Economics - Distribution
Cost

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PUBLIC AFFAIRS PAMPHLETS

59¢ OF YOUR $1— THE COST OF DISTRIBUTION

BY T. R. CARSKADON

DO YOU KNOW

That it costs more to distribute goods than to make them?

That the profits of distribution account for less than 3 cents of your dollar?

Whether you are spending too much or too little for this job?

PUBLIC AFFAIRS PAMPHLETS
No. 44 1940

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59¢ OF YOUR $1—
The Cost of Distribution

By T. R. CARSKADON

A FINE, ripe head of cabbage, sitting out in the middle of a farmer's field, does you no good whatever. It may be crisp and of exquisite flavor; the farmer may want to sell it; and you may have the money to buy it—but until it actually reaches your table there is no possible way for you to benefit by it.

This is the essence of distribution. In its simplest terms, it is the means of getting an article from the point where it is grown or produced to the point where it can be put to its final use. Around this basic job there have grown up a lot of supplementary services. When you buy cabbage, for instance, you may ask for a set of recipes for preparing it. When you buy a table, you may expect instructions as how best to wax, polish, and preserve the surface of the wood. These services have become a part of the process of distribution. You can see at once

Mr. Carskadon is a member of the executive staff of The Twentieth Century Fund, in charge of its educational activities.

This pamphlet is based on *Does Distribution Cost Too Much? A Review of the Costs Involved in Current Marketing Methods and Program for Improvement,* by Paul W. Stewart and J. Frederic Dewhurst, with the assistance of Louise Field, and the Special Committee on Distribution, The Twentieth Century Fund, 1939.

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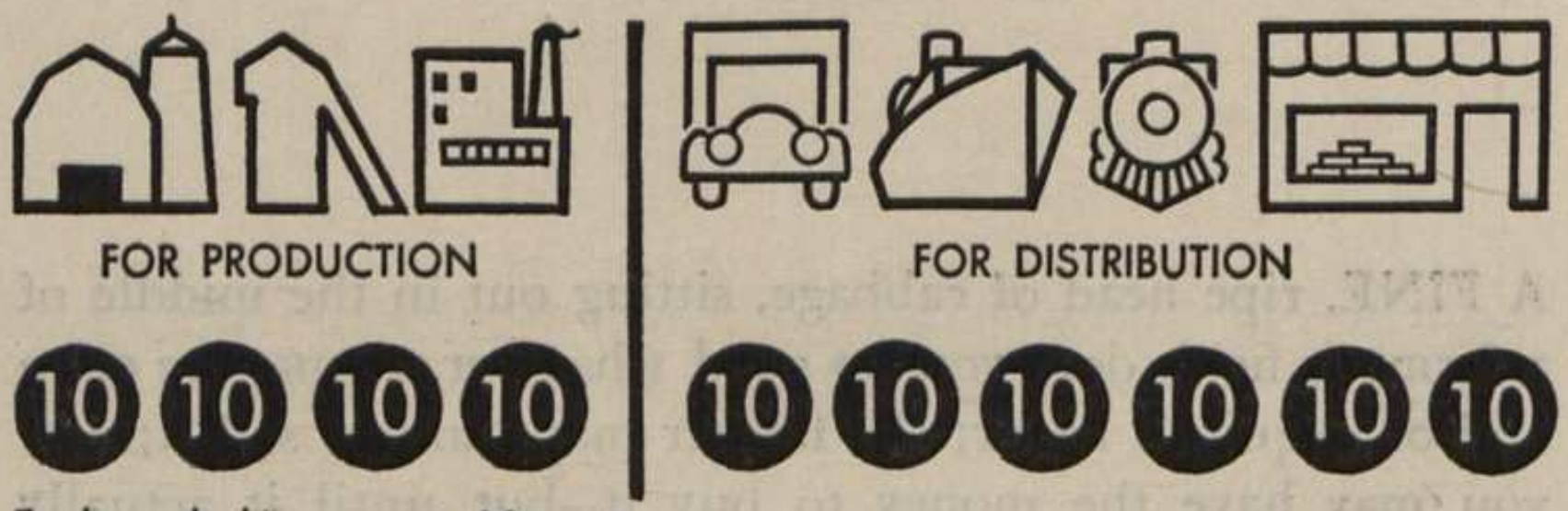
that distribution goes far beyond the simple getting of an article from the point of production to the point of use.

