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GRAPE, Eugene Frederick, 1926—RETAILER-OWNED COOPERATIVE WHOLESALING IN THE HARDWARE TRADE.

The Ohio State University, Ph.D., 1966
Economics, commerce-business

University Microfilms, Inc., Ann Arbor, Michigan
RETAILER-OWNED COOPERATIVE WHOLESALING

IN THE HARDWARE TRADE

DISSERTATION

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

By

Eugene Frederick Grape, B.A., M.B.A.

* * * * * *

The Ohio State University
1966

Approved by

William R. Davidson
Adviser
Department of Business
Organization
ACKNOWLEDGMENTS

The author is indebted to a number of individuals whose support and encouragement made this study possible. Special appreciation is expressed to Arnold Poole, President of Great Western Hardware, John Cotter, President of Cotter & Company, N. W. Diehl, General Manager of United Hardware Distributing Co., and Robert Vereen, Editor of Hardware Retailer. An expression of thanks also is extended to Dr. William R. Davidson, my adviser, Dr. William B. Logan, and Dr. Alton F. Doody. Although the aforementioned persons contributed in various aspects of the study, the findings, conclusions, and opinions presented herein are those of the author.

Finally, much appreciation goes to my wife and four children for their forbearance during the many evenings and weekends they were without the companionship of a husband and father.
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CHAPTER I

INTRODUCTION

It is well known that retailer-owned cooperatives have been successful in the food field. In 1963 they accounted for approximately 30 per cent of total general-line grocery wholesaler sales in the United States.\(^1\) Progress of retailer-owned cooperative groups in other fields, however, has been comparatively slow, that is, with the exception of hardware. The dealer-owned cooperatives, as they are commonly called in the hardware trade, increased their market position from 2.5 per cent of total general-line wholesaler sales in 1948 to almost 13 per cent in 1963. Seventy per cent of this volume was attained by four companies.\(^2\)

It is important that the role and development of dealer-owned cooperatives be properly evaluated for the following reasons:

1. Traditional wholesaling fails to supply a large segment of the hardware retailer market with the low cost distribution needed for effective competition in our dynamic economy.

2. Hardware retailers realize the necessity of relinquishing some of their individuality and combining in groups to obtain the economic advantages of large retailers.


\(^2\)Research by the author.
3. The dealer-owned cooperatives are a factor of considerable importance in the distribution of products to hardware retailers and could possibly attain in the hardware trade the same competitive position as the retailer-owned cooperatives in groceries.

4. The growth of the retailer-owned cooperative movement in hardware is behind that of its counterpart in the grocery trade by some quarter century, and there seems to be little corresponding development of this movement in the drug trade. Analysis of the factors behind these different growth patterns will likely provide an indication of this movement's development, and that of wholesaler-sponsored groups, in other fields.

Objectives

The basic purpose of this study is to contribute additional knowledge regarding the nature, development, status, impact, and future of retailer-owned cooperative wholesaling in the hardware field.

Specifically, the study is designed to answer the following questions:

1. What has been the approximate growth in sales volume of the dealer-owned cooperative movement from 1929 to 1963?

2. What factors have been responsible for the exceptional growth of the dealer-owned houses since the mid-1950's, factors apparently absent in the pre-World War II period?

3. How do retailers affiliated with dealer-owned cooperatives differ from retailers buying from regular, full-service wholesalers with respect to store sales volume, store location, purchasing practices,
methods of pricing, gross margin, wholesaler loyalty, and trade association affiliation?

4. How important are drop shipments (a) to the successful operation of both the dealer-owned house and its retailer members and (b) as a percentage of the former's total sales volume and the latter's total purchases?

5. Is the dealer-owned cooperative more efficient and economical in its operation than the regular wholesaler? What is the difference in operating costs between these two wholesale distributors of general line hardware?

6. What effect is the dealer-owned cooperative movement having on hardware retailing and wholesaling?

7. What limitations are there to the continued growth of retailer-owned cooperative wholesaling in the hardware field? What effect might the program wholesaler movement, hardware's counterpart to the wholesaler-sponsored group in the field of groceries, have on this growth?

The answers to these questions should provide both an adequate understanding of dealer-owned cooperative wholesaling and a basis for appraising its position and future in the hardware field.

There are other subjects of importance that could well be analyzed in the general areas of cooperative wholesaling and hardware wholesaling, including the following:

The growth and status of program wholesalers (wholesaler-sponsored groups) in the hardware trade.

The growth and status of wholesaler federations in the hardware trade.
The growth and status of retailer-owned cooperatives in fields other than food and hardware.
The changing pattern and future of hardware wholesaling.

As interesting and important as these subjects are, they are beyond the defined scope of the research plan of this study. Reference, however, will be made to retailer-owned cooperative wholesaling in the grocery trade because of its similarity in both development and method of operation to that in hardware.

Sources and organization of information

Although much material is available in marketing journals, textbooks, and periodicals on cooperative wholesaling in the grocery field, relatively little information exists on this type of wholesaling in hardware. That which does exist is primarily in the form of news items appearing in such trade magazines as Hardware Retailer, Hardware Age, and Home Furnishings Daily. Therefore, most of the information presented in this dissertation consists of primary data obtained through questionnaires, correspondence, and personal interviews.

Questionnaires. Two questionnaire surveys of hardware retailers were made in connection with this dissertation. The first survey was made in September 1963 of approximately 1,000 retailers (located in some 29 states) affiliated with a midwestern dealer-owned wholesale hardware cooperative. Replies were received from 453 dealers, a 45 per cent
response. The questionnaire, a copy of which is reproduced in Appendix A, covers the following subjects:

1. Sources of supply
2. Concentration of dealer purchases
3. Wholesaler patronage motives
4. Drop shipment purchases
5. Need for wholesaler salesmen
6. Utilization of wholesaler credit
7. Pricing policy
8. Gross margin and net profit
9. House loyalty
10. Store classification (sales volume and location)

The second questionnaire survey, and the one with which this study is primarily concerned, was undertaken in February 1964 of about 4,600 National Retail Hardware Association members located in Ohio, Pennsylvania, Indiana, New York, and New Jersey. Replies were received from 658 dealers, a 14 per cent response, comprised of 222 retailers.

3 No follow-up on the non-respondents was made in this survey for two reasons. One, the author did not possess the membership lists of the hardware retailers located in the states surveyed. (N.R.H.A. policy does not permit the distribution of its membership lists. Questionnaires were mailed from Indianapolis by N.R.H.A. and returned to the author in San Jose, California.) Two, the questionnaires were returned anonymously to encourage maximum response. Although the absence of a follow-up presents the possibility that the non-respondents are sufficiently different from the respondents in terms of type of dealer, sales size, location, etc., to question the reliability of the survey's findings, such does not appear to be the case. An analysis of the late respondents, those replying during the second three-week period following the mailing, shows that these retailers are fairly representative of the early respondents, those replying during the first three weeks. Likewise, the characteristics of the dealer-owned cooperative retailers responding to this survey compare
affiliated with dealer-owned cooperatives, 165 retailers affiliated with program wholesalers, and 271 unaffiliated retailers patronizing the regular wholesaler as their main source of wholesale supply. Although these 658 dealers are not representative of all retail hardware stores located in these five states (the universe) or the country, as reported by the Bureau of the Census, they are believed to be an adequate and representative sample in terms of sales size and location of those dealers accounting for the great majority of total retail hardware sales in these states. The respondents in each of the three retailer groups also are believed to be an adequate representation of the dealers comprising the great majority of the total retail sales in each group in the aforementioned states at the time the survey was taken.

The 4,600 retailers covered in the survey constitute N.R.H.A.'s total membership in Ohio, Indiana, Pennsylvania, New York, and New Jersey. While this list lacks adequate representation of the small stores doing less than $50,000 in annual sales, especially stores located in the downtown and neighborhood business sections of larger cities, it does represent retailers accounting for approximately 75 per cent of the total retail sales of the hardware stores located in these states. Facts submitted to N.R.H.A. on the sales size and location by state of all retailers responding to the author's survey were reported by N.R.H.A. to be fairly representative of its membership in these states. This information was conveyed to the author in conversation and correspondence with Robert Vereen, Editor of Hardware Retailer and Thomas Jenkins, Research Director of N.R.H.A.

No information is available with which the author can compare his findings on the sales size, location, and buying habits of retailers affiliated with dealer-owned cooperatives, program wholesalers, and those patronizing regular wholesalers. Such data, except the generally accepted belief that dealer-owned cooperative retailers are larger than the average-size hardware retailer, have not been collected or made public. In this respect this study is the first of its kind. However, it should
A copy of the questionnaire used in this survey is reproduced in Appendix B. It covers the same subject areas as the questionnaire mailed to retailers affiliated with the dealer-owned cooperative.

A questionnaire survey also was made of 14 dealer-owned cooperatives in November 1962. Responses were received from seven houses whose total sales represented at that time about 65 per cent of the group's total volume. Six of these companies also submitted copies of their franchise agreements. Subjects covered in the questionnaire include company history, method of operation, dealer loyalty, sales and operating expenses, and limitations to dealer-owned cooperative growth. A copy of the questionnaire appears in Appendix C.

**Correspondence and interviews.** Extensive correspondence with dealer-owned cooperative and program wholesaler managers, trade association officers, and trade paper editors was maintained in connection with this study over the period 1962-1964. Most of the interviews, on an informal basis in person and by telephone, were with managers of readily accessible cooperatives in California. The small number and wide geographic dispersion of dealer-owned cooperatives in the country made further utilization of interviewing impractical. A limited number of personal interviews and telephone calls, however, were made with the

not be assumed that other surveys undertaken in the not-too-distant future will derive findings similar to those presented in Chapter III of this dissertation. The rapid changes taking place in hardware retailing, as was true of grocery retailing in the 1930's and 1940's, will probably affect the composition of retailers comprising the three groups (especially unaffiliated retailers) and the buying habits of each group.
managers of some of the larger dealer-owned cooperatives in the Midwest. By and large, however, intensive communication by correspondence and telephone interview was had with but a few select individuals: the manager of the largest dealer-owned cooperative in the country, managers of three of the fastest growing dealer-owned cooperatives, and the editor of a leading hardware trade journal. Major topics discussed include the growth and status of the dealer-owned cooperative and program wholesaler movements, sales and operating expenses, advantages and disadvantages of cooperative membership, retailer loyalty, and various aspects of dealer-owned cooperative operation.

Limitations of the study

In 1963, twenty-one widely dispersed companies comprised the retailer-owned cooperative group in the hardware trade. Failure to establish communication and active cooperation with about half these firms, a few large but many small, constitutes a limitation of this study. Reasons explaining this failure are as follows:

1. The lack of time, money, and the geographic location of these firms throughout the United States. The latter factor seriously restricted the opportunity for personal contact, an essential element in a study of a confidential nature.

2. The dealer-owned cooperatives, as were their counterparts in the grocery and drug trades, have been and still are subject to much criticism and pressure from regular wholesalers and their trade associations. Manufacturers also have been reluctant in some instances to supply these houses because of such pressure.

3. Some managers believe that it is best to keep company performance a secret for competitive reasons. Others wish to avoid any unnecessary trouble that might result from a published study of their field. The philosophy of these managers is "let sleeping dogs lie."

While recognizing the advantages of maximum participation in an "industry" comprised of relatively few companies, this limitation is not believed to seriously affect the value of the dissertation. Believed to adequately offset this limitation is the quality of information furnished by the more cooperative dealer-owned company managers and other knowledgeable persons in the field.
A second limitation is the presence of bias in the author's 1964 survey of hardware retailers. That some bias exists because of the size (approximately 14 per cent) and composition of the response is acknowledged. Nevertheless, it is not believed to be great enough to change the overall findings of the survey. (This subject is discussed in both a preceding section of this chapter and the introduction to Chapter III.)

Another limitation pertains to the period (1961-1964) in which the study was made; a time of rapid change in the hardware trade. Examples of this change include the significant increase in both the number and relative sales volume of cooperative groups (dealer-owned cooperative and wholesaler-sponsored) and specialty hardware wholesalers, the corresponding decline of general-line wholesalers, and the decline in the number of hardware retailers. It is quite possible, therefore, that some of the data, opinions, and conclusions presented in this study will be "obsolete" by 1970.
CHAPTER II

HISTORICAL DEVELOPMENT OF COOPERATIVE HARDWARE WHOLESALING

Retailer-owned cooperative wholesaling exists primarily in three fields: groceries, drugs, and hardware. Its development in these fields, however, varies considerably. For example, in 1939 the retailer-owned cooperatives in both the grocery and drug fields accounted for approximately 8 per cent of total general-line wholesaler sales,¹ more than four times the importance of this group (1.7 per cent) in hardware.² Yet in 1963, the dealer-owned cooperatives in the hardware trade represented almost 13 per cent of total general-line wholesaler sales.³ The retailer-owned grocery cooperatives also increased their position significantly, while little if any progress was made by the drug cooperatives.

This chapter has two main purposes: to trace the development of dealer-owned cooperative wholesaling in the hardware trade from 1929-1963


²The year 1939 is the last Census of Business year for which data are available on the sales volume of retailer-owned cooperatives in the hardware and drug trades. (The Bureau of the Census continues to report data on the grocery field cooperatives.) It is compared with 1963 because the latter is the most recent census year for which total industry data are reported and for which sales data were gathered and analyzed in this study.

³Research findings of the author.
and to analyze the factors affecting the growth of retailer-owned cooperative wholesaling irrespective of field. Introduced as background information are the types of cooperative hardware wholesaling, the growth of the retailer-owned cooperative movements in the drug and grocery fields, and the status of wholesaler-sponsored groups in hardware.

I. Types of Cooperative Hardware Wholesaling

The basic purpose of cooperative wholesaling is to preserve individual opportunity and, in the process, the status of the independent merchant. This it seeks to do through cooperation whereby retailers group together to obtain in one way or another the buying and merchandising advantages of the corporate chain.

Basically, there are two types of cooperative wholesaling. The first is wholesaler organized, owned, and controlled, and the second, retailer organized, owned, and controlled. In the former type, commonly called the wholesaler-sponsored voluntary chain, the wholesaler takes the initiative in forming the group. In the latter, retailers take the initiative and set up either an informal buying and advertising group or a retailer-owned cooperative in which they perform the functions of wholesalers.

Buying and advertising groups

The simplest form of retailer cooperation is the informal buying and advertising group wherein a number of hardware dealers get together periodically to pool their purchases and/or advertise via newspapers or circulars. At the outset, most of these associations are formed for the sole purpose of pooled buying. However, in time these merchants also
often begin to advertise collectively in order to increase store traffic. A number of these groups are known to exist in the hardware field.\textsuperscript{4} If the number of dealers in the group is large enough, storage space may be leased to facilitate the warehousing function. Several such warehouse operations are believed to exist in the East and Midwest. Many times these endeavors, for lack of information, are classified erroneously as true dealer-owned cooperatives.\textsuperscript{5}

While buying and advertising groups are somewhat common in the hardware trade and provide their members with some price and advertising advantages, they usually possess sufficient disadvantages to render them ineffective against competition.\textsuperscript{6} First, this type of association fails to develop the merchandising and management abilities of its members, a necessity for success in a competitive business system. Second, the groups' cohesiveness is weakened by the dissatisfaction that often arises

\textsuperscript{4} Correspondence with the executive secretaries of the various state hardware trade associations indicate that there are a number of buying and advertising groups of considerable size in the country, such as Pioneer Hardware Stores in Flint, Michigan and Handy Hardware Stores in Houston, Texas.

\textsuperscript{5} It is more common to find true dealer-owned houses of small size classified as informal buying groups. This occurs due to a lack of agreement on what constitutes a retailer-owned cooperative. A case in point is Western Wholesale Hardware in San Francisco. Although this company carries a limited product line, it is a retailer-owned wholesaling operation with a full-time paid manager. It qualifies, therefore, as a true dealer-owned cooperative.

\textsuperscript{6} According to one source, "In the grocery, drug, and hardware trades, informal buying pools have failed in so far as meeting chain store competition in general is concerned, and therefore they have not become of quantitative significance." T. N. Beckman, N. H. Engle, and R. D. Buzzell, Wholesaling (3rd ed.; New York: The Ronald Press Company, 1959), p. 206.
over merchandise purchased or advertised, slowness of pickup, lack of storage space, and actual savings. Buying and advertising groups, therefore, are not permanent and usually of short duration. If they are successful and see the advantages of continued association, they generally organize a dealer-owned cooperative or join such an organization.

Dealer-owned cooperatives

The Federal Trade Commission defines a retailer-owned cooperative as follows:

The retailer-owned cooperative chain is an organization of independent retailers that advertises, functions as a wholesaler, or performs other marketing activities cooperatively, and which is not connected with any particular wholesaler in such activities.7

The Census defines retailer-owned cooperative food wholesalers as follows:

Wholesale grocery establishments owned and operated by groups of independent food retailers buying collectively. Establishments function primarily as wholesale companies selling chiefly to members but sometimes do a regular wholesale business.8

A group need not advertise to be classified as a retailer-owned cooperative.9 However, it must be a retailer-owned and retailer-operated

7Federal Trade Commission, Cooperative Grocery Chains, 72nd Cong.; 1st Sess., Senate Doc. No. 82, 1932, p. XV.
9The Federal Trade Commission in its 1930 study of grocery chains classified cooperative chains into five categories: (1) a cooperative advertising chain; (2) a cooperative buying and advertising chain; (3) a cooperative chain that operates a warehouse; (4) a cooperative chain that buys, advertises, and warehouses its merchandise; and (5) a cooperative chain that buys, advertises, operates a warehouse, and employs a supervisor. Op cit., p. 14.
establishment functioning as a wholesaler. This is believed to imply a company doing business in its own name and operating under the direction of a full-time manager.

Some common characteristics of the dealer-owned cooperative in the hardware field are presented to provide a better understanding of its nature.

First and foremost, practically all dealer-owned companies are owned 100 per cent by hardware retailers and function on the principle of one vote per member. (Company managers may also possess a very limited amount of stock for voting purposes.) Year-end profits, in whole or part, are distributed to the dealer members in the form of patronage rebates usually in proportion to their warehouse purchases. On the basis of product line, dealer-owned houses are classified as general-merchandise or general-line wholesale establishments, and usually take the corporate form of organization. Most companies issue both common and preferred stock and sell as a matter of policy to members only. (This practice is contrary to some of the retailer-owned grocery cooperatives which sell to non-members.)

It should be noted, however, that dealer-owned cooperatives are not always recognized as wholesalers. One leading authority classifies

10 The American Marketing Association's Committee on Definitions defines a retailer-cooperative as "A group of independent retailers organized to buy collectively either through a jointly owned warehouse or through a buying club." No distinction is made between informal buying and/or merchandising groups, which are not warehouse operations, and retailer-owned cooperatives. Both are classified as retailer-cooperatives. American Marketing Association, Marketing Definitions (Chicago: American Marketing Association, 1960), p. 23.
retailer-owned cooperatives as wholesaling establishments and are to be differentiated from wholesalers who are independent middlemen. In fact, it was partly on this basis that some manufacturers in the past refused to sell to retailer-owned cooperatives or to grant them conventional wholesaler discounts. It also appears to be one of the major reasons for refusing the dealer-owned cooperative membership in the various hardware wholesaler associations. On the other hand, the Census of Business, also an authoritative source, does classify retailer-owned cooperatives as wholesalers when they are separately incorporated, buy and take title to merchandise in their own names, and resell to customers who, although owning stock in the wholesale establishment, operate a retail business independent of it.

Program wholesalers

Program wholesalers are the counterparts of the voluntary group wholesalers in the grocery field. The Census defines the latter as follows:

Establishments of grocery wholesalers sponsoring, or affiliated with sponsors of, voluntary organizations of independent food retailers. Voluntary group wholesalers


12 Although the term program wholesaler is commonly used in trade journal articles to describe a wholesaler-sponsored group, on occasion it denotes any wholesale establishment, including the dealer-owned cooperative, promoting a store program. Its use in this manner is to be discouraged. It is more advisable to use wholesaler-sponsored group. However, since the term, program wholesaler, is generally accepted in the trade and is used to describe an independent middleman sponsoring a franchised store program, as distinguished from a retailer-owned cooperative establishment, it is used in this study.
commonly engage in joint advertising or other sales promotions under a group name or identification. Wholesale establishments sponsoring such groups are included regardless of the portion of their sales to retail members of the organization.\textsuperscript{13}

The American Marketing Association defines a voluntary group as

A group of retailers each of whom owns and operates his own store and is associated with a wholesale organization or manufacturer to carry on joint merchandising activities and who are characterized by some degree of group identity and uniformity of action. Such activities have been largely of two kinds: cooperative advertising and group control of store operation.\textsuperscript{14}

There are two basic types of wholesaler-sponsored groups with franchised store programs in the field of groceries.\textsuperscript{15} The major difference is in the customers served. One group sells to members only; the second sells to other customers as well. Both groups, however, sell without the conventional sales force. In the hardware trade the situation is somewhat different. First, only one program wholesaler is known to sell solely to franchised members, namely, Ace Hardware Corporation in Chicago. Second, practically all program wholesalers with the exception of Ace Hardware sell to hardware retailers via a sales force. Wholesalers

\textsuperscript{13}1954 Census of Business, \textit{op. cit.}

\textsuperscript{14}American Marketing Association, \textit{op. cit.}, p. 23.

\textsuperscript{15}Service wholesalers whose programs consist solely of advertising and sales promotion do not qualify as program wholesalers in this study. Joint merchandising activities and some degree of group identity and uniformity of action as in a franchised store operation must be present. For this reason much of the publicity given to "voluntary chain growth" in drug magazine articles is believed to be deceiving. A large part of this activity is by regular wholesalers promoting advertising programs only. They are not sponsors of merchandising and franchised store programs similar to I.G.A. and Red and White Stores in groceries or Pro and Trustworthy in the hardware trade.
in this group include such firms as The Geo. Worthington Co. in Cleveland, Ohio, Whitlock Corp. in Yonkers, New York, the Bostwick-Braun Company in Toledo, Ohio, and other companies affiliated with such wholesaler federations as Pro Hardware, Inc. and Liberty Distributors. (Wholesaler federations are discussed in a subsequent section.)

Chain of franchised stores. Similar in nature to the wholesaler-sponsored voluntary chain is the Handyman Chain of low volume, convenience hardware stores. The chain, which operates on a franchised basis, first appeared in Florida about 1962. During the period 1963-1964, it was issuing licenses to firms to do business in other states including Pennsylvania, New York, and lower New England. In accordance with the procedures then known to be in effect, the licensee acquires the right to build a number of hardware stores (in the case of Pennsylvania, it is 500) which in turn are leased or franchised to store operators. Each store carries about 3,500 items for the do-it-yourself market, and inventory is controlled by an IBM stock distribution system in a centrally located warehouse. The operator's main responsibility is selling, and each store is expected to do about $60,000 in sales. The central organization takes care of inventory control, sales analysis, purchasing, and store promotions.16 The exact number of stores operating in this chain is not known although some 25-30 stores are reported to exist in central Florida.17

16 "Convenience Stores in Hardware," Hardware Age, June 25, 1964, pp. 68-70.

17 Due to the newness of this particular type of store operation, considerable speculation exists over its future success in hardware retailing.
Wholesaler federations

A natural extension of cooperative wholesaling in hardware has been the formation of wholesaler federations similar to those of I.G.A. and Red and White Corporation in the grocery trade. The basic reasons prompting the formation and growth of these associations are to provide affiliated wholesalers with (1) manufacturer and private brand merchandise usually priced below the wholesaler's normal cost; (2) a low cost advertising and sales promotion program; and (3) a store identification and merchandising program. The federations also assist members by securing advertising allowances from manufacturers, providing market information and store engineering services, compiling basic stock lists, and employing buying and merchandising specialists.

Five companies with a membership of approximately one hundred regular and program wholesalers 18 comprised the wholesaler federation group in 1963. They are Sentry Hardware Corp., Cleveland, Ohio (formerly called Interstate Hardware Merchandising, Inc.), Liberty Distributors, Chicago, Pro Hardware, Inc., Stamford, Connecticut, Val-Test Distributors, Chicago, and Allied Hardware Services, Chicago. 19 (A Franchise agreement of Pro Hardware, Inc. is presented in Appendix D.)

No dealer-owned cooperative is either a member of or a subscriber to the services of these organizations, nor do the dealer-owned cooperatives have an association of their own.

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19 The James A. Stewart Co. in Carnegie, Penn. is not considered a wholesaler federation since its primary service is preparing advertising and sales promotion programs.
II. History of Dealer-owned Cooperative Wholesaling

The following incident typifies the circumstances promoting the development of retailer-cooperative groups.

About 20 hardware retailers attended the meeting. The discussion grew heated. All were in accord in denouncing the new form of competition. They agreed that something had to be done quickly to prevent the independent dealer from being driven out of business.... "They're able to get much lower prices [competition] because they place big orders and buy direct. To get our business back we've got to meet their prices, and we can't do it as long as we buy individually from jobbers. So we must get together, pool our orders, and go direct to the manufacturers and demand their lowest prices."20

The actual situation described above did not occur during the competitive 1950's or 1960's but in the early 1900's. The competition referred to was the department stores and mail order houses, the "discounters" of their day. The result of this meeting and others like it was the beginning of the retailer-owned cooperative movement in the hardware field.

Pioneer companies

The first dealer-owned cooperative formed in the hardware trade was American Hardware & Supply Co. in Pittsburgh in 1910,21 about twenty years after the formation of the first retailer-owned cooperatives in the drug and food fields. It was soon followed by Hardware Merchants Syndicate organized in 1912 at Los Angeles. Hall Hardware Company at


21 The oldest reporting hardware retailer group was the Franklin Hardware Co. in Philadelphia, which was organized about 1906 as an informal buying club. Federal Trade Commission, Cooperative Drug and Hardware Chains, 72nd Cong., 1st Session, Senate Doc. No. 82, 1932, p. 23.
Minneapolis in 1913, Northern Hardware Co. Inc. in Portland, Oregon, in 1923, Wisconsin Hardware Co. at Madison in 1925, and Anchor Hardware Stores Co. in Kansas City also in 1925.\textsuperscript{22}

Of the limited number of cooperative hardware ventures undertaken in the 1920's and 1930's, relatively few succeeded. (The Federal Trade Commission reported six houses in operation in 1929.) Even some of those that managed to stay in business had to temporarily suspend operations at one time or another for lack of sales or capital. Inadequate sales also forced some dealer-owned cooperatives to employ salesmen to compete against regular wholesaler salesmen who were successfully securing business from their members.\textsuperscript{23} Of the pioneer companies only Hardware Merchants Syndicate and Hall Hardware Company, now named Great Western Hardware Co. and Our Own Hardware Company, respectively, have operated continuously since their formation.\textsuperscript{24} In fact, the latter company virtually represented the movement until the middle 1930's.

Unethical business practices and coercion from other wholesalers were commonplace during the 1920's and 1930's. Manufacturers selling to dealer-owned cooperatives were threatened with loss of business if they continued the practice. It was not until 1942 that such tactics

\textsuperscript{22} Ibid.


\textsuperscript{24} Hardware Merchants Syndicate also was plagued by year-end deficits and inadequate working capital. In fact, Federal Government tax forms indicate the company had only one profitable year from 1912 to 1922. Information obtained via correspondence with Arnold E. Poole, President of Great Western Hardware.
were brought before the courts by the Federal Trade Commission in a case involving the National Wholesale Hardware Association and twelve California hardware wholesalers. 25

Post-World War II companies

Increased competition, a declining profit margin, and the need for low cost merchandise were instrumental in rejuvenating the dealer-owned cooperative movement in the post-World War II era. Once again there arose in the minds of some hardware businessmen the conviction that the small retailer must eliminate the intermediate profit in distribution, that he must own and control his own source of wholesale supply to compete effectively against the mass-merchandisers. It was because of such thinking and the success of retailer-cooperative wholesaling in the grocery field that 12 or more companies were organized over the fifteen-year period from 1948-1962, including among them Cotter & Company, Hardware Wholesaling, Inc., United Hardware Distributing Co., and Western Hardware Company. (Brief case histories on Cotter & Company and Western Hardware Company and an analysis of their growth performance are presented in a subsequent section.)

25 This case, which also presents much information on the histories and experiences of Hall Hardware Company, Bay Cities Hardware, Ace Hardware Corp., and Southwest Hardware Co. (formerly Hardware Merchants Syndicate), is notable in that the court recognized cooperative-type companies to be wholesale establishments and not retail establishments. F.T.C. Docket No. 4592 (1942).
III. Reasons for Dealer-owned Cooperative Membership

Many reasons are usually cited for joining a dealer-owned cooperative but by far the most often expressed is the desire to buy merchandise at a low cost to meet competition. This is true for membership in both the pioneer companies and the companies formed after World War II. It is also the major reason for membership in the grocery trade. That the larger retailer-owned cooperatives in both fields are able to fulfill this desire there is but little question.

Possibly the next most important reason for membership is the dealer-owned cooperative's advertising and sales promotion program, especially the programs of the larger companies. (A number of the smaller companies do not have advertising programs.) Also important are the cooperative's policies of selective distribution and selling solely to members whereby only one dealer receives the benefit of both the company's low cost merchandise and advertising program in a trading area.

26 Most of the information in this section is based upon the findings of the author's 1962 questionnaire survey of California hardware retailers and the 1963 survey of the large midwestern dealer-owned cooperative.


29 Edmond B. O'Leary, Cooperative Wholesaling in Grocery Distribution (Columbus: Bureau of Business Research, The Ohio State University, 1942), p. 104.

30 Our Own Hardware Co. was one of the first wholesaling establishments to promote a major advertising and sales promotion program on a regular basis in the hardware field. Its program was introduced in the early 1930's.

30 Only one dealer-owned cooperative, a small company in New York, is known to sell to non-members.
A "sales to members only" policy also prevents the company from competing with its dealers for industrial and commercial business. This cannot be said of regular and program wholesalers. Another frequently given reason for membership is that all dealers regardless of sales size are quoted the same merchandise price. Those dealers who concentrate their purchases and buy in greater quantity are rewarded at the end of the year with larger patronage rebates.

Other reasons include patronage rebates, management's attitude toward members, merchandising and management clinics, stock control program, and field representative service.

IV. Growth and Status of Retailer-owned Cooperative Wholesaling

This section is devoted mainly to the development of retailer-owned cooperative wholesaling in the hardware trade. It also includes, for purposes of comparison and as background information for subsequent sections, material on (1) the growth and status of retailer-owned cooperative wholesaling in the drug and grocery fields and (2) the status of the program wholesaler movement in hardware in 1963.

Retailer-owned cooperatives in the hardware trade

Although very little information is available on the development and present status of the dealer-owned cooperatives in the hardware trade, one fact readily stands out. Growth of this movement was slow until the mid-1950's. From that time on its progress has been exceptional.
The first study made of this group was by the Federal Trade Commission in the early 1930's. At that time there were found to be six cooperative groups (five dealer-owned cooperatives and one informal buying group) serving some 990 stores with an estimated volume of $6 million at retail.\textsuperscript{31} In 1939, the Census reported ten dealer-owned cooperatives with wholesale sales of $9 million.\textsuperscript{32} At this point the Government discontinued supplying information on hardware (and drug) cooperatives. Nor has any other known governmental agency reported such information since.

In view of the situation, and the importance of sales information to this study, research was undertaken to determine the sales volume significance of dealer-owned cooperatives for the Census years 1948, 1954, 1958, and 1963. The figures presented in Table 1 are the findings of this research and, although they are estimates, they are believed to represent satisfactorily the composite totals of the group for the census years indicated.

As indicated, little growth in the dealer-owned cooperative movement took place from 1929 to 1939 even though four new companies were organized during the period. In the former year dealer-owned cooperative sales amounted to little more than one-half per cent of total general-line hardware wholesaler sales; in the latter year it was 1.7 per cent. This percentage share of general-line wholesaler sales increased still further in 1948 and 1954 to 2.5 per cent and 3.5 per cent, respectively. Corresponding sales for these two years are estimated to be around

\begin{footnotesize}
\begin{enumerate}
\item Federal Trade Commission, \textit{op. cit.}, p. 23.
\item Census of Business: 1939, \textit{op. cit.}, pp. 59-60.
\end{enumerate}
\end{footnotesize}
### TABLE 1

ESTIMATED NUMBER AND SALES VOLUME OF DEALER-OWNED COOPERATIVES
IN THE HARDWARE TRADE FOR CENSUS YEARS, 1929-1963

<table>
<thead>
<tr>
<th></th>
<th>1929</th>
<th>1939</th>
<th>1948</th>
<th>1954</th>
<th>1958</th>
<th>1963</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated number of known dealer-owned cooperatives(^a)</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>19</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Estimated sales volume (millions)</td>
<td>6(^b)</td>
<td>8.4(^c)</td>
<td>40-45</td>
<td>55-60</td>
<td>80-85</td>
<td>155-160</td>
</tr>
<tr>
<td>Total general-line wholesaler sales (millions)(^d)</td>
<td>669</td>
<td>540</td>
<td>1,698</td>
<td>1,624</td>
<td>1,533</td>
<td>1,243</td>
</tr>
<tr>
<td>Dealer-owned sales as a per cent of general-line wholesaler sales</td>
<td>0.6</td>
<td>1.7</td>
<td>2.5</td>
<td>3.5</td>
<td>5.4</td>
<td>12.7</td>
</tr>
</tbody>
</table>

\(^{a}\)Number of companies, not establishments.

\(^{b}\)Retail sales volume.

\(^{c}\)Actual sales volume, Census of Business, 1939.

\(^{d}\)Actual sales volume figures, Census of Business years, 1929-1963.

Source: With the exception of the very small dealer-owned houses whose sales were arrived at on the basis of estimated members, total estimated sales volume of the group was obtained from (1) the companies themselves, (2) news articles in trade journals, (3) Dun & Bradstreet reports, and (4) informed sources in the trade.

