring agencies of the nature of small-scale retailing has resulted in the establishment of programs dealing with the so-called "techniques" of modern business, rather than stressing more basic considerations dealing with the management or leadership function.
Institution of sponsoring institutions to the communication function

This study of management aids indicates that sponsoring institutions have not, except in limited instances, seriously considered methods for disseminating available information to small-scale retailers. Furthermore, the burden of utilising these aids is placed on the retailer. Without attempting to appraise the value of this approach, given the background and training of small-scale retailers it is unrealistic to anticipate a high degree of utilization under these conditions.

It is not enough for sponsoring institutions to merely establish management assistance programs; these organisations must develop, in addition, organised techniques for disseminating information to potential users and then follow through to be certain that the materials are used.

One suggestion for improving the "flow" of information to potential users would be to make more extensive use of radio and television facilities. In many parts of the United States, radio and television stations make free time available to U. S. Department of Agriculture personnel and other interested individuals for the purpose of imparting information of interest to the farm population. Similarly, the Small Business Administration and the U. S. Department of Commerce, for example, should be in a position to develop comparable programs of interest to businessmen. These
agencies might then serve as focal points in disseminating information to the business community.

Another proposal for making current information more readily available to small business entrepreneurs relates to increasing the number of SBA and U. S. Department of Commerce field offices at the local level. Moreover, an intensive study should be made of the feasibility of expanding government sponsored counseling services to the small business community. The activities of the U. S. Department of Agriculture in assisting farmers should be analyzed in determining the advisability of making similar services available to small business entrepreneurs.

Personal Factors Limiting the Use of Management Assistance Programs by Small-Scale Retailers

In addition to the foregoing analysis of considerations limiting the effective utilization of management aids, there are personal factors which influence the extent to which retailers use these aids. These considerations are discussed in terms of the following: (1) inadequate performance of the management function by small-scale retailers; (2) "independent" manner in which small-scale retailers manage their businesses; and (3) inability of small-scale retailers to define pertinent problems confronting their businesses.
Inadequate performance of the management function by small-scale retailers

While it is true in a broad sense that most failures, for example, result from "human" errors or limitations, data obtained from Dun & Bradstreet, Inc. reveal that an overwhelming percentage of business failures in small-scale retailing may be attributed to ineffective management. These data substantiate the view that while there is a serious need for small business entrepreneurs to study the management function in business, the aforementioned ineptness of small-scale retailers further restricts their effective use of current programs.

"Independent" manner in which small-scale retailers manage their businesses

Discussions with respondents in the Lexington Survey revealed that there is a rather common desire on the part of these individuals "to be left alone," to operate their businesses without "outside direction," and a discernable misapprehension about change. Given these predilections, it is to be expected that many small-scale retailers would be somewhat antagonistic toward any type of management assistance provided by sponsoring agencies.

There is, at the same time, considerable value to be found in this desire of individuals for "free expression" and "self government." A healthy and virile economy depends to a considerable degree upon the innovator who develops a new concept that renders obsolete current practices.
Consequently, it is not suggested that small-scale retailers should "conform" to existing practices in the field; to the contrary, it is evident to students of retailing that institutional changes have often times occurred with the introduction of a new idea by small business entrepreneurs. In fact, perhaps the crucial competitive advantage of small-scale retailers evolves precisely from the freedom afforded them for innovation. At the same time, it is necessary to recognize that certain problems cannot be effectively dealt with on an individual basis. In these situations, the strength of "independent" action is unnecessarily weakened by an unrealistic "go-it-alone" attitude. If management education in small-scale retailing is to be effective, retailers must realize that only through cooperative action can this objective be actualized.

Inability of small-scale retailers to define pertinent problems

Data obtained in the Lexington Survey provide the basis for concluding that respondents have difficulty in defining the nature of the management and operating problems confronting their business organizations. This inability to recognize the need for management services, for example, and the failure to appreciate the value of these programs further limits the extent to which existing aids are utilized.