It goes so far beyond, in fact, that distribution has come to overshadow production. Out of every dollar spent by the consumer, about 59 cents goes for the services of distribution, and only 41 cents for production.

WHERE THE CONSUMER'S DOLLAR GOES



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Many people are a little startled to realize that it costs considerably more, on the average, to distribute goods than it does to make them. They naturally want to find out why this should be true.

How Distribution Grew

If we are to understand why our distribution system is so vast and complex today, it is necessary to compare our present way of living with that prevailing a generation or two ago. In 1870 Grandmother's shopping list would have seemed to us more like an inventory for a wholesale supply house than a list of things to be bought at a store.

Grandmother bought her flour by the barrel. She bought not dresses, but whole bolts of cloth. She bought large sacks of sugar, and other supplies in similar quantities.

In a great many instances delivery was accomplished not by the store but by Grandfather, using the old white mare and the new spring wagon. Once the supplies were brought

home, Grandmother stored them in ample pantries and closets, and then gradually went to work on them. It would never have occurred to Grandmother to use the word "processing" but that is precisely what she did.

She took that bolt of cloth and made it up into dresses for herself and the girls. She took the flour, sugar, and other supplies, and "processed" them into bread, pies, cakes, and other table delicacies. Around Christmas time she taught the household to pop its own popcorn and arrange festoons for the Christmas tree. Without ever thinking of herself in such a light, she carried on quite a manufacturing business.

Needless to say, in modern households we have neither the time, space, patience, nor skill to carry on Grandmother's activities. Her granddaughters demand their dresses not only ready-made, but in variety, in season, and in style. Their small homes or apartments have no possible place to store the supplies that Grandmother used to buy. Today's housewife wants small packages for her kitchen shelf. She wants fresh goods; she wants branded goods; she wants them in sanitary packages; and, above all, she wants them easily available so that she can make replacements as needed instead of trying to keep large supplies on hand.