$40-45 million and $55-60 million. However, the sales performance of this group nowhere matched that of the retailer-owned cooperatives in the grocery trade which represented almost 18 per cent of total general-line wholesaler sales in 1954.\(^{33}\)

The greatest impetus to this movement in the hardware trade occurred during the five-year period from 1958 to 1963 in which the dealer-owned cooperatives increased their members to approximately 5,700 retailers and nearly doubled their sales volume from $80-$85 million to $155-$160 million. Twenty-one known companies and five branches (only two stock merchandise) comprised the dealer-owned cooperative group in 1963, representing approximately nine per cent of the total number of general-line wholesale establishments (249) reported by the Census.

While most dealer-owned cooperatives increased their sales volume over this period, approximately half the $75 million gain was accounted for by Cotter & Company of Chicago. Its sales increased from $13 million in 1958 to $51 million in 1963. Company sales in 1965 exceeded $85 million.


Hardware Retailer magazine in its Directory of Hardware Wholesalers lists about 450 general-line wholesalers in the United States in 1963. This figure includes some regular wholesalers with a "full line" but doing less than $1 million annually. (The Census classifies such establishments as specialty wholesalers.) Based upon Hardware Retailer magazine's figure, the dealer-owned cooperatives constitute approximately 5 per cent of the total general-line wholesaler establishments.
Eight of these companies had annual sales of less than $1 million. As a result of this gain the group increased its share of total general-line hardware wholesales sales from 5.4 per cent in 1958 to 12.7 per cent in 1963. If dealer-owned cooperative sales were considered only with respect to hardware retailers, for all practical purposes the group's only market (this might change in the future), its relative importance would be even greater. On this basis dealer-owned cooperatives accounted for almost 25 per cent of total general-line wholesaler sales to hardware retailers.38

As noted earlier, the retailer-owned cooperatives in the hardware, drug, and grocery fields are general-line wholesalers. They compete primarily with other general-line wholesalers to supply the total merchandise requirements of their hardware retailer customers. As such, to appraise the group's past and present status in hardware wholesaling, their sales volume performance is compared primarily with that of other and all general-line wholesalers. However, employing only a single basis

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37 These percentage figures should be adjusted upward to account for the difference in gross margin (about 8 per cent in 1963) between the dealer-owned cooperatives and the regular and program wholesalers. Increasing the total sales volume of the former by this much would correspondingly increase the group's share of total general-line wholesaler sales in 1963 to 13.7 per cent.

38 According to the findings of a survey by the author of general-line hardware wholesalers in various states throughout the country, in which thirty-three replies were received, approximately a 40 per cent response, this group sold an average 45-50 per cent of its total volume to hardware dealers. (This substantiates the findings of a 1961 survey made by the National Wholesale Hardware Association.) Half the total of general-line hardware wholesaler sales in 1963 is about $622 million. Dealer-owned cooperatives volume in the same year is estimated at $155-160 million, which is almost 25 per cent.
for comparison, despite its rather frequent use, can result in an incomplete and possibly deceiving picture of an institution’s importance in that field, particularly during times of rapid change. In such a situation, it is necessary to employ a number of bases, such as, total wholesaler sales (general-line and specialty) and total retail store sales to evaluate the institution’s performance. This appears to be especially so in the hardware and drug fields where specialty wholesaling is of increasing importance. In the hardware field, for example, the dealer-owned cooperatives accounted for an estimated 12.7 per cent of total general-line wholesaler sales in 1963.\(^3\) However, on the basis of total wholesaler sales, the dealer-owned cooperatives accounted for 6.2 per cent of the total market. This relatively large difference in percentage figures highlights the number of general-line wholesaler failures and conversions to specialty and industrial distributor operations,\(^4\) and the increasing number of specialty wholesalers entering the hardware trade.

\(^3\)Total hardware wholesaler sales in 1963 according to the Census were $2.54 billion of which the dealer-owned cooperative’s $157.3 million is 12.7 per cent.

\(^4\)The intense competition of the 1950’s and 1960’s “forced” hardware wholesalers to modify their product mix, to both broaden or carry specialty lines and drop other lines. As a consequence of increased sales in these added lines, many general-line wholesalers became specialty wholesalers, that is wholesaling establishments doing the major part of their total dollar volume in a single line of merchandise or a narrow range of products in a single line. These wholesalers also continued to do a significant part of their business with hardware retailers.
Using total retail hardware store sales as a basis, the dealer-owned cooperatives obtained 8.8 per cent of the market.  

While the foregoing gives the relative position of the dealer-owned cooperative group in 1963 using a number of different bases, it overlooks the growth and "impact" of this group on hardware wholesaling. Using the same three bases, it can be shown that the dealer-owned cooperatives increased their relative position (1) from 2.5 per cent of total general-line wholesaler sales in 1948 to 12.7 per cent in 1963, a gain of 400 per cent; (2) from 2.1 per cent of total hardware wholesaler sales in 1948 to 6.2 per cent in 1963, a gain of 200 per cent; and (3) from 2.4 per cent of total retail hardware store sales in 1948 to 8.8 per cent in 1963, a gain of almost 270 per cent in market shares as so measured.

One might assume from the post-World War II growth that there have been no dealer-owned cooperative failures; such is not true. There have been three known failures. They are Franklin Hardware and Supply Co., in Warrington, Pennsylvania in 1962, Southwestern Hardware Company in Oklahoma City in 1956, and United Hardware Company in Kansas City, Missouri in 1954. Likewise, a number of mergers have taken place. In 1961, Southwest Hardware Company in Los Angeles (formerly Hardware

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41 Total retail hardware store sales in 1963 according to the Census amounted to $2.56 billion, which is $1.78 billion at wholesale value using an average gross margin of 31.3 per cent as reported for hardware retailers in 1963 by N.R.H.A. in its Management Report. $157.5 million is 8.8 per cent of $1.78 billion.

42 The impact of the dealer-owned cooperatives is covered in Chapter VI.

43 Computed from data reported in the Census of Business, Wholesale Trade and Retail Trade, 1948 and 1963.
Merchants Syndicate and the oldest, continuously operated dealer-owned cooperative in the nation) combined with Western Hardware Company of Phoenix, Arizona, to form Great Western Hardware Company. Also in that year, Hardware Sales Inc., in Zanesville, Ohio, merged with Cotter & Company of Chicago. In 1963, Mutual Hardware Co. in Richmond, Virginia, merged with American Hardware Supply Co. of Butler, Pennsylvania, and in 1965, the Walter H. Allen Co., Inc. of Dallas merged with Cotter & Company, and Coin Hardware Distributors of Iselin, N. J. merged with American Hardware Supply Co.

The greatest development of the dealer-owned cooperative movement during the 1950's and 1960's was in the East North and West North Central States. In this area are located three of the four largest cooperatives in the country, namely, Cotter & Company in Chicago, Hardware Wholesalers, Inc. in Fort Wayne, Indiana, and Our Own Hardware Company in Minneapolis, Minnesota. The other company comprising the "big four" is American Hardware Supply Co. located in Butler, Pennsylvania. All together, these companies accounted for about seventy per cent of the dealer-owned cooperative group's total sales in 1963.

It is interesting that dealer-owned cooperative wholesaling has made comparatively limited progress in the post-World War II period in New York and California, the first and fourth ranking states in the number of hardware dealers. This is despite the location as of 1965 of three known dealer-owned houses in each state. Likewise, one dealer-owned cooperative establishment existed at that time in the Southwest. There are signs, however, that this situation will change in the future. In California, the two larger dealer-owned cooperatives have increased
their sales volume about 200 per cent over the period 1960-1965, and the New York market is "being invaded" by the large houses located farther west. Considerable growth also seems likely in the Southwest as a result of the merger of Cotter & Company and the Walter H. Allen Co. in early 1965.

A number of reasons are cited for the limited development in these areas over the period 1950-1965. In New York the competition has been exceptionally keen, a situation resulting from too many wholesalers operating on a low cost-plus basis. With relatively low cost merchandise already available, plus the excellent service which many of these wholesalers are reported to give, there is little incentive to join a dealer-owned cooperative. In the southern states, dealers have been less receptive to cooperative endeavors than those in other sections of the nation. This factor, plus the rural nature of the region and the relative absence of the urban discounters, appear to account for the low dealer-owned cooperative membership in that region. California hardware dealers have been somewhat protected against the adverse effect of its low margin retailers (especially around Los Angeles) by the state's tremendous population growth. Many dealers also were unfamiliar or opposed to the "co-op" idea. Together, these factors have acted to restrain the movement's growth in this state.


45 Correspondence with John Hume, Vice President of Coin Hardware Distributors, Inc., Iselin, N. J.
A number of other points should be noted before concluding this section on the status and development of dealer-owned cooperative wholesaling. First, there probably existed throughout the country in 1963 a number of other dealer-owned houses not included in this study. While most of these unknown companies are probably small in both sales and members, they represent, if successfully managed, as do informal buying groups, a nucleus for future growth in their respective areas. Second, of the nineteen dealer-owned companies in 1965, five had branch warehouses of which three belonged to Cotter & Company. Third, while most of the early dealer-owned cooperatives began operations as informal buying groups, such is not true of most companies organized in the post-World War II period. Aided by the knowledge and experience of the pioneer companies and the retailer-owned cooperatives in the grocery field, these associations began business as warehouse operations. Among this group are Cotter & Company, Hardware Wholesalers, Inc., United Hardware Distributing Co., and Western Hardware. Fourth, none of the dealer-owned cooperatives identified in this study are known to have begun operations by acquiring the ownership of a previously established independent wholesale business, although this has been a somewhat common practice in the grocery trade. Cotter & Company, however, did purchase in 1963 certain assets of the wholesale hardware division of Hibbard, Spencer, Bartlett and Co. including inventories, select accounts receivables, and private label merchandise. Also acquired at this time were approximately 400 dealers affiliated with Hibbard, Spencer, Bartlett and Co.'s True Value, Associated Stores, and Auburn Hardware franchised store programs.
Finally, the growth of dealer-owned cooperative wholesaling is not restricted to the United States. Progress is being made in Canada.\textsuperscript{46}

Retailer-owned cooperatives in the drug and grocery trades

The first retailer-owned cooperative in the drug field was organized in the late 1880's. By 1929 there was an estimated thirty establishments with 7,550 retail members doing approximately $30 million in retail sales.\textsuperscript{47} (Assuming a gross margin of 30 per cent in 1929, $30 million at retail is equal to $18 million at wholesale, about 4.5 per cent of total general-line wholesaler sales.) In 1939, the Census reported 23 retailer-owned cooperatives with wholesale sales of $30 million, some 8.2 per cent of total general-line wholesaler sales.\textsuperscript{48}

There seems but little doubt that the retailer-owned drug cooperatives have increased their dollar sales volume since 1939. To what extent though is a question. The Census has not reported sales volume and establishment data since 1939 on cooperative groups in the drug or hardware fields. (Such information is still presented on grocery cooperatives because of their sales importance.) The Federal Wholesale Druggists' Association, the trade association representing the retailer-owned cooperatives in this field, estimates the 1963 sales volume of its

\textsuperscript{46} "126 Ontario, Quebec Hardware Dealers Buy Wholesale Unit," \textit{Home Furnishings Daily}, March 16, 1964.


\textsuperscript{48} Census of Business: 1939, \textit{op. cit.}, pp. 59-60.
group of about twenty companies to be around $200 million.\textsuperscript{49} This figure, however, includes the volume of two Canadian firms, one with annual sales of about $40 million, and one Australian firm. It also excludes the volume of some small retailer-cooperatives that are believed to exist in this country, but which are not members of F.W.D.A. These facts have made it difficult to determine the actual sales volume significance of this group.\textsuperscript{50} Nevertheless, there seems to be general agreement that the growth of the retailer-cooperative movement in the drug trade, if any, has been slow since 1950 compared to the performance of these groups in hardware and food.\textsuperscript{51} On the basis of $160 million in sales volume (F.W.D.A.'s $200 million less the Australian firm's $40 million), retailer-owned drug cooperatives in 1963 accounted for about 8 per cent of general-line wholesaler sales. Using total drug wholesaler sales (general-line and specialty) as a basis, they accounted for 4.4 per cent of the total market.\textsuperscript{52}

In contrast to the retailer-owned cooperative group's performance in drug products, is its performance in the grocery field. Whereas in

\textsuperscript{49} Obtained through correspondence with R. C. Schlotterer, Executive Secretary of F.W.D.A.

\textsuperscript{50} The total volume of the retailer-owned cooperative group in the drug field is further obscured in that some companies identified as retailer-owned were upon investigation mutuals or wholesaler-sponsored groups. Mutuals are companies primarily owned and controlled by one or a limited number of individuals other than retail members, although the latter do own stock.

\textsuperscript{51} It seems probable that the retailer-owned cooperatives in hardware now surpass those in the drug trade in both total sales volume and sales volume as a per cent of total general-line wholesaler sales.

\textsuperscript{52} 1963 Census of Business, Wholesale Trade, United States Summary, 1965, Table 3, p. 1-11.
1939 this group of 136 grocery establishments had sales of approximately $155 million,\(^{53}\) in 1963 its volume, the sales of some 161 cooperatives, amounted to $2.9 billion.\(^{54}\) Corresponding percentage figures of retailer-owned cooperative sales to total general-line wholesaler sales and total grocery wholesaler sales for these two years are 7.9 per cent and 29.1 per cent and 3.8 per cent and 9.4 per cent, respectively.

**Status of the program wholesaler movement**

Little information is available on the size of the program wholesaler movement in the hardware field, that is, the number of program wholesalers with store identification programs and the number of affiliated dealers. The information that does exist pertains to the total store program or voluntary chain movement which includes the franchised store programs of both the dealer-owned cooperatives and program wholesalers.\(^{55}\) In some cases, information on the size of the store program movement in the hardware field also has included the sales

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\(^{53}\)Census of Business: 1939, *op. cit.*

\(^{54}\)1963 Census of Business, *op. cit.*

\(^{55}\)Hardware Age magazine reports some 7,500 stores affiliated with the principal voluntary chains in hardware, both dealer-owned cooperative and program wholesaler. W. A. Phair, "The Voluntary Chains," Hardware Age, April 15, 1965, p. 24. To qualify as a voluntary chain, a company must have (1) 50 franchised dealers, (2) a central warehouse, (3) a written contract, (4) provide special services to the dealer member, and (5) a merchandising and store identification program. The stores also must be privately owned.
promotion programs of regular wholesalers and the franchised store programs of automotive supply wholesalers.\textsuperscript{56}

Research undertaken in connection with this study in 1964 indicates that there are 35-40 program wholesalers with franchised store programs representing about 4,200 retailers.\textsuperscript{57} The amount of business that these wholesalers derive from their sponsored stores is estimated

\textsuperscript{56} Hardware Retailer reports in a special study on hardware wholesaling that 71 wholesalers have "store programs" encompassing some 16,621 retailers. Included in the 71 distributors are the dealer owned cooperatives, the automotive-hard lines distributors (Western Auto, Coast-to-Coast and Gambles), program wholesalers with store identification programs, and regular wholesalers with "some kind" of store program. The 16,621 retailers includes the more than 7,000 affiliated stores of the automotive-hardlines distributors and an unknown number (a breakdown is not given) of dealer-owned cooperative, program and regular wholesaler retailers. Bob vereen, "Where Is the Hardware Industry Headed?," Hardware Retailer, October, 1964, pp. 66-67. It is important to note that the preceding figures were derived from the wholesalers who responded to the magazine's survey. Non-respondent figures are not included. Wholesalers with store programs also are to be distinguished from wholesalers with franchised store identification programs.

\textsuperscript{57} These estimates were compiled from information appearing in trade magazine articles and correspondence with the directors of wholesaler federations sponsoring store identification programs and an editor of a leading trade publication. The figures are broken down as follows: Ace Hardware Corporation has about 500 affiliated stores, the Geo. Worthington Co. accounts for around 500, and the some 20-25 wholesalers sponsoring the Trustworth, Pro, and Keen Kutter stores programs account for approximately 2,100. (These are the franchised store programs of Liberty Distributors, Pro Hardware, Inc., and Val-Test Distributors, respectively.) Other unaffiliated wholesalers promoting store identification programs are estimated to represent another 1,100 stores. Included in this group are such wholesalers as Masback Hardware in New York, Stratton & Terstegge in Louisville, Ky., Moore-Handley Hardware Co. in Birmingham, Ala., Oklahoma Hardware Co. in Oklahoma City, Beck & Gregg Hardware in Atlanta, Ga., Jensen-Eyrd Co. in Spokane, Wash., Associated Hardware Supply in Pittsburgh, Frankfurth in Milwaukee, and Blumberg in Brooklyn, N. Y.
at a maximum of $115 million.\textsuperscript{58} This figure, however, is subject to error. The lack of information on the sales and membership status of program wholesalers indicates a need for further research on this movement.

Compared with the post-World War II growth of the dealer-owned cooperatives, the program wholesaler movement has been slow to develop in hardware; and perhaps justifiably so. Some of hardware's oldest and largest wholesalers, including Marshall-Wells Co., Janney, Semple, Hill Co., Shapleigh Hardware Co., and Hibbard, Spencer, Bartlett & Co. discontinued business in the late 1950's and early 1960's after "going program."\textsuperscript{59} As a result, most program wholesalers built their franchise programs quite cautiously during this period. The fear of failure also restrained regular wholesalers from undertaking such endeavors.

Since 1963, however, the situation has changed as evidenced by the number of regular wholesalers who have adopted franchise store

\textsuperscript{58}This figure is obtained by assuming that program wholesaler dealers are of the same sales size and concentrate their purchases to the same extent as dealer-owned cooperative retailers. It is derived by dividing the number of dealer-owned cooperative members (5,700) into $157.5 million (total sales volume of the dealer-owned cooperative group in 1963) and multiplying the quotient ($27,600) by the number of program wholesaler dealers (4200). Since there is reason to question the basic assumptions given above, based upon the findings of a survey presented in Chapter III, the author is inclined to estimate 1963 program wholesaler volume at no more than $100 million.

\textsuperscript{59}Numerous reasons have been given explaining the failures of these companies including the failure to reduce operating expenses; a low return on investment; the failure of management to "think retail"; the late start in their store programs; and the eminent failure inherent in "straddling the fence," that is, selling to both franchised and non-franchised customers.
programs and those interested in doing such. It also seems probable
that this conversion process will be accelerated by both the success of
the wholesalers sponsoring store programs and the continued expansion of
the dealer-owned cooperative movement.

V. Factors Affecting Retailer-owned
Cooperative Growth

A comparison of the sales performance of the retailer-owned
coop erative groups in the hardware, drug, and food fields shows that in
1939 this type of distributor was more important in wholesaling drug
products than it was in food. Retailer-owned drug cooperatives accounted
for 8.2 per cent of total general-line wholesaler sales compared to the
food cooperative group's 7.9 per cent. Of course, this is no longer
true. It can also be shown that the dealer-owned cooperatives in the
hardware field have "come a long way" in becoming, perhaps, the second
most prominent retailer-cooperative group in marketing. They have
increased their position from approximately 1.7 per cent of total general-
line wholesaler sales in 1939 to an estimated 12.7 per cent in 1963
(Table 1). The retailer-owned cooperatives in the food trade have like-
wise increased their position from 7.9 per cent of total general-line
wholesaler sales to 29.1 per cent. Little if any growth, however, has
taken place in the drug field.

60 Hardware Retailer, op. cit., p. 67.
The purpose of this section is to indicate the various factors responsible for the different growth performance of (1) the retailer-owned cooperative movements in the hardware, drug, and grocery trades over the period 1929-1963; and (2) the dealer-owned cooperatives in the hardware trade since World War II.

Growth in the hardware, drug, and grocery trades

Certain conditions are prerequisites to the existence of retailer-owned cooperative wholesaling. The greater their existence, the greater the likelihood of cooperative wholesaling in a particular field of retailing. They are (1) a significant number of independent retailers and (2) a wholesale source of supply capable of fulfilling most of the retailer's total merchandise needs. All three fields discussed thus far meet these requirements. So do also, but to a lesser extent, the fields of lumber, building materials, plumbing, dry-goods, appliance and radio-television, and office supplies and stationery where a limited number of retailer-cooperatives exist.

The extent to which this type wholesaling develops, however, depends upon a number of other factors. Of prime importance is competition; more specifically, the intensification of competition, especially in times of new institutional developments that disrupt traditional marketing relationships. In the early 1900's for example, it was primarily department store and mail order house competition that caused the formation of the pioneer cooperatives in the drug and hardware
In the 1920's and 1930's it was the chains that stimulated cooperative wholesaling in the grocery and drug trades. In the post-World War II era it is the giant and low margin retailers, both chain and independent, that are promoting the growth of cooperative wholesaling in the grocery and hardware trades.

Another important and closely related factor seems to be low or declining profits. In 1936, for example, the profit margins of independent retailers in the drug and grocery trades were 2.3 per cent and 1.6 per cent of sales, respectively. This factor, coupled with the competition of the chain stores, provided the necessary stimulus for the growth of the retailer-owned cooperative movement in these fields. Little growth, however, took place in the hardware field even though the profit margin of independent hardware retailers during this time was less than two per cent of sales. This movement did develop, nevertheless, during the competitive 1950's when the average profit of hardware retailing

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61 Other reasons prompted the organization of the early cooperatives including the competition and high prices of wholesalers, the desire to advertise collectively, and the desire to exchange ideas and market information. Federal Trade Commission, Cooperative Drug and Hardware Chains, p. 24.


63 Dun & Bradstreet, Inc., Retail Survey, 1936.

64 "30 Years of Trends in Hardware Retailing," Hardware Retailer, July, 1961, p. 50.
declined from about 4.5 per cent of sales in 1950 to 0.75 per cent in 1960.65

Two other factors seem to be significant in the development of retailer-owned cooperative wholesaling. They are the presence of resale price maintenance laws and the practice of selective distribution by a trade's large manufacturers. Both of these factors seem to be playing an important role in curbing the growth of the retailer-owned drug cooperatives. Under resale price maintenance, which has its greatest support in the drug trade, the independent druggist possesses a degree of price protection not provided to retailers in other fields. Such laws negate the effect of competition thereby protecting the dealer's profits. He therefore sees less need for cooperative action. Under selective distribution the trade's large manufacturers sell merchandise only to certain wholesalers. In most instances these "franchised" establishments do not include the retailer-owned cooperatives because manufacturers would rather sell to distributors who service all retailers than to those who sell to members only. This not only discourages the formation of new retailer-owned cooperatives, but forces the membership of existing companies to buy a significant portion of their merchandise elsewhere.66

65 Ibid.

66 According to one source, about fifty manufacturers' lines of which twenty are pharmaceutical account for two-thirds of a drug wholesaler's business. The other third is supplied by two thousand manufacturers. If a retailer-owned cooperative does not have two or three important lines because of its "sales to members only" policy, then about twenty per cent of its members' purchases goes to its competitors. It is for this very reason that some retailer-owned cooperatives (e.g., Los Angeles Drug Co.) of necessity have become regular wholesalers or wholesaler-sponsored groups. In fact, this is believed to be the main reason why the retailer-cooperative movement in the drug field has made limited progress since 1940 notwithstanding intense competition.
The magnitude of retailer-owned cooperative wholesaling is also affected by the average spread in the price of merchandise between the retailer-owned cooperatives and other wholesalers. The greater the spread, that is, the lower the retailer-owned cooperatives' average price, the greater the group's growth. This factor probably accounts for much of the impressive growth of retailer-owned cooperative wholesaling in the hardware trade. Should the program wholesalers continue to sell their hardware retailers via the conventional sales force, which results in higher prices, retailer-owned cooperative wholesaling in hardware might equal or exceed as a per cent of total general-line wholesaler sales its importance in the food field.

**Growth of dealer-owned cooperatives in the hardware trade**

Many factors other than the price of merchandise, the caliber of management, and the services provided by a company account for the different rates of growth of dealer-owned cooperatives since World War II. While most of these factors pertain to wholesaling establishments in general, others apply specifically to dealer-owned cooperatives. The case histories of Cotter & Company and Western Hardware Company are presented below to highlight these factors. Included in this analysis, which is preceded by background information on the companies, is a discussion of trading area size, transportation facilities, supplier location, wholesaler failure and withdrawal, retailer competition, and dealer attitude toward cooperative association.
Cotter & Company was organized in Chicago in early 1948 by twenty-five hardware dealers each of whom contributed $1,500 toward the purchase of merchandise and the leasing of a warehouse. Company sales the first year amounted to $385,000. Five years later, sales had increased to $3 million and dealer members totaled 206. In 1963, after 15 years of operation, and the establishment of a branch warehouse in Cleveland, Ohio, company sales amounted to some $51 million, the combined purchases of approximately 1000 dealers located in thirty states.

Western Hardware Company was organized in Phoenix, Arizona in 1955 by 23 dealers each of whom contributed $1,500. First year company sales amounted to $220,000. In 1960, after five years of operation and prior to a merger with Southwest Hardware Company in Los Angeles to form Great Western Hardware, the company attained a sales volume of $775,000 supplied by 65 dealers in Arizona, Nevada, and New Mexico. (Southwest Hardware Company had 125 dealers in 1960 and sales of $2.3 million.) Great Western Hardware's sales and membership in 1963 was $4.5 million and 220 members.

The most obvious reason explaining the difference in growth between Cotter & Company and Western Hardware is the number and size of

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67 Southwest Hardware Company's former name was Hardware Merchant's Syndicate.

68 Contrary to its long existence in hardware wholesaling and prime location growth-wise, Southwest Hardware Company experienced comparatively little growth until the time of its merger. According to the trade, the company was beset by problems common to this type of group endeavor, namely, poor dealer cooperation and conflict of interests.
potential customers in each company's trading area. 69 In the East North Central States, which for the sake of illustration is considered the trading area for Cotter & Company, there are approximately 9,250 hardware dealers. In Arizona, Utah, and Nevada, the trading area for a general-line wholesaler distributing out of Phoenix, there are about 475 dealers. 70

Closely related to the above is the exceptionally favorable transportation facilities in and out of Chicago, facilities matched nowhere else in the country. Not only does this factor play an important role in extending Cotter & Company's trading area, but makes it possible for this firm to service its dealers faster and usually at a lower cost.

Cotter & Company's location is a strategic factor in another way. Chicago is in the heart of a very competitive hardware manufacturers' market; Phoenix is not. In fact, wholesalers on the West Coast and in the South receive a major portion of their total merchandise line from manufacturers located in the Midwest and Middle-Atlantic states. A

69 The size of a company's trading area is determined basically by how far it can extend itself and still compete effectively with other wholesalers. Factors governing this distance include the size of the company, the size and nature of its merchandise line, its cost of operation, and the transportation facilities at its disposal.

70 Census of Retail Hardware Dealers, Hardware Age, May 1, 1963. Two of the three wholesalers doing business out of Phoenix also sold to dealers in Southern California in 1960. Western Hardware did not. In fact, 63 of Western Hardware's 65 dealer members were located in Arizona. However, to include Southern California in Western Hardware's trading area would increase its potential to an estimated 1,500 dealers.
wholesaler located in Chicago or surrounding vicinity, therefore, has a better opportunity for promoting a successful drop shipment program\(^7\) (as did Cotter & Company) than wholesalers located in other sections of the country. This is not only because more manufacturers are prone to drop ship, but the dealer's \textit{landed} cost of merchandise and delivery time are less. The end result, in no small measure assisted by Cotter & Company's low price on drop shipment orders, was a substantial amount of "extra" business and growth not available to Western Hardware. (The significance of drop shipments is discussed in Chapters IV and V.)

The failure and withdrawal of general-line and specialty wholesalers from Cotter & Company's trading area played a major role in the company's growth. Particularly important in this respect were the withdrawal of such wholesalers as the W. Bingham Co., Shapleigh Hardware Co., John Pritzlaff Hardware Co., and Hibbard, Spencer, Bartlett & Co. For example, Cotter & Company increased its total membership by some 400 dealers when it acquired the True Value Division (a voluntary group) of Hibbard, Spencer, Bartlett & Co. in 1963. This situation did not exist to the same extent in the three-state area serviced by Western Hardware.

It should not be inferred that hardware retailers had no place to go other than Cotter & Company when these wholesalers discontinued operations. This is not so. The reason that so many of these retailers did "sign up" with the company was because Cotter did sell merchandise significantly below other wholesalers in the area.

\(^7\) A drop shipment is an order shipped direct by the manufacturer to the dealer. Although the wholesaler bills the dealer he does not handle the merchandise.
The amount of competition faced by hardware dealers in the respective trading areas of Cotter & Company and Western Hardware was another factor favoring the former's growth. In this instance there appears to have been less need profit-wise for western dealers to join a buying group because of the area's substantial increase in population. Retailers located in the East and Midwest lacked this growth to "cushion" the impact of the discounters and mass-merchandisers.

A further factor explaining the different growth performance of the two companies is the relatively favorable attitude of midwestern dealers toward the "co-op" method of operation, an attitude lacking among many western and southern hardware dealers. For a number of reasons including the success of the company itself, the presence and reputation of Our Own Hardware Company, and the group-mindness of the people in the Midwest as exemplified by its many agricultural cooperatives, Cotter & Company encountered comparatively little dealer resistance in its efforts to recruit members.

Also of great importance to the success of Cotter & Company has been the dynamic, aggressive personality of John Cotter, its President and General Manager. This characteristic, coupled with his managerial and business talents, was instrumental in Mr. Cotter's zeal to streamline hardware wholesaling into a low cost, efficient operation. It also played a vital part in the company's merger activities which placed Cotter & Company in 1965 as the country's largest wholesale distributor of hardware products, a position attained in but 18 years of operation.

The above reasons explain the basic difference in growth rates between Cotter & Company and Western Hardware. Other factors also exist.
While they do not apply in this illustration, they are nevertheless important in explaining the growth performance of every dealer-owned cooperative. Most of them concern various aspects of competition and dealer-owned cooperative management. They include the degree and quality of service extended by regular and program wholesalers in each cooperative's trading area, the cooperative's desire to grow, the loyalty and cooperation extended by the cooperative's members, management's ability to "think retail," and management's ability to enforce its rules and regulations firmly and fairly. These factors are discussed in subsequent sections.
CHAPTER III

CHARACTERISTICS OF DEALER-OWNED
COOPERATIVE MEMBERSHIP

The purpose of this chapter is to identify the business habits and characteristics which distinguish dealer-owned cooperative members from retailers patronizing program or regular wholesalers. Major areas to be compared are store volume, store location, purchasing practices, methods of pricing, gross margin, wholesaler loyalty, and trade association affiliation. Information for most of the discussion, except the sections on wholesaler loyalty and trade association affiliation, was obtained from two questionnaire surveys. One was taken in September 1963 of 1,000 members of a midwestern dealer-owned cooperative doing business in 29 states. The other was taken in February 1964 of 4,600 National Retail Hardware Association members located in Ohio, Indiana, Pennsylvania, New York, and New Jersey. The particulars of the two surveys are given in Chapter I. However, except where indicated, the findings reported herein are those of the 1964 survey. Copies of the questionnaires are reproduced in Appendix A and Appendix B.

Before discussing the areas indicated above, it is important to note some facts leading to possible bias in the findings of this survey. Perhaps foremost is the size of the dealer-owned cooperatives represented

\[1\] Obtained from interviews and correspondence.
in the survey. Approximately 80 per cent of the 222 dealer-owned cooperative retailers responding to the 1964 survey are members of three of the four largest cooperatives in the country. These companies (1) select as members only the larger retailers in the better locations; (2) have minimum annual sales policies to which dealers usually adhere, and (3) are recognized as progressive, well-managed organizations. The characteristics of their dealers, therefore, might be somewhat different from retailers affiliated with dealer-owned houses of smaller size, different location, and different membership policies. Further consideration must be given to the fact that the retailer-owned cooperative movement in the hardware trade has reached its greatest development in three of the states covered by this survey: namely, Ohio, Indiana, and Pennsylvania. Another possible bias is introduced by the fact that the program wholesaler movement did not really begin to develop until 1962-1963. Many of the retailers affiliated with program wholesalers, therefore, may still possess habits characteristic of retailers patronizing regular wholesalers. These factors should be considered in evaluating the material that follows.

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2 More than 80 per cent of the 222 dealer-owned cooperative retailers that responded were located in these states.

3 The findings of this survey also represent a period in time, the market situation existing in 1963 and early 1964. The rapid changes taking place in the hardware trade, most notably the growth of cooperative wholesaling, will modify the composition of the various retailer groups. This change, if the history of the cooperative movement in the grocery field can be used as a guide, will primarily affect the regular wholesaler group.
For purposes of comparison, hardware retailers are classified as—

1. Regular wholesaler dealers: retailers patronizing the regular, general-line wholesaler as their major source of wholesale supply.

2. Program wholesaler dealers: retailers affiliated with a program wholesaler sponsoring a store identification and merchandising program.

3. Dealer-owned cooperative retailers: retailers affiliated with a dealer-owned cooperative.

Retailer store volume

As shown in Table 2, the dealer-owned cooperative retailers responding to this survey were found to have greater average sales per store than retailers patronizing regular and program wholesalers. Fifty-five per cent of the dealer-owned cooperative members do an annual retail sales volume in excess of $100,000. This compares with 26 per cent of the regular wholesaler dealers and 36 per cent of the program wholesaler dealers. The dealer-owned cooperatives also have fewer retailers doing under $50,000 in sales than do program and regular wholesalers, approximately 8 per cent compared with the latter's 18 per cent and 36 per cent respectively.