If retailers believe, furthermore, that their competitive
position is limited by factors over which they exert no control, it is unlikely that very much interest can be generated for management assistance programs. In addition, unless small-scale retailers realize that personal factors limit their ability to effectively manage their businesses, it is illogical to expect these entrepreneurs to manifest interest in advancing their knowledge of management.

It is apparent, therefore, that a higher degree of retailer participation in, and use of, assistance programs will be forthcoming only when these individuals are first made aware of the critical problems with which they must deal.

**Conceptual Basis for Establishing Management Assistance Programs**

Figure 1 presents a visual summation of the basic considerations involved in establishing and maintaining effective management assistance programs. This conceptual presentation emphasizes the importance of a functional approach in explaining the elements of an integrated program. In each of these activities, stress is placed on the identification of a "system of action" (marketing management, personnel management, and so forth) followed by an analysis of how and why it works as it does.

Since the over-all objective of these aids is concerned with the management or leadership function in business, this activity must necessarily be of foremost importance. In
FIGURE 1.—Conceptual basis for management assistance programs

- The Function of Executive Leadership
  - Organic Subfunctions
    - Planning
    - Organizing
    - Controlling

MANAGEMENT DEVELOPMENT

- Marketing Management*
  - Buying
  - Selling
  - Transportation
  - Storage
  - Standardisation
  - Risk Bearing
  - Marketing Information and Research

- Personnel Management*
  - Procuring
  - Developing
  - Maintaining
  - Utilising

- Investment Management*
  - Managerial Accounting
  - Financial Assistance

- Miscellaneous Activities
  - Dealer Relations
  - Technical Aids

*Managerial and operative business functions

This conceptual scheme is similar to the approach to the management function developed in: Ralph C. Davis, The Fundamentals of Top Management (New York: Harpers & Brothers, 1951).
accomplishing this objective, management assistance programs should be planned, organised, and controlled in accordance with the development, first, of a realistic foundation based on the needs of small business organisations. A second consideration relates to the establishment of conditions necessary for the execution of the plan; and, third, attention should be given to the act of constraining and regulating these aids in accordance with the requirements of the over-all plan.

For small-scale retailers, the primary business functions involve: marketing management, personnel management, and investment management activities. In addition to these main activities, there are miscellaneous functions which must also be considered. Moreover, in each of these business activities, there are "managerial" and "operative" functions. This indicates that sponsoring institutions should determine whether programs are designed for "top management," "operative personnel," or both.

Although the task of "mass education" in small-scale retailing may be too extensive for any one agency or institution to deal with effectively, this does not obviate the need for a "conceptual" view of management assistance programs. Such an approach indicates that, while necessary differences are to be anticipated in so far as the objectives of sponsoring agencies and small-scale retailers are concerned, the over-all purpose of allocating scarce resources in a more effective manner provides a sound basis on which the process of integrating the individual interests of these groups may evolve.
General Value of the Study

It has been stated that perhaps the real class struggle is not "owners" versus "workers" but rather the struggle between the "initiators of change" and the "lovers of routine."

This treatise emphasizes that small-scale retailers, if they are to improve their competitive position, must be on the side of the "initiators of change." Moreover, the most logical and effective way to achieve this objective is through the educational process. In the final analysis, this involves an intense zest for self-development. As envisioned in this study, the function of management assistance programs is to aid small-scale retailers in this process of self-development.

More specifically, the contributions of this investigation may be stated in the following manner.

1. The historical view of management aids provides the proper perspective necessary for an understanding of contemporary programs. Throughout this treatise, the activities of government agencies, trade associations, manufacturers, and wholesalers are first approached from a historical point of view. This enables the reader to realize that many of these aids are a product of an evolutionary process of change rather than a spontaneous event initiated by sponsoring organizations.

2. This study provides a detailed analysis of management aids currently available to small-scale retailers through the
activities of trade associations, government agencies, wholesalers, and manufacturers. For students of this subject, this investigation provides a synthesis of the most important aids currently available to small-scale retailers. This exhaustive and time-consuming process of summarizing the nature of these aids provides the background so necessary for an analytical study of contemporary programs.