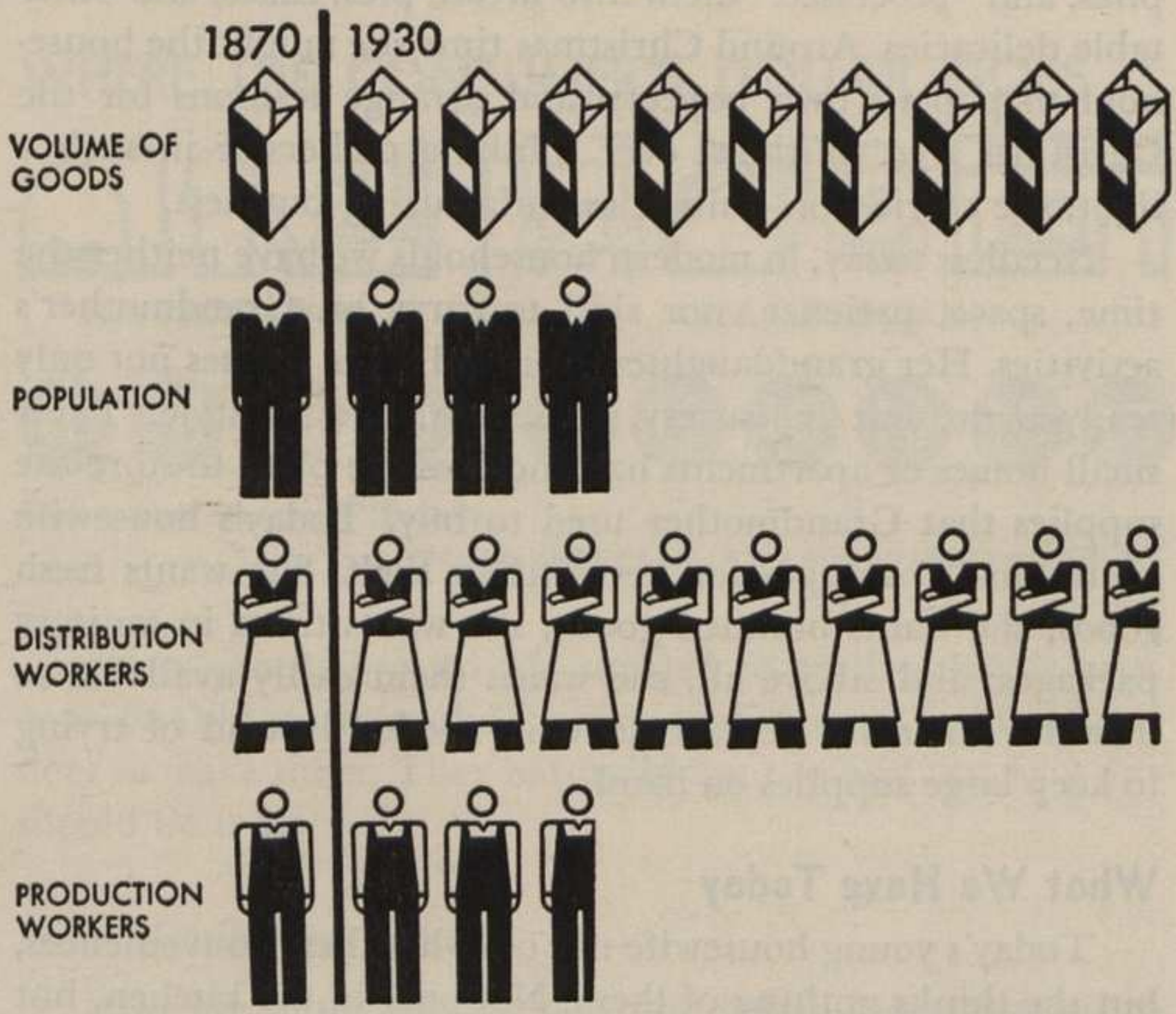
What We Have Today

Today's young housewife not only has these conveniences, but she thinks nothing of them. Not only in the kitchen, but in every department of the household she demands—and gets—great variety and great availability. Her husband, too, is able to buy all kinds of gadgets and accessories that would have bewildered Grandfather. In our modern age, especially in modern America, the number of wares, goods, and services offered the average citizen surpasses that of any other age in history.

All this is reflected in the arithmetical skeleton that underlies the structure of our modern economic system. In Grandmother's year of 1870, for example, among all gainfully employed workers approximately 75 per cent were employed in

agriculture, manufacturing, and other productive activities. Only 25 per cent were in distributive and service activities. By 1930, the workers in production had dropped to 50 per cent

GROWTH IN THE UNITED STATES



The 1930 symbols show the number of times the totals in each case have increased since 1870

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of the total, while the proportion of workers in distributive and service activities had doubled. They made up the other 50 per cent.

This difference is accounted for only in part by changing ways of life since Grandmother's day. Along with our changed attitudes, there has been, of course, a vast increase in the population. There has also been a great increase in the

geographical area over which service must be offered. We are in the era of mass production and nationwide distribution.

For our mass production we frequently find that large, specialized manufacturing centers are the most efficient. Many articles that were formerly produced in small, scattered factories now tend to be concentrated in a few great centers, where conditions are especially favorable. This means that raw materials must be moved to manufacturing centers, and the finished products have to be sent out to scattered and distant places. This takes time. It requires handling and financing, and involves risks and costs that were not present in an older and simpler system.

In order to have mass production, there must be a mass market, not only for standard goods, but for new goods. The task of distributors, therefore, is not merely to fill an existing demand, as in the case of bread or shoes or soap, but to create new demands for new products.

How Big Is the Distribution System?

When we attempt to measure our modern distribution system, the figures grow astronomical. In 1929, when a larger volume of goods was produced, distributed, and consumed in the United States than in any other year before or since, 66 billion dollars was paid by household consumers and other "terminal buyers" for finished goods. Of this huge total, slightly more than 27 billion dollars represented the cost of producing the goods, and somewhat less than 39 billion dollars the cost of distributing them.

Included in the costs of distribution are the payments to a great many different kinds of intermediaries. There are assemblers, jobbers, wholesalers, many kinds of transportation, and, in the final step, a great array of different types of retailers.

It is important to realize, too, that distribution is by no means a simple, straight-line process of carrying goods along from the original producer to manufacturer, to wholesaler, to retailer, to consumer. Manufacturers may sell to other manufacturers, or direct to retailers or consumers instead of going

through the wholesale channel. Likewise, wholesalers may sell to other wholesalers or manufacturers as well as retailers.

This Matter of Price

Probably one of the things that interests us most about the distribution system is the price of the goods it ultimately puts into our hands.