The high average sales volume performance of the dealer-owned cooperative retailers in this survey duplicates rather closely that of the retailers affiliated with the midwestern dealer-owned cooperative. Of the 453 retailer members responding to that survey, fully 60 per cent reported store volume in excess of $100,000. Eight per cent had sales under $50,000. This higher average sales volume is verified still further
**TABLE 2**

AVERAGE STORE VOLUME IN 1963 OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Total Store Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under $50,000</td>
</tr>
<tr>
<td></td>
<td>No.</td>
</tr>
<tr>
<td>Regular Wholesaler Dealer</td>
<td>90</td>
</tr>
<tr>
<td>Program Wholesaler Dealer</td>
<td>27</td>
</tr>
<tr>
<td>Dealer-owned Cooperative Retailer</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Survey by author.
by an earlier "pilot study" taken in California in which 65 per cent of the dealer-owned cooperative retailers had sales over $100,000.\(^4\) (The larger sales size of dealer-owned cooperative retailers in California over those in the Midwest is explained in a subsequent paragraph.)

There are a number of reasons explaining the larger size of dealer-owned cooperative retailers. First, the dealer-owned cooperatives approach and select the larger retailer as a matter of general policy. Second, the dealer-owned cooperatives had a significant time advantage over most program wholesalers (about five years) in soliciting dealers. Third, the larger dealers can more easily afford the rather substantial investment needed for membership. Fourth, the larger dealers are in a better position to take advantage of the dealer-owned cooperative's drop shipment and pooled order programs where quantity buying is usually necessary.\(^5\) Also important in this connection is that relatively few regular wholesalers have offered competitive drop shipment programs to prevent the defection of their larger accounts to the dealer-owned cooperatives.

Two major reasons explain the higher average sales per store of the dealer-owned cooperative retailers in California compared to those

---

\(^4\) The California study made in 1962 compared dealer-owned cooperative and regular wholesaler retailers only. No inclusion was made of program wholesaler dealers for lack of adequate representation. This movement has made comparatively little progress in California to date.

\(^5\) It should not be assumed that the very large dealers have as much to gain from membership as dealers smaller in size. Generally, the very large dealers have enough buying power to purchase a significant amount of their merchandise direct from manufacturers should it be to their advantage.
responding in the survey under discussion. The most apparent explanation is the difference in "saturation" between the two areas at the time the surveys were taken. The dealer-owned cooperative movement has had its greatest growth in the Midwest, a growth which began in the early 1950's. Comparatively little progress at that time had been made in California. Since a high percentage of the large midwestern dealers were already affiliated by 1960, the more the dealer-owned houses increased their membership in subsequent years the more it included medium-sized retailers. The net effect was a lower average store size of midwestern membership. California dealer-owned cooperatives have not approached this saturation point yet and can still choose among the larger dealers. As such, these companies have a higher percentage of larger dealers.

Another reason for this difference in average sales size per store is that California has a higher percentage of large volume dealers, much higher than the nation's average. This is, no doubt, partly the result of its significant growth in population. According to the California Retail Hardware Association, average sales for hardware stores in 1963 was $191,805 compared to the U. S. average of $131,225.6

**Store location**

There appears to be little difference in store location among the various type dealers with respect to town size. Regular, program, and dealer-owned wholesalers have approximately the same percentage of dealers

---

6 "Store Experience Survey Shows California Ahead," *Hardware Age* (Western Edition), September 3, 1964, p. 18C.
in towns with populations under 10,000 people as in cities of 50,000 to 100,000 and 100,000 to 500,000 people.

### TABLE 3

**LOCATION BY TOWN SIZE AND SHOPPING AREA OF HARDWARE RETAILERS IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS IN 1964**

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Regular Wholesaler Dealer</th>
<th>Program Wholesaler Dealer</th>
<th>Dealer-Owned Cooperative Dealer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
</tr>
<tr>
<td>Town Size</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town under 10,000</td>
<td>122</td>
<td>77</td>
<td>109</td>
</tr>
<tr>
<td>10,000 to 25,000</td>
<td>36</td>
<td>28</td>
<td>38</td>
</tr>
<tr>
<td>25,000 to 50,000</td>
<td>18</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>50,000 to 100,000</td>
<td>17</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>100,000 to 500,000</td>
<td>25</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Over 500,000</td>
<td>18</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>236</td>
<td>154</td>
<td>201</td>
</tr>
<tr>
<td>Shopping Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown</td>
<td>76</td>
<td>55</td>
<td>92</td>
</tr>
<tr>
<td>Shopping center</td>
<td>16</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Neighborhood area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of a large city</td>
<td>59</td>
<td>43</td>
<td>39</td>
</tr>
<tr>
<td>Rural area</td>
<td>51</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>202</td>
<td>133</td>
<td>168</td>
</tr>
</tbody>
</table>

Source: Survey by author.

A difference does appear, however, in the location of stores within a town or city. A greater percentage of dealer-owned cooperative retailers are located downtown than are regular and program wholesaler dealers, approximately 55 per cent compared to the latter's 38 per cent and 41 per cent, respectively. (The large, midwestern dealer-owned
cooperative has 67 per cent of its members located downtown.) Offsetting this variance is the greater number of regular and program wholesaler dealers located in rural areas and neighborhood shopping centers. This difference of location is to be expected, however, since (1) about 70 per cent of all the retailers responding to this survey are in towns under 25,000 people; (2) towns of this size contain only one main business district wherein most hardware stores are located; and (3) the dealer-owned cooperatives have a policy of selective distribution.

**Dealer purchasing practices**

In the area of purchasing, the three dealer groups are compared on (1) the number and types of suppliers from whom they buy; (2) the degree to which they concentrate purchases with their major wholesale supplier and other sources; and (3) the extent to which they purchase merchandise via drop shipments.

**Number and types of suppliers.** No significant differences appear in the number of general-line wholesalers, specialty wholesalers, and manufacturers patronized by retailers in the three groups. The majority of all dealers patronize two to four general-line wholesalers (for affiliated dealers it would be their own house plus one to three regular wholesalers), two to four specialty wholesalers, and two to four manufacturers. Likewise, a significantly large number of dealers in each

---

7Also reported by the National Retail Hardware Association in its Management Report on retail hardware store experience in 1963.

8It is probable that most retailers do not restrict their purchases to the 6-12 suppliers indicated by this survey. Excluded from consideration are probably a significant number of suppliers, both wholesalers and manufacturers, from whom most dealers buy a small part of their total merchandise requirements.
group buy very little or nothing from specialty wholesalers and manufacturers.

Some differences do appear, nevertheless, in the buying habits of a sizable minority. For example, survey findings indicate that a greater percentage of dealer-owned cooperative retailers do not buy from specialty wholesalers compared to regular and program wholesaler dealers. Likewise, a larger percentage of dealer-owned cooperative retailers buy little or nothing from regular wholesalers in relation to retailers affiliated with program wholesalers. However, more dealer-owned cooperative retailers, percentagewise, buy from eleven or more manufacturers than do the other type retailers.\(^9\) Program wholesaler dealers appear to spread their purchases over more general-line wholesalers than do regular and dealer-owned cooperative retailers.\(^10\) (See Appendix D, Tables 18, 19, and 20 for the number and type of suppliers patronized by the three dealer groups.)

"Concentration of purchases. As can be determined from Table 4, about 81 per cent of regular wholesaler dealers buy fifty per cent or more of their total general-line hardware requirements from regular wholesalers. About 50 per cent of these dealers buy seventy per cent or

\(^9\)The author's survey of the midwestern dealer-owned cooperative also indicates this practice. Approximately twenty per cent of this company's members, in most instances dealers with retail sales volume in excess of $200,000 annually, bought merchandise direct from manufacturers. Possible reasons in addition to lower price include the availability of credit and prepaid freight.

\(^10\)Duplication probably explains the greater number of general-line wholesalers patronized by program wholesaler dealers. A number of these dealers likely included their affiliated house in their count of general-line wholesalers.
<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Under 30%</th>
<th>30-39%</th>
<th>40-49%</th>
<th>50-59%</th>
<th>60-69%</th>
<th>70-79%</th>
<th>80-89%</th>
<th>90-100%</th>
<th>Total Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
<td>29</td>
<td>11</td>
<td>12</td>
<td>5</td>
<td>8</td>
<td>3</td>
<td>32</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>36</td>
<td>23</td>
<td>15</td>
<td>10</td>
<td>8</td>
<td>5</td>
<td>26</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>20</td>
<td>9</td>
<td>9</td>
<td>4</td>
<td>21</td>
<td>10</td>
<td>30</td>
<td>14</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Survey by author.
more from regular wholesalers. These figures compare with 63 per cent and 30 per cent respectively for program wholesaler dealers and 77 per cent and 50 per cent respectively for dealer-owned cooperative retailers.\(^1\)

While regular wholesaler dealers purchase a large percentage of their merchandise requirements from the regular wholesaler group, few individual wholesalers appear to receive the full benefits of this concentration. Survey findings show that only 12 per cent of regular wholesaler dealers concentrate their purchases with one house; almost 30 per cent buy from two, 25 per cent from three, and 25 per cent from four or more houses (Appendix E, Table 18). It seems quite probable, therefore, based upon this information and the knowledge that regular wholesalers have a higher percentage of small dealers, that dealer-owned cooperative retailers on the average concentrate a larger percentage of their total purchases with their house than do regular or program wholesaler dealers. This, however, is to be expected in view of the dealer-owned cooperative's lower average prices.

Because dealer-owned cooperative retailers buy a greater percentage of merchandise from their house, they buy correspondingly less from specialty wholesalers and manufacturers. As indicated in Table 5, about 43 per cent of these retailers purchase less than 10 per cent of their store requirements from specialty wholesalers. This figure compares with 27 per cent and 32 per cent respectively for regular and program

\(^1\) Dealers probably do not concentrate their purchases to the extent indicated by this study. This is based upon the findings of similar studies in other fields and the actual sales volume performance of some dealer-owned cooperatives.
TABLE 5

HOW HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS PURCHASE FROM SPECIALTY WHOLESALERS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>0-4%</th>
<th>5-9%</th>
<th>10-14%</th>
<th>15-19%</th>
<th>20-29%</th>
<th>30-39%</th>
<th>40% and Over</th>
<th>Total Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
<td>39</td>
<td>16</td>
<td>28</td>
<td>11</td>
<td>47</td>
<td>18</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>33</td>
<td>21</td>
<td>17</td>
<td>11</td>
<td>28</td>
<td>18</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>55</td>
<td>26</td>
<td>36</td>
<td>17</td>
<td>49</td>
<td>24</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Survey by author.
wholesaler dealers. In a similar manner, Table 6 shows that 49 per cent of both dealer-owned cooperative and program wholesaler retailers purchase less than five per cent of their store requirements from manufacturers which compares to 38 per cent of the regular wholesaler dealers. Not indicated in any table, but nevertheless important, is the relatively large percentage of small regular wholesaler dealers buying merchandise direct from manufacturers.

A significant difference also exists, as shown in Table 7, in the extent to which dealer-owned cooperative and program wholesaler retailers patronize the regular wholesaler. The latter group buys much more of their merchandise requirements from this source as might be anticipated considering the newness of the program wholesaler movement. It is unlikely that these dealers will continue to buy in such quantity from other wholesalers as the movement develops.

Not all dealer-owned cooperative retailers concentrate their purchases to the extent indicated above. Members of the smaller dealer-owned houses usually buy less.\textsuperscript{12} This, of course, is to be expected because of their narrower line of merchandise, restricted buying power and higher prices, and competition from larger wholesalers.

The above percentage figures represent dealer estimates and probably are not a precise picture of how dealers really buy. An actual case in point will illustrate this fact. A dealer-owned cooperative with

\textsuperscript{12} The author's 1962 survey of California hardware dealers indicated that fifty-six per cent of the dealer-owned cooperative retailers concentrated fifty per cent or more of their total purchases with the house. Only 32 per cent concentrated seventy per cent or more. This compares to 77 per cent and 50 per cent respectively for dealer-owned cooperative retailers responding to the 1964 survey discussed in this chapter.
TABLE 6

HOW HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS PURCHASE FROM MANUFACTURERS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>0-4%</th>
<th>5-9%</th>
<th>10-14%</th>
<th>15-19%</th>
<th>20-29%</th>
<th>30-39%</th>
<th>40% and Over</th>
<th>Total Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Per</td>
<td>No.</td>
<td>Per</td>
<td>No.</td>
<td>Per</td>
<td>No.</td>
<td>(100%)</td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
<td>96</td>
<td>38</td>
<td>43</td>
<td>17</td>
<td>45</td>
<td>18</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>74</td>
<td>49</td>
<td>19</td>
<td>13</td>
<td>17</td>
<td>11</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>98</td>
<td>49</td>
<td>27</td>
<td>13</td>
<td>29</td>
<td>14</td>
<td>6</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Survey by author.
TABLE 7

HOW HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES AND PROGRAM WHOLESALERS PURCHASE FROM REGULAR WHOLESALERS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>No.</th>
<th>Per Cent</th>
<th>No.</th>
<th>Per Cent</th>
<th>No.</th>
<th>Per Cent</th>
<th>No.</th>
<th>Per Cent</th>
<th>No.</th>
<th>Per Cent</th>
<th>No.</th>
<th>Per Cent</th>
<th>Total Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program wholesaler dealer</td>
<td>18</td>
<td>12</td>
<td>13</td>
<td>9</td>
<td>28</td>
<td>18</td>
<td>41</td>
<td>27</td>
<td>22</td>
<td>15</td>
<td>14</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Dealer cooperative retailer</td>
<td>41</td>
<td>20</td>
<td>38</td>
<td>18</td>
<td>59</td>
<td>28</td>
<td>40</td>
<td>19</td>
<td>14</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Survey by author.
315 members would expect its annual sales volume to be approximately $18 million. This is allowing for a dealer gross margin of 35 per cent and assuming that the cooperative's dealers (1) have an average retail sales size of $125,000 and (2) buy on the average 70 per cent of their total purchases from the company, as reported in the survey under discussion. This dealer-owned cooperative's actual sales volume, however, totaled some $9.5 million which indicates that its members do not purchase as much merchandise from the company as they think or say they do. These findings are believed to be somewhat typical of dealers everywhere.

This is not to say, however, that such estimates on purchases and number of suppliers lack value. Since the great majority of dealers in each group think they buy more merchandise from their major source of wholesale supply than they actually do, they still possess definite value for purposes of comparison.

In summary, it appears that dealer-owned cooperative retailers concentrate a greater percentage of their total purchases with their house than do program and regular wholesaler retailers. This situation is basically the result of the dealer-owned cooperative's lower merchandise prices, member loyalty (especially among the progressive houses), and its selection process. There also seems to be a correlation between

13 The fact that affiliated dealers do not buy 70 per cent of their requirements from their house may not be too important when considering the high dollar purchases of dealers in this group (in many cases $40,000 and above) compared with other type dealers.

14 Approximately two-thirds of the value of goods sold by the typical cooperative member store in the grocery field is obtained either from competing wholesalers, specialty wholesalers, or direct selling processors. Federal Trade Commission, Economic Inquiry into Food Marketing, 1960, p. 178.
the size of a dealer-owned company and the degree of concentration; the larger the house, the greater the concentration.

**Drop shipments.** Table 8 shows that a significant difference of opinion exists among the various type retailers over the value of drop shipments.\(^{15}\) Approximately 50 per cent of the regular wholesaler dealers consider drop shipments an important means to combat competition and increase profits. This compares with 60 per cent of the program wholesaler dealers and 85 per cent of the dealer-owned cooperative retailers.\(^{16}\) This disagreement is further conveyed in Table 9 by the extent that these dealers engage in the practice. Only 22 per cent of the regular wholesaler dealers, compared with 35 per cent and 74 per cent of program wholesaler and dealer-owned cooperative retailers respectively, order ten per cent or more of their total purchases via drop shipments. Likewise, about fifty per cent of the regular wholesaler dealers order less than five per cent of their total purchases by this means. This compares with 39 per cent and 10 per cent respectively for program wholesaler and dealer-owned cooperative retailers.

A relatively small percentage of all retailers plan to decrease their drop shipment orders. The plans of each group to increase this

---

\(^{15}\) Drop shipments are orders shipped direct from manufacturer to the dealer. The wholesaler bills the dealer but does not handle the merchandise.

\(^{16}\) Although two separate questions were presented in the questionnaire (Appendix C) on the effect of drop shipments, one on increasing profits and the other on combatting competition, the great majority of dealers answered both questions identically.
TABLE 8

VIEWS OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS ON WHETHER DROP SHIPMENTS COMBAT COMPETITION AND INCREASE PROFITS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Combat Competition</th>
<th>Increase Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>Per Cent</td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
<td>105</td>
<td>43</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>39</td>
<td>57</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>176</td>
<td>87</td>
</tr>
<tr>
<td></td>
<td>176</td>
<td>87</td>
</tr>
</tbody>
</table>

Source: Survey by author.
TABLE 9
DROP SHIPMENTS AS A PER CENT OF TOTAL PURCHASES OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Drop Shipment as a Per Cent of Total Purchases</th>
<th>Total Dealers (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0 1-4 5 10 15 20 25 and Over</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. Per Cent No. Per Cent No. Per Cent No. Per Cent No. Per Cent No. Per Cent No. Per Cent No. Per Cent</td>
<td></td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
<td>70 26 70 26 69 25 42 16 6 2 3 1 11 4 271</td>
<td></td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>21 14 38 25 38 25 21 14 6 4 10 7 16 11 150</td>
<td></td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>12 6 9 4 32 16 51 26 6 17 23 12 39 19 200</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey by author.
practice, however, vary considerably. Almost two-thirds of the dealer-owned cooperative retailers plan to increase their drop shipment purchases compared with half the program wholesaler dealers and one-third of the regular wholesaler dealers.

However, it seems likely that both program and regular wholesaler dealers will increase their drop shipment purchases beyond their intentions. Not only will the mass-merchandisers exert pressure on hardware retailers to seek more low cost merchandise from their distributors, but wholesalers will be compelled to widen and promote their drop shipment programs to remain competitive. In fact, there is a trend in this direction. (The significance of drop shipments to dealer-owned cooperative wholesaling is discussed in Chapter IV.)

Methods of pricing

There are three basic methods by which hardware dealers price their product lines: the use of (1) variable markups, (2) a standard 50 per cent markup over cost, and (3) retail prices suggested in a wholesaler's price book. The last method is employed primarily by retailers affiliated with dealer-owned cooperatives and program wholesalers.

The great majority of dealers appear to use variable markups, based primarily on personal judgment, in pricing most of their merchandise. As indicated in Table 10, some 42 per cent of all dealers employ this method by itself, and 36 per cent use it in conjunction with either

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17 It is doubtful that retailers use variable pricing to the extent indicated in this survey. The publicity given to the advantages of variable pricing by the National Retail Hardware Association and various wholesalers has likely introduced a degree of bias in the findings on this question.
<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>(1) Average Markup</th>
<th>(2) Variable Markups</th>
<th>(3) Wholesaler Prices</th>
<th>Comb. 1 &amp; 2</th>
<th>Comb. 1 &amp; 3</th>
<th>Comb. 1, 2, &amp; 3</th>
<th>Comb. 2 &amp; 3</th>
<th>Others</th>
<th>Total Dealers (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td>No. Per Cent</td>
<td></td>
</tr>
<tr>
<td>Regular Wholesaler dealer</td>
<td>49</td>
<td>19</td>
<td>103</td>
<td>40</td>
<td>15</td>
<td>64</td>
<td>16</td>
<td>16</td>
<td>6</td>
</tr>
<tr>
<td>Program Wholesaler dealer</td>
<td>6</td>
<td>4</td>
<td>57</td>
<td>37</td>
<td>15</td>
<td>10</td>
<td>14</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>5</td>
<td>2</td>
<td>102</td>
<td>48</td>
<td>14</td>
<td>7</td>
<td>21</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>10</td>
<td>262</td>
<td>142</td>
<td>44</td>
<td>7</td>
<td>64</td>
<td>13</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Survey by author.
the standard 50 per cent markup on cost or retail prices suggested in a wholesaler's price book. While most dealers report little use of both the standard 50 per cent markup on cost and wholesaler suggested retail prices, a much greater percentage of regular wholesaler dealers use the former method. Likewise, a larger percentage of affiliated dealers use suggested wholesaler prices, but this is expected since the dealer-owned cooperatives are the major distributors of price books. However, the percentage of affiliated dealers that do use their price books is much smaller than that believed by dealer-owned cooperative managers.

The variable markup percentages used by dealers are derived from two primary sources: personal judgment and the stock turnover handbooks of the National Retail Hardware Association and various wholesalers. Of the two sources, personal judgment is by far the more important. But once again, this is to be expected since a large number of dealers, particularly those patronizing regular wholesalers, do not possess turnover handbooks. Either their major source of wholesale supply does not make them available or the dealers have not considered them worthwhile investments; a serious error in judgment. Consequently, as Table 11 shows, a larger percentage of regular wholesaler retailers employ a variable pricing primarily on the basis of personal judgment than do retailers affiliated with dealer-owned cooperatives and program wholesalers. The latter groups make more use of the pricing information in their supplier's stock turnover handbooks and price books.

**Gross margin**

Dealer-owned cooperative retailers on the average have higher gross margins than unaffiliated dealers. As indicated in Table 12,
TABLE II

SOURCES OF VARIABLE MARKUP PERCENTAGES USED BY HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS, 1964

<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>(1) NRHA Handbook No.</th>
<th>(2) Wholesaler Price Book No.</th>
<th>(3) Personal Judgment No.</th>
<th>Comb. 1 &amp; 2 No.</th>
<th>Comb. 1 &amp; 3 No.</th>
<th>Comb. 1, 2, &amp; 3 No.</th>
<th>Comb. 2 &amp; 3 No.</th>
<th>Other No.</th>
<th>Total Dealers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular wholesaler dealer</td>
<td>5</td>
<td>2</td>
<td>14</td>
<td>7</td>
<td>139</td>
<td>67</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>4</td>
<td>3</td>
<td>28</td>
<td>20</td>
<td>62</td>
<td>45</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>6</td>
<td>3</td>
<td>21</td>
<td>11</td>
<td>72</td>
<td>38</td>
<td>4</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>3</td>
<td>63</td>
<td>12</td>
<td>273</td>
<td>51</td>
<td>9</td>
<td>2</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Survey by author.
70 per cent of the former group have gross margins above thirty per cent against the latter's 61 per cent. (Program wholesaler dealers are not included in this comparison of gross margin because of an inadequate

**TABLE 12**

**GROSS MARGINS OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AND AFFILIATED WITH DEALER-OWNED COOPERATIVES AND REGULAR WHOLESALERS, 1964**

<table>
<thead>
<tr>
<th>Gross Margin as a Per Cent of Net Sales</th>
<th>Unaffiliated Retailers</th>
<th>Dealer-owned Cooperative Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per Cent</td>
</tr>
<tr>
<td>Below 30%</td>
<td>51</td>
<td>38</td>
</tr>
<tr>
<td>30.0 - 34.9</td>
<td>45</td>
<td>34</td>
</tr>
<tr>
<td>35.0 - 39.9</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>40.0 and over</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey by author.

response to this question.) This situation mainly exists because 80 per cent of the dealer-owned cooperative retailers responding to this survey are affiliated with three of the largest and, reportedly, well-managed cooperatives in the nation each of which had operating expenses around or below 10 per cent of sales in 1963. Retailers affiliated with these houses can, as such, buy a substantial part of their total merchandise requirements at prices below those paid by dealers patronizing regular
This advantage reflects itself in a lower average cost of goods and corresponding higher gross margin. However, contrary to their higher gross margins, more than 70 per cent of the dealer-owned cooperative retailers failed to attain a gross margin of thirty-five per cent which, according to the managers of most dealer-owned cooperatives, is the level that should be attained. This failure seems to indicate the limited use of the retail prices suggested in their company price books, a fact noted earlier in the section on pricing methods. It also verifies the thinking of some trade association.

It seems probable that the spread in gross margins between the dealer-owned cooperatives and regular and program wholesalers will decrease as the latter successfully reduce their costs of doing business. This has been the occurrence in the grocery field. It is unlikely, however, that program wholesalers will be able to narrow this differential to the extent of the voluntary group grocery wholesalers should they continue to operate with the conventional sales force to serve their affiliated dealers.

While the cost of goods is a significant factor in a retailer's realized gross margin, it is not the only one. Also important are markdowns, stock shortages, and overall merchandise mix. Another factor explaining differences in gross margin between and among retailers, one related to the cost of goods sold, is quantity buying. However, whereas dealers patronizing the regular or program wholesaler may receive a quantity discount on large-size orders, dealer-owned cooperative retailers do not. They pay the same price per item (subject to year-end patronage rebates) regardless of quantities purchased.

The gross margin figures of the dealer-owned cooperative retailers responding to this survey are somewhat below those reported by retailers affiliated with the midwestern dealer-owned cooperative. Of the 367 dealers responding to the latter survey on this question, only 15 per cent had a gross margin below thirty per cent. Likewise, 46 per cent and 36 per cent had gross margins between 30.0-34.9 per cent and 35.0-39.9 per cent respectively. Six per cent had gross margins in excess of forty per cent.
people that many dealer-owned cooperative retailers are "pricing away" their advantage of low cost merchandise. Instead of pricing their items as suggested in the price book, they use a standard 50 per cent markup or the customary variable markup, based upon cost. The net result of this practice is a lower average gross margin because the lower the product's cost, the lower the dollar profit per item. This practice would be especially expensive to the dealer if used on low cost drop shipment and pooled order merchandise. (Although a lower-than-normal retail price will occasionally increase an item's total dollar profit due to increased turnover, such is not true of most hardware items because of their inelastic demand curves.) Therefore, it behooves the dealer to refrain from or exercise care in determining retail prices on the basis of markups related to cost. Such a practice tends to dissipate the advantages afforded by favorable buying opportunities.

Because of the limited number of usable returns on the question of net profit and the many variables affecting a dealer's profit performance, no discussion is made of this subject in the study.

Member loyalty

The following material on retailer loyalty to the dealer-owned cooperative represents the thinking of the author as derived from (1) correspondence and informal personal interviews with six dealer-owned cooperative managers; (2) the survey of the large midwestern

21 Arnold Poole, President, Great Western Hardware, Santa Fe Springs, California; John Cotter, President, Cotter & Company, Chicago; N. W. Dheil, General Manager, United Hardware Distributors, Inc., Minneapolis; D. D. Foss, General Manager, Northern Wholesale Hardware Company, Portland, Oregon; Joseph O'Brien, General Manager, Bay Cities
dealer-owned cooperative; and (3) personal interviews with retailers and trade association officers in California. 22

The question often arises as to whether dealer-owned cooperative retailers are more loyal to their company than dealers patronizing other wholesalers. Those answering in the affirmative indicate that these dealers own the company, regularly attend company meetings, concentrate their purchases, and generally partake in the company's advertising and sales promotion programs. Those responding in the negative are quick to reply that dealer-owned cooperative members are not really loyal to the company but loyal to its low prices. 23 Take away the low prices and you take away the loyalty. They cite further that program wholesaler dealers concentrate their purchases, partake in company programs, and attend meetings just as much as the dealer-owned cooperative retailers; so do many regular wholesaler dealers.

That a large number of dealer-owned cooperative members display only material loyalty to their company is readily acknowledged by dealer-owned cooperative managers. They also note that many of their members

Wholesales Hardware Company, Burlingame, California, and Frank Feldman, General Manager, Western Wholesale Hardware Co., Oakland, California.

22 In February of 1963 and 1964 the author attended the annual stockholder meeting of Great Western Hardware. He also had numerous interviews with retailers in northern California over the period 1962-1964.

23 The importance of price in building loyalty can perhaps be indicated by the fact that in the survey of the midwestern dealer-owned cooperative it ranked fourth in answer to the question, "What factors, other than low merchandise costs, if any, build retailer loyalty to the house?"
are no different from the conventional stockholders in any large company, and compare the dealer's low cost merchandise to the investor's dividends. However, they would also point out that there are other types of dealer loyalty which are perhaps, when combined, just as strong as "loyalty to the dollar." There is (1) loyalty to a cause, the preservation of the independent's status in hardware retailing; (2) loyalty to a man, either to the general manager or the company's board of directors;\(^\text{24}\) and (3) loyalty to the company, in this case their own company. For want of a better term and the practical difficulty in measuring the intensity of these three different types of loyalty, they are combined and identified as loyalty to cooperative endeavor.\(^\text{25}\)

The members that display cooperative endeavor loyalty, however, as opposed to material loyalty, are definitely in the minority. For most dealers "loyalty to the dollar" outweighs the loyalty of cooperative endeavor, especially in the larger cooperatives where numbers and distance sometime work against the latter's development. It is for this reason, that is, the prevalency of material loyalty, that most managers concentrate their attention on attaining low cost operation and quantity buying. The philosophy of these managers is to make the merchandise cost

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\(^\text{24}\) According to the trade, loyalty to the man, in this case, John Cotter, is one of the most important factors accounting for the growth of Cotter & Company.

\(^\text{25}\) Lazo classifies loyalty into material and spiritual loyalty. He goes on to note that "the most successful retailer-owned cooperative organizations . . . have succeeded in combining purely spiritual loyalty—loyalty to a cause—with material loyalty, which at times can be demonstrated; they have also made some effort of personal contact with the members and at the warehouse—not just a source of supply." Hector Lazo, Retailer-Cooperatives (New York: Harper and Brothers Publishers), 1937, p. 61.
so attractive that dealers cannot afford not to buy from their house. As practical businessmen they know that their members are retailers first and wholesalers last. By catering to the profit motive of the individual, they promote the well-being of the group. (While merchandising services are also of importance in building dealer loyalty, they usually play a secondary role in building material loyalty.)

Program and regular wholesaler dealers also display material and other types of loyalty to their major source of wholesale supply. But their material loyalty is based primarily on service in its many forms. Whereas the dealer-owned cooperatives offer low prices as their most important material benefit, other wholesalers offer service. However, in times of intense competition, the former seems to hold greater appeal. In fact, it is because of this that dealer-owned cooperative retailers are believed to be more loyal than other dealers; they possess a greater material loyalty. This situation will likely continue until regular and program wholesalers become more competitive price-wise. Yet, even then there will likely be a greater degree of loyalty favoring the dealer-owned houses, all other factors being equal, because of the loyalty which some dealers attach to the group's cause, its leaders, and their company. While this loyalty to cooperative endeavor will also benefit the program wholesaler, its intensity will probably be less than that of the dealer-owned cooperative. It will lack the full opportunity to develop because of the program wholesaler's higher prices--should they continue.

There is a tendency on the part of some managers to view dealer loyalty only with respect to its effect on house volume. They overlook or discount its other advantages in obtaining profitable, low cost
operation. First of all, loyalty enables the cooperative wholesaler to take full advantage of his mail order method of selling since loyal members cooperate more fully in writing their own orders. Second, the greater the loyalty, material or otherwise, the greater the actual and potential savings afforded by integration. Third, there is a diminution in risk taking due to the regular concentration of orders placed with the house and the support which retailers give the various promotions sponsored by the company. The latter point is of considerable significance to the house in securing promotional allowances from manufacturers. Fourth, loyalty makes it easier for management to reduce or eliminate excessive or uneconomic services, an especially important factor in lowering costs. Therefore, and in conclusion, the greater the degree of dealer loyalty possessed by the dealer-owned cooperative, or for that matter any wholesaler, the greater the likelihood the company will be in a favorable competitive position.

Trade association affiliation

According to the information received from dealer-owned cooperative managers and various trade association officers, dealer-owned cooperative retailers give every indication of being "joiners" and active in state and national trade association affairs. In fact, in the sections of the country where this movement is strong, the dealer-owned cooperatives have either a greater number of members on trade association boards or a greater number of members on boards in proportion to the total number of dealer-owned cooperative retailers in these areas. Likewise, even in some states or regions where the dealer-owned cooperatives are of
modest size as in California, the Northwest, and the Atlantic Seaboard, their members represent a large proportion of the various association board members. Also interesting is that there are ten dealer-owned cooperative retailers on the fourteen-member Board of Directors of the National Retail Hardware Association.

Practically all dealer-owned cooperative managers encourage their members to participate actively in trade association activities. Not only do the associations provide many management and merchandising services needed for efficient store operation, but they represent probably the best source of cooperative members. The significance of this latter point in the future growth of the dealer-owned movement is not to be overlooked. According to Lazo:

Retail trade associations are the logical reservoirs for membership, actual and potential, of any retailer-owned warehouse distributing unit. The very fact that these merchants have shown sufficient initiative to become affiliated with their fellow merchants in common cause proves that they are embued with at least the essence of cooperation: collective effort in the common good. Out of such groups come the leaders who will take an active part in the formation and operation of a retailer-owned distributing company, which depends for its organization, indeed for its very life, upon the cooperative effort and devotion of leading retailers.27

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26 About half the board members of the California Retail Hardware Association, Pacific Southwest Hardware Association, Pacific Northwest Hardware & Implement Association, and Pennsylvania and Atlantic Sea-Board Association are dealer-owned cooperative members.

27 Lazo, op. cit., p. 212.
CHAPTER IV

THE NATURE OF DEALER-OWNED COOPERATIVE WHOLESALING

In Chapter III the characteristics of dealer-owned cooperative retailers were compared with those of retailers patronizing program and regular wholesalers. This chapter deals with the nature of dealer-owned cooperative wholesaling; more specifically, the selection of members, retailer-company contractual relations, and method of operation. The primary sources of information include (1) various dealer-owned cooperative contracts and dealer bulletins; (2) interviews and correspondence with dealer-owned cooperative managers; and (3) responses of a questionnaire survey taken in November 1962 of dealer-owned cooperative managers.¹ (A copy of the questionnaire is reproduced in Appendix C.)

The basic purpose of a retailer-owned cooperative is "to preserve individual opportunity to make and keep its retail members competitive."² This the cooperative seeks to accomplish by utilizing the most successful techniques to (1) get the merchandise into the retailer's store in the most efficient manner and at the lowest possible cost and (2) get the merchandise out of the retailer's store in the greatest possible volume and at the best possible profit. To accomplish this task the

¹See Chapter I for an elaboration of the survey.