3. Interviews with 272 small-scale retailers in the Lexington Survey is an original venture in marketing research designed to accomplish two objectives: the first purpose of the Lexington Survey was to determine the extent to which small-scale retailers make effective use of management aids; and second, there was a search for working hypotheses which bring insight into the reasons behind the use or nonuse of these programs.

The significance of this phase of the study relates not only to the importance of the data obtained, but it also suggests a methodology which should be applicable in other research projects. The latter is of special importance in developing working hypotheses to provide tentative answers to current marketing problems. These inferences may then be tested on a broader scale in determining their validity.

4. A fourth contribution of this study relates to the fact that it minimizes the "political aspect" of the "small business concept" and, instead, places major emphasis upon economic and philosophical considerations. In this context, management aids
are important because they encourage a more efficient and effective allocation of human and economic resources, thereby enabling business organisations to make a greater contribution to the social good.

5. This study emphasises the importance of planning, organising, and controlling management assistance programs in terms of the needs of small-scale retailers. The inability or unwillingness of sponsoring institutions to engage in serious research projects relating to small-scale retailing continues to limit the effectiveness of current programs. It has also been pointed out, however, that a small number of sponsoring institutions have initiated research investigations relating to this subject. The extent to which respondents in the Lexington Survey make effective use of these aids attests to the soundness of this approach.

6. Finally, a conceptual framework has been advanced which presents a plan of action to guide sponsoring agencies in developing sound and realistic programs of management assistance. This outline emphasises the importance of distinguishing between functionalism (the process of identifying a system of action and then trying to determine how and why it works as it does) and functional specialisation (the extent to which specially trained personnel are placed in charge of individual activities.) Although the basic functions of management are the same regardless of the
relative size of the business, the absence of functional specialization in small-scale retailing creates specific problems which must be studied and analyzed by sponsoring agencies and retailers.

Since this approach emphasizes the functional character of management assistance programs, it should be equally applicable to the entire range of management aids regardless of the sponsoring agency involved.
APPENDIX A

This appendix further explains the nature of the methodology used in this study. First, a description is given of an exploratory study conducted by the author in Columbus, Ohio, prior to the Lexington Survey. This analysis is then followed by a more detailed description of the sampling procedure used in the Lexington Survey.

Exploratory Study

Prior to the Lexington Survey, a pilot study was completed by the author in Columbus, Ohio, in April, 1955. The purposes of this preliminary investigation were, first, to test various approaches which might be used during the interviewing process; second, to determine the reaction of small-scale retailers when questioned concerning their use or nonuse of management assistance programs; third, to ascertain the kinds of problems confronting respondents; and, finally, to see what types of information might be obtained from these interviews.

On the basis of preliminary study, it was concluded that the prime factor determining the success of the interviewing process related to the interviewer's ability to establish good rapport with respondents and on the background and experiences of the
latter. To facilitate this task, it was determined that nondirec-
tive interviews should be used; moreover, since each interview
was to be conducted by the author, it was decided that no attempt
should be made to take notes during the interviewing process.
Instead, brief notes were to be made upon completion of the in-
terviews with more complete information to be recorded at a later
date.

It was concluded from this exploratory study, then, that
significant results might be anticipated from a more extensive
research investigation into the extent to which small-scale re-
tailers make effective use of prevailing programs of management
assistance.

Sampling Procedure Used in the Lexington Survey

The universe or total population from which the sample was
selected included retail establishments in Fayette County, Kentucky
(co-extensive with the Lexington metropolitan area).

The 1954 Census of Retail Trade included 1,089 retail estab-
lishments in Fayette County, Kentucky. For purposes of the
survey, these establishments were classified in accordance with
the "kind of business" divisions used by the Census of Business
with the exclusion of the following: eating and drinking places;

\(^1\)U. S. Department of Commerce, Bureau of the Census,
Preliminary Report: 1954 Census of Business, Retail Trade,
Series Pr-L-17, January 1956, p. 6.
liquor dealers; second-hand dealers; and multi-unit stores operated by corporate chains. Table 9 summarizes the number and kinds of retailers excluded from the Lexington Survey.