Here we have to realize that we can't just stand off and look at the distribution system as a thing by itself. We ourselves are a part of it. Every human being in America is a consumer. Our tastes and wants have a great deal to do with what is offered us. The different types of stores and selling methods, as well as different types of service, are designed to appeal to us and to meet our needs. In turn, the things that we do affect the prices that we pay. By demanding wider variety in goods and greater accompanying service, or by abusing privileges and services offered us, we consumers can directly increase the costs of distribution.

These things we have to keep in mind as we study the difference between what it costs to produce a given article and what we, as consumers, have to pay for it. This spread between the cost of production and the selling price is particularly noticeable with food products. It costs three or four times as much to bring vegetables and fruit from the farm to the dinner table as it does to grow them.

Price Spreads of Food

The research staff of the Twentieth Century Fund pointed out, for example, that the farmer got seven-tenths of a cent per pound for cabbages in 1935, but the housewife had to pay 4 cents per pound at the corner grocery. She paid an average of 5.5 cents for a bunch of carrots for which the farmer received one cent. The oranges she bought at an average of 31.8 cents a dozen brought the grower 8.7 cents.

In contrast to these relatively wide differences, eggs for which the farmer received 24.1 cents per dozen were sold at

retail for 36.6 cents per dozen. Commenting on these figures, the research staff said:

> The housewife may wonder why she has to pay more than five times the production cost of cabbage, when she buys eggs for less than twice what the farmer gets for them. The answer lies in the fact that cabbage and similar vegetables are both bulky and perishable, and must often be transported long distances from the section in which they are grown. Eggs, on the other hand, are not only less bulky and perishable, but they are usually produced nearer to the place where they are sold, thus saving transportation and handling expenses.

We find that the price spread for meats is much smaller than for fruits and vegetables. In the case of pork and lamb, for example, the whole process of preparing and distributing the meat costs less than the farmer receives for the live product. One reason for this is that preparing meat for market is a relatively simple process. Moreover, there is a highly organized and efficient system for slaughtering, processing, and distributing meat products to retail meat dealers. In addition, the packer covers some of his costs by using some of the inedible parts of the animal for various kinds of by-products.

Canned fruits and vegetables usually show an even larger price spread than the fresh products. The retail price of canned goods is often five to seven times the price that the original grower received. One reason, of course, is the cost of containers. Then there is the process of canning itself. Furthermore, canning is a seasonal industry, subject to great variations in crops and prices. Transportation and storage costs are heavy because canned goods are usually bulky in relation to price. Although they are canned during one brief season, they must be stored and sold gradually during the rest of the year.

Price Spread of Manufactured Products

When we cross over from foods to manufactured goods, we usually find that the difference between cost of production

and selling price is smaller than for fresh foodstuffs. We find, for instance, that on the basis of 1936 figures a standard grade of men's shoes costing $2.08 to manufacture retailed at $4 per pair. On the other hand, a quart of rye whiskey that cost 30 cents to make retailed at $2.40 per quart (including $1 in federal tax). With the shoes, the mark-up represented 48 per cent of the retail price, while the whiskey showed a mark-up (not counting the tax) of 78 per cent of the retail price.

In this motor age, the figures on gasoline are of particular interest. In 1936, a New York City motorist paid an average price of 17.5 cents for a gallon of gasoline that cost 5.5 cents at a Gulf port where it had been refined. Taxes account for 5 cents of the retail price. Transportation to New York, terminal charges, and final manufacturing costs added another cent. Of the remainder, "the retailer's margin of 4 cents and the jobber's of 2 cents, nearly equal the total cost of producing the gasoline, shipping it by water from the Gulf port to New York Harbor, and delivering it in tank cars to the New York jobber."