²Hector Lazo, Retailer-Cooperatives (New York: Harper and Brothers Publishers), 1937, p. XI.
retailer-cooperative adopts the chain store method of operation. Attention is focused upon making the group an efficient, integrated operation wherein the basic function of wholesaling becomes primarily one of service. A distribution center is formed, dealers selected, resources pooled, and various services performed to accomplish for all what each individual dealer cannot do for himself. Functions and services are assigned either to the retailers or the central organization on the basis of cost and performance.

I. Selection of Dealers

Although most dealer-owned cooperatives in the hardware trade do not have written standards regarding the selection of new members, management usually considers the following factors before accepting any prospective dealer into the company: (1) the cost of shipping merchandise to the store; (2) the presence of a dealer member in the trading area; (3) the sales volume and location of the store; (4) the dealer's credit rating; (5) the dealer's managerial ability and reputation; and (6) the dealer's willingness to abide by the terms of the contract. Negative findings in any one of the above areas, except number 6, do not necessarily disqualify a potential dealer from membership. For instance, it is not infrequent to find a dealer-owned cooperative soliciting the membership of a retailer located beyond the company's normal trading area. In such instances, the dealer may have been selected as a potential member because

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3A number of other factors were also mentioned by dealer-owned cooperative managers, including the dealer's present source of wholesale supply and his investment in signs and fixtures.
of the store's sales volume and location, the managerial ability of the
dealer, and the absence of any affiliated store in the prospect's trading
area.

Transportation costs

Regardless of who pays the freight (generally the member does in
most dealer-owned cooperatives), the distance between buyer and seller is
an important factor in determining the size of the latter's market. A
wholesaler can extend his trading area only as far as he is competitive.
Therefore, the dealer-owned cooperative, or any wholesaler, cannot con­sider his trading area to extend beyond that point where the company's
landed costs exceed those of his competitors. This is true even though
the company may offer other membership advantages in addition to that of
low cost merchandise. However, it does appear that the trading area of a
dealer-owned cooperative is larger than that of a similar-sized service
wholesaler because the cooperative's dealers generally pay the freight,
concentrate their orders (usually of above average size), and buy a large
percentage of their merchandise via drop shipments. The dealer-owned
cooperative also possesses a definite price advantage because of its
lower operating costs.

Dealer members in the area

Dealer-owned cooperatives follow a policy of selective distribu­
tion whereby only one dealer member is selected in each retail trading

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4 A drop shipment is an order shipped direct by the manufacturer
to the dealer. Although the wholesaler bills the dealer he does not
handle the merchandise.
area. There are three reasons for this policy. One, the retailers want exclusive distribution in their territory. Two, the company's advertising program is circular oriented and more than one dealer per trading area would result in duplication, confusion, and ill-will. Three, there can only be, if trading areas are selected properly, one successful representative in each territory.  

Selective distribution is both an advantage and disadvantage to dealer-owned cooperative operation. While it is one of the major reasons prompting dealer affiliation, it presents problems when (1) an acceptable prospect located in a member's trading area desires membership; (2) the present member is small, inefficient, or displays limited loyalty to the company; and (3) the sales potential of a particular trading area increases to where it might support two dealer members. Because of the relative frequency of such problems, most dealer-owned cooperatives have modified their policy of the exclusive territory guarantee whereby a member's right to a trading area depends primarily on his total purchases and the degree he participates in the company's overall program. With regard to the latter, the dealer must (1) identify his store with the group and regularly cover his trading area with the company's promotional material; (2) stock the house's private brand merchandise; (3) have all orders that are written by manufacturers' representatives billed through the cooperative; and (4) generally follow company policy and regulations.

5Trading area sizes vary among dealer-owned cooperatives. Whereas Cotter & Company uses 20,000 residents, Great Western Hardware uses 5,000 families.
Should the dealer fail to qualify on these points he may lose his exclusive rights to the territory if so decided by the Board of Directors.

**Store volume and location**

During the early years of organization most dealer-owned cooperatives accepted a limited number of small retailers as members. As each cooperative grew in size, however, store volume became an important factor in granting membership. As a result most of the dealer-owned cooperatives do not generally approach or accept a dealer with annual sales below $50,000. Some of the larger, more successful companies use $75,000 as the minimum. Other dealer-owned houses achieve essentially the same result by requiring each member to purchase a minimum monthly or annual sales volume. Cotter & Company, for example, states in its contract that a dealer will be billed an additional $22.50 per month for each month in which his purchases from the warehouse are less than $1,500, unless the dealer's warehouse volume at year's end exceeds $18,000. Although policies such as this apply to all retailers, they affect mainly the small dealer for experience has found him to be "the small order problem." As a result, cost-conscious dealer-owned cooperatives do not usually approach the small volume dealer. They would rather wait for a larger store to appear at a later date than commit themselves to a marginal dealer.

Closely related to a store's sales volume is its location. This can become the deciding issue when two prospective stores of similar sales size are being considered for membership. Factors usually evaluated include the amount and type of traffic passing each store, trading area population and potential, size and characteristics of adjoining
stores, availability of transportation and parking facilities, and the
direction and growth of the business district.6

Dealer credit rating

Since low operating expenses are basic to the successful opera­
tion of the dealer-owned cooperatives, each prospective member must have
a satisfactory credit rating. He must possess the ability to pay his
bills promptly when due. This requirement also is in accordance with
the cooperative's philosophy of equal treatment to all members. No one
dealer is allowed to do business at the expense of his fellow members.
As such, the dealer-owned cooperatives give serious consideration to this
factor.

Managerial ability

The progressive dealer-owned companies look for definite manager­
ial characteristics in prospective members. Retailers must exhibit
financial responsibility, adequate product and industry knowledge, and
possess overall management and merchandising know-how as demonstrated by
store profitability, layout, cleanliness, and merchandise line. The
cooperatives have found that dealers possessing these characteristics are
both better merchants and more qualified to undertake the duties and
responsibilities of membership. These dealers also are more appreciative
of the company's low cost merchandise and services.

6For a discussion of the factors involved in evaluating a store's
location, see William R. Davidson and Paul L. Brown, Retailing Management
It should not be assumed that the majority of companies comprising the dealer-owned cooperative group scrutinize every dealer on each of the foregoing factors. The intense competition for members has, on occasion, pressured against such a practice however important it is to long-term growth. This tendency is particularly common on the part of the smaller companies since they are likely to accept any dealer located in a new territory. Their main consideration is the additional volume that is needed for low cost merchandise, which in turn can be offered as "bait" for the larger, more successful dealers.

II. Retailer-Company Contractual Relations

An essential part in the acceptance of any dealer into the company is his agreement to abide by the terms in the contract. This is especially so when definite commitments are involved, such as the purchase of membership stock, payment of bills, minimum monthly or yearly sales, and the purchase of sales promotion material. Other than these commitments, however, most contracts, including those of some very successful cooperatives, are rather general in nature and more like gentlemen's agreements.

The following covers the duties and responsibilities contained in a typical contract. (See Appendix F for the contract agreement used by Cotter & Company.)

7It is the exception rather than the rule to find companies with minimum monthly or yearly sales policies or, for that matter of fact, companies strictly enforcing such a policy.

8Ace Hardware Corporation, a program wholesaler operating in basically the same manner as the dealer-owned cooperatives, requires its dealers to display the standard Ace Hardware store sign and purchase all their requirements, other than franchised lines, from the central organization.
The company agrees to (1) sell merchandise and furnish various services to the dealer at the lowest possible cost; (2) distribute patronage refunds at the end of the year should the company's gross margin exceed its cost of operation; (3) undertake a number of advertising promotions each year together with "leader" merchandise, circulars, and point of purchase display material; (4) furnish managerial and merchandise assistance in store operation, layout, modernization, etc.; (5) provide uniform store identification; and (6) assist in the training of dealer personnel.

The dealer agrees to (1) purchase the necessary capital stock required for membership; (2) concentrate a substantial portion of his purchases with the house; (3) pay all invoices when due; (4) partake in the house's merchandising program and feature the company's leader items; (5) buy and promote the brands carried by the house, both private and manufacturer labels; (6) associate his store with the company's store identification program; and (7) pay certain fees to compensate the house for the cost of various services.

Some cooperatives, such as Great Western Hardware in California, have instituted a 90-day trial period during which a new dealer is given the opportunity to try the company's program. It also gives the company the opportunity to get better acquainted with the dealer as both an individual businessman and a member of the group. Under this agreement the dealer is given all the material and services available to regular members except that the amount of his deposit with the company becomes his credit limit. At the end of the 90-day trial period the dealer can do one of three things providing he has qualified for membership. First,
he can cancel his membership and secure a refund of all deposits. Second, he can sign the stock subscription agreement for membership on monthly terms. Third, he can pay the balance of his stock subscription agreement and become a shareholder member in the company. In no case will the dealer be given the privilege of the 90-day trial period or receive a price book or other confidential material from the company unless he makes a substantial deposit.9

Because of the basic nature of dealer-owned cooperative wholesaling, there is an inclination on the part of some managers, especially those running small associations, to be somewhat lax in enforcing the terms of the contract. A number of reasons account for this situation. One reason is that most contract agreements are simple and general in nature, and purposely so, since they deal with the small businessman. A second reason is that the average dealer is basically independent in nature. There is a natural tendency to resist company policy and regulations whenever it runs counter to his thinking or purpose. Another reason is that some managers do not know or fail to exercise the principles of good business management. To enforce company policies in strict adherence to the contract might, in their minds, decrease dealer purchases or possibly result in lost membership, or both. This risk they are unwilling to take, especially when competition for members among wholesalers is great.

However, experience shows that a lax enforcement of company policies does not build strong associations. This fact is attested to by

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9 Confidential policy bulletin, 1Y2-1, 90-day trial agreement, Great Western Hardware, Santa Fe Springs, California.
the experience of retailer-owned cooperative wholesaling in the grocery trade both in the number of cooperative failures and the policies and practices of the industry's leaders. Further verification also can be obtained by observing the really successful operations in the hardware trade. Therefore it behooves dealer-owned cooperative management, especially during a period of strong growth, to resist the temptation to be lax in enforcing company policy. By so doing management will be laying the groundwork that is necessary for sound long-term growth.

III. Method of Operation

The purpose of this section is threefold: (1) to present a descriptive functional analysis of the wholesale activities performed by the dealer-owned cooperative, partly in order to relate them to the foregoing sections on retailer characteristics and contractual relationships; (2) to provide, by identifying their functional characteristics, a basis for understanding dealer-owned cooperative operation compared to the generally accepted concept of a regular wholesaler operation as described in basic marketing and wholesaling texts; and (3) to set the stage for the analysis of costs as related to functional activities, presented in the following chapter.

Certain functions and services are discussed only briefly because of their more elaborate treatment in Chapter V as determinants of operating cost differentials.
Buying

Although the dealer-owned cooperative performs many functions, it is first and foremost a buying organization with the objective to obtain for its members the same low price advantage possessed by large retailers and wholesalers. As a wholesale establishment the company employs a number of buying specialists whose responsibility is to purchase the right kind of merchandise at the right price, time, and place. The buyers, sometimes with the assistance of a committee of dealer members in charge of stocking new products, perform this function in basically the same manner as do buyers in any wholesale establishment.

Selling

Dealer-owned cooperatives sell via mail order, that is, by means of a catalog, pricebook, preprinted order form, and a cooperative dealer. Orders are mailed in, filled, and delivered on a scheduled basis usually weekly. The retailer does not have to be "bothered" by salesmen, incur their expense, nor waste his time shopping for the best deal. Credit terms usually call for either weekly or bi-weekly payment with a 2 per cent cash discount.\textsuperscript{10} The selling function is supposed to be simply an ordering process wherein the dealer orders his entire merchandise needs from the warehouse similar to that performed by the manager of a corporate chain.\textsuperscript{11}

\textsuperscript{10}Cotter & Company and United Hardware Distributors are two dealer-owned cooperatives that do not give a 2 per cent cash discount.

\textsuperscript{11}The dealer-owned cooperative is only partially successful in achieving this goal. The "independent" dealer-owned cooperative retailer does not buy all his merchandise from his house; he continues to "shop around" and buy from other sources in response to his needs, habits, and desires.
Mail order selling has other advantages besides its low cost. Not only are all members charged the same merchandise price, but buying for most dealers becomes a routine procedure. In addition, dealers can order merchandise at their own convenience and during periods of limited business activity. Concurrently, dealers can effect substantial savings in time by concentrating most of their purchases with their house and by seeing fewer salesmen.

Nevertheless, this type of selling is not without its disadvantages. This is especially so in the hardware field (compared with groceries) because of the large size and somewhat technical nature of the product line. Writing orders for some members becomes a burdensome task, and in some cases, an unacceptable one. Consequently, these dealers become relatively vulnerable to high-caliber salesmen regardless of the savings involved in writing their own orders. Many retailers also dislike the time and effort it takes to keep current their catalogs and price books.

Advertising and sales promotion

It is common opinion in the trade that advertising is one of the most neglected functions of the hardware dealer, but when properly used is as integral to a store's successful operation as its sales people.

The importance of advertising and sales promotion was recognized relatively early by some of the dealer-owned cooperatives.\(^{12}\) Our Own

\(^{12}\)Also noted for their early use of advertising and sales promotion are Farwell, Ozmun, Kirk & Co. and The Geo. Worthington Co. Two other pioneers in this area include Hibbard, Spencer, Bartlett & Company and Shapleigh Hardware who withdrew from business in the 1960's.
Hardware Company, for example, had a regular, large-scale advertising and sales promotion program in effect as far back as the 1930's. This program was so successful that most of the post-World War II dealer-owned companies instituted similar programs soon after their formation.

All the major dealer-owned cooperatives have elaborate advertising programs consisting of four or five seasonal promotions, monthly specials, and occasional product specials featuring private labeled merchandise. Seasonal and monthly promotions usually include the necessary circulars, newspaper advertising mats, and store display kits. These promotions usually represent the joint efforts of company merchandising personnel and a special advertising committee of retailers.

Persuading all members to subscribe to and use this service is sometimes a problem. A few cooperatives attempt to overcome this lack of participation by restricting the sale of low cost, promotional merchandise to program subscribers only. By so doing, the house "forces" most of its dealers to advertise and at the same time, through the increase in buying power, reduces the per member cost of its selling program.

Warehousing

Out of necessity, due to limited membership and capital, dealer-owned cooperative warehouse operations begin small. Warehouse facilities usually are leased or rented, and inventories are restricted to fast

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13 Our Own Hardware Co. currently conducts sales promotions 52 weeks a year via newspapers, farm magazines, radio, T.V., and direct mail. Brochure published by the company titled, Our Basic Selling Philosophy. (No date.)

14 It should not be assumed that all the dealer-owned cooperatives have advertising and sales promotion programs. A number of the smaller cooperatives do not. Their primary interest is in low cost merchandise only.
turnover items. Dealers buy a relatively large percentage of merchandise on a cash and carry and drop shipment basis. Since inventories are limited and out-of-stock situations rather common, members are compelled to buy much of their store requirements elsewhere.

Should the company grow and acquire the necessary capital to expand, its warehousing operation resembles that of the regular wholesaler. Lines are added, drop shipment volume as a per cent of total sales may decline, and the cash and carry service is discontinued. However, should the company remain small, it retains many of the disadvantages of a beginning business.

Delivery

To facilitate the routing, filling, and regular placement of orders, dealer-owned cooperatives ship merchandise to dealers on a scheduled once-a-week basis. Orders are customarily sent f.o.b. warehouse by common carrier or company truck. Some cooperatives, however, pay or share in the cost of delivery. For example, Great Western Hardware makes one free delivery per week to each of its members providing the order amounts to a hundred pounds or $100. On all other orders

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15 Drop shipment volume has not declined in many of the post-World War II cooperatives. It has remained at about 15 per cent of total sales and in some cases increased to as much as 25 per cent.

16 Cotter & Company does not deliver its merchandise on a scheduled once-a-week basis. Nor are dealers discouraged from submitting a number of orders per week provided they meet minimum order size. This policy stems from the fact that the company's members are above average in size and are believed to require more than one delivery per week.
during the week, which the company discourages and which are filled after all other scheduled orders, the dealer pays the freight.

Will call and pick-up orders generally are discouraged by most dealer-owned cooperatives since they tend to interrupt the scheduled pattern of filling orders in the warehouse. 17

An important aspect of dealer-owned cooperative operation are drop shipments and pooled orders. In a drop shipment the merchandise is shipped direct from the manufacturer to the dealer. No warehousing is involved although the house does process the order and bill the dealer. In a pooled shipment the house pools the orders of a number of dealers to obtain carload or truckload rates from the manufacturer. When the merchandise arrives, the wholesaler “breaks bulk” and ships the various orders together with other merchandise to the dealers. The goods are not stored in the warehouse. Since the warehousing and handling expenses are either eliminated or reduced on drop shipments and pooled orders, the dealer-owned cooperative is able to pass these savings along to the dealer in the form of lower prices. Typical drop shipment and pooled order prices are from two to six per cent and six to ten per cent respectively over wholesaler cost. Because such prices represent sizable savings over merchandise purchased from the warehouse, many dealer-owned companies do 20-40 per cent of their total dollar volume via drop shipments and pooled orders. This compares with about 10 per cent for

17 A will call order is one placed by a dealer that will be picked up at the warehouse on some pre-arranged basis. A pick up is a special arrangement made with certain dealers who prefer to accept delivery at the warehouse in their own equipment. Pick-up orders are usually on a scheduled basis.
regular wholesalers. (Drop shipments are covered in greater detail in Chapter V.)

Private brands

Private or dealer brand merchandise is just beginning to assume some importance in hardware, particularly in such product lines as paints and paint supplies, hand and power tools, and lawn and garden supplies. For the most part, activity in this area has been limited to the larger companies although some of the smaller companies do promote their own line of paints. In this respect hardware is quite different from the grocery field where the "battle of brands" is of considerable marketing significance. However, there is little doubt that private brands will be aggressively promoted in the future as hardware distributors realize the competitive value and profitability of such merchandise.

Most dealer-owned cooperatives, however, will be at a competitive disadvantage in marketing private brand merchandise. They lack the necessary buying and merchandising power to capitalize fully on a program of this type, power possessed by wholesalers affiliated with Pro Hardware Inc., Liberty Distributors, and Sentry Hardware Corp. As indicated earlier, these wholesaler federations are quite active in the development and promotion of private brand merchandise.

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18 For a rather comprehensive analysis of private brands in hardware wholesaling, see Hardware Retailer (special issue), May, 1962.

19 Contrary to what might be expected, private brand merchandise was reported by one source to represent only 8.6 per cent of total grocery volume in 1959, a comparatively insignificant portion of total sales. Russell L. Childress, Trends and Prospects for Affiliated Food Retailers, The University of Delaware, Food Distribution Section, 1962, p. 31.
Merchandising assistance

Since the average hardware store's success depends to a great extent on merchandising, the more progressive dealer-owned cooperatives have been relatively active in promoting the retailer's ability in this area. Particularly important in this connection are the company's field representatives, or supervisors as they are commonly called, and merchandising clinics.

Field representatives. Most dealer-owned cooperatives employ field representatives to assist dealers in the area of merchandising, to foster good dealer-company relations, and to recruit new members. The following encompasses the main merchandising responsibilities of the field representatives of United Hardware Distributing Company, Minneapolis, Minnesota. 20

1. To assist dealers in display work, store modernization, and merchandising methods.
2. To keep dealers informed of store-wide promotions.
3. To insure the receipt and use of company merchandising materials and services.
4. To check dealer prices on promotion merchandise.
5. To assist dealers in the training of store personnel.
6. To provide assistance to promote efficient store operation.
7. To keep dealers informed of local competition.

Differences exist among dealer-owned cooperatives in the primary use of field representatives. For instance, some cooperatives stress

20 Obtained through correspondence with N. W. Diehl, President.
the merchandising and company relations role of their fieldmen. Others use them mainly for recruiting new members in order to capitalize on the interest which dealers have in store programs. The latter practice is very common in the Midwest where competition for new members is keen.

The continued use of fieldmen mainly for recruiting purposes is, however, of questionable merit. Too many retailers lack an adequate knowledge of proper merchandising and management techniques. It also is doubtful whether the semi-annual or annual clinics sponsored by the cooperative can overcome in themselves these deficiencies. Low cost merchandise alone cannot guarantee dealer profit.

**Merchandising clinics.** A positive step toward making hardware dealers better merchants is being taken by those dealer-owned cooperatives sponsoring semi-annual and annual merchandising clinics. Sectional meetings of similar purpose are also of value. Hardware Wholesalers Inc. of Fort Wayne, for example, holds a number of one-day clinics during the year at which time dealers hear from promotional experts on the subjects of display, salesmanship, sales training, budget selling, and advertising.21

**Patronage refunds**

Patronage refunds, the excess of a dealer-owned cooperative's gross margin less operating expenses, are distributed to retailers on the basis of two facts. One, the dealers are the owners of the business, and two, the company is not interested in making "profits." Briefly

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explained, the dealer-owned cooperative's estimated cost of operation determines its overall merchandise prices. Any "profit" shown at the end of the year is the result of an overcharge, and should, on the basis of the two facts noted above, be refunded to the dealers on the basis of their patronage.

In practice the patronage refund usually consists of part cash and part note or non-voting stock. By withholding cash the company builds a reserve for growth and financial contingencies. Seldom are new member stock subscriptions an adequate source of growth capital.

While the opinions of dealer-owned cooperative managers vary on this point, research indicates that retailers may not regard patronage refunds as either an important reason for joining a dealer-owned cooperative or an important factor in building dealer loyalty. In one survey, for example, dealers ranked patronage refunds sixth of seven reasons for selecting the company as their major source of wholesale supply. Of greater importance were the cooperative's low merchandise cost, advertising and merchandising program, wide merchandise line, delivery service, and stock control program.\(^{22}\) Patronage refunds also appear to be of limited value in building dealer loyalty. Members responding to the 1963 midwestern dealer-owned company survey rated patronage refunds ninth of twelve factors. More important were the five reasons given above, company-dealer communication, pride of ownership, and the cooperative's policy of selling only to members.

\(^{22}\)Author's survey in 1962 of California retailers.
Other services

In addition to its merchandising services, the dealer-owned cooperative helps its members in other ways. Clinics provide the dealer with management assistance on bookkeeping and accounting, financing, stock control, store planning and engineering, and pricing. Merchandise shows are also of considerable help. Here the dealer not only has the opportunity to buy "specials," but he is introduced to the industry's new products. Many companies further serve their dealers by providing information on new store sites and arranging for bank loans.
CHAPTER V
A COST ANALYSIS OF DEALER-OWNED COOPERATIVE WHOLESALING

In Chapter IV the fundamental aspects of dealer-owned cooperative operation were covered. The present chapter continues this discussion by analyzing in two major sections the ways this type of wholesaler attains lower operating costs than the regular wholesaler. In the first section are examined the important factors promoting the dealer-owned cooperative's low cost operation. This information provides a frame of reference for the second section of the chapter which analyzes via specific cost data the differentials in operating expenses between and among dealer-owned cooperatives and regular wholesalers.

The material in this chapter is the author's conception of what constitutes a logical organization of factors that should, theoretically, promote low cost operation. It is introduced not only for purposes of identification but to determine whether the factors so identified actually do promote the low operating expenses revealed in the financial data presented herein.

I. Factors Promoting Low Cost Operation

The basic reason the dealer-owned cooperative has lower operating expenses than the unaffiliated regular wholesaler is because it is able to integrate the activities of the wholesaling operation with those of
its affiliated retailers. This it achieves primarily by acquiring the
loyalty and cooperation of its members and the subsequent control neces­
sary to (1) schedule orders and deliveries; (2) reduce market risk;
(3) limit the number and scope of services; and (4) transfer the per­
formance and cost of various functions to retailer members and manufac­
turers.

Scheduling orders and deliveries

By knowing in advance that each dealer will place his order
according to schedule, the cooperative is able to utilize its space and
personnel more efficiently. Orders, therefore, are assembled, packaged,
and delivered on a continuous smooth-flowing basis. The cost of order
filling is further reduced by setting up merchandise lines in the ware­
house on the same basis as they are listed on the pre-printed order
forms. Certain economies in time and money also are obtained by encour­
aging dealer members to assist the driver in unloading the truck.

Market risk

A dealer-owned cooperative's market risk is generally lower than
that of the regular wholesaler for a number of reasons. First, it can
buy merchandise with less concern about markdowns and product obsolescence.
This is so because affiliated retailers concentrate their purchases to a
greater extent than non-affiliated retailers. They also are more likely
to help the house in "unloading" slow selling merchandise. Second, the
cooperative has some control over retail prices through its price book,
prepriced bin tickets, sales promotion events, and store identification
program. This control over price, especially in connection with company promotions, assists the house in both its sales forecasts and negotiations with manufacturers. Third, the dealer-owned cooperative can test the sale of new merchandise with respective members before placing a substantial order with the manufacturer. Finally, members can assist the company in its merchandising activities through the feedback of information on retailing trends. The possession of such knowledge improves the cooperative's ability to adjust to changing market conditions. Although the unaffiliated wholesaler can also obtain some of the aforesaid advantages, he cannot do so to the same extent as the dealer-owned cooperative or program wholesaler. He lacks the necessary control and cooperation of the affiliated wholesaler.

Limited services

A very basic factor in the dealer-owned cooperative's low cost of doing business is its limited dealer services. Of particular significance in this area are its restricted credit and delivery policies.

1Most of the larger dealer-owned cooperatives have been successful in getting their dealers to display large store signs featuring each group's name. Examples include Our Own Hardware, Value and Service, True Value, American Hardware, Northern Hardware, and Great Western Hardware.

2It is incorrect to classify the retailer-owned cooperative as a limited-function wholesaler since it does perform all the basic functions of the regular wholesaler. It does differ from the latter, however, in the degree these functions are performed. More appropriate is the classification of limited service wholesaler since the retailer-cooperatives usually provide limited services to their members.
limited size of line, and stringent policies on will calls, pick ups, phone orders, special orders, and returned goods.

**Credit.** Contrary to what is often thought, the dealer-owned cooperative does extend credit to its members although not on the same scale as the regular wholesaler. Usual terms call for weekly or bi-weekly payment of bills compared to the regular wholesaler's month. Great Western Hardware's policy on terms and conditions of sale, for example, states that all payments for warehouse shipments are due the Tuesday following receipt of goods. If received or postmarked on this date the dealer may deduct two per cent; if later, invoices are due net the following Tuesday. Thereafter, a service charge of one-half per cent per week is charged until the invoice is paid. Payments for drop and pooled-order shipments are due net on the Tuesday following invoice date. On all seasonal and promotional merchandise, dealers usually receive the same extended datings as the house.

The obvious reasons for limiting credit are (1) to reduce the company's interest charges since less capital is needed to finance account receivables; (2) to reduce bad debt losses; (3) to eliminate the cost of running a credit department; and (4) to enable the company to discount bills.

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3A pick-up order is for merchandise listed in the dealer-owned price book but temporarily out of stock. It is available, however, from some other local source. Such pick-ups are made only when the dealer cannot wait for the merchandise to arrive via the company's normal replacement order. A special order is for any item not normally stocked in the warehouse but required by the dealer for a special need.
Delivery. The dealer-cooperative limits its delivery service in basically two ways. First, merchandise shipments are usually restricted to one scheduled delivery per week. Second, all other orders (e.g., emergency, rush, pick-up, and special orders) are delivered f.o.b. warehouse or discouraged through the imposition of a service charge. No charge, however, is usually made for special orders that are included with the dealer's scheduled delivery.

By limiting scheduled deliveries to one a week, in some cases paid in full or part by the company, the dealer-owned cooperative not only reduces the excessive number and cost of orders placed by some members, usually orders of small value, but get all dealers to purchase on a regular basis.

Number of items stocked. As a group, the dealer-owned cooperatives carry a smaller number of items than do regular wholesalers, approximately 20,000 to the latter's 28,000. The major reasons explaining this difference are the dealer-owned cooperative's desire to (1) conserve capital by minimizing its investment in inventory; (2) maximize its buying power and product turnover; and (3) to operate as economically as possible.

4While some cooperatives, such as Great Western Hardware and Hardware Wholesalers, Inc., share the freight charge with the dealers, the majority do not. This differs from most regular wholesalers who pay a substantial part of the freight bill. Regular wholesalers are not, however, paying as much of the delivery expenses as they did due to rising costs.

5This statistic on the average number of items stocked, as well as other facts comparing firms with and without salesmen, are presented in Bob Vereen's "The Changing Times in Wholesaling," Hardware Retailer, September, 1963, pp. 59-90.
Other limited services. Will calls, pick-ups, special orders, phone orders, and returned goods are other areas where the dealer-owned cooperatives customarily provide limited service. Their purpose in doing so is twofold. First, they want to minimize the cost of processing and handling such "non-regular business," and second, they want to provide equal and fair treatment of all members. Briefly stated, these transactions are costly and unfair because (1) only a few dealers use or can use these services, particularly phone and will call orders; (2) the expense of additional personnel, warehouse and office, is paid by all dealers for the convenience and benefit of a few; (3) special orders of any kind interrupt efficient operation because a schedule cannot be followed; (4) in the case of phone orders, two people must do the work of one; and (5) with respect to returned goods, the expense of returning and processing the damaged or unwanted merchandise often exceeds its cost.

Transferring function performance and cost

By the nature of its operation and out of choice the dealer-owned cooperative shifts the performance and cost of certain functions to its members. This occurs most notably in the areas of selling, finance, risk bearing, delivery, and storage.

Selling. As previously stated, the dealer-owned cooperative's low selling expense is the result of mail order selling. By employing a catalog, price book, and preprinted order forms, the cooperative effects

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6 Not all dealer-cooperatives provide these services. A few, including Cotter & Company, do not accept returned goods or will calls. Most do, however, in some degree.
substantial economies. However, these savings depend entirely upon the willingness of dealers to assume the order-writing function of the salesman.

The regular wholesaler would be quick to challenge the "savings" accruing to the dealer who writes his own orders. He notes, and correctly so, that the salesman's role goes much beyond that of order-taking. Good hardware salesmen also provide valuable merchandising and management services. In fact, some wholesaler salesmen almost function in the capacity of part-time employees for their retailer customers. Therefore, it is quite possible that a retailer buying merchandise via the salesman might be receiving greater value per dollar spent on merchandise than a dealer-owned cooperative retailer purchasing by mail.

However, actual experience indicates that there are many retailers who (1) are just as capable as the salesmen in merchandising and management ability; (2) have no need for his service since it duplicates the services provided by store personnel, their own wholesale company, local and national hardware associations, trade periodicals, and manufacturer and specialty wholesaler salesmen; and (3) are primarily interested in low price merchandise. As with most controversial issues, there is no one answer.

Any debate on the subject would have to consider such factors as the particular store in question (its management, personnel, size, competition, etc.) and the worthwhile advantages inherent in both methods if properly utilized. Serious consideration must also be given to the question of whether the decline of personal selling in grocery wholesaling is applicable to hardware and to what extent. Are the characteristics of hardware retailing sufficiently different from that of grocery retailing to "guarantee" the future of the general-line wholesaler salesman? Or is he likely to be replaced by mail order selling, an occasional visit by a field representative, and the sales calls of manufacturer and specialty wholesaler salesmen?
Financing. The dealer-owned cooperative shifts part of its financing expense to retailer members by making each dealer contribute towards the company's capital requirements and by limiting the dealer's credit period.

As do all stockholders who "own" the company, dealer-owned cooperative members supply the necessary capital to start the company's operation. Average membership subscription is about $1,500. They also furnish most of the additional capital needed (around $3,000-$4,000) for running the business. This they do by accepting preferred stock or notes in lieu of cash rebates and by subscribing to non-voting common or preferred stocks. The average investment for most affiliated dealers is somewhere around $5,000 although this figure varies considerably among houses. As a result of this financing the dealer-owned cooperative is able to do business on less bank money thereby lowering its interest expense.

Because the credit period of regular and specialty wholesalers is longer than that of dealer-owned cooperatives (30 days versus 7-14 days), retailers buying from the former are able to do business on less money, and possibly at less cost. In effect, as is common practice in

8The contract agreement of Bay Cities Wholesale Hardware Company in California stipulates that each retailer is to deposit $1,500 at the time the agreement is signed for working capital and to maintain inventory. When the retailer's annual purchases exceed $15,000 the deposit shall not be less than one-tenth of said annual purchases. On annual purchases of $50,000 to $75,000 and $75,000 to $100,000, the additional deposit will be 7 1/2 per cent and 5 per cent respectively of the annual purchases in these sales ranges. No additional inventory deposit is required for annual purchases exceeding $100,000.

business, the regular wholesaler is providing his customers with the necessary time to sell the merchandise and then settle their obligations with the company. In retailer-owned cooperative wholesaling the situation is somewhat the reverse. The dealers are financing the house and enabling it to do business with a minimum of capital. A limited credit period also forces the dealer to buy merchandise elsewhere on those occasions (e.g., at the end of the month) when his operating capital is low. Nevertheless, a restricted credit policy has offsetting advantages. Besides its effect in lowering the cost of merchandise, it prevents overbuying and gets dealers into the habit of discounting their bills.

The necessity of subscribing to capital stock and paying bills on limited terms "forces" the cooperative retailer to invest a substantial amount of capital in his business over and above that needed by an unaffiliated retailer. However, there is no reason to believe that this investment is paying less of a return in the form of low prices, rebates, advertising allowances, interest on notes, etc., than the same money invested elsewhere.

Risk bearing. In contrast to the unaffiliated wholesaler, the dealer-owned cooperative transfers a substantial part of the risk bearing function to its members. This the cooperative does by (1) requiring its members to purchase common and preferred stock; (2) extending limited credit; and (3) limiting its merchandise line to fast turnover items. Should the company fail because of unsound management, the retailers suffer the loss.
History shows that there have been a considerable number of failures of this type organization in the grocery and drug fields, especially the former.10 Thus far there have been comparatively few in the hardware trade but so have the number of companies comprising this group.11

**Delivery and storage.** As indicated earlier, most dealer-owned cooperatives make deliveries f.o.b. warehouse thereby shifting the freight charge to the dealer. They also shift part of what is considered to be the wholesaler's normal delivery and warehousing cost when they process drop shipment orders.