TABLE 9.—The number and kinds of retail establishments in Fayette County, Kentucky, excluded from the sample

<table>
<thead>
<tr>
<th>Kinds of Business</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eating and Drinking Places</td>
<td>204</td>
</tr>
<tr>
<td>Multi-Unit Establishments</td>
<td>53</td>
</tr>
<tr>
<td>Liquor Dealers</td>
<td>48</td>
</tr>
<tr>
<td>Second-Hand Stores</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>323</strong></td>
</tr>
</tbody>
</table>

The revised universe from which the sample was drawn included, then, 766 retail establishments. Since the objectives of the Lexington Survey, as discussed in Chapter IV, did not lend themselves to the selection of a sample in a random manner, "judgment" or "purposive" sampling involving interviews with respondents in accordance with pre-established quotas for each of the stratum

2Eating and drinking places and second-hand dealers were not included due to the atypical nature of their operations when compared with other retailers included in the universe. Liquor dealers operate under special "fair-trade" legislation which establishes retail prices for liquor products and receive operating permits from the state, thus differentiating these organizations. Multi-unit stores operated by corporate chains do not meet the definition of small-scale retail establishments used in the study.
was followed. The primary purpose of the "judgment" sample was to
ensure that interviews were conducted with a cross-section of
retailers in each of the major lines of retail trade. Interviews
were also conducted with retailers who maintain "formal" and
"informal" relations with suppliers (affiliated and unaffiliated
retail groups in addition to franchised and nonfranchised dealers),
as well as individuals operating in downtown, suburban centers,
and neighborhood areas. Moreover, an attempt was made to inter-
view retailers who do not employ paid personnel and those who main-
tain a relatively large staff.

Although a "judgment" sample was selected, it is felt that a
representative group of retailers was included in the sample.
Since the first objective of the survey was to ascertain the
extent to which respondents make use of existing aids, the pro-
cedure followed was designed to include as many different types
of retailers as possible under the most varied conditions (location,
degree of affiliation, relative size, and kind of business, etc.).
Moreover, even among the classification of "other retail stores,"
which included the largest individual stratum, the sampling ratio
was relatively high (25 per cent). In four of the eight major
lines of retail trade, approximately 50 per cent of the total
universe was included in the sample (Table 10).

As the foregoing discussion indicates, a serious effort was
made throughout the survey to adhere to sound principles of sample
<table>
<thead>
<tr>
<th>Kind of Business Group</th>
<th>Total Number</th>
<th>Pre-determined Quota Sample</th>
<th>Per Cent</th>
<th>Actual Interviews</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Stores</td>
<td>194</td>
<td>38</td>
<td>25</td>
<td>48</td>
<td>25</td>
</tr>
<tr>
<td>General Merchandise, Apparel, and Accessories Stores</td>
<td>101</td>
<td>32</td>
<td>31.7</td>
<td>33</td>
<td>32.7</td>
</tr>
<tr>
<td>Furniture, Home Furnishings, and Appliance Dealers</td>
<td>62</td>
<td>31</td>
<td>50</td>
<td>34</td>
<td>54.3</td>
</tr>
<tr>
<td>Automotive Group</td>
<td>48</td>
<td>20</td>
<td>41.7</td>
<td>26</td>
<td>54.2</td>
</tr>
<tr>
<td>Gasoline Service Stations</td>
<td>95</td>
<td>25</td>
<td>26.3</td>
<td>31</td>
<td>32.6</td>
</tr>
<tr>
<td>Lumber, Building Materials, Hardware, and Farm Equipment Dealers</td>
<td>60</td>
<td>20</td>
<td>33.6</td>
<td>28</td>
<td>46.7</td>
</tr>
<tr>
<td>Drug and Proprietary Stores</td>
<td>26</td>
<td>13</td>
<td>50</td>
<td>14</td>
<td>53.8</td>
</tr>
<tr>
<td>Other Retail Stores</td>
<td>180</td>
<td>45</td>
<td>25</td>
<td>58</td>
<td>32.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>766</strong></td>
<td><strong>234</strong></td>
<td><strong>30.1</strong></td>
<td><strong>272</strong></td>
<td><strong>35.5</strong></td>
</tr>
</tbody>
</table>
design in the final determination of respondents to be interviewed. Furthermore, an attempt was made to evaluate response errors through the use of data available from other sources. Although research conducted during the study failed to disclose similar investigations on such a broad scale, available information further substantiates the generalisations developed in the Lexington Survey.