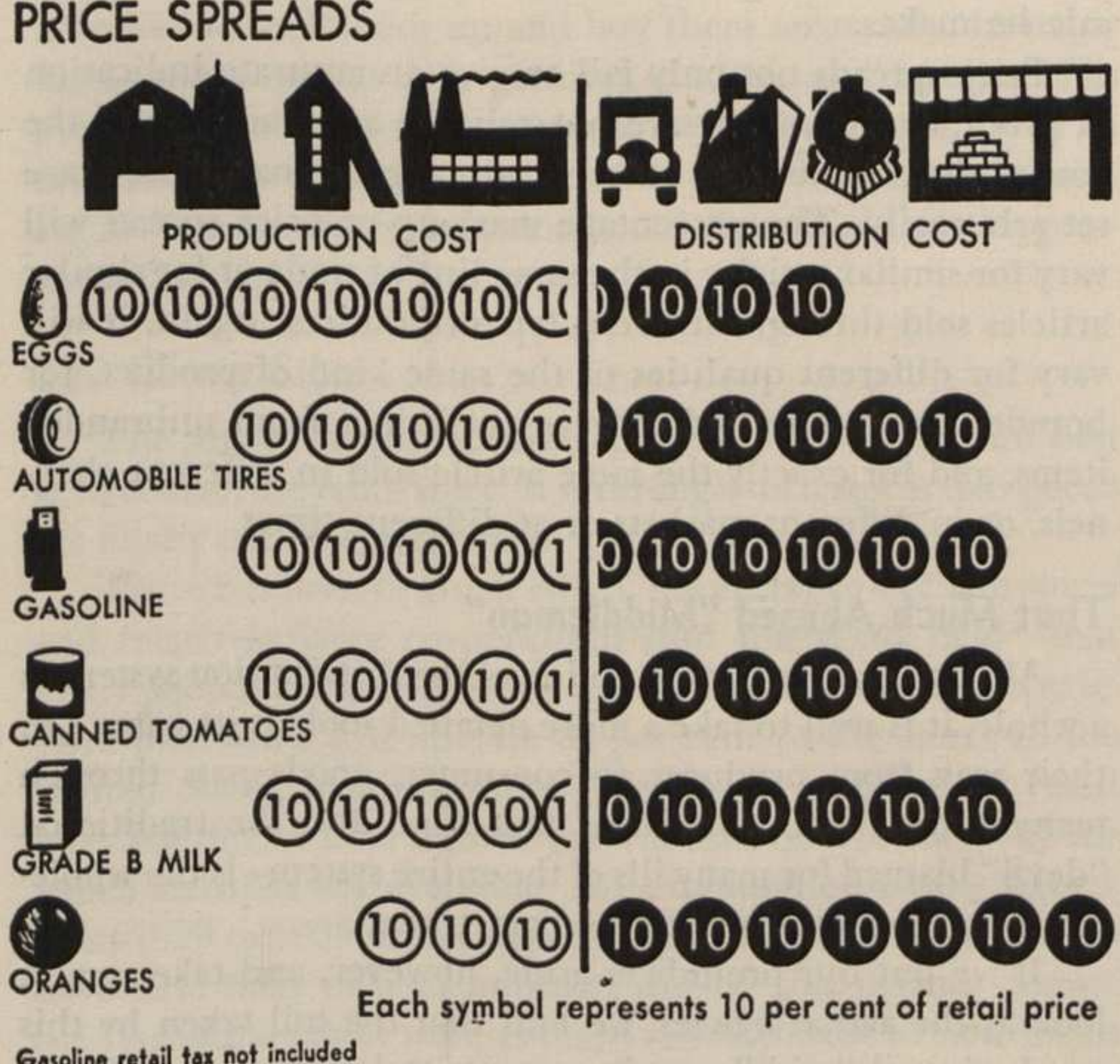
For cigarettes, the figures show that in 1937 it cost an average of 3.86 cents to manufacture the standard pack of twenty cigarettes. Added to this was a 1-cent manufacturer's profit and a federal excise tax of 6 cents. The pack sold to the jobber at 11 cents, to the retailer at 12.5 cents, and to the public at an average price of 14 cents. In this instance, the retailer's margin was only about 11 per cent of the selling price, one of the lowest margins found on any product.

Figures on women's dresses show that a cotton dress costing $1.25 to manufacture sold for $2.95, a price spread of about 58 per cent. A silk or wool dress selling for $19.75 is estimated to have cost $7.17 to make, while a dress selling for $39.50 is shown to have cost $12.50 to manufacture, representing margins of 64 and 68 per cent, respectively.

What Does a Price Spread Mean?

These price spreads may seem pretty large to us. We may wonder what could happen to a dress costing $12.50 to manu-

facture that could possibly cause it to cost $39.50 delivered in the home. This difference roughly indicates what we pay for the total process of distribution. It is important that we do not at once jump to the conclusion that the price spread is excessive.