In a drop shipment, the wholesaler assembles and places the orders of many dealers with a manufacturer who, in turn, ships the filled orders direct to the dealers. The manufacturer bills the wholesaler, the wholesaler bills his dealers, and the dealers pay the wholesaler, who in turn pays the manufacturer. On such orders, the dealer usually receives a substantial discount from regular warehouse price.

The dealer-owned cooperative, as does any wholesaler, transfers part of the storage function to both dealer and manufacturer when it engages in the practice of drop shipping. The former assumes some of the storage function when, because of the considerable quantities involved in drop shipment purchases, he ends up with an average inventory larger than

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11 As indicated in Chapter II, there have been three known dealer-owned cooperative failures over the period 1954-1962.
what might normally be carried. The latter's storage function is augmented because the wholesaler warehouses less of the manufacturer's product line. Since the dealers now receive a large part of their merchandise requirements directly from the manufacturer, the dealer-owned cooperative need carry but just enough merchandise to satisfy the fill-in requirements of its members. The delivery charge is transferred to the manufacturer if and when he pays the freight on merchandise shipped to the dealer's place of business.\textsuperscript{12}

The fact that manufacturers process drop shipment orders is no indication that they favor this type of selling. In fact, it is quite probable that many manufacturers are being "forced" into this practice by the demands of both the successful dealer-owned cooperatives which make drop shipments an integral part of their operation and regular and program wholesalers who, as a defensive measure, have adopted drop shipment selling to remain competitive. The concern expressed by manufacturers, especially the smaller companies, over the increasing use of drop shipment selling centers around two facts. First, they are not equipped and, therefore, cannot afford to process and fill the many small orders calling for direct shipment. Large size orders, as customarily placed by a wholesaler, are needed for both efficient low cost production and efficient low cost distribution. Second, they regard the continued growth of this practice as an open invitation to brokerage-type

\textsuperscript{12}Although the manufacturer usually pays the freight in shipping merchandise to the wholesaler, his total delivery cost is generally higher in shipping direct to retailers because of the larger number of small-size orders. It is for this reason that some manufacturers add a "penalty" charge for drop shipments. In such a case it might be better for the dealer to buy at the higher warehouse price, especially if the quantity needed for a drop shipment could adversely affect turnover.
operations. Such a development might promote a type of competition that
wholesalers with substantial warehouse and inventory investments would
find difficult to meet.

There also is some concern that drop shipments may be detrimental
to the welfare of many dealers. According to W. A. Phair, Editor of
Hardware Age magazine,

... the attitude of many dealers these days is that they want to have drop shipments on almost every line they carry. We have noticed that some distributors are even publishing drop shipment catalogs.

The only point we want to raise here is: Is this good for the hardware trade in general? And, frankly, from everything we have seen, we feel strongly that we are rushing too fast into this field of drop shipments. We think that many dealers are going to be hurt, and hurt badly, by injudicious use of drop shipments.

As indicated, drop shipping is not utilized solely by the dealer-owned cooperative group. The great majority of the industry's regular

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13 It is interesting that while hardware dealers are increasing their proportion of drop shipment purchases, grocery dealers appear to be doing just the opposite. According to a survey made by the author of California grocers, almost 70 per cent of the grocers who responded have reduced their drop shipment purchasing. The most often cited reason for this decline was that the difference between the drop shipment and out-of-warehouse prices was not great enough to offset the additional costs incurred by the grocer in buying, handling, and storing excess inventories. This trend in the grocery field, however, is no indication that hardware dealers are making a mistake in buying more merchandise via drop shipments. There may be a wide enough spread in prices to justify the increase. Nevertheless, this practice should not be overdone due to its effect on turnover and return on investment.


15 An interesting and comprehensive survey on this subject indicated, among other things, that seventy-six per cent of the wholesalers drop shipped from 1-5 per cent of their total sales, and twenty-four per cent drop shipped 6 per cent or more. "Drop Shipments," Hardware Age, December 15, 1960, p. 31. (Also see September 8 and October 6, 1960 issues.)
wholesalers also engage in this practice but on a much smaller scale.\textsuperscript{16} This difference in drop shipment activity, however, has become a very important competitive factor. Not only have the drop shipment programs of some dealer-owned cooperatives induced a greater concentration of purchases among their members, but have been very instrumental in promoting dealer-cooperative membership. A statement to the effect that dealer-owned cooperative members can buy merchandise at two per cent above regular wholesaler cost, instead of 20 per cent, holds much promotional value. (The effect of drop shipments in lowering operating expense figures is illustrated in the cost comparison section of this chapter.)

II. Cost of Operation

The purpose of this section is to evaluate the significance of various factors believed to account for the major differences in total operating expenses among (1) three dealer-owned cooperatives of different sales size and location and (2) an economically operated dealer-owned cooperative, an economically operated regular wholesaler of similar size and location, and a group of nine regular wholesalers also of similar

\textsuperscript{16} The following reasons are believed by the author to explain the limited endeavors of regular wholesalers in this area. Drop shipments (1) shift the storage function, one of the basic functions of wholesaling, to manufacturers and retailers thereby weakening the wholesaler's position in the marketing channel; (2) cause dealers to overload their inventory thereby reducing turnover and return on investment; (3) encourage discounts in excess of the actual cost of this business due to inadequate cost data or an insufficient allowance for overhead; (4) reduce the wholesaler's more profitable warehouse business which is needed to cover the company's total expenses; (5) present unnecessary complications in compensating salesmen; and (6) give the dealer the impression when he compares his out-of-warehouse and drop shipment prices that the wholesaler is making excess profits.
size and location. Program wholesalers, as defined in Chapter II, are not included in this analysis due to the lack of cost information.

The decision to use three cooperatives in the first analysis is based upon two reasons. First, only five of the seven dealer-owned cooperative managers responding to the study (see Chapter II) were willing to submit and release for publication operating expense data. Second, there was a need to compare cooperatives with certain characteristics. Concerning the latter reason, the cooperatives had to be small, medium, and large in sales size and similar in overall operation.

The reason for using one dealer-owned cooperative in the second analysis (instead of three) is also twofold. One, it has the advantage of simplicity, and two, this particular cooperative is more similar in sales size and method of delivery to regular wholesalers in its location than are the other two cooperatives to regular wholesalers in their locations.

---

17 This analysis can be viewed as a means of testing various hypotheses, that is, of validating the effect of certain factors on the operating expense differentials appearing in the cost data of wholesale hardware establishments.

18 These three cooperatives are compared with cost data on like-sized companies reported by the Census and the National Wholesale Hardware Association.

19 This provides for both a more valid comparison and the opportunity to isolate sales size and methods of delivery (out-of-warehouse, drop shipments, and pooled orders) as factors responsible for differences in operating expenses.
There are definite limitations, both in size and representativeness, to using only three dealer-owned cooperatives as a basis for evaluating the significance of various factors on operating expenses. To offset these limitations and thereby provide a better basis for making generalizations, reference is also made to Census and trade association data and the history of retailer-owned cooperative wholesaling in the grocery trade. Nevertheless, the data on the three dealer-owned cooperatives is of value in that it represents heretofore unavailable information on the composition of cooperative expenses. It also highlights the significance of some factors not readily apparent from total operating expense figures.

---

20 The relatively small size of the dealer-owned cooperative group (21 known companies of which 8 had sales in 1963 of below $1 million), the "rebirth" of this movement in the middle 1950's and the dynamic nature of the hardware field present problems in identifying three companies as representative of their group. That these cooperatives are all well-established, account for a significant share of the hardware retailer business in their respective markets, follow the same general method of operation, and achieve their economies in basically the same areas are believed to make them representative.

21 The analysis and interpretation of past historical events as a basis for evaluating current problems and predicting future events is a scientific procedure known as the historical method. It is based upon the principles of the environmental origin of problems and the environmental application of solutions. It is believed to be particularly useful in this study because of the similarities of retailer-owned cooperative wholesaling in hardware to that of the grocery trade.

22 The operating expense figures appearing in Tables 13 and 14 are not identical to those in the financial statements of cooperatives A, B, and C. Certain adjustments were made to make the three statements comparable. For example, cooperatives A and B do not break down selling expenses separately. They are included under Membership Services and Development and General Administrative expenses respectively. Likewise, trucking and demurrage is treated by one cooperative as a Warehouse expense and by another as a Selling expense.
### TABLE 13

**OPERATING PERFORMANCE OF THREE RETAILER-OWNED COOPERATIVES IN THE HARDWARE TRADE, 1961-1963**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cooperative A</th>
<th>Cooperative B</th>
<th>Cooperative C</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net sales (millions)</td>
<td>Cost of goods sold</td>
<td>Gross profit</td>
</tr>
<tr>
<td>1961</td>
<td>$24.5</td>
<td>87.1%</td>
<td>12.9</td>
</tr>
<tr>
<td>1962</td>
<td>$31.7</td>
<td>87.3%</td>
<td>12.7</td>
</tr>
<tr>
<td>1963</td>
<td>$37.9</td>
<td>87.6%</td>
<td>11.5</td>
</tr>
</tbody>
</table>

**Notes:**

- **a**Above wholesale cost.
- **b**Derived by dividing total net sales at cost, including drop shipments and pooled orders, by average inventory at cost.
- **C**Part of this expense is the result of a merger in 1961.

**Source:** Confidential statements of respective companies.
The following data on the sales and operating expense performance of the companies discussed in this section (Cooperatives A, B, and C, Wholesaler X, and a group of nine regular wholesalers) is introduced as background information. First, however, a few facts about these establishments.

Cooperative A began operations in the Midwest shortly after World War II. Cooperative B started business in the mid-1950's and is located in one of the West North Central States. Cooperative C began operations on the West Coast in the early 1900's. All three cooperatives are located in or near large cities, provide advertising and sales promotion programs, and have experienced above-average growth over the period 1961-1963. Little information is known about Wholesaler X, the economical regular wholesaler, and the group of nine regular wholesalers other than their general location in the East and West Central States and their operating expenses. Wholesaler X is included in this analysis primarily for the purpose of (1) raising the question as to how a regular wholesaler can operate a business at a cost substantially below that of other regular wholesalers and (2) highlighting the significance of this attainment in meeting the competition of dealer-owned cooperatives.

23 Although the East and West Central States are usually considered separate market areas, they are combined in this analysis to provide a wider basis for comparison. The larger wholesalers located in either market, however, do service both areas.
Sales and operating expense performance, 1963

As indicated in Table 13, there is considerable variation in the sales size and operating expense figures of dealer-owned cooperatives A, B, and C. Not only has A in 1963 the largest sales volume (some $50 million), a sales volume that increased about 100 per cent in two years, but also the lowest operating expenses, 8.1 per cent. Cooperative C, on the other hand, has the smallest volume in 1963, $4.5 million, but the highest expenses, 11.9 per cent. Cooperative C, however, has also increased its sales volume substantially, almost 50 per cent. This compares to B's sales volume and operating expenses in 1963 of $8.9 million and 10.0 per cent respectively. Cooperative B's sales increased almost 19 per cent over the two-year period. Table 14 shows that in 1963 Wholesaler X and the regular wholesaler group have total operating expenses of 13.7 per cent and 18.6 per cent respectively. No exact sales volume figures are known about X and the regular wholesaler group other than they exceed $6 million.

The breakdown of total operating expenses in Table 13 shows that in 1963 A has the lowest administrative expense (2.8 per cent), B has the next lowest (3.4 per cent), and C the highest (4.8 per cent). Cooperative A also has the lowest warehousing expense (4.1 per cent), C the next lowest (5.3 per cent), and B the highest (5.8 per cent). Cooperative B has the lowest selling and delivery expense (.8 per cent), A the next lowest (.9 per cent), and C the highest (1.8 per cent).

That location is an important factor in wage and rental differentials is illustrated by the fact that Cooperative B's expenses in these categories are almost 40 per cent higher than A, 15 per cent higher than C, and 46 per cent higher than Wholesaler X.
TABLE 14

OPERATING EXPENSES OF AN ECONOMICALLY MANAGED DEALER-OWNED COOPERATIVE, ECONOMICALLY MANAGED REGULAR WHOLESALER, AND A GROUP OF REGULAR WHOLESALERS IN THE HARDWARE TRADE, 1963

<table>
<thead>
<tr>
<th>Operating Expense Group</th>
<th>Expense as a Per Cent of Net Sales</th>
<th>Variance as Per Cent of Sales Compared with</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dealer-owned Cooperative B</td>
<td>Regular Wholesaler X</td>
</tr>
<tr>
<td>Administrative</td>
<td>3.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>4.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Delivery</td>
<td>.1</td>
<td>.7</td>
</tr>
<tr>
<td>Selling</td>
<td>.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Fixed charges and</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expense</td>
<td>10.1</td>
<td>13.7</td>
</tr>
<tr>
<td>Turnover</td>
<td>6x</td>
<td>6x</td>
</tr>
<tr>
<td>Drop shipments</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

*aDoes not include rent which is allocated as a fixed charge.

Sources: Operating statement of Cooperative B and data computed from the National Wholesale Hardware Association's "Overhead Expense in Wholesale Hardware Distribution, 1963."
<table>
<thead>
<tr>
<th>Operating Expense Group (Per Cent of Sales)</th>
<th>Retailer-Owned Cooperatives</th>
<th>Service Wholesalers</th>
<th>Wholesaler-Sponsored Groups</th>
<th>Variance as Per Cent of Sales Compared with Unaffiliated Service Wholesalers</th>
<th>Wholesaler-Sponsored Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling and administration</td>
<td>3.0%</td>
<td>5.4%</td>
<td>5.9%</td>
<td>2.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>1.3</td>
<td>2.4</td>
<td>2.5</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Delivery</td>
<td>.8</td>
<td>1.3</td>
<td>1.4</td>
<td>.5</td>
<td>.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>--</td>
<td>.8</td>
<td>.9</td>
<td>.8</td>
<td>.9</td>
</tr>
<tr>
<td>Total expense</td>
<td>5.1</td>
<td>9.9</td>
<td>10.7</td>
<td>4.8</td>
<td>5.6</td>
</tr>
</tbody>
</table>

A somewhat similar breakdown of operating expenses in Table 14 shows that Cooperative B has lower costs than Wholesaler X and the regular wholesaler group in every expense category except warehousing. Noticeable differences favoring B over X appear, however, only in the areas of selling (.8 per cent compared with 2.9 per cent) and administration (3.3 per cent with 5.5 per cent). Wholesaler X has a considerable offsetting advantage in warehousing, 2.7 per cent compared with B's 4.1 per cent. Wholesaler X, however, has noticeably lower costs than the group of regular wholesalers in every category except administrative expenses.

Table 15 gives the operating expenses of retailer-owned cooperatives, wholesaler-sponsored groups, and regular wholesalers in the grocery trade in 1935. The differences in costs between Cooperative B and the group of regular wholesalers seems to confirm the belief, assuming that B is a somewhat typical cooperative, that retailer-owned cooperatives in both fields attain their economies over the regular wholesalers in selling, administration, and delivery.

An analysis is now made of the six factors believed to account for the major differences in operating expenses among wholesale hardware

25 To obtain comparability with Wholesaler X and the group of regular wholesalers, Cooperative B's operating costs were reallocated into the expense categories given in Table 14.

26 In 1935 the expenses of wholesaler-sponsored groups in the grocery field exceeded those of regular wholesalers, 10.7 per cent to 9.9 per cent. It is quite likely that this situation resulted from the additional costs incurred by many grocery wholesaler groups in promoting their store identification programs. Such programs are believed responsible for the high total expenses of some hardware wholesalers in the 1960's.
establishments. They are (1) methods of delivery, (2) functions and services performed, (3) wages and salaries, (4) sales size of establishment, (5) number and kind of products handled, and (6) efficiency of operation.

Methods of delivery

Most hardware retailers can buy, although in varying degrees depending upon wholesaler policy, merchandise for delivery via one of three ways: (1) out-of-stock, (2) drop shipment, and (3) pooled order. Since the cost of servicing these orders varies with the amount of paperwork, product handling, and warehousing involved, different prices are charged the dealers ranging from a low 2-6 per cent "adder" on drop shipments to a 12-20 per cent markup on merchandise bought from warehouse stock.

One of the major factors explaining A's exceptionally low operating expense in 1963 and earlier years is its relatively low percentage of out-of-warehouse sales. By selling thirty per cent and twenty per cent of its total net sales via drop shipments and pooled-orders respectively, at corresponding prices of 2 per cent and 6 per cent above cost,

---

27 Occupancy costs can also be, on occasion, an important factor especially when a building is owned and completed depreciated. The net advantage, however, might be small if there are offsetting expenses, such as the cost of capital (lease versus ownership) and additional handling costs as in the case of an outmoded building. In any event, this factor should not be overlooked.
A is able to average its total costs to 7.8 per cent of net sales. This averaging effect, which reduces the per cent expense of all functional areas is illustrated for A in 1963 as follows:

<table>
<thead>
<tr>
<th>Method of Sale</th>
<th>Per Cent of Net Sales</th>
<th>Markup on House Cost</th>
<th>Percentage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>From warehouse</td>
<td>50</td>
<td>12.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Drop shipments</td>
<td>30</td>
<td>2.0</td>
<td>.6</td>
</tr>
<tr>
<td>Pooled orders</td>
<td>20</td>
<td>6.0</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total average operating expense</strong></td>
<td></td>
<td></td>
<td><strong>7.8</strong></td>
</tr>
</tbody>
</table>

Cooperative A's drop shipment volume is exceedingly high compared with the industry's average. This is primarily the result of the company's low 2 per cent markup, its high proportion of large-sized dealers, the magnitude of its drop shipment program (partially the result of its favorable location), and the degree the program is promoted to its dealers. Were B's drop shipment and pooled order volume of similar magnitude, it is quite possible that it too would be operating at an average expense of about 8 per cent. Although C's pooled order business

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28 The fact that A prices its drop shipments at 2 per cent above cost is no guarantee that this business is as profitable as sales made from warehouse stock, or that other dealer-owned companies can duplicate this practice with equal success. It is quite possible that a sales policy of this nature may decrease profits due to a subsequent decline in out-of-warehouse sales and the failure of a company to fully cover its fixed costs.

29 Cooperative A's margin on drop shipments is not actually 2 per cent but approximately 4 per cent since A retains the manufacturers cash discount. This is usually true for the other cooperatives drop shipping at "2 per cent over cost."
is exceptionally large, its effect on lowering total operating expense is limited because of its "high" 10 per cent markup on such shipments.

Comparable figures in 1963 for cooperatives B and C are as follows:

<table>
<thead>
<tr>
<th>Method of Sale</th>
<th>Per Cent of Total Sales</th>
<th>Markup on House Cost</th>
<th>Percentage Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>C</td>
<td>B</td>
</tr>
<tr>
<td>From warehouse</td>
<td>81</td>
<td>51</td>
<td>11.4%</td>
</tr>
<tr>
<td>Drop shipments</td>
<td>12</td>
<td>15</td>
<td>3.0</td>
</tr>
<tr>
<td>Pooled orders</td>
<td>7</td>
<td>34</td>
<td>7.0</td>
</tr>
<tr>
<td>Total average operating expense</td>
<td></td>
<td>10.0</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Inasmuch as Cooperative B, Wholesaler X, and the group of regular wholesalers all drop ship to the same extent, some 10 per cent of total sales as shown in Table 14, methods of delivery are probably not an important factor in explaining the cost differentials among these wholesale establishments.  

Functions and services performed

Dealer-owned cooperatives limit the performance and shift the cost of certain functions and services in order to reduce their operating expenses. This occurs most notably in selling, delivery, finance, and risk taking. However, while all dealer-operatives usually restrict their activities in these areas, they do so in varying degrees. In the present illustration, for example, which Cooperative A generally restricts dealer services (e.g., returned goods, special orders, phone orders, will calls, etc.) to a greater extent than does B and C, it does not limit its

30 This would not be true if Wholesaler X does a much greater volume of pooled order business than B's 7 per cent.
shipments to one scheduled order per week. Cooperative A, as does B, also ships all merchandise f.o.b. warehouse via common carrier, although C makes one "free" delivery per week regardless of location. And while all three cooperatives have established minimum order sizes, dealers affiliated with A must buy a minimum monthly or yearly sales volume or else pay a fee. Other differences among these companies include the number of merchandising and management meetings held, the number of field representatives and their frequency of calls, the fees paid by members for advertising and sales promotional materials (including catalogs), the interest paid on company notes and preferred stock, and the charges exacted from dealers for miscellaneous services and overdue accounts.\footnote{The effect of company services on costs and their significance in meeting competition is well illustrated by an announcement of Our Own Hardware Co. indicating possible changes in policy on returns and allowances, cash discounts, and "overtime" service on order requests. Our Own Hardware is probably considering these changes in order to compete more effectively with other dealer-owned cooperatives now doing business in its territory. The company also is giving consideration to drop and pool shipment programs, charging for its dealer catalogs, and changing its methods of pricing. "Our Own Hardware Singles Out Areas for Cost-Cutting Program," Home Furnishings Daily, February 20, 1964, p. 1.} All factors considered, Cooperative C probably provides its dealers with more services than does A and B.

The fact that C assumes a larger portion of the delivery expense than does A and B is readily apparent from each company's operating statement. Not so apparent, however, is the actual cost of the other services provided by C for which no expense data are kept. Even though these additional services can be identified from a knowledge of each firm's operation, they cannot be quantified easily. This is because of
the number of variables involved and the difficulty and differences in allocating overhead expenses. The result is that the cost of such services remains "hidden" in such accounts as office and warehouse salaries, selling expense, and miscellaneous. At best, therefore, the cost differentials among cooperatives A, B, and C due to variations in functions and services performed can only be estimated; they cannot be adequately determined from financial statements. Whether they represent one or two percentage points of the approximate two- and four-point spreads between B and C and A and C respectively is unknown based upon available information.

Although the same problems concerning this factor also exist in the comparison of Cooperative B, Wholesaler X, and the group of regular wholesalers, their relative significance is less. This is because the major differences in expenses due to functions and services performed are easier to identify in the financial statements, namely, in the areas of selling and delivery. As indicated in Table 14, the regular wholesaler group had an average selling cost in 1963 of 4.8 per cent (sales force, 4.3 per cent; advertising, .5 per cent), about two and four percentage points higher than Wholesaler X and Cooperative B. This group's delivery cost (1.6 per cent) exceeded that of B and X by 1.5 per cent and .9 per cent respectively. Wholesaler X and the regular wholesaler group also had bad debt losses of .2 per cent and .3 per cent.

It is interesting to note the low selling, warehousing, and delivery costs of Wholesaler X compared to the regular wholesaler group. This is believed to indicate that regular wholesalers, as do the wholesaler-sponsored groups in the grocery trade, can substantially
reduce their total operating costs, if they desire, by duplicating some of the methods of the dealer-owned cooperatives.

The rather significant variations in warehousing costs among Cooperative B, Wholesaler X, and the regular wholesaler group are discussed in the next section on wages and salaries.

Wages and salaries

The effect of wages and salaries on operating expense differentials is best illustrated in the comparison of Cooperative B, Wholesaler X, and the regular wholesaler group. This is because these establishments are of similar sales size and do about the same volume in drop shipments. Such is not the case in the comparison of cooperatives A, B, and C where differences in sales volume and methods of delivery would probably account for much of A's lower wage and salary expense.32

An analysis of 1963 financial data on B, X, and the regular wholesaler group reveals the following information on wage and salary costs.

<table>
<thead>
<tr>
<th>Wage and Salary Expense by Category</th>
<th>Cooperative B</th>
<th>Wholesaler X</th>
<th>Regular Wholesaler Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative</td>
<td>2.1%</td>
<td>4.7%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>3.4</td>
<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>5.5%</td>
<td>7.2%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

32 The wage and salary differentials between cooperatives A and B, A and C, and B and C are .5 per cent, 1.2 per cent, and .7 per cent respectively.
As indicated, B's administrative wage and salary expense is considerably lower than that of X and the group of regular wholesalers, some 2.6 per cent and 2.3 per cent respectively. Offsetting this difference is B's relatively high warehouse wages, 3.4 per cent compared to X's 2.5 per cent and the regular wholesaler group's 3.2 per cent. The net differences among total wage and salary expenses, however, still favor B considerably, some 1.7 per cent over X and 2.1 per cent over the regular wholesaler group.

Whether or not this differential favoring B is larger or smaller than that which would exist had another dealer-owned cooperative or group of cooperatives been used (similar in sales size and drop shipment volume) is not known. It is known, nevertheless, since retailers are the owners and directors of the company, that there is less inclination for "excessive" executive salaries in most dealer-owned cooperatives than family-owned wholesale establishments. In any event, it is questionable whether the variation that does exist will be of the same magnitude in the future due to competitive pressures.

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33 What portion of the executive payroll actually represents a return on the investment of owner-executives in the business is not known. It could, however, be a factor of some importance considering the relatively limited net profit on tangible net worth in hardware wholesaling, approximately 4.4 per cent over the period 1957-1962. Key Ratios in Business—1962, Dun & Bradstreet, Inc., p. 14.

34 Of the twenty-one known dealer-owned cooperatives doing business in 1963, only three, including B, had sales of between $5 and $10 million. To what extent the other two dropped shipped merchandise is not known.
Sales size of establishment

It is difficult to isolate the effect of sales volume on the operating expense performance of cooperatives A, B, and C due to other factors. No assistance can likewise be obtained from the comparison of B, X, and the group of regular wholesalers since sales volume is assumed to be the same. Nevertheless, increased sales size does seem to be a factor in lowering total operating expense percentages in wholesaling based upon Census and trade association data. This is as would be expected due to the large investment required by general-line wholesalers in warehouse facilities and inventory. The relative importance of sales size in lowering total operating expenses versus that of other factors, however, is a matter of conjecture. So too is the sales size where economies of scale stop and diseconomies begin.

As Table 16 shows, the Census reports a spread of .5 per cent in 1958 between merchant hardware wholesalers (as distinguished from dealer-owned cooperatives) with sales of $10 million and over and those with $2-$4.9 million. Respective total operating expenses for the two groups are 17.0 per cent and 17.5 per cent. This spread decreases to .2 per cent when comparing wholesalers doing $5-$9.9 million in sales (operating expenses of 17.2 per cent) with those doing $10 million and over.

The preceding Census figures are somewhat smaller than the average spreads reported in 1958 by the National Wholesaler Hardware Association.

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35 In 1958 the operating expense percentages of all merchant wholesalers in the United States doing $10 million and over, $5-$9.9 million, $2-$4.9 million, and $1-$1.9 million were 6.4 per cent, 9.9 per cent, 12.4 per cent, and 14.5 per cent respectively. Census of Business--1958, Vol. III, Wholesale Trade, Table 2A, p. 2-2.
TABLE 16

OPERATING EXPENSES AS A PER CENT OF NET SALES FOR GENERAL-LINE MERCHANT WHOLESALERS IN THE HARDWARE TRADE BY SIZE OF ESTABLISHMENT, 1958

<table>
<thead>
<tr>
<th>Annual Sales Volumes</th>
<th>Number of Establishments</th>
<th>Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000 and over</td>
<td>33</td>
<td>17.0%</td>
</tr>
<tr>
<td>$5,000,000 - $9,999,000</td>
<td>36</td>
<td>17.2</td>
</tr>
<tr>
<td>$2,000,000 - $4,999,000</td>
<td>141</td>
<td>17.5</td>
</tr>
</tbody>
</table>

*As a per cent of sales, including payroll.


for its members of somewhat similar sales size. They also vary from the average figures of N.W.H.A. covering the period 1958-1964. In 1958, wholesalers doing from $3-$6 million, $6-$12 million and over $12 million in sales had operating expenses of 18.10 per cent, 18.87 per cent, and 17.40 per cent respectively. Corresponding spreads between these three groups amounted to a minus .77 per cent and 1.37 per cent. Over the period 1958-1964 these same groups had operating expenses of 18.57 per cent, 18.47 per cent, and 17.47 per cent, representing spreads of .10 per cent and .99 per cent.36

While increases in sales volume, other things being equal, benefit all wholesale establishments up to the point of diminishing returns, retailer-owned cooperatives benefit to a greater extent than

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36 Footnote 36 appears at the bottom of page 130.
regular and most program wholesalers. This is due to the higher fixed costs of the latter, especially in selling, and administration. Lazo commented on this occurrence in his mid-1930 study of grocery retailer-cooperatives as follows:

One of the interesting factors brought out by this comparative study is that, while the total wholesale grocery trade tends to a $500,000-volume category as the most efficient, measured by operating cost alone, the retailer-owned cooperative warehouse apparently keeps on increasing in operating cost efficiency the larger it gets. Obviously there is danger of too great a size also, but equally obvious this size has not yet been reached.37

Census findings for 1954 also indicate that diseconomies of scale occur at lower levels of sales volume for regular wholesalers than retailer-owned cooperatives. In the grocery trade merchant wholesalers with sales of $5-$9.9 million had the lowest total operating expense (8.5 per cent) of any sales volume group. Wholesalers doing $10 million

36(From page 129) The following data were compiled and computed from the Overhead Expense in Wholesale Hardware Distribution reports of the National Wholesale Hardware Association, 1958-1964.

<table>
<thead>
<tr>
<th>Year</th>
<th>Over $12</th>
<th>$6-$12</th>
<th>$3-$6</th>
<th>$1-$3</th>
<th>Under $1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million</td>
<td>Million</td>
<td>Million</td>
<td>Million</td>
<td>Million</td>
</tr>
<tr>
<td>1964</td>
<td>16.98%</td>
<td>17.11%</td>
<td>18.61%</td>
<td>- 19.50%</td>
<td>20.52</td>
</tr>
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<td>18.32</td>
<td>18.84</td>
<td>19.32</td>
<td>20.07</td>
</tr>
<tr>
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<td>17.20</td>
<td>19.10</td>
<td>18.30</td>
<td>19.33</td>
<td>24.08</td>
</tr>
<tr>
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<td>19.54</td>
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<td>19.52</td>
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<td>17.83</td>
<td>17.60</td>
<td>18.25</td>
<td>19.15</td>
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<td>17.40</td>
<td>18.87</td>
<td>18.10</td>
<td>19.42%</td>
<td>21.21%</td>
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</table>

and over had expenses of 9.8 per cent. In contrast, retailer-owned cooperatives with sales of $5-$9.9 million and $10 million and over had total operating expense figures of 4.8 per cent and 3.8 per cent respectively. Similar findings were also reported in 1954 for merchant wholesalers in the hardware trade. Operating expenses were lowest for wholesalers in the $5-$9.9 million group (16.4 per cent) and increased to 17.3 per cent in the $10 million and over group. Data are not available on the dealer-owned cooperatives for 1954 although the major cooperatives did experience declining operating costs with increases in sales volume in 1958.

Number and kinds of products

Little difference is reported to exist among cooperatives A, B, and C in the number and kinds of products warehoused. Each company limits its inventory to approximately 21,000 items representing the

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38 Diseconomies of scale did not take place at the $10 million and over level in 1958. The Census reports the following sales-size and operating expense data for merchant wholesalers that year. $10 million and over, 7.3 per cent; $5-$9.9 million, 8.9 per cent; and $2-$4.9 million, 8.4 per cent. Census of Business--1958, op. cit.


40 Ibid.

41 As conveyed to the author by various dealer-owned cooperative managers. Cotter & Company, for example, shows the following sales-operating expense performance from 1952-1964.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (millions)</th>
<th>Operating costs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>$3</td>
<td>10.7</td>
</tr>
<tr>
<td>1954</td>
<td>$6</td>
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<td>1956</td>
<td>$9</td>
<td>9.9</td>
</tr>
<tr>
<td>1958</td>
<td>$13</td>
<td>8.8</td>
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<tr>
<td>1960</td>
<td>$21</td>
<td>8.4</td>
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<td>$32</td>
<td>8.0</td>
</tr>
<tr>
<td>1964</td>
<td>$65</td>
<td>6.9</td>
</tr>
</tbody>
</table>
conventional lines handled by general-line hardware wholesalers. As such, no one house seems to benefit from higher margins or lower handling and warehousing expenses because of differences in merchandise stocked.\footnote{As noted earlier, Cooperative A does obtain some advantage from its more comprehensive drop shipment program whereby members, via the company's special drop shipment catalog, have access to a larger number of items than dealers affiliated with B and C. This situation has the effect of increasing A's product line without adding to its warehouse stock, which in turn, increases the company's drop shipment sales. The end result is a corresponding decrease in operating costs.}

There also appears to be little basic difference in lines among different type general-line wholesalers similarly located, which is assumed to be the case with Cooperative B, Wholesaler X, and the regular wholesaler group. However, even though product lines may not differ substantially, it is quite probable that a significant variation exists between B and the regular wholesaler group in the number of items carried, about 8,000 based upon industry averages. Wholesaler X probably carries a limited line also based upon his relatively high turnover, six times, the same as B. This difference in items warehoused is believed to have a favorable effect on the total operating expenses of both B and X. How much of an effect, however, is not known, nor can it be determined from available financial data. Nevertheless, the effect of number and kinds of products carried on operating expenses appears adequately substantiated by existing business beliefs.

It cannot be assumed that a reduction in the size of a company's product line will always reduce operating expenses; for example, that B will reduce its operating expenses still further by dropping 2,000 items
from its inventory. The actual effect might be a reduction in volume whereby operating expenses as a percentage of sales are actually increased. Davidson and Brown have this to say on the matter:

In a quest for a rapid stock turnover rate, the variety and assortment of goods are often reduced unreasonably. Brands, styles, or sizes of various items may be dropped from the line.