For instance, on the critical subject of the extent to which respondents make effective use of prevailing programs of management assistance, conversations with personnel from the Small Business Administration and the U. S. Department of Commerce in Washington and at local field offices revealed that these individuals are aware of the limited use which small business owners and managers make of government programs. In addition, a pre-conference survey among small business owners conducted for the "President's Conference on Technical and Distribution Research" further indicated that small business owners make only limited use of sales information available through government agencies, trade associations, and large corporations.3

In determining quotas for each stratum of the total population, the size of the sample varied inversely with the total number of

retail establishments included in each kind of business group. This schedule is summarized in Table 11.

TABLE 11.—The sample quota schedule based on the number of retail establishments in each of the major kinds of retail trade groups

<table>
<thead>
<tr>
<th>Number of Retail Establishments</th>
<th>Per Cent Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 or fewer</td>
<td>100</td>
</tr>
<tr>
<td>10 to 15</td>
<td>70</td>
</tr>
<tr>
<td>16 to 29</td>
<td>50</td>
</tr>
<tr>
<td>30 to 59</td>
<td>40</td>
</tr>
<tr>
<td>60 to 119</td>
<td>33 1/3</td>
</tr>
<tr>
<td>120 to 180</td>
<td>25</td>
</tr>
</tbody>
</table>

Based on this quota schedule and the total universe of 766 retail establishments, interviews were conducted with 272 retailers (Table 10). In all but one line of trade (grocery and food stores), the actual number of interviews exceeded the predetermined quota sample. Thus when the quota sample was reached, and it was decided that additional information might be obtained from increasing the number of interviews, this procedure was followed. Since the classification of "other retail stores" contained within the stratum the most varied and least homogeneous group of retailers, the largest number of additional interviews occurred within this group (Table 10). In every instance, the primary purpose was to provide an adequately comprehensive view of each major line of retail trade.
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U. S. Department of Labor
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U. S. Federal Trade Commission
U. S. Small Business Administration

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American Institute of Food Distribution. New York 17, New York
American Rack Merchandisers Institute. Chicago 54, Illinois
American Retail Association Executives. Nashville, Tennessee
American Society of Association Executives. Washington 6, D. C.
Association of Buying Offices. New York 1, New York
Associated Retail Bakers of America. Chicago 13, Illinois
Associated Retail Confectioners of the United States. Chicago, Illinois
Athletic Good Manufacturers Association. Chicago 4, Illinois
Better Business Bureau of Louisville. Louisville, Kentucky
Cooperative Food Distributors of America. Chicago 4, Illinois
Council of State Chambers of Commerce. Washington 6, D. C.
Florists' Telegraph Delivery Association. Detroit 26, Michigan
Grocery Manufacturers of America. New York 17, New York
Independent Grocers Alliance of America. Chicago 3, Illinois
Independent Shoemakers. Philadelphia 3, Pennsylvania
Kentucky Automobile Dealers Association. Louisville, Kentucky
Kentucky Petroleum Marketers Association. Louisville 2, Kentucky
Kentucky Retail Food Dealers Association. Louisville, Kentucky
Kentucky Retail Hardware Dealers Association. Louisville, Kentucky
Kentucky Retail Lumber Dealers Association. Lebanon, Kentucky
Lexington Credit Bureau. Lexington, Kentucky
Monument Builders of America. Chicago 4, Illinois
National Association of College Stores. Oberlin, Ohio
National Association of Food Chains. Washington 6, D. C.
National Association of Music Merchants. Chicago 4, Illinois
National Association of Retail Clothiers & Furnishers. Washington, D.C.
National Association of Retail Druggists. Chicago 6, Illinois
National Association of Retail Grocers. Chicago 1, Illinois
National Association of Retail Ice Cream Manufacturers. Toledo, Ohio
National Association of Retail Meat & Food Dealers. Chicago, Illinois
National Association of Shoe Chain Stores. New York 17, New York
National Automobile Dealers Association. Washington 6, D. C.
National Congress of Petroleum Retailers. Detroit 26, Michigan
National Council for Small Business Management Development.
Washington, D. C.
National Retail Credit Association. St. Louis 5, Missouri
National Retail Merchants Association. New York 1, New York
National Retail Farm Equipment Association. St. Louis 10, Missouri
National Retail Florists Association. Chicago 40, Illinois
National Retail Hardware Association. Indianapolis 4, Indiana
National Sales Executives, Inc. New York 22, New York
National Shoe Institute. New York 17, New York
National Stationery & Office Equipment Association. Washington 5, D.C.
Retail Tobacco Dealers of America. New York 38, New York
Society of American Florists. Chicago 5, Illinois
Super Market Institute. Chicago 10, Illinois
United Fresh Fruit & Vegetable Association. Washington 5, D.C.