A point will be reached at which the benefits associated with rapid rates will be more than offset by adverse factors attributable to stocks that are unduly low in relation to sales volume. The optimum rate for any particular establishment is set when the advantages are reasonably balanced, with the result that benefits of high rates are obtained without any appreciable sacrifice on profits attributable to low stock conditions and too frequent purchasing.\(^4\)

Notwithstanding the disadvantages associated with a limited line, there is no indication that the 20,000 items stocked by Cooperative B (and possibly Wholesaler X) is too small a product line to satisfy the needs of its retailer members. The fact that the 1964 survey of retailers covered in Chapter III reported a higher concentration of purchases for dealer-owned cooperative retailers could be indicated to confirm the adequacy of this size line, but perhaps only in connection with the thousands of items also available from manufacturers via drop and pooled order shipments. As noted earlier, the availability of such merchandise adds substantially to the size of the dealer-owned cooperative's line irrespective of where the merchandise is warehoused. That some manufacturers have indicated a willingness to assume a greater part of the

storage function, due in part to competitive pressure and the slow turnover of most hardware products, makes this arrangement possible.

Efficiency of operation

It is exceedingly difficult to explain the differences in operating expenses among cooperatives A, B, and C on the basis of efficiency; that is, how well each company performs its functions and services under existing conditions. Not only is the subject itself of considerable complexity, due in part to the number of variables involved, but certain cost data are lacking to enable proper measurement. Industry standards against which each cooperative may be compared are also absent. Therefore, it can only be said that each of the cooperatives are recognized by the trade as efficiently managed organizations.

Much of the same reasoning applies to the comparison of Cooperative B, Wholesaler X, and the group of regular wholesalers, although greater use can perhaps be made of trade data supplied by the National Wholesale Hardware Association in evaluating regular wholesalers.

Nevertheless, it is important to distinguish the difference between an efficient wholesale operation and one that is merely

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44 According to one source, efficiency is an institution's productivity (the output of wholesaling functions and services to the input of resources) as compared with an optimum or ideal level possible under given conditions. T. N. Beckman, N. H. Engle, and R. D. Buzzell, Wholesaling (3rd. edition; New York: The Ronald Press Company, 1959), p. 237.

45 A proper analysis of a firm's productivity and efficiency must include both quantitative and qualitative factors. Examples of the latter are (1) specialization and standardization of functions performed; (2) organization for the coordination of effort; (3) the degree and nature of competition; and (4) the use of labor-saving devices. Ibid., p. 236.
The dealer-owned cooperative by its very nature is an economically operated wholesale establishment; it has lower operating expenses than the regular full-function wholesaler. So do most limited-service and limited-function wholesale establishments. However, this low cost is no true indication of efficiency. Economy and efficiency are not synonymous. In fact, it is quite possible to have similar type wholesalers, such as cooperatives A, B, and C, three regular wholesalers, or three program wholesalers, each with different total operating expenses, that are all efficiently managed firms. Likewise, it is equally possible to have inefficiently operated dealer-owned cooperatives that can still "out-price" well-managed regular wholesalers. In these instances, low operating expenses are deceiving and not an accurate indication of efficiency. That care must be exercised in appraising companies on the basis of their total operating expenses is indicated by the following:

The fact that total expense ratios are affected by so many variables, many of them beyond the control of management, seriously limits the value of such ratios as measures of performance. If no allowance is made for these variables, an unfair judgment may result. On the other hand, the existence of such influences and the difficulty of obtaining strictly comparable data make it possible to rationalize almost any deviation from expected or normal results. Consequently, total expense ratios serve as just one indication of managerial performance to be considered in the light of the other measures.\(^{46}\)

*Importance of economy*

Although there is need to critically evaluate the lower operating costs and corresponding savings effected by the dealer-owned cooperative over the regular wholesaler, particularly with respect to dealer services,

\(^{46}\text{Ibid.}, \ p. \ 630.\)
it is advisable not to underestimate the importance of this economy from a competitive viewpoint. Reference need only be made to the experience of the grocery field. As a result of intense chain competition and the need for low cost merchandise and merchandising services, unaffiliated regular wholesalers found themselves relegated to a position of secondary importance in grocery wholesaling. And although one important factor in the demise of many regular wholesalers at that time was their failure to sponsor a franchise store program, perhaps even more important was their inability to meet the price competition of the chains and retailer-owned cooperatives. Regular wholesalers failed to stem effectively the loss of customers resulting primarily from their higher operating costs as expressed in merchandise prices.\textsuperscript{47} It is in connection with this fact that a comparison is now made of the spread in operating expenses existing between the dealer-owned cooperatives and unaffiliated regular wholesalers in the hardware trade.\textsuperscript{48}


\textsuperscript{48} The spread in gross margins (drop shipments, pooled orders, as well as warehouse inventory) is equally as important as the spread in operating expenses and should be considered in any comparison of different wholesale establishments. This discussion is limited to total operating expenses for reasons of simplicity.
In 1956 the dealer-owned cooperatives and regular wholesalers had average operating expenses of about 13.2 per cent\(^49\) and 17.7 per cent\(^50\) respectively, a spread of 4.5 percentage points based on sales. In 1963 this spread is believed to have increased to almost seven points, the difference between an estimated dealer-owned cooperative average operating expense of 12 per cent\(^51\) and a regular wholesaler average expense of almost 19 per cent.\(^52\) This increase is due to the concentrated attention of most dealer-owned houses to reduce expenses, particularly those in the Midwest, and the general increase in operating costs among regular wholesalers over the period 1955-1963.

Perhaps even more important than the average spread between these two groups is the size spread that presently exists between regular wholesalers and the leaders of the dealer-owned cooperative group, those four companies doing seventy per cent of its total volume. This is especially so in view of the latter's active efforts to expand.

\(^49\) This figure is believed to be the actual average of the ten more important companies comprising the dealer-owned cooperative group in 1956. It is, however, the only total operating expense figure that the author was able to obtain via correspondence with the more helpful dealer-owned cooperative managers. More recent information for the group was either unknown or withheld for competitive or other reasons.

\(^50\) *Overhead Expense in Wholesale Hardware Distribution, 1964.* The National Wholesale Hardware Association, no page number.

\(^51\) Since 1956, a rather marked decline has occurred in the operating expenses of a number of the dealer-owned cooperatives. For example, four of the larger dealer-owned cooperatives are known to have had in 1963 operating expenses of around or below ten per cent.

\(^52\) *National Wholesale Hardware Association, op. cit.*
their markets. Cotter & Company, for example, which accounts for about one-third of the dealer-owned cooperative group's total volume, had operating costs in 1964 of 6.9 per cent. Other dealer-owned cooperatives distributing in the same area are known to have costs of around ten per cent. Ace Hardware Corporation, an exceptionally well-managed and progressive program wholesaler operating much like the dealer-owned cooperative, also had operating costs around 6-7 per cent. The questions immediately arise as to whether most regular and program wholesalers, regardless of the worthwhile services they perform, can compete against these establishments as general-line wholesalers, and if so, for how long.

The importance of store programs as a defensive measure should not be overemphasized. They are not a substitute for low merchandise prices nor are they the answer to wholesaler survival. Too many wholesalers in the grocery trade have failed after sponsoring store programs to rely on this course of action as a defense against the rigors of our competitive system. In this connection it will be interesting to

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53 In 1965, Cotter & Company opened a branch warehouse in Philadelphia and merged with the Walter H. Allen Co. in Dallas, Texas. American Hardware Supply Company located near Pittsburgh is actively soliciting members in New England. Ace Hardware Corporation, a program wholesaler in Chicago, is signing up members in Florida and California.

54 A major factor explaining the low total operating expense of Ace Hardware Corporation is its large volume of drop shipments and pooled orders, reported to represent about 60% of its total sales.

observe whether the additional expense of a sales force will make the program wholesaler in the hardware trade more vulnerable to competition than his counterpart in groceries who has no such expense. Or for that matter, whether most program wholesalers will continue to service affiliated retailers via a sales force once their franchise programs become firmly established. They may convert to mail order selling in order to compete price-wise with the dealer-owned cooperatives.

In summary, six factors are believed, theoretically, to explain the major differences in operating expenses among hardware wholesale establishments. They are (1) methods of delivery, (2) functions and services performed, (3) wages and salaries, (4) sales size of establishment, (5) number and kinds of products handled, and (6) efficiency of operation. The effect of only three of these factors, however, are believed corroborated (although not quantified) by the financial data presented in this study. These three factors are methods of delivery, functions and services performed, and wages and salaries. The effect of the other three factors cannot be satisfactorily measured or verified due to the variables involved, inadequate information and cost data, and differences in cost accounting. However, even though the general effect of these three factors cannot be determined in this analysis, they are believed to be satisfactorily substantiated by Census of Business and trade association data and general business belief and experience. Of the six factors, methods of delivery and functions and services are believed to account for most of the differences in total operating expenses between and among well-managed dealer-owned cooperatives, program wholesalers, and regular wholesalers of similar sales size.
The dealer-owned cooperative does not by its nature of operation eliminate the performance of basic marketing functions; nor does any limited-function or limited-service wholesaler. Such activities are indispensable and universal in the marketing of goods and must be assumed by someone in the channel be it wholesaler, retailer, or manufacturer. Consequently, although the dealer-owned cooperative has a lower cost of operation than the regular or program wholesaler, its true economy is not represented by the size spread in operating expenses. Certain costs, either in time or money, are transferred to the retailer or manufacturer because of the functions they assume. The dealer-owned cooperative can, however, as can the program wholesaler, operate at a lower cost than the unaffiliated regular wholesaler because of the economies effected by integrating the wholesaling-retailing functions.

Nevertheless, how well different companies perform their functions and services under existing conditions (efficiency) cannot be determined on the basis of their operating expenses either in total or by major categories. Low operating expenses, while an indication of economy, are not an indication of efficiency. Due consideration of this fact is necessary in any comparison of different type wholesale establishments. However, the importance of economy cannot be overlooked in a highly competitive marketing system where price is perhaps the major factor in wholesaler patronage.
CHAPTER VI

THE IMPACT AND FUTURE OF DEALER-OWNED
COOPERATIVE WHOLESALING

The favorable reception of hardware retailers to low cost merchandise and merchandising programs has been responsible for the impressive growth of the dealer-owned cooperative movement and its impact upon hardware retailing and wholesaling. The purpose of this chapter is to evaluate this impact and to forecast the future of this type wholesaling institution in the hardware trade.

I. Effect on Hardware Retailing

The dealer-owned cooperative group is not as large in scope nor as widespread as its facsimile in the grocery trade. Nevertheless, it plays, both directly and indirectly, an important role in preserving the status of thousands of independent hardware retailers. By supplying low cost merchandise, effective advertising and sales promotion programs, and overall merchandising and management assistance, it makes its affiliated members more competitive with the chains and other large retailers. These dealers also become better merchants, a factor of considerable importance in a field characterized by many small businessmen.

Other probable effects of the dealer-owned cooperative movement on hardware retailing are (1) a greater cost-consciousness on the part of most retailers, both affiliated and non-affiliated; (2) an increased
interest by hardware retailers, merchants characteristically known for their "independent" attitude, in both wholesaler-retailer teamwork and store identification programs; (3) a greater appreciation and use of advertising and sales promotion in meeting competition; and (4) a continued utilization by manufacturers of retail hardware stores as distributors of conventional hardware products.

II. Effect on Hardware Wholesaling

The influence of the dealer-owned cooperative movement on hardware wholesaling is a subject about which many persons differ. This situation exists for somewhat contradictory reasons. First, the twenty-one known cooperatives comprising the dealer-owned cooperative group in 1963 represented less than one per cent the total number of hardware wholesaler establishments (general-line and specialty) in the United States. This statistic becomes even more significant when one considers that four of these companies in that year accounted for about seventy per cent of the group's total sales volume, about 6.2 per cent of total hardware wholesaler sales. Second, the movement's growth thus far has been predominantly sectional with relatively little growth in the South, West, and on the East Coast.

However, one big factor offsetting the above statistics is the movement's rate of development, a growth very similar to that of the retailer-cooperative movement in the grocery field. During the period 1954-1963, the dealer-owned cooperatives trebled their sales volume, an estimated increase of over $100 million. Over the same period, total sales of hardware wholesalers (excluding dealer-owned cooperative sales
volume) increased 19 per cent, some $385 million.\(^1\) It also seems likely that the favorable rate of increase of the dealer-owned cooperatives will continue in the near future. In direct relation to this gain in sales volume is the group's increase in membership. Whereas in 1954 there were an estimated 3,300 dealers affiliated with the known cooperatives, this figure grew to an estimated 5,600-5,800 members in 1963, a gain of seventy per cent.

While a particular institution's percentage of total wholesaler sales, total general-line wholesaler sales, and total retail store sales are common criteria for purposes of analysis,\(^2\) it seems more appropriate to use total general-line wholesaler sales to hardware stores for judging the impact of the dealer-owned cooperative movement. This is because the dealer-owned cooperatives sell almost exclusively to hardware stores, although this could change in the future. This is in contrast to regular and program wholesalers who do only half their total business with hardware retailers\(^3\) and the remainder to industrial and commercial users and

\(^1\)In a similar manner it can be shown that the total sales volume of general-line hardware wholesalers declined more than $470 million over this period, going from $1,557 billion in 1954 to $1,086 billion in 1963.

\(^2\)Dealer-owned cooperative sales in 1963 as a percentage of total hardware wholesaler sales, total general-line hardware wholesaler sales, and total hardware retail store sales are 6.2 per cent, 12.7 per cent, and 8.8 per cent respectively.

\(^3\)According to the findings of a survey by the author of general-line wholesalers in various states throughout the country, this group sold an average 45-50 per cent of its total volume to hardware retailers. (This substantiates the findings of a 1961 survey made by the National Wholesale Hardware Association.) Half the total of general-line wholesaler sales in 1963 is about $622 million. Dealer-owned cooperative volume in the same year is estimated at $155-$160 million, which is almost 25 per cent.
other retailers. Using general-line hardware wholesaler sales to hardware stores as the criterion, dealer-owned cooperatives did an estimated 25 per cent of this volume in 1963. Regular and program wholesalers are responsible for the remaining 75 per cent. As equally important as the group's position in hardware retailing in 1963 is its trend in growth and its probable continuance in both the short-run and long-run. It seems possible that this group could attain the same competitive position in hardware as the retailer-owned cooperative group holds in the grocery trade.

In view of this somewhat contradictory situation and the effect which scrambled merchandising, giant retailing, and direct selling by manufacturers are having on the marketing of all consumer products, it is difficult to assess the overall influence of the dealer-owned cooperative movement on hardware wholesaling. However, it seems likely that this movement is having in some sections of the country the same "revolutionary" effect which the retailer-owned cooperative movement had on the pattern of grocery wholesaling in the 1940's, and in the following ways:

1. Focusing the attention of regular and program wholesalers on efficiency, questionable services, and cost reduction.
2. Promoting the adoption of advertising and drop shipment programs.

3. Stimulating the growth of the program wholesaler movement.

4. Influencing in some degree the number of wholesalers who are liquidating, merging, or converting to industrial or specialty distributors.

Wholesaler failure

Although it is beyond the scope of this study to present a comprehensive analysis of regular wholesaler failure, it seems appropriate to comment on certain aspects of this subject because of their relevance to the growth of cooperative wholesaling. First of all, there has been a rather substantial number of general-line wholesaler failures in hardware. According to Dun and Bradstreet, Inc., 125 such wholesalers ceased operations over the period 1953-1963. The greatest number of failures occurred in 1961 and dollar liabilities were highest in 1963. It should be noted that this figure refers to

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6 Dun & Bradstreet, Inc. defines a failure as a business that "ceased operations following assignment or bankruptcy; ceased with loss to creditors after such actions as execution, foreclosure, or attachment; voluntarily withdrew leaving unpaid obligations; were involved in court actions such as receivership, reorganization or arrangement; or voluntarily compromised with creditors."

7 The following data was obtained via correspondence with the Industry Study Department of Dun & Bradstreet, Inc.


<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>10</td>
<td>$706,000</td>
</tr>
<tr>
<td>1954</td>
<td>12</td>
<td>609,000</td>
</tr>
<tr>
<td>1955</td>
<td>15</td>
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</table>

(contd. on next page)
general-line wholesalers only, it does not include a large number of specialty wholesaler failures or the number of general-line wholesalers who converted to industrial or specialty wholesalers. That the number of general-line wholesaler failures has been high can also be inferred from Census data which show a decline of some 176 wholesalers from this group over the period 1958-1963, from 425 to 249.

Another important aspect of this subject concerns the relative effect of dealer-owned cooperative competition, versus that of other factors, on the number of regular wholesaler failures. While it should be acknowledged that the larger dealer-owned cooperatives probably exert considerable competitive pressure, especially in areas where they are strongest, they do not appear to be a major cause of regular wholesaler failures.

<table>
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<td>1963</td>
<td>13</td>
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<tr>
<td>Total, 1953-63</td>
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</tr>
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</table>

8 Dun & Bradstreet reports 159 specialty wholesaler failures from 1953-1962. Ibid.


10 The increase in dealer group buying and chain operations serving captive stores was one of the reasons given for the failure of both the W. Bingham Co. of Cleveland and Hibbard, Spencer, Bartlett & Co. of Evanston, Illinois. "Bingham Co. Quits Hardware Wholesaling," Hardware Retailer, July, 1961, p. 147; W. P. Hall, "Franchising--New Scope for an Old Technique," Harvard Business Review, January-February, 1964, p. 71.
failure. A comparison of the number of general-line wholesalers reported by the Census in 1958 and 1963 by states and sections of the country shows no definite correlation between the decline of such wholesalers and the location of the larger dealer-owned cooperatives. Census figures also show that the greatest decline in numbers (as distinguished from failures) did not occur over the five-year interval, 1958-1963, in which the dealer-owned cooperative group had its greatest growth, but during the four-year interval, 1954-1958. Respective declines for these two periods are 176 and 181. Dun & Bradstreet likewise indicates fewer general-line wholesaler failures in the 1958-1963 period, some 46 compared with 57 for 1954-1958. 11

A number of interdependent factors seem to account for the decline in general-line wholesalers. 12 They are (1) the business siphoned away from the customers of these wholesalers by the department store chains, automotive chains, and discount houses; 13 (2) the increase in operating expenses due to higher labor and delivery costs, outmoded methods of operation, excessive inventory, poorly located warehouses, etc.; (3) the "excess" number of general-line hardware wholesalers following World War II; (4) direct selling by manufacturers to hardware and non-hardware retail outlets; (5) the increase in specialty

11 Dun & Bradstreet correspondence, op. cit.


13 A corollary to this reason could be the failure of many hardware wholesalers to cater to hardware retailing's need for low cost goods and merchandising assistance.
wholesalers; and (6) the growth of the dealer-owned cooperatives. Also to be noted is the fact that many regular wholesalers "closed their doors" simply because they were unable to earn a satisfactory return on investment. Stockholders, in many cases descendants of the original owners, re-invested their money in businesses yielding a higher rate of return than hardware wholesaling.

The significant decline in the number of general-line wholesaler establishments since 1948 does not infer that this type of wholesaler has no future position in the hardware trade. One has only to look at the large number of general-line wholesalers, which includes wholesaler-sponsored groups, doing business in the grocery trade. As long as hardware wholesalers provide the services needed by the trade's many small manufacturers and retailers, and do so effectively, they will continue to survive. Nevertheless, it seems likely that many general-line hardware wholesalers will be forced to make adjustments in their business operations in order to satisfy the continuously changing needs of their markets. For some wholesalers this may mean converting to specialty wholesalers or industrial distributors. In any event, only by continuous adjustment can the independent wholesaler expect to maintain his place in the distribution of hardware products.

III. Limitations to Growth

There are a number of factors which may impede the development of the retailer-owned cooperative movement in the hardware trade. Of particular significance are (1) the absence of qualified managers; (2) the limited number of qualified hardware dealer prospects; (3) the lack of control over retailer members; (4) increased competition from
program, regular, and specialty wholesalers; and (5) the requirements of affiliation.

Absence of qualified managers

According to the trade, the shortage of qualified dealer-owned cooperative managers is the greatest obstacle confronting the growth of this movement. This includes managers to run existing houses, both large and small, and to form new organizations. This is believed so for a number of reasons. First, due to the recent "rebirth" of the dealer-owned cooperative movement, all capable management people are being utilized to full capacity. The existing companies either have expanded so rapidly as to barely meet their demands for additional personnel or have grown so slowly as to question the need and expense of hiring and training future executives. (Actually, few dealer-owned houses, as is true of business in general, have engaged in adequate management succession planning. This, no doubt, is the result of oversight or a disinclination to incur any "avoidable" expense of questionable return.) Second, there is an unwillingness on the part of directors of new organizations to compensate managers commensurate with the abilities

14 While the writer readily acknowledges the importance of capable managers to dealer-owned cooperative growth, it would be a notable oversight to neglect the vital functions played by retailers in their capacity as board directors. It is difficult to envision this movement ever attaining its full potential without an adequate supply of capable businessmen to serve in this role.
needed for successful operation. These associations, if successful in hiring a man at "their price," usually end up with managers of just average ability and consequently with organizations of limited growth potential. Third, not many men in the field possess the qualifications needed for successful dealer-owned cooperative operation. Not only must these men be capable executives (the ability to plan, organize, and control), possess full knowledge of hardware wholesaling and retailing, and be dedicated to the cooperative movement, but they must constantly think retail. They must never forget that the company's uppermost objective is promoting the dealer's welfare. In fact, it is for this very reason that managers, who were former executives of other wholesale companies, often "fail to make the grade." These executives overlook the

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15 This attitude partly explains the continued existence of numerous informal buying and merchandising groups and the slow growth of many small cooperatives. It seems that some directors, and the retailers they represent, are reluctant to pay a manager a salary in excess of their own average income.

16 Lazo describes a successful retailer-owned cooperative manager as "a practical and experienced merchandiser, who is not easily discouraged, who has hard common sense, and who can see his own duties and tasks as something far more than the mere management of a successful distributing organization. Such a man sees in his "job" at once a challenge and an opportunity. He is an idealist; but he is practical, and knows from experience when to say no, and when to be 'hard boiled.' He is a successful manager. He is an experienced executive of the type that largely makes his own job. He is the hub around which the activities of the company revolve. He is fair-minded and not easily intimidated and knows that to be successful he will treat his directors and officers no better than he does any one of his members. He helps draft the rules, and makes as few as possible, but is a stickler for those that are made. Above all, he never forgets for one minute that the purpose of the organization is to help the individual retail business to be competitive, efficient, active, and successful. Everything else he knows to be secondary to this." Op. cit., p. 35.
basic differences in operation that exist between retailer-cooperative and other types of wholesaling. (It is interesting that a number of former Marshall-Wells Co. executives are managing successful dealer-owned cooperatives.)

Number of qualified retailer prospects

Most dealer-owned cooperatives solicit for membership hardware stores with annual retail sales volume in excess of $50,000. The effect of such a practice, figuratively speaking and if adopted by the dealer-owned cooperative group, disqualifies from possible affiliation some 43 per cent of the 29,595 hardware stores in the United States in 1963. Dealer-owned house membership would consequently be limited to a maximum potential of about 16,870 stores. This figure would be further reduced by the thousands of dealers who would not or could not join because of (1) their present affiliation with program wholesalers; (2) the dealer-owned cooperative group's generally accepted policy of selective distribution; and (3) the dealer-owned cooperative's sizable membership fee. On this basis, the movement's total possible membership, realistically speaking, might not exceed an estimated 12,000, a little more than twice its estimated size of 5,700 retailers in 1963.

While some of the larger, more successful houses have established a minimum figure of $75,000, most of the smaller houses actively solicit dealers of less volume to increase their buying capacity. They have also found in the process that even accounts doing under $50,000 annually can be profitable if the dealers concentrate their purchases.

1963 Census of Retailing data show 12,186 hardware retailers doing less than $50,000 in sales annually. Another 8,107 do $50,000-$99,999.
There is justification, of course, for the "cream-skimming" policy of the dealer-owned cooperatives considering the limited number of these houses, their price advantage over other wholesalers, and the considerable interest expressed in this movement by dealers in various sections of the country. Many managers also express doubt about the future of the small retailer in hardware and any wholesaler who derives a disproportionate amount of his total sales from this source.

However, from a practical standpoint it seems unlikely that most dealer-owned cooperatives will restrict their membership only to hardware dealers with a minimum annual sales volume of $50,000. In fact, a number of cooperatives already are soliciting the smaller hardware accounts and other retailers; and for good reasons. High volume unaffiliated stores are decreasing in number. So are hardware stores in general as witnessed by their substantial decline (5,075 establishments) over the period 1958-1963. Competition for existing stores is becoming

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19 This does not include Ace Hardware Corporation which, because it functions on the same basis as the dealer-owned cooperatives, has low operating costs.

20 This subject received considerable attention following the closing of Hibbard, Spencer, Bartlett and Co. If, as opined by some dealer-owned cooperative managers, low volume small stores are going to be forced out of business as they were in the grocery and variety store fields, it is imperative that cooperatives concentrate their attention on the larger stores. "What Cotter and Hesse Say about Store Volume," Hardware Merchandiser, May, 1963, p. 1.

21 While it is true most dealer-owned cooperatives have a number of small retailer members, primarily the result of early membership, the larger companies are now being very selective in their choice of new members.

22 The Census reports 29,595 hardware retail establishments in 1963. This compares to 34,670 in 1958. 1963 Census of Business, Retail Trade, United States Summary, Table 1, p. 1-6.
so keen that some of the larger dealer-owned houses are actively soliciting accounts beyond their normal trading areas. The additional volume of the smaller stores, if profitable, also results in lower operating costs, increased buying power, and greater promotional allowances. It seems likely, therefore, that some dealer-owned houses will solicit hardware stores with sales as low as $30,000 as well as lumber and building materials outlets carrying a substantial line of hardware and related products. The effect of these policy changes will more than double dealer-owned cooperative customer potential.23 (The possibility of other changes in membership and customer policy is discussed further in the section on the future of dealer-owned cooperative wholesaling.)

Lack of control

A common problem faced by all retailer-owned cooperatives regardless of field is management's inability to fully control its membership. This situation stems from a basic conflict of interests; members are retailers first and wholesalers last. They have interests and desires which occasionally run counter to the economical operation of the house which makes control difficult. Neither can the house "force" compliance to its policies and procedures nor discipline its members for infractions. Dealers must be continually "sold" on cooperative benefits and convinced that the directors and manager are looking after their best interests.

23In 1963, the Census reports about 5,400 hardware stores with sales of $30,000-$49,999. Hardware Age in its November 15, 1964, Census of Retailer Hardware Dealers, reports 15,269 lumber yard and building material dealers doing a "substantial" business in hardware and related products.
In this respect the retailer-cooperative is fundamentally different from the fully integrated corporate chain where store managers must concentrate purchases, order the company's private brands, and advertise and promote as directed by the central organization.

Past habits and expectations also make control difficult to obtain. As a result of cooperative affiliation, dealers are now required to do business contrary to past practice. In many cases they are obliged to endure present inconveniences and make present sacrifices for future benefits. Cooperation during this change-over period becomes especially difficult to obtain. Gordon C. Corbaley had this to say on the subject of control:

Carrying any cooperative plan through to sustained effectiveness is a long and difficult process. The working habits of the participating retailers must be changed.

Any intelligent retailer knows that he should save his time and money by drawing all his supplies from one channel. He sees the need for advertising and promotion that he cannot do alone. He realizes his need for guidance in his store methods.

But the average dealer is an individualist. His mind welcomes control as a matter of theory but his actions resist that control being ordered by someone else. He yields to control only as it establishes itself through successful experience.24

The "conflict of interests" problem is oftentimes present in the relationship between the general manager and board of directors. Usually the discord centers around the adoption of policies and procedures to reduce the wholesale costs of operation through a closer integration of wholesaling-retailing functions. As a wholesaler interested in low costs

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and efficiency, the general manager can see the value of duplicating the methods of the corporate chain. As retailers, the directors question any change that either curtails their status as independent businessmen or reduces the services they are accustomed to receiving. As board members, the directors believe that the retail and not the wholesale end of the business should dictate policy. The result of this conflict between manager and board is often indecision, compromise, a further decline in member cooperation, and, perhaps, a poorly managed organization. While such conflicts generally take place during the early years of cooperative growth, they occur often in periods of intense competition when cost-cutting is urgent and necessary. In any event, they are "part and parcel" of every retailer-owned cooperative's operation and a limitation to the movement's growth.

**Wholesaler competition**

Another factor very likely to curtail the future growth of dealer-owned cooperative wholesaling is increased competition from program, regular, and specialty wholesalers. This fact seems indicated by two trends: first, the growing "partnership" relation between wholesaler and retailer; and second, the increasing percentage of total wholesaler hardware sales accounted for by specialty wholesalers. While this competition will be primarily in the area of service in the immediate future, there is an indication, as shown by the decline in general-line wholesaler operating expenses, that price might become more of a factor.

**Program wholesalers.** Probably the greatest competition will come from program wholesalers. Not only is this group numerically stronger than the dealer-owned cooperative group, but retailers are expressing
considerable interest in this type of wholesaling. Should the program wholesaler method of operation be successfully applied by a number of those in the field, as seems probable, other regular wholesalers will also join the movement. In this connection, the assistance of wholesaler federations and the greater adoption of a low cost drop shipment program will do much to promote the movement's growth. One must not also overlook the fact that many dealers still desire or need the "extra service" (credit, delivery, salesmen) provided by program wholesalers. The end result will be less retailers for the dealer-owned cooperatives to solicit and, of course, less growth.

However, as indicated earlier, the program wholesaler movement will not be able to capitalize fully on its numerical advantage unless its wholesalers reduce their costs of distribution. Until they do, regardless of their services, they will probably be vulnerable to the low price merchandise attraction of the dealer-owned cooperatives. Also, the longer it takes, the greater will be the dealer-owned cooperative movement's growth.

Nevertheless, wholesaler-sponsored groups do possess certain competitive advantages over the retailer-owned cooperatives important to future growth. Because they are privately owned and can raise long-term capital via public securities, these wholesalers are better situated to


26 While possibly not an indication of program wholesaler growth in hardware but worth noting is the fact that wholesaler-sponsored groups in the grocery trade increased from 574 establishments in 1954 to 708 in 1963. 1963 Census of Business, op. cit.
buy or lease promising store locations and finance retailers into business. Moreover, should a well-situated dealer decide to sell out, the wholesaler can buy his store and retail a desirable location for someone else in the group. Although activity of this nature has been limited to the grocery, drug, and automotive trades thus far, it seems quite probable that the better financed groups in hardware will soon engage in similar practices to better promote and protect their store franchise programs.

Specialty wholesalers. As indicated in Table 17, specialty wholesalers, or short-line distributors as they are commonly called, have become a very important factor in the distribution of hardware products. While this group's sales volume accounted for only 15 per cent of total hardware wholesaler sales in 1948, it represented 51 per cent of the

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27 According to Earl E. Mason, Research Manager of Cooperative Food Distribution of America, "Probably the most important field of battle concerning the retailer-owned and voluntaries today is the area of financial assistance to retail members. This battle field finds the retailer-owned cooperative at somewhat of a disadvantage with the voluntary group wholesaler. The structure of voluntaries has enabled them to go into the financing business in a big way whenever they deem it necessary." "No Time Like the Present," Cooperative Merchandiser, January, 1963, pp. 2-3.

28 Specialty hardware wholesalers are distinguished from general-line wholesalers on the basis of commodity-line mix and annual sales volume. The latter include establishments selling a broad line of hardware and also a combination of industrial materials and supplies, electrical goods, and automotive equipment. This classification is limited to establishments with annual sales volume of $1 million or more. All other wholesalers, in some cases full-line wholesalers with sales below $1 million, are classified as specialty wholesalers. In general, however, specialty wholesalers carry a narrow range of products in a single line of merchandise.
market in 1963, an increase of 240 per cent in market share as so
measured. Respective establishment figures for these years are 1,480 and
2,963, an absolute increase of 1,483.29 It seems likely that this group's
share of the market will increase still further as hardware stores con­
tinue to broaden their merchandise lines.30 This also has been the

TABLE 17

PER CENT OF TOTAL WHOLESALER SALES ATTAINED BY GENERAL-LINE AND
SPECIALTY WHOLESALE ESTABLISHMENTS IN THE HARDWARE, GROCERY
AND DRUG TRADES, SPECIFIED CENSUS OF BUSINESS
YEARS, 1929-1963

<table>
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<tr>
<th>Trade</th>
<th>1929</th>
<th>1939</th>
<th>1948</th>
<th>1954</th>
<th>1958</th>
<th>1963</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General-linea</td>
<td>93.7</td>
<td>91.1</td>
<td>84.5</td>
<td>78.5</td>
<td>68.0</td>
<td>48.9</td>
</tr>
<tr>
<td>Specialty-line</td>
<td>6.3</td>
<td>8.9</td>
<td>15.5</td>
<td>21.5</td>
<td>32.0</td>
<td>51.1</td>
</tr>
<tr>
<td>Groceries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General-linea</td>
<td>69.3</td>
<td>69.2</td>
<td>67.2</td>
<td>61.6</td>
<td>62.6</td>
<td>68.4</td>
</tr>
<tr>
<td>Specialty-lineb</td>
<td>30.7</td>
<td>30.8</td>
<td>32.5</td>
<td>38.4</td>
<td>37.4</td>
<td>31.6</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General-linea</td>
<td>80.7</td>
<td>69.8</td>
<td>61.9</td>
<td>58.6</td>
<td>51.1</td>
<td>50.8</td>
</tr>
<tr>
<td>Specialty-line</td>
<td>19.3</td>
<td>30.2</td>
<td>38.1</td>
<td>41.4</td>
<td>48.9</td>
<td>49.2</td>
</tr>
</tbody>
</table>

aIncludes sales volume of retailer-owned cooperatives and whole­
saler-sponsored groups.

bIncludes bread and bakery products, canned foods, coffee and tea,
frozen foods, soft drinks, and other specialty products.

Source: Compiled and computed from data published in the Census
of Business for years 1929-1963.