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Allis-Chalmers. Milwaukee 1, Wisconsin
Bates Fabrics, Inc. New York 1, New York
Bell & Howell Company, Chicago 45, Illinois
Beltone Hearing Aid Company. Chicago 32, Illinois
Brown Shoe Company. St. Louis, Missouri
Chrysler Corporation. Detroit 31, Michigan
Clark Equipment Company. Battle Creek, Michigan
Wilmington 98, Delaware
Ely & Walker (member of Burlington Industries, Inc.). Memphis, Tennessee
Ford Motor Company. Dearborn, Michigan
General Electric Appliances Company. Louisville, Kentucky
General Mills, Inc. Chicago, Illinois
General Motors Corporation. Detroit 2, Michigan
International Shoe Company. St. Louis, Missouri
R & M Kaufmann. Aurora, Illinois
Knox Hats. New York 16, New York
Phyllis Shoe Company. Lowell, Massachusetts
TheRalston Purina Company. St. Louis, Missouri
Sinclair Refining Company. Chicago 6, Illinois
Socony Mobil Oil Company. New York 17, New York
Studebaker-Packard Corporation. South Bend 17, Indiana
Texas Company. New York, New York

Wholesalers

Bryan-Hunt & Company. Lexington, Kentucky
Butler Brothers (name of firm changed to B. T. L. Corporation after its purchase by the City Products Corporation. Formerly located in Chicago, Illinois; headquarters of the corporation will be moved to New York, New York)
W. E. Griggs. Lexington, Kentucky
Graybar Electric Company, Inc. Lexington, Kentucky
Hildebrand & Company. Louisville, Kentucky
Kentucky Food Stores. Lexington, Kentucky
Kellers' Implement Company. Lexington, Kentucky
Kentucky Ignition. Lexington, Kentucky
Lex-Tronics. Lexington, Kentucky
Merchants Wholesale Grocery Company. Louisville, Kentucky
McKesson & Robbins, Inc. New York 17, New York
Pennebaker & Sons. Lexington, Kentucky
Power Oil Company. Lexington, Kentucky
Rexall Drug Company. Robertson, Missouri
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Van Daren Hardware Company. Lexington, Kentucky
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I, Martin Lee King, was born in McMinnville, Tennessee, October 6, 1925. I received my secondary school education in the public schools of McMinnville, Tennessee. After attending Peabody College and the University of Alabama for one term each, I entered the U. S. Army in February, 1944, and was later transferred to the U. S. Air Force where I served as a radio operator in the Army Airways Communication System until June, 1946. The following September I resumed my studies at the University of Alabama and was granted the Bachelor of Science degree in 1949. The Master of Science degree was awarded to me from Washington University in 1950. After working for two years in the field of retailing, I entered The Ohio State University in September, 1952, and the following year was appointed graduate assistant in the Department of Business Organization. After serving in that capacity for two years while continuing work toward the Doctor of Philosophy degree, I accepted an appointment as assistant professor of commerce at the University of Kentucky in 1955.