291963 Census of Wholesaling, op. cit.

30It is interesting that most hardware retailers responding to the
writer's 1964 survey indicated that they (1) presently buy less merchandise
from specialty wholesalers than they did three to five years ago and (2)
plan to buy even less from this group in the future. This seems to be in
contradiction to the general trend. It may also indicate that most
dealers do not recognize the changes taking place in their buying
practices.
experience of specialty wholesalers in the drug trade where they have increased their position from 38 per cent of total drug wholesaler sales in 1948 to 49 per cent in 1963. In contrast, specialty wholesalers in the food field have accounted for approximately the same percentage of total grocery wholesaler sales since 1929.31

Requirements of affiliation

The drawbacks of affiliation in a dealer-owned cooperative stem primarily from the company's low cost method of operation. First, retailers must invest a significant amount of capital in the company both at the time of joining and during their years of membership. Second, they are obligated as members to abide by various rules and regulations which abrogate in some degree their independence or freedom of operation. Third, they are compelled to assume certain functions, often time-consuming and involving much paper work, heretofore performed by the service wholesaler. Finally, they must modify their methods of doing business to conform to the limited service operation of the house. (Some of these limitations also hold true for program wholesaler membership although probably not in the same degree.)

Perhaps the most frequently voiced objection to dealer-owned affiliation by both members and those contemplating membership is the loss of some retailer independence. This is especially so when a store identification program is involved. That this occurs there is no doubt. However, as was discovered in the grocery field, there may be no other

31 This is probably due to the nature and size of product line and the additional volume of general-line grocery wholesalers in such lines as frozen foods, meats, non-foods, and coffee, tea, and spices.
choice open to the dealer, that is, other than failure. On this point, E. B. Weiss notes the following:

The independent in all mass-consumed merchandise classifications must give up the major part of his independence—precisely, as the independent has done in food retailing—and particularly in the area of buying decisions.

This is not a dismal outlook for these independent merchants. One does not observe any hangdog atmosphere among the store members of the various voluntary and co-op chains in the food field. There is no atmosphere of defeatism in these stores. To the contrary, the majority of the independent food stores that have joined voluntary and cooperative chains have tended to display increased optimism, have tended to reflect greater security, have tended to face the future more courageously and therefore more aggressively.32

It is only natural to expect some retailer dissatisfaction over dealer-owned cooperative affiliation. People think as individuals and, therefore, approach situations with different feelings and attitudes. As such, there will always be a small group of individuals expressing discontent over some aspect of cooperative operation, be it with respect to limited service, rules and regulations, or the loss of independence. One must also remember that a basic conflict of interests exists in retailer-cooperative operations. The wholesale business is owned and controlled by persons who are retailers.

Other factors

A number of other factors might possibly circumscribe dealer-owned cooperative potential in addition to those already discussed. They are the restricted use of field supervisors, the lack of information on

dealer-owned cooperative operation, the nature of hardware retailing, direct buying and selling, the desire and need for wholesaler services, the absence of a buying and merchandising federation, and the 1962 Revenue Act.

As noted in Chapter III, a number of the dealer-owned cooperatives utilize field men primarily for recruiting purposes. Limited dealer assistance is rendered in the areas of store merchandising and management. While this practice seems appropriate in sections of the country where there is considerable dealer interest in store affiliation programs and where competition among wholesalers is strong, its continued use is questionable. It seems reasonable to assume, based upon the average size of the hardware retailer and the experience of the grocery field, that the dealer-owned cooperative may have to work more directly with the dealers to upgrade the latter's business ability. In fact, the dealer-owned houses may be forced into this action by the accelerated growth of the program wholesaler movement and the attention the National Wholesale Hardware Association and its members are devoting to salesman training. Another reason for favoring the greater use of supervisors is their value in building dealer cooperation and loyalty. As personal contact men between management and members, they play an important role in educating and informing dealers on house policy, progress and membership news.

As widespread as retailer-owned cooperative wholesaling is in the food trade, there seems to be a general lack of information and knowledge about its use and possible benefits in hardware. This is
especially so in the southern states. Not only does this situation retard the formation of new cooperatives where there are none, but makes growth of existing companies difficult. Fortunately, this problem is not as serious as it was during the 1950's. This is so for a number of reasons, including the attention dealer-owned cooperative wholesaling receives in the trade journals, the tremendous growth of some dealer-owned companies, and the discussion that takes place at various trade association meetings and trade shows.

The very nature of hardware retailing (the number and types of products, the infrequency of purchase, and the importance of service) provides many hardware retailers with a degree of protection not generally available to dealers in the grocery trade. Consequently, these merchants see no reason for joining a dealer-owned cooperative. As long as their livelihood is not threatened, they are perfectly content to patronize their present sources of supply.

Having been exposed to the low prices that are available from manufacturers via a drop shipment program, some dealer-owned cooperative retailers may decide to buy more merchandise direct. This could occur either at the initiative of the dealer, or the manufacturer who, after establishing contact with the dealer, decides to sell direct. The likelihood of buying direct, however, decreases as the spread between wholesaler cost and member price decreases. It will not probably influence, therefore, those dealer-owned cooperatives that price drop shipment merchandise relatively close to their cost.

Some dealer-owned cooperative members, as disclosed by the 1964 survey covered in Chapter III, still desire the services of the regular
and specialty wholesaler salesmen. The basic reasons seem to be the size and somewhat technical nature of the hardware line, dealer habit, and the limited merchandising and management abilities of the average retailer. To what degree this dependence or desire for a salesman extends itself into the future, even after affiliation, is a moot point. There also is some question as to what extent the field supervisor can supplant the dealer's need for the services of a salesman.

The fact that there are five buying and merchandising federations representing regular and program wholesalers (see Chapter II and Appendix E) is a probable indication of the importance of this type association in the hardware trade. That the dealer-owned cooperatives have no such association specializing in the promotion of advertising and sales promotion programs and the adoption of private brands seems to be a limitation to this movement's development. Such an association could also be of assistance in promoting both the formation of new dealer-owned cooperatives and the growth of the smaller cooperatives. (Eight of the known dealer-owned cooperatives had sales below $1 million in 1963.) This could be achieved by obtaining information and know-how on overall company operation from the group's leaders and disseminating such to any and all interested parties.

Most dealer-owned cooperative managers have expressed little interest in a buying and merchandising federation despite its advantages. There is also some question whether the larger houses would favor promoting the competitive ability of the cooperatives into whose territories they are expanding. From a practical viewpoint there seems to be little justification for this attitude if the companies are well-managed. Since most dealer-owned cooperatives follow a policy of selective distribution, that is, only one affiliated store per trading area, there is little reason for not favoring the presence of another dealer cooperative store in the same area.
The 1962 Revenue Act requires cooperatives to pay at least twenty per cent of their patronage dividends in cash. Dealers, however, are taxed on the full amount of their dividend whether received in cash, notes, or securities. What effect this partial dividend in cash (versus 100 per cent notes or securities) will have on the capital positions of most dealer-owned cooperatives is not known. But it may limit the expansion of the smaller companies.

IV. Future Growth

The future of the dealer-owned cooperative movement is a subject of much interest and speculation. The larger dealer-owned cooperatives are very optimistic about the future as would be expected from their impressive performance since the mid-1950's. The smaller cooperatives also speak promisingly of the future, but with less optimism. In any event, the continued development of this movement depends upon the extent to which the limitations discussed in the preceding section apply and materialize.

In this section the short-term and the long-term growth of the dealer-owned cooperatives are forecast. Predictions are based primarily on this movement's growth since the mid-1950's and the history of the retailer-owned cooperative movement in the field of groceries. Particular attention is given to the dealer-owned cooperative group's selling policy, its future position as the most important supplier of merchandise to hardware retailers, and its future position as the more important cooperative group in the hardware trade.
Changes in selling policy

To maintain their growth in future years, many dealer-owned cooperatives will likely modify their selling policy to (1) include as members hardware retailers of small size; and (2) service as customers all types of retailers doing a substantial business in hardware and related products. The first change will be necessitated by the relative scarcity of large, unaffiliated retailers, the growth of program wholesalers, and the likelihood that hardware retailing, by its very nature and in its present form, will not be dominated by "super markets." 34 The second change will evolve from the limited number of hardware dealers in each cooperative's trading area. Unlike the grocery field with its 245,000 stores, hardware has but 29,600 of which almost 13,000 do less than $50,000 annually. Such a limited number of prospects will not satisfy the growth objectives of some dealer-owned cooperative managers. Therefore, future customers are likely to include all types of retail outlets 35 doing a "substantial" volume in hardware and related products.

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34 This is not to infer that the hardware store of the future will not be larger in sales and physical size. New stores will be larger both to handle an expanding product line and to take advantage of the economies of size. The demise of the small store, as evidenced by its relatively high mortality rate from 1958 to 1963, will also increase the size of the "average sized" store.

35 This group will likely include lumber yards, department stores, variety stores, and merchants in such fields as building materials, auto accessories, heating and plumbing, electrical supplies, household appliances, garden supplies, etc.
as well as hardware retailers who cannot qualify as members because of a cooperative's selective distribution policy. 36

Short-term growth

There is little doubt that dealer-owned cooperative wholesaling, spearheaded by the performance of the larger cooperatives, 37 will maintain its impressive growth in 1967 and 1968. None of the limitations discussed previously are likely to outweigh the effect of competition and the general need of hardware dealers for low cost merchandise to offset their declining profit margins. A significant part of this growth probably will come from new members as the more progressive dealer-owned houses expand their trading areas to include markets serviced by other cooperatives. This expansion will be accompanied by occasional mergers and "take overs" of small dealer-owned cooperatives and informal buying groups. However, this increase in trading area size will likely occur without establishing branch warehouses as the companies take full

36 A decision to service other retailers need not require a change in the cooperative's membership policy. A dealer-owned house can still restrict its franchised store program and patronage dividends to selected hardware dealers. In this respect the cooperative will be following a practice of many retailer-owned grocery cooperatives, including Certified Grocers of California. This business from non-members, however, will likely represent a larger share of the dealer-owned cooperative's total sales volume than the grocery cooperatives due to the many types of retail outlets handling hardware and related products.

37 Cotter & Company forecast its Chicago, Dallas, Cleveland, and Philadelphia sales to exceed $100 million at wholesale in 1966. This represents a $30 million increase over 1963.
advantage of their more favorable prices. The lack of a "second-line management team" will also discourage branch warehouse operations during this period.

Long-term growth

It also seems probable that the dealer-owned cooperative movement will continue its growth, although not at the present rate, into the 1970's. This period will likely witness (1) a limited increase in the number of new dealer-owned cooperatives, in many cases discouraged, instead of encouraged, by the presence and expansion of the larger, more progressive houses; (2) a substantial growth of two or three of the smaller dealer-owned cooperatives located in California and New York; (3) relatively little growth of the movement in the "Deep South"; (4) a limited increase in branch warehousing as the cooperatives continue to expand and are forced to provide better delivery service; and (5) a few mergers of questionable significance. By and large, however, the movement will continue to be represented by some half-dozen companies accounting for 50-70 per cent of its total volume.

Nevertheless, the dealer-owned cooperative group will probably not become the most important wholesale supplier of hardware retailers. The group will not attain the largest percentage of either total wholesaler sales to hardware retailers or total general-line wholesaler sales to hardware retailers. First, the dealer-owned cooperative does not and

38The author does not foresee additional branches opened by Cotter & Company and American Hardware Supply in the short-term, although this cannot be said for Our Own Hardware Co. and Hardware Wholesalers, Inc.
cannot supply the complete and growing needs of its members. In fact, the trend toward wider lines will progressively favor the growth and importance of specialty wholesalers as indicated by their very favorable growth from 1958 to 1963. Second, the group's size places it at a great disadvantage in competing against the 3200 or so wholesale hardware establishments in the country. Even the larger houses are at a disadvantage competing as they do with hundreds of local distributors who have lower delivery costs, prompt service (fast delivery, fill-ins, return privileges, adjustments, etc.), credit, and personal contact. Third, the dealer-owned houses probably will not be able to fully surmount some of the limitations presented in the previous section, especially the lack of high-caliber managerial personnel, the lack of qualified hardware retailer prospects, increased competition from other wholesalers, the requirements of affiliation, and the basic nature of hardware retailing. The final reason is based upon the experience of the grocery trade, a situation likely to be duplicated in hardware. Contrary to the sales performance of the retailer-owned grocery cooperatives, the greatest percentage of total general-line wholesaler sales is accounted for by wholesaler-sponsored groups followed by unaffiliated regular wholesalers.39 (The latter are identified by the Census as Other General-Line Wholesalers.) This should not be too surprising, however, considering

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39Total general-line wholesaler sales in the grocery trade in 1963 were $11.72 billion. Voluntary group wholesalers did $5.36 billion (46 per cent of total sales), other general-line wholesalers did $3.45 billion (29 per cent), and retailer-owned cooperatives did $2.91 billion (25 per cent). 1963 Census of Business, Wholesale Trade--United States Summary, Table 3, p. 1-11.
the total numerical size of these two groups, some 2,369 establishments in 1963 compared with 161 retailer-owned cooperatives.\footnote{Ibid.}

On the other hand, the dealer-owned cooperatives in the hardware trade are expected to maintain their position as the more important cooperative group despite the numerical superiority of program wholesalers. This statement is based upon the following reasons. First, the dealer-owned cooperative's post-World War II growth preceded that of the program wholesaler by some half decade during which time it has been able to enroll a substantial number of the nation's high volume dealers.\footnote{One expressed reason for the failure of Hibbard, Spencer, Bartlett & Co. was that it started its franchise store program too late, that many of the better midwestern hardware retailers were already franchised by Ace, Cotter, and Hardware Wholesalers. W. P. Hall, "Franchising--New Scope for an Old Technique," Harvard Business Review, January-February, 1964, p. 71.}

Second, program wholesalers as a group are not "low cost distributors." The degree to which this limitation extends itself in the future depends upon whether the advantages of a sales force (as opposed to a few field supervisors) outweigh the disadvantages, primarily its cost. Third, the dealer-owned cooperative group's estimated total sales volume and membership in 1963 exceeded that of program wholesalers by at least $30-$40 million and 1,300-1,500 retailers.\footnote{The author believes that this difference is actually around $50 million and 1,800 members. Should Ace Hardware convert to a dealer-owned cooperative as announced, these figures will increase substantially. In 1963, Ace had sales and membership of about $40 million and 500 stores.} Finally, over the period 1954-1963, retailer-owned cooperative growth in the food field exceeded that of the
wholesaler-sponsored group by a substantial margin, namely 124 per cent to 40 per cent. This trend, although not to the same extent, is believed to indicate the future trend of dealer-owned cooperative and program wholesaler growth in the hardware trade.
CHAPTER VII

SUMMARY AND CONCLUSIONS

The first dealer-owned cooperatives in the hardware trade were organized in the early 1900's in response to hardware retailing's need for low cost merchandise to combat the competition of department stores and mail order houses. The movement's growth, however, was slow and nowhere matched that of its counterparts in the grocery and drug trades. A similar competitive situation arose in the early 1950's. This time, magnified by the development of scrambled merchandising, giant retailing, shopping centers, and direct selling by manufacturers, competition was more intense and retailer profits were lower. Once again retailers were unable to obtain from traditional wholesalers the necessary assistance to defend their status as independent merchants. As they had done earlier, they combined in groups and assumed the functions of wholesalers in order to reduce the cost of merchandise and provide the necessary merchandising assistance needed for maximum sales effectiveness. That these dealers have been successful in their cooperative endeavors is attested to by the impressive growth of the retailer-owned cooperative movement from 1954 to 1963.

This study was undertaken to contribute additional knowledge regarding the nature, development, status, impact, and future of retailer-owned cooperative wholesaling in the hardware trade. Specific objectives include the following: (1) a determination of the dealer-owned
cooperative movement's sales volume for census years 1929-1963; (2) an analysis of the factors responsible for the dealer-owned cooperative movement's exceptional growth since the mid-1950's; (3) a comparison of the characteristics of dealer-owned cooperative members with retailers patronizing regular and program wholesalers; (4) an examination of drop shipments and their competitive significance in dealer-owned cooperative success; (5) an evaluation of dealer-owned cooperative economy and efficiency versus that of the regular, unaffiliated wholesaler; (6) a determination of the dealer-owned cooperative movement's effect on hardware retailing and wholesaling; and (7) an analysis of the factors pertinent to the dealer-owned cooperative movement's future growth.

Most of the material presented in the study is primary data obtained through questionnaires, correspondence, and personal interviews. The information on the characteristics of retailers patronizing the dealer-owned cooperative, program wholesaler, and regular wholesaler was derived mainly from a questionnaire survey taken in February 1964 of 4,600 retailer members of the National Retail Hardware Association. The information about the dealer-owned cooperatives was obtained for the most part from a few select dealer-owned cooperative managers and an editor of a leading hardware trade journal.

It is appropriate at this point to summarize the findings of the study and the major conclusions drawn therefrom.

**Growth and status of dealer-owned cooperative wholesaling**

Prior to its post-World War II growth, the dealer-owned cooperatives were an unimportant factor in hardware wholesaling. In 1929 the
group was comprised of five companies with $6 million in retail sales representing approximately 0.6 per cent of total general-line wholesaler sales. Ten companies doing $8.4 million, some 1.7 per cent of total general-line wholesaler sales, made up the group in 1939. Following World War II this movement started to grow. Sales volume increased from an estimated $40-$45 million in 1948 to $55-$60 million in 1954, to $80-$85 million in 1958, to $155-$160 million in 1963. Over this period the dealer-owned cooperatives increased their share of total general-line wholesaler sales from 2.5 per cent in 1948 to 12.7 per cent in 1963. Sales as a percentage of total wholesaler sales and total retail hardware store sales increased from 2.1 per cent to 6.2 per cent and from 2.4 per cent to 8.8 per cent respectively. The number of dealer-owned cooperatives increased from 15 to 21.

The greatest development of the dealer-owned cooperative movement has been in the East North and West North Central States. Comparatively little progress has been made in the South, West, and on the East Coast. In 1963 four companies did about 70 per cent of the group's total volume while one of these companies accounted for almost 30 per cent.

One of the questions that arises concerning the history of dealer-owned cooperative wholesaling in the hardware trade is why this movement took so long to develop. What factors present and responsible for its impressive growth in the 1950's and 1960's were absent in the 1930's and 1940's? An analysis of the situation indicates that hardware dealers did not encounter in the earlier period the same intensity and
nature of competition that such retailers faced in the post-World War II era. Particularly important in this respect is the growth of the mass-merchandisers: the large department store chains, discount houses, hybrid supermarkets and other retail chains all of whom handle a sizable stock of hardware and related items. The earlier period had no such similar developments disrupting traditional marketing relationships. Accompanying this competition is a declining profit margin in many cases below that experienced by retailers during the depression of the 1930's. One further factor accelerating this growth is the relatively large spread in prices between the more progressive dealer-owned cooperatives and other general-line wholesalers, a matter of some significance in satisfying a price-conscious public.

**Drop shipments**

One reason for the large spread that oftentimes exists in the prices of dealer-owned cooperatives and other general-line wholesalers is the low cost merchandise available to dealers of the former via their drop shipment programs. Such merchandise is frequently not available to the same extent product-wise or to the same extent price-wise to dealers of the latter. As such, this aspect of the dealer-owned cooperative's operation is generally promoted to its maximum advantage in hopes of increasing dealer purchases and new membership.

The significance of drop shipment programs to the operation and successful growth of the dealer-owned cooperatives can best be indicated by both the extent to which these houses sell and the extent to which their members buy merchandise via drop shipments. In 1963 most of the
larger cooperatives did 10-20 per cent of their total sales by means of drop shipments. Regular wholesalers did about 5-10 per cent of their total business in drop shipments. Were the amount of business done in pooled orders also included, this difference would be greater. This variation in drop ship activity is further conveyed in the purchasing practices of dealer-owned cooperative, regular wholesaler, and program wholesaler dealers. Approximately seventy per cent of dealer-owned cooperative retailers order 10 per cent or more of their total purchases via drop shipments. Of these dealers thirty per cent order 20 per cent or more. Respective figures for both regular and program retailers combined ordering 10 per cent or more and 20 per cent or more of their total purchases by drop shipments are approximately thirty per cent and fifteen per cent.

The full implications of drop shipping, however, extend beyond its effect on dealer-owned cooperative sales, membership, and operating expenses, and the increased utilization of drop shipments by regular wholesalers and program wholesalers as a defensive measure. Also to be considered are (1) the ability of hardware manufacturers, especially small manufacturers, to undertake this practice without adding to their total cost of doing business and possibly the total cost of marketing the product; (2) the possible deterioration of the general-line wholesaler's position in hardware wholesaling; and (3) hardware retailing's total profit performance should retailer's emphasize quantity buying to the detriment of inventory turnover and return on investment.
Characteristics of dealer-owned cooperative membership

The survey taken in 1964 of 4,600 National Retail Hardware Association members located in Ohio, Indiana, Pennsylvania, New York, and New Jersey, of which 658 dealers responded, indicates that in these states and at this time dealer-owned cooperative retailers differ from regular and program wholesaler dealers in the following ways: (1) they have higher average sales per store; (2) they concentrate purchases to a higher degree; (3) they order a larger percentage of merchandise by drop shipments; and (4) they have slightly higher average gross margins. On the basis of correspondence, personal interviews, and the survey of dealers affiliated with the midwestern dealer-owned cooperative, they are (5) more loyal to their primary wholesale house; and (6) more active and interested in trade association activities.

Three major reasons probably explain these findings. First, the great majority of dealer-owned cooperative retailers responding to these surveys are members of three of the largest and most progressive cooperatives in the country each of which sells merchandise substantially below the prices of other wholesalers. Second, the dealer-owned cooperatives approach and select the larger hardware retailer as a matter of policy. Third, the dealer-owned cooperatives have had a significant time advantage over most program wholesalers in recruiting large retailers.

That most dealer-owned cooperative retailers possess these characteristics, although not to the same extent throughout the country, has an important bearing on this group's total cost of operation and future growth. It will also effect in some degree the future status of regular wholesalers and the growth of the program wholesaler movement.
Cost analysis of dealer-owned cooperative operation

That the dealer-owned cooperatives are more economical than other wholesalers in their method of operation seems evident from the following expense information. In 1963 the average operating expenses of regular wholesalers and the ten more important companies comprising the dealer-owned cooperative group were 19 per cent and 12 per cent of sales respectively, a spread of seven percentage points based on sales. This spread was probably as high as nine or ten percentage points between the leaders of the dealer-owned cooperative group and most regular wholesalers.

The successfully managed dealer-owned cooperative attains its economies in primarily three areas: selling, delivery, and administration. This it does primarily by integrating the wholesaling-retailing functions and acquiring the necessary control and cooperation whereby it can (1) schedule orders and deliveries; (2) reduce market risk; (3) limit the number and scope of services; and (4) transfer the performance and cost of various functions to retailers and manufacturers. Market risk is reduced in that the cooperative can buy merchandise with less concern about markdowns and product obsolescence; it receives dealer help in "unloading" slow selling merchandise; it partially controls price through its price book, prepriced bin tickets, sales promotion events, and store identification program; it can test through its more cooperative dealers the sale of new merchandise; and it can adjust to changing market conditions more easily and quickly through the feedback of information by dealers. Limited services are the result of company policies restricting
credit and delivery, limiting the type and number of items warehoused, and restricting the return of merchandise and special orders of any kind. Functions and their respective costs are partly transferred to the dealer in the areas of selling, finance, risk bearing, delivery, and storage.

The dealer-owned cooperative does not by its nature of operation eliminate the performance of basic marketing functions; nor does any limited-function or limited-service wholesaler. Such activities are indispensable and universal in the marketing of goods and must be assumed by someone in the channel be it wholesaler, retailer, or manufacturer. Consequently, although the dealer-owned cooperative has a lower cost of operation than the regular or program wholesaler, its true economy is not represented by the size spread in operating expenses. Certain costs, either in time or money, are transferred to the retailer or manufacturer because of the functions they assume.

How well different companies perform their functions and services under existing conditions (efficiency) cannot be determined on the basis of their operating expenses either in total or by major categories. Low operating expenses, while an indication of economy, are no true indication of efficiency. Due consideration of this fact is necessary in any cost comparison of different type wholesale establishments.

The importance of economy, however, cannot be overlooked in a highly competitive marketing system. This fact was highlighted by the history of retailer-owned cooperative wholesaling in the grocery trade, a history which seems to be repeating itself in hardware. It is unlikely that the regular and program wholesalers will be able to stop the growth of the dealer-owned cooperative movement as long as merchandise price is a major factor in wholesaler patronage.
Six factors are believed, theoretically, to explain the major differences in operating expenses among hardware wholesale establishments. They are (1) methods of delivery, (2) functions and services performed, (3) wages and salaries, (4) sales size of establishments, (5) number and kinds of products handled, and (6) efficiency of operation. The effect of only three of these factors, however, are believed corroborated (although not quantified) by the financial data presented in this study. These three factors are methods of delivery, functions and services performed, and wages and salaries. The effect of the other three factors (sales size of establishments, number and kinds of products handled, and efficiency) cannot be satisfactorily measured or verified due to the variables involved, inadequate information and cost data, and differences in cost accounting. However, even though the general effect of the latter three factors cannot be determined in this analysis, they are believed to be satisfactorily substantiated by Census of Business and trade association data and general business belief and experience. Of the six factors, methods of delivery and functions and services are believed to account for most of the differences in total operating expenses between and among well-managed dealer-owned cooperatives, program wholesalers, and regular wholesalers of similar sales size.

The impact of dealer-owned cooperative wholesaling

The desire of retailers for low cost merchandise and merchandising assistance has been instrumental in the impressive growth and impact of the dealer-owned cooperative movement on hardware retailing and wholesaling. In retailing it has been an important factor in preserving the
status of many small independent retailers. It also has made retailers more cost-conscious, more interested in wholesaler-retailer teamwork, and more appreciative of advertising and sales promotion programs. Manufacturers also have been prone to continue using hardware stores, as opposed to other type retailers, as their major channel of distribution.

In wholesaling, especially in the Midwest, the dealer-owned cooperatives are (1) focusing the attention of regular and program wholesalers on cost reduction, questionable services, and efficiency; (2) promoting the adoption of advertising and drop shipment programs; and (3) stimulating the growth of the program wholesaler movement.

Nevertheless, the dealer-owned cooperatives are not believed to be the major cause in the decline of general-line wholesalers since World War II. More important factors seem to be the business taken away from the customers of these wholesalers by the mass-merchandisers; the increase in wholesaler operating expenses; an "excess" number of general-line hardware wholesalers; direct selling by manufacturers; and the increase in specialty wholesalers.

The future of dealer-owned cooperative wholesaling

The factors most likely to limit the dealer-owned cooperative movement's future growth are (1) the absence of qualified managers; (2) the limited number of qualified hardware dealer prospects; (3) the lack of control over dealer members; (4) increased competition from program, regular, and specialty wholesalers; and (5) the requirements of affiliation. Other factors of possible significance include the restricted use of field supervisors, the lack of information on
dealer-owned cooperative operation, the nature of hardware retailing, direct buying and selling, the desire and need for wholesaler services, the absence of a buying and merchandising federation, and the capital raising limitations imposed by the 1962 Revenue Act.

The effect of the program wholesaler movement on the future growth of dealer-owned cooperative wholesaling is a matter of conjecture and depends on the answers to two important questions. First, can program wholesalers reduce their operating expenses significantly enough to attain the status of low cost general-line wholesalers? Second, how important are wholesaler salesmen, as differentiated from field representatives, to the servicing of most hardware retailers? Were all program wholesalers in hardware to operate in the same manner as Ace Hardware Corporation and the wholesaler-sponsored groups in the grocery trade, there is but little doubt that they would equal or even surpass the importance of the dealer-owned cooperatives because of their superior numbers. The fact that they do not operate in this manner seriously questions the ability of this group to limit in any major way the growth of dealer-owned cooperative wholesaling in the hardware trade.

The future will likely witness a modification in the sales policies of some dealer-owned cooperatives to include selling to, as members or customers, small hardware dealers and other types of retailers doing a substantial business in hardware and related items. This change will be necessitated mainly by the scarcity of large unaffiliated hardware retailers and the growth of program wholesalers. It also will be prompted by the desire for additional sales volume in order to obtain larger
quantity discounts, greater promotional allowances, and, if profitable, lower operating expenses.

Dealer-owned cooperative wholesaling will probably maintain its impressive growth in the short-run. Its long-run growth will also continue but at a declining rate. The dealer-owned cooperatives are expected to remain the more important cooperative group because of its larger membership and lower cost of operation. It will not become, however, the most important wholesale supplier to hardware retailers due to the wide and growing merchandise needs of hardware retailing, the increasing number and sales significance of specialty wholesalers, the dealer-owned cooperative group's size, and the various limitations confronting the movement's future growth.

Conclusion

On the basis of total general-line wholesaler sales to hardware stores, the dealer-owned cooperatives have become an important factor in hardware wholesaling. This growth is expected to continue into the future to where the dealer-owned cooperatives in hardware will probably match as a percentage of general-line wholesaler sales the position of the retailer-owned cooperatives in the grocery trade. However, this type of wholesaling is not as sometimes expressed the only answer to hardware retailing's problems. It does not provide everything for all retailers nor does it make the regular, full-service wholesaler "obsolete." However, it does have advantages of significant value for many retailers that are not found elsewhere in hardware wholesaling.
Other highlights of this study

1. Specialty wholesalers have become a very important factor in the distribution of hardware and related products. While this group's total sales volume accounted for only 15 per cent of total hardware wholesaler sales in 1948, it represented 51 per cent in 1963, an increase of 240 per cent in market share. Respective establishment figures for these years are 1,480 and 2,963, an absolute increase of 1,483 establishments. It seems likely that this group will increase in size and importance still further as hardware stores continue to broaden their merchandise lines.

2. The failure and withdrawal of some of hardware wholesaling's oldest and largest companies retarded the growth of the program wholesaler movement during the 1950's. By 1963, however, this group's sales volume was estimated at no more than $115 million representing the purchases of about 4,200 retailers affiliated with 35-40 wholesalers. The interest in franchise store programs suggests that this movement will continue its growth throughout the 1960's.

3. The importance of cooperative endeavors among hardware wholesalers is well-illustrated by the growth of wholesaler groups similar in purpose and function to I.G.A. and Red and White Corporation in the grocery trade. Five associations with a membership of approximately 100 regular and program wholesalers comprised this group in 1963. It seems probable that these group endeavors will continue to grow and play an important role in fulfilling hardware wholesaling needs for low cost merchandise and advertising and sales promotion programs.
4. The growth performance and status of retailer-owned cooperative wholesaling in the grocery, drug, and hardware trades is indicated by the following information. In 1939 retailer-owned cooperative wholesaling in both the grocery and drug trades accounted for approximately 8 per cent of total general-line wholesaler sales compared with about 1.5 per cent in hardware. In 1963, retailer-owned cooperative wholesaling accounted for 29 per cent of total general-line wholesaler sales in the grocery trade, about 12.5 per cent in the hardware trade, and no more, but probably less, than 8 per cent in the drug trade.

Further research projects

Research undertaken in connection with this study suggests a number of projects that would be both feasible and interesting dissertation topics in the area of cooperative marketing. They are as follows: (1) an investigation of cooperative wholesaling in the drug trade, both retailer-owned cooperative and wholesaler-sponsored, but particularly the former and (2) an analysis of the growth and status of wholesaler-sponsored groups (program wholesalers) in the hardware trade. These studies can cover both the wholesaling and retailing segments of cooperative operation, as done in this study, or just one depending upon the problems involved, their magnitude, the degree of wholesaler and retailer cooperation, and the writer's specific objectives.

The research problem involved in each of the three projects is basically the same as that encountered in this study of retailer-owned cooperative wholesaling in the hardware trade, namely, that of obtaining knowledge regarding the nature, development, problems, status, impact, and future of the particular movement in its respective field.
The approach to each project appears to be basically the same, that of preliminary library research, correspondence and personal interviews with the managing directors of the various wholesaler trade associations and federations representing the respective wholesaler groups, and correspondence and personal interviews with the more progressive wholesalers in each group. Should the study include an analysis of affiliated retailer members, dealer lists may be obtained through the respective cooperative wholesalers or through a survey of the trade's retailers. The latter will require the assistance of the trade's retailer association. In any event, the active support of the managing directors of various associations and federations and the trade's leading wholesalers will be needed for maximum response and cooperation.
APPENDIX A

SURVEY OF PURCHASING PRACTICES OF MIDWEST DEALER-OWNED HARDWARE RETAILERS

I. NUMBER AND TYPES OF SUPPLIERS

1. From about HOW MANY (1, 2, 3 etc.) of EACH of the following type wholesalers and manufacturers do you buy merchandise?

- DEALER-OWNED WHOLESALER
- GENERAL-LINE REGULAR WHOLESALER
- SPECIALTY WHOLESALER (Short-line jobbers and independent manufacturer reps in electrical & plumbing supplies, paints, sporting goods etc.)
- MANUFACTURERS & MFR. REPS (Direct buying with NO WHOLESALE BILLING)

II. BREAKDOWN OF PURCHASES

1. About HOW MUCH (as a per cent of your TOTAL GENERAL-LINE HARDWARE PURCHASES) do you buy from EACH of the following type suppliers? (Exclude major appliances, farm equipment, and products not usually carried by full-line hardware wholesalers.)

- DEALER-OWNED WHOLESALER
- GENERAL-LINE WHOLESALER
- SPECIALTY WHOLESALER (Short-line jobbers and independent manufacturer reps in electrical & plumbing supplies, paint, sporting goods etc.)
- MANUFACTURERS (Direct buying with NO WHOLESALE BILLING) 100%

2. Do you buy MORE, LESS, or THE SAME AMOUNT of merchandise from specialty wholesalers today, as a per cent of your total purchases, than you did three to five years ago?
MORE ____ , LESS ____ , SAME ____ .

3. Is this likely to INCREASE, DECREASE, or REMAIN THE SAME in the future?
INCREASE ____ , DECREASE ____ , REMAIN THE SAME ____

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### III. PATRONAGE MOTIVES

Please place in the left hand column in order of importance the appropriate letter (A, B, C, D etc.) which identifies the FIVE MAIN REASONS why you buy merchandise from the GENERAL-LINE REGULAR WHOLESALER. (Example: If C, "Fill-in Orders" is first in order of importance, place C in the parenthesis alongside FIRST.)

**ORDER OF IMPORTANCE**

1. **FIRST**
   - A. Wider selection of merchandise

2. **SECOND**
   - B. Special lines or brands

3. **THIRD**
   - C. Fill-in orders

4. **FOURTH**
   - D. Special deals

5. **FIFTH**
   - E. Salesman service
   - F. Fast delivery service
   - G. Overall service of the house
   - H. Lower, over-all merchandise cost
   - I. Extension of credit
   - J. Stock control program
   - K. Merchandise program
   - L. OTHER (Please specify)
   - M. 

### IV. DROP SHIPMENTS (Merchandise billed by the wholesaler but shipped direct from manufacturer to dealer. No wholesaler storage.)

1. Do you consider drop-shipment buying (direct factory shipments WITH wholesaler billing) an important means to combat competition? YES NO
   - If NO, why? ____________________________

2. Do you consider drop-shipment buying an important means to increase dealer profit? YES NO
   - If NO, why? ____________________________

3. About what per cent of your TOTAL GENERAL HARDWARE PURCHASES are drop shipments placed through your wholesaler(s)? _______

4. Is this likely to INCREASE, DECREASE, or REMAIN THE SAME in the future?

5. From HOW MANY hardware wholesalers (all kinds) do you buy on a drop-shipment basis? ____________
6. DEALER COMMENTS ON DROP SHIPMENTS


V. WHOLESALE SALES MEN

The questions below concern two types of hardware wholesaler salesmen: (1) General-line, full-function, and (2) Specialty salesmen representing short-line jobbers of electrical & plumbing supplies, paint, sporting goods, building supplies etc. EXCLUDE manufacturer reps in answering.

1. Is there a definite need in your operation for the services of the general-line, full-function salesman? YES NO ___

2. Is there a definite need for the specialty salesman? YES NO ___

3. If there a greater need for one type over the other? YES NO ___

   If YES, which one? General-line Specialty ___

4. Please CHECK one of the statements below which best describes your PRESENT NEED for the wholesaler salesman, EITHER general-line OR specialty.

   ___ Good wholesaler salesmen are always needed by the hardware dealer and well worth the cost of their services.

   ___ Although there is a need for good wholesaler salesmen, their cost exceeds the value of the services rendered.

   ___ Most dealers don't really need the wholesaler salesman for efficient operation of their stores and have come to depend upon them only out of past habit and practice.

   ___ None of the above

5. COMMENTS ON WHOLESALER SALES MEN


VI. CREDIT

1. Do you find it necessary to purchase merchandise from other wholesale suppliers because of the limited credit policy of your dealer-owned wholesale house? YES NO ___

2. If YES, to what extent do you make use of this credit?

   EVERY week ___ TWO weeks ___ Month ___ TWO months ___ Longer ___

3. COMMENTS ON CREDIT
VII. PRICING POLICY

1. Please check the method you use MOST OFTEN in pricing your merchandise. (NOTE: If two methods are used equally, check both.)

   __________________________
   __ AVERAGE MARKUP: Use a 50% markup over cost for most merchandise
   __ VARIABLE MARKUP: Use different markups for 75% or more of merchandise. Markup ranges from a low for competitive goods to a high of 100% or better for service and slow-moving items
   __ FOLLOW SUGGESTED RETAIL PRICES IN PRICE BOOK of dealer-owned house
   __ OTHER (Please specify) __________________________________

2. Please check in the appropriate column below your store’s average gross margin and NET PROFIT BEFORE INCOME TAXES (as a % of sales) for 1962.

   GROSS MARGIN
   % NET PROFIT BEFORE TAXES

   __ Under 30.00%  
   __ 30.00-30.99  
   __ 31.00-31.99  
   __ 32.00-32.99  
   __ 33.00-33.99  
   __ 34.00-34.99  
   __ 35.00-35.99  
   __ 36.00-36.99  
   __ 37.00-37.99  
   __ 38.00-38.99  
   __ 39.00-39.99  
   __ OVER 40.00

   Proprietorship: Include owner’s salary
   Partnership: Prior to distribution of earnings (owner’s salary)
   Corporation: Net profit PLUS owner’s salary
   No profit 5.00-5.99
   0.00-0.99 6.00-6.99
   1.00-1.99 7.00-7.99
   2.00-2.99 8.00-8.99
   3.00-3.99 9.00-9.99
   4.00-4.99 Over 10.00

VIII. HOUSE LOYALTY

1. What factors, OTHER THAN LOW MERCHANDISE COSTS, if any, build retailer loyalty to the dealer-owned wholesale house?________________________________________

2. What factors are most likely to weaken dealer loyalty to the house?________________________________________

IX. STORE CLASSIFICATION (All questionnaires will be classified by STORE LOCATION, HOUSE AFFILIATION and SALES VOLUME)

<table>
<thead>
<tr>
<th>STORE LOCATION</th>
<th>STORE SALES VOLUME--1962</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town under 10,000</td>
<td>Under $50,000</td>
</tr>
<tr>
<td>10,000-25,000</td>
<td>$50,000 and under $100,000</td>
</tr>
<tr>
<td>25,000-50,000</td>
<td>$100,000 and under $200,000</td>
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<td>$300,000 and under $500,000</td>
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<tr>
<td>Over 500,000</td>
<td>$500,000 and under $750,000</td>
</tr>
<tr>
<td></td>
<td>Over $750,000</td>
</tr>
</tbody>
</table>
IX. (contd.)

STORE LOCATION

_____ Downtown
_____ Shopping center
_____ Neighborhood area
_____ Suburbs

RETURN TO: E. F. GRAPE, SAN JOSE STATE COLLEGE, SAN JOSE, CALIFORNIA
APPENDIX B

SURVEY OF HARDWARE RETAILERS

I. NUMBER AND TYPES OF SUPPLIERS

1. From about HOW MANY (1, 2, 3 etc.) of EACH of the following type wholesalers and manufacturers do you buy merchandise? (Note: If affiliated with a program wholesaler, do not include this wholesaler in the number of regular general-line wholesalers from whom you buy.)

____ REGULAR GENERAL-LINE WHOLESALER (with or without a merchandising program)
____ PROGRAM WHOLESALER (WITH a STORE IDENTIFICATION and merchandising program; Trustworthy, Pro, Sentry, Ace, Coast-to-Coast, Western Auto, etc.)
____ DEALER-OWNED WHOLESALER (American, Cotter, HWI, Our Own, etc.)
____ SPECIALTY WHOLESALER (Short-line jobbers of electrical supplies, plumbing, paints, sporting goods, etc.)
____ MANUFACTURERS and MFR. REPS (Direct buying with NO wholesaler billing)

II. BREAKDOWN OF PURCHASES

1. About HOW MUCH, as a % of your TOTAL GENERAL-LINE hardware purchases, do you buy from the following? EXclude major appliances, farm equipment, and products not usually carried by the full line hardware wholesaler.

____ REGULAR GENERAL-LINE WHOLESALER (with or without a merchandising program)
____ PROGRAM WHOLESALER (WITH a STORE IDENTIFICATION and merchandising program; Trustworthy, Pro, Sentry, Ace, Coast-to-Coast, Western Auto, etc.)
____ DEALER-OWNED WHOLESALER (American, Cotter, HWI, Our Own, etc.)
____ SPECIALTY WHOLESALER (Short-line jobbers of electrical supplies, plumbing, paints, sporting goods, etc.)
____ MANUFACTURER and MFR. REPS (Direct buying with NO wholesaler billing)

100%

2. Percentage-wise, do you buy MORE __ LESS __ or THE SAME __ amount of merchandise from specialty wholesalers today compared to 3 to 5 years ago?

3. Will this INCREASE __ DECREASE __ or REMAIN THE SAME __ in the future?
III. STORE AFFILIATION

1. Are you a member of a STORE IDENTIFICATION PROGRAM sponsored by a:
   PROGRAM WHOLESALER (Trustworthy, Pro, Sentry, Ace, C-to-C)
   YES  NO
   DEALER-OWNED WHOLESALER (American, Cotter, HWI, Our Own)
   YES  NO

2. If YES to either of the above, does this affiliation involve a written contract or franchise agreement?
   YES  NO
   What is the name of this wholesaler? __________________________

3. If NO to question 1, are you interested in joining a store identification program of either the above type wholesalers?
   YES  NO  PERHAPS

4. If NO, why not? ___________________________________________

IV. BUYING MOTIVES (This question refers only to the REGULAR GENERAL-LINE WHOLESALER, not the program or dealer-owned wholesaler.)

1. Place under ORDER OF IMPORTANCE the appropriate letter (A, B, C, D etc.) which best identifies the FIVE MAIN REASONS why you buy merchandise from the REGULAR GENERAL-LINE WHOLESALER. (Example: If F, Fast delivery, is FIRST in importance, place F in the parenthesis alongside FIRST.)

   ORDER OF IMPORTANCE
   ( ) FIRST
   ( ) SECOND
   ( ) THIRD
   ( ) FOURTH
   ( ) FIFTH

   A. Wide merchandise line
   B. Special lines or brands
   C. Fill-in orders
   D. Special deals
   E. Salesman service
   F. Fast delivery
   G. Overall service of house
   H. Low overall merchandise cost
   I. Extension of credit
   J. Stock control program
   K. Merchandising program
   L. OTHER
   M. ________________________

V. DROP SHIPMENTS (Merchandise billed by the wholesaler but SHIPPED DIRECT FROM THE MANUFACTURER TO DEALER. No wholesaler storage.)

1. Do you consider drop shipments an important means to:
   COMBAT COMPETITION YES  NO  PERHAPS
   INCREASE DEALER PROFIT YES  NO  PERHAPS

2. If NO or PERHAPS, why? __________________________________________
3. About what per cent of your total general-line hardware purchases are drop shipment orders placed through your wholesaler(s)? ______________

4. Do you plan to INCREASE____ DECREASE____ or KEEP THE SAME____ your drop shipment buying in the future?

5. Check the method you use most to price your drop shipment merchandise.
   ____ Use a standard 50% markup over cost
   ____ Use the variable markup percentage suggested in NRHA's Stock Turnover Handbook OR your wholesaler's price guide
   ____ Use the retail price suggested in your wholesaler's price guide
   ____ Price each drop shipment item on the basis of our personal judgment
   ____ Other (Specify)

6. What factors do you consider before you buy merchandise by drop shipments? ________________________________

VI. WHOLESALER SALESMEN

The questions below concern (1) general-line salesmen of regular or program wholesalers and (2) specialty salesmen of short-line jobbers of electrical supplies, plumbing, paint, etc.

1. Do you feel a need for the services of general-line wholesaler salesmen? YES____ NO____ ON OCCASION____
   Do you feel a need for specialty salesmen? YES____ NO____ ON OCCASION____

2. Is there a greater need for one type over the other? YES____ NO____
   If YES, which one? General-line____ Specialty____

3. Are too many general-line salesmen visiting your store? YES____ NO____
   Are too many specialty salesmen visiting your store? YES____ NO____

4. Please check the statement(s) below which best describe your present feeling about general-line salesmen.
   ____ Good general-line salesmen are always needed by the hardware dealer and well worth the cost of their services.
   ____ Although there is a need for good general-line salesmen, their cost exceeds the value of their services.
   ____ Most dealers really don't need general-line salesmen for efficient operation but depend on them only out of past habit.

5. COMMENTS ON WHOLESALER SALESMEN
VII. CREDIT

1. Do hardware dealers nowadays need more time than the customary 30-40 days to pay their wholesaler bills? YES ___ NO ___
   ON OCCASION ___

2. Is general competition, due to hardware's slow turnover, forcing many dealers to "pass up" the 2/10 cash discount? YES ___ NO ___ DON'T KNOW ___

3. Would most hardware dealers, in return for an extra 1/2 to 1% discount off invoice price, pay their wholesaler bills every two weeks? YES ___ NO ___

4. If NO, why not? ____________________________________________________

VIII. PRICING POLICY

1. Check the method you use MOST OFTEN in pricing your merchandise. (Note: If two methods are used equally, check both.)
   ___ AVERAGE MARKUP: A 50% markup over cost of merchandise
   ___ VARIABLE MARKUP: Different markup percentages: a low % for competitive goods to 100% or more for service and slow-moving items.
   ___ USE RETAIL PRICES SUGGESTED IN WHOLESALER'S PRICE BOOK
   ___ OTHER (Specify) __________________________________________

2. If VARIABLE MARKUP PRICING is used, from what source do you obtain the various percentages in pricing your merchandise?
   ___ STOCK TURNOVER HANDBOOK OF NRHA
   ___ PRICING GUIDE OF WHOLESALER
   ___ OTHER (Specify) __________________________________________

IX. GROSS MARGIN AND NET PROFIT FOR 1962

1. For 1962, and as a % of net sales (or in dollars), what was your store's (1) GROSS MARGIN ______________________________________
   (2) OPERATING COSTS _________________________________________
   Is the owner's salary (or partner's salary) included in this figure? YES ___ NO ___
   (3) NET PROFIT BEFORE TAXES ________________________________
   Is the owner's salary (or partner's salary) included in this figure? YES ___ NO ___

2. If the above information is given in dollars, please indicate your store's net sales volume in dollars for 1962. __________________
X. STORE CLASSIFICATION (All questionnaires will be classified by store location and sales volume.)

STORE LOCATION

| Town under 10,000 | Downtown |
| 10,000 to 25,000 | Shopping center |
| 25,000 to 50,000 | Neighborhood area of large city |
| 50,000 to 100,000 | Rural area |
| 100,000 to 500,000 | Other |
| Over 500,000 | |

STORE SALES VOLUME--1962

| Under $50,000 | $300,000 to $500,000 |
| $50,000 to $100,000 | $500,000 to $750,000 |
| $100,000 to $200,000 | Over $750,000 |
| $200,000 to $300,000 | |

RETURN TO: PROF. E. F. GRAPE, SAN JOSE STATE COLLEGE, SAN JOSE 14, CALIFORNIA
APPENDIX C

SURVEY OF DEALER-OWNED HARDWARE WHOLESALERS

I. DEALER-OWNED COOPERATIVE ORGANIZATION

A. COMPANY HISTORY

1. Year company was organized
2. Number of dealers starting company
3. (a) Did the dealers organizing the company begin operations as a buying group without a company warehouse? Yes No
   (b) If Yes, in what year (if different from the year given above) did the company first operate its own warehouse?
4. Average capital contribution per dealer at that time.

5. Please check (✓) whether the company started as
   (a) a new enterprise
   (b) a reorganization (a take-over) of an existing hardware wholesale house
6. If 5b, give the reasons or circumstances responsible for the sale of the former wholesaler's business.

7. List the reasons for starting the company at the time of its formation. If competition, indicate the type of retail institution.

B. ORGANIZING A NEW DEALER-OWNED COOPERATIVE

1. If you were to start a new dealer-owned company today, what would be the minimum figures necessary for successful operation with respect to:
   (a) Number of dealers
   (b) Paid in capital
   (c) Warehouse stock investment
   (d) Warehouse annual sales volume (at wholesale)

C. MEMBERSHIP

1. What restrictions, other than that presented by the purchase of stock or the deposit of working capital, have been placed on membership in your organization? (e.g., minimum monthly or yearly purchases, satisfactory Dun & Bradstreet rating, etc.)
II. METHOD OF OPERATION

A. FUNCTIONS AND SERVICES

1. Please check below the functions and services which are performed by the company on a regular basis to its dealers as part of its dealers' program. DOUBLE CHECK (√√) those services for which the dealer is charged a special fee.

- Accounting system
- Record-keeping
- Credit selling plan
- Advertising promotions
- Store engineering
- Dealer advertising service for members advertising cooperatively via newspaper, radio, or T.V.
- Special store promotions
- OTHER (Please indicate)

2. List the services that (a) RECENTLY have been offered and (b) WILL BE offered by the company to better serve its dealer members.

B. SALES PROMOTION

1. What kind of a regular contact service do you have with your dealers with respect to merchandising and store management? Also indicate the average number of contacts made per YEAR.

<table>
<thead>
<tr>
<th>TYPE OF CONTACT</th>
<th>NUMBER PER YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulletins</td>
<td></td>
</tr>
<tr>
<td>Field supervisors</td>
<td></td>
</tr>
<tr>
<td>Company advertising promotions</td>
<td></td>
</tr>
<tr>
<td>(full membership)</td>
<td></td>
</tr>
<tr>
<td>Home office dealer meetings</td>
<td></td>
</tr>
<tr>
<td>(full membership)</td>
<td></td>
</tr>
<tr>
<td>District or regional dealer meetings</td>
<td></td>
</tr>
<tr>
<td>(partial membership)</td>
<td></td>
</tr>
<tr>
<td>Personal contact (general manager, other home office staff)</td>
<td></td>
</tr>
<tr>
<td>OTHER (please indicate)</td>
<td></td>
</tr>
</tbody>
</table>

2. By what means, other than the above, do you try to influence and control your dealers' merchandising and store management practices?
C. SUPERVISORS OR FIELDMEN

1. List, IN ORDER OF IMPORTANCE, the main duties and responsibilities of your company's supervisors or fieldmen.

2. Approximately what per cent of the supervisor's time is spent prospecting for new members?

3. What qualifications must your supervisors possess to qualify for this position with the company?

4. Do these men receive any special training directly or indirectly from the company to further qualify them for the position of field supervisor? YES NO

5. If YES, what kind of training. If NO, why not?

III. DEALER LOYALTY

A. Rank (1,2,3 etc.) the factors listed below according to their importance in building or molding dealer loyalty.

- Patronage dividends
- Low prices
- Education through group meetings, bulletins
- Dealer committees
- Personal contact by manager, staff, or fieldmen
- Advertising and merchandising services rendered to store
- Assistance in store management
- OTHER (please indicate)

IV. BUSINESS INFORMATION

A. SALES ANALYSIS

1. Approximate percentage of dealers' total store purchases concentrated with your company.

2. Has your company established a minimum monthly or yearly sales volume which each dealer must meet in order to remain in good standing? YES NO

3. If YES, how much?

4. If NO, why not?

5. Average yearly sales volume (at wholesale) of dealer purchases.
6. Approximately what per cent of your dealers are located within the following radii of your home office warehouse?
   (a) 100 miles
   (b) 200 miles (include 100 mile figure)
   (c) 300 miles (include 200 mile figure)
   (d) 500 miles (include 300 mile figure)

B. SALES AND OPERATING DATA (Note: The statistics requested here are for Census years, with the exception of 1962. All data will be kept in STRICTEST CONFIDENCE. Individual company figures will not be quoted or published in any form.)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>SALES VOLUME</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DROP SHIPMENTS (% of sales)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OPERATING EXPENSES (% of sales)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO. OF FIELD SUPERVISORS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INVENTORY TURNOVER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NO. ITEMS WAREHOUSED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. LIMITATIONS TO DEALER-OWNED GROWTH

A. FACTORS LIMITING GROWTH

What are the major factors, weaknesses, or problems, both internal and external, limiting the growth of the dealer-owned movement in the hardware field? _______________________

______________________________

______________________________

B. DEALER-OWNED WHOLESALER FEDERATION

Why have not the dealer-owned companies joined together as yet to form a buying and merchandising group or federation similar to Liberty, PRO, or Interstate? _______________________

______________________________

______________________________

C. PROGRAM WHOLESALING TREND

What steps or changes must be made by the dealer-owned wholesaler to remain competitive with the increasing number of regular wholesalers going program? _______________________

______________________________
VI. ADDITIONAL COMMENTS

Please comment on any points raised in this questionnaire or points which you believe pertinent to this study of dealer-owned operation.


IF NOT ALREADY DONE SO, WOULD YOU BE SO KIND AS TO SEND WITH THE ANSWERED QUESTIONNAIRE A COPY OF YOUR CONTRACT AGREEMENT. MANY THANKS.

RETURN TO: Professor E. F. Grape, San Jose State College, San Jose 14, California
APPENDIX D

PRO HARDWARE, INC.
An Affiliate of Cosgrave & Associates
Hardware Distribution and Merchandising Planners

FRANCHISE AGREEMENT

"PRO" HARDWARE WHOLESALE FRANCHISE

This FRANCHISE agreement is entered into by and between PRO HARDWARE, INC. of 2 East Avenue, Larchmont, N. Y., business consultants hereinafter referred to as "PRO HARDWARE," and

Wholesaler's Name or Company's Name

Wholesaler's Business Address

Wholesaler's City, Zone and State

herein referred to as the Wholesaler.

This FRANCHISE agreement goes into effect on .............., 19..., and continues for an initial period of twelve months and for subsequent annual periods until terminated.

PRO HARDWARE is a hardware business consulting firm which, together with its related company Cosgrave & Associates, has developed merchandising and sales promotion techniques, aids and service, identified by the word "PROFITMAKER PROGRAM" and the arrow PRO Hardware word and symbol attached hereto and herein referred to as the arrow "PRO" emblem, and Wholesaler engages PRO HARDWARE to perform those services.

PRO HARDWARE agrees to:

1. Serve as marketing program consultants for Wholesaler.

2. Deliver during the initial period a complete set of its current manuals containing the PROFITMAKER ("PRO" Hardware) program and instructions.
3. Supply a market survey to the Wholesaler of the territory designated upon the attached map, herein referred to as "the territory."

4. Grant to the Wholesaler the right to franchise in the territory in accordance with the attached "Retailer Franchise," which stores are herein referred to as Franchised Retailers.

5. Grant to the Wholesaler the right to use and to display to its qualified franchised retail stores within the territory the service marks PROFITMAKER.

6. Authorize the Wholesaler and Franchised Retailers to display to the public the arrow PRO emblem to signify quality of service, high reputation and adherence to merchandising standards maintained as prescribed by PRO HARDWARE, provided the mark and emblem shall be used to identify only the service program described by PRO HARDWARE for membership in the collective group of Wholesalers and Franchised Retailers in the United States as authorized and approved by PRO HARDWARE, but said emblem may not be used to identify any particular goods without prior approval of PRO HARDWARE.

7. Provide counsel and guidance in installing the PRO program in three retail stores selected by the Wholesaler, in accordance with the attached Rate Schedule.

8. Furnish store signs and decals for use in Wholesaler's customers' stores where the PRO program is installed, in accordance with the attached Rate Schedule.

9. Furnish consumer circulars, newspaper advertising mats and store trim kits, in accordance with the attached Rate Schedule.

The Wholesaler agrees to:

1. Pay initial fee of Two Thousand Dollars ($2000).

2. Purchase not less than twenty days of on-the-job consulting service from PRO HARDWARE during the initial period at the rate stated in Paragraph 8 below.

3. Cooperate with PRO HARDWARE and install the PRO program in three stores during the initial period and in other stores thereafter.
4. Maintain a staff assigned to the PRO program, including a sales executive, a dealer service manager and a full time merchandise crew of at least two men.

5. Maintain and enforce the "Retailer Franchises" attached hereto in all retail stores in the territory which maintain standards approved by PRO HARDWARE.

6. Terminate the franchise of a Franchised Retailer who, in the sole judgment of PRO HARDWARE, does not adhere to the quality of service, reputation and merchandising standards or other requirements and terms of the retailer franchise, and will comply the terminated retailer to comply with the termination provision of the retailer franchise.

7. At the end of the initial period, pay to PRO HARDWARE in advance an annual fee of One Thousand Dollars ($1,000.), for which PRO HARDWARE agrees to furnish one man-day of consulting service per quarter year.
### APPENDIX E

### TABLE 18

NUMBER AND PER CENT OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS, AND REGULAR WHOLESALERS BUYING FROM ONE OR MORE GENERAL-LINE WHOLESALERS, 1964

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<thead>
<tr>
<th>Type of Dealer</th>
<th>Number of General-line Wholesalers</th>
<th>Total (100%)</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>One</td>
<td>Two</td>
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<tr>
<td>Regular wholesaler dealer</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Dealer-cooperative retailer</td>
<td>37</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Survey by author.
<table>
<thead>
<tr>
<th>Type of Dealer</th>
<th>Zero</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>Four</th>
<th>Five to Ten</th>
<th>Over Ten</th>
<th>Total (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
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<tr>
<td>Regular wholesaler</td>
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<td>16</td>
<td>23</td>
<td>11</td>
<td>34</td>
<td>16</td>
<td>39</td>
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<td>dealer</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program wholesaler</td>
<td>24</td>
<td>18</td>
<td>11</td>
<td>8</td>
<td>26</td>
<td>20</td>
<td>19</td>
<td>14</td>
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<tr>
<td>dealer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dealer-cooperative</td>
<td>48</td>
<td>29</td>
<td>19</td>
<td>11</td>
<td>25</td>
<td>15</td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td>retailer</td>
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<td></td>
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</tbody>
</table>

Source: Survey by author.
### TABLE 20

NUMBER AND PER CENT OF HARDWARE RETAILERS LOCATED IN OHIO, INDIANA, PENNSYLVANIA, NEW YORK, AND NEW JERSEY AFFILIATED WITH OR PATRONIZING DEALER-OWNED COOPERATIVES, PROGRAM WHOLESALERS AND REGULAR WHOLESALERS BUYING FROM ONE OR MORE MANUFACTURERS, 1964

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<th>Type of Dealer</th>
<th>Number of Manufacturers</th>
<th>Zero</th>
<th>One</th>
<th>Two</th>
<th>Three</th>
<th>Four</th>
<th>Five to Ten</th>
<th>Over Ten</th>
<th>Total (100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
<td>No.</td>
<td>Per Cent</td>
</tr>
<tr>
<td>Regular wholesaler dealer</td>
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<td>79</td>
<td>35</td>
<td>30</td>
<td>13</td>
<td>35</td>
<td>16</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>Program wholesaler dealer</td>
<td></td>
<td>59</td>
<td>41</td>
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<td>11</td>
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<td>10</td>
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<tr>
<td>Dealer-cooperative retailer</td>
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<td>79</td>
<td>44</td>
<td>13</td>
<td>7</td>
<td>24</td>
<td>13</td>
<td>12</td>
<td>7</td>
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</tbody>
</table>

Source: Survey by author.
APPENDIX F

Dealer Contract with COTTER & COMPANY

Wholesale Distributors of Hardware & Related Lines

THIS AGREEMENT between 

hereinafter referred to as the "Dealer," and COTTER & COMPANY a corporation, with its principal office in Chicago, Illinois hereinafter referred to as the "Company,"

WHEREBY is agreed as follows:

THE COMPANY AGREES to sell merchandise and furnish services to
the Dealer at prices reflecting cost savings effected in Company oper­
ations during each fiscal year, and to pay commissions to the Dealer for
services rendered to the Company during each such year. Such cost
savings and commissions, which shall be termed "patronage refunds," shall
be determined as of the end of each fiscal year of the Company and shall
be payable out of the excess of gross margins from operations after
deducting therefrom the following:

(a) All operating and administrative expenses;
(b) Such reserves as may from time to time be provided by the
Board of Directors for depreciation and obsolescence, state
and federal taxes, bad debts, inventory losses, fire losses,
insurance and other corporate and operating charges and
expenses;
(c) Such reserves as may from time to time be provided by the
Board of Directors for the purpose of enabling the Company
to repurchase the shares of its Class A Common Stock and
Class B Common Stock;
(d) Provision for working capital and for deficits arising from
operation; and
(e) In order to defray in part the costs of establishing the
Dealer's account, ten (10) per cent of the Dealer's patronage
refunds for each fiscal year until $300 has, by this means,
been recovered by the Company; provided, however, that if
this agreement is terminated before $300 has been recovered,
then 100% of any patronage refunds due or becoming due until
the entire $300 has been recovered.
At the time of sale of merchandise and/or furnishing or service to the Dealer, the Company shall make preliminary or tentative billing at the level of wholesale or jobbing prices then prevailing in respect of the category of merchandise and/or services involved. The Dealer shall remit to the Company the amount of such billings as deposits against the final settlements for such merchandise and/or services. Within a reasonable time following the close of each fiscal year the cost savings and commissions shall be computed in respect of such year and a proper allocation thereof made to the Dealer based on the volume of merchandise and/or services purchased by the Dealer and margins applicable thereto. The excess, if any, of the preliminary or tentative billings deposited, less any unusual expenses occasioned by extra handling and/or correspondence due to repeated non-conformance with established payment policies or prescribed procedures, shall be paid to the Dealer. The Dealer shall be entitled to receive within a reasonable time (but in no event more than 120 days after the close of each fiscal year) his allocated share of commissions and patronage refunds computed as aforesaid. Commissions and patronage refunds are paid as provided by Sections 2, 3 and 4 of Article VII of the Company's By-Laws as amended effective December 29, 1961. Said sections of the By-Laws provide, in substance, as follows:

Year-end commissions and patronage refunds are payable in five-year subordinated promissory notes of the Company bearing interest at the rate from time to time fixed by the Board of Directors; provided, however, that for a five-year period beginning with the first fiscal year (or at the election of the stockholder-dealer, with the second fiscal year) following the year in which the stockholder-dealer became the record owner of the qualifying shares of the Company, a portion of the commissions and patronage refunds are payable in the Company's Class B Common Stock. The portion so payable is limited to an amount (based on the $100 per share par value of the stock) equal to one per cent of the Dealer's net purchases from the Company for the year. The five year period (1) is automatically extended until a minimum of $1,000 par value of Class B Common Stock is so distributed; (2) is reduced by the number of years a Dealer received Class B Common Stock for a portion of his patronage refunds prior to the year 1960; and (3) may be extended for an additional year or years by order of the Board of Directors.

THE DEALER AGREES:

To purchase qualifying shares of Cotter & Company stock as defined in the accompanying Subscription to Shares agreement which is considered to be part and parcel of this contract.

To give first and careful consideration to all merchandise items and lines offered for sale by the Company; to purchase the bulk of his merchandise requirements from the Company and to change the brands of merchandise now carried to brands which are offered for sale by the Company.
To pay and discount on Tuesday of each week all invoices on hand which are dated up to and including the preceding Friday, with the exception of invoices on seasonal items on which dating has been extended; to pay such "future dated" invoices on the date indicated on the invoice; and consents to be bound by the established Company policy of adding a 2% per month service charge on past due portions of accounts.

To attend Dealer Meetings and Conventions which the Company agrees to hold at intervals as determined by its General Manager for the purpose of keeping dealers better informed as to the trends of the industry, presenting new merchandise offerings, and enabling members to exchange ideas with fellow V & S members.

That catalogs and price information distributed to him by the Company will be kept up to date by the prompt and careful insertion of current information furnished by the Company and that Dealer will pay for this Catalog and Price Book service at the rate of $7.50 per month.

To accept additional billing at the rate of $22.50 per month for each month in which his purchases from Cotter & Company’s warehouse stock are less than $1,500.00, with the understanding that Dealer may claim a refund at the end of the year provided such purchases for the entire year are not less than $18,000.00

To return no merchandise whatsoever without the written consent of the Company.

To participate actively in the major consumer sales promotions developed by the Company.

That all information furnished the Dealer from week to week, such as bulletins, check lists, price services, illustrated catalogs, etc., is confidential and the Dealer shall at no time divulge or display any of the informative material pertaining to prices, shipments, lines, or brands or merchandise to anyone who is not affiliated with the Company.

That the illustrated price service catalog and weekly bulletins and all their contents are the property of the Company and furnished to the Dealer as a service, and such service may at any time be discontinued and the illustrated price service and price lists removed at the option of the Company.

This Agreement shall continue in force from year to year unless terminated by either party's giving sixty (60) or more days written notice at any time to the other party of its intention to terminate this Agreement; provided, however, that this Agreement may be terminated by the Company only after approval by a two-thirds majority vote of the entire Board of Directors. This Agreement shall be automatically modified upon notice from the Company to the Dealer of any relevant change in the Charter and/or By-Laws of the Company provided such change in each instance receives the affirmative vote of a majority of stockholders.
entitled to vote at the regular or special stockholders' meeting duly
called and held for such purpose, and as modified, shall continue in
force as aforesaid.

It is further understood and agreed that the affixing of the
Dealer's signature and seal hereto constitutes an offer only and that
this Agreement shall have no force or effect until duly accepted and
countersigned by the Company at its principal office in Chicago,
Illinois.

WITNESS the Dealer's hand and seal this ____ day of

________________________, 196____

________________________(SEAL)

WITNESS:
Address________________________

______________________________ By______________________________

ACCEPTED this ____ day of ___________________, 196____, at
Chicago, Illinois, by COTTER & COMPANY, by its duly authorized agent.

______________________________ (SEAL)
Signature and Title of Officer
BIBLIOGRAPHY

BOOKS


PUBLICATIONS OF THE GOVERNMENT, LEARNED SOCIETIES, AND OTHER ORGANIZATIONS


PERIODICALS


"Brands," Hardware Retailer (special issue), May, 1962.

"Census of Retail Hardware Dealers," Hardware Age, November, 1964.

"Convenience Stores in Hardware," Hardware Age, June 25, 1864.


Phair, W. A. "Some Can, Some Can't," Hardware Age, August 1, 1957.


I, Eugene Frederick Grape, was born in Brooklyn, New York, August 18, 1926. I received my secondary-school education in the public schools of Brooklyn and my undergraduate training at Brooklyn College which granted me the Bachelor of Arts degree in 1954. From The Ohio State University, I received the Master of Business Administration degree in 1955 after which I worked in industry for four years. I returned to The Ohio State University in 1959 to work on my Doctor of Philosophy degree and finished my course work in 1961. From 1961 to 1965 I taught in the California State College system while completing my dissertation.

I have accepted a position as associate professor at Utah State University.