It may be and it may not be. Economists are careful to point out that a wide price spread in itself does not necessarily indicate either waste or excessive profits. We must remember that the largest part of a price spread usually represents the actual costs of distribution. Net profit is usually only a small part of the whole.

Many beginners in the retail field are deceived by this matter of price spread. Often an ambitious person will open a

store in the hope that the difference between what he pays the wholesaler for his goods and their retail selling price will be clear "profit" to him. If he suffers from any such wrong notion, he soon—and sadly—learns that he may make no profit at all and may even lose the capital he has invested in the business, although he takes a seemingly huge "profit" on every sale he makes.

Price spreads not only fail to give an accurate indication of profit, but also they are not reliable as a measure of the cost of distribution. In other words, a great many prices are set arbitrarily. The percentage mark-up or price spread will vary for similar articles in the same line of trade or for similar articles sold through different types of outlets. Again, it will vary for different qualities of the same kind of product, for branded and advertised articles as distinct from unbranded items, and for exactly the same article sold in different channels, or in different markets or at different times.

That Much Abused "Middleman"

After we have got some notion of the distribution system as a whole, it is well to take a more detailed look at its parts. On their way from producer to consumer, goods pass through many hands. The traditional first stop—and the traditional "devil" blamed for many ills of the entire system—is the wholesaler, or other type of intermediary trader.

If we put our prejudices aside, however, and take a calm look at the actual figures, we find that the toll taken by this much abused "middleman" amounts to less than one-fifth of the total cost of distributing goods from producer to consumer. The wholesaler's 18 cents out of the distribution dollar compares with the retailer's 33 cents; the manufacturer's distribution cost of 24 cents; a transportation cost of 23 cents. Miscellaneous costs take up the remaining two cents.

The "middleman" assumes many forms, such as wholesaler, jobber, factory branch, broker, assembler. In every case he does something worth doing. This may be no more than finding a buyer for a shipment of goods that the broker

may not even see, or it may involve the physical handling of a large variety of commodities.

The traditional wholesaler makes possible the storage of goods in large quantity until they can be sold in smaller quantities. He brings together at a central point many different items that would require a great deal of work for the retailer if he had to look them up and buy them separately. In many cases the wholesaler does packing, grading, and labeling. His profits per dollar of sales appear to be small, and his job is an essential one. Without him, or some other means of performing his job, our business system could scarcely exist in its present form.

The Corner Store

The part of the distribution system that all of us know best is, of course, the retail store. It is through such stores that goods are finally put into our hands.

There has been so much talk of the entrance of chain stores and relatively large corporations into the retail field* that many people are surprised to learn that independent, single-store merchants still operate 86 per cent of the stores in the United States, handling nearly two-thirds of the total retail sales volume. These figures are for the last year (1935) for which statistics are available. An examination of the figures from 1929 to 1935 shows, also, that the single-store merchants have held their own in numbers during this period, despite the rise of the chain store and the development of new forms of retailing such as the supermarket.

Just now, the supermarkets are the newest and most spectacular development in the retail field. So rapid and so recent has been their rise that few reliable figures are as yet available. It is hard even to give an exact definition of a supermarket. But, generally speaking, they usually have all types of food assembled under one roof but sold in separate departments. They usually sell groceries on a self-service basis; they

*For details see *Chain Stores—Pro and Con,* by the Institute of Consumer Education. Public Affairs Pamphlet No. 40, 1940.

usually provide parking space, and they do an estimated minimum business of $5,000 a week. They have various types of ownership, and show how new forms are constantly being developed in the field of distribution.

Retail trade accounts for nearly one-third of the entire cost of commodity distribution. Any change in the methods of carrying on that trade affects us very quickly and directly, and may be the means of saving us consumers a good deal of money. It is interesting to note that consumers' cooperatives, a form of organization that has had notable growth in Scandinavia and other parts of the world, account for less than 1 per cent of the total retail sales in the United States. Cooperatives in this country appear to be growing, even though slowly.* The best known are those dealing in groceries, general merchandise, or gas and oil. Consumer cooperation is now being extended into other fields, such as medical care, housing, insurance, banking, telephone and electric service.

Financing the Consumer

If a consumer has not cash in hand, there are many ways in which he can borrow money to buy what he wants. It is important to get some knowledge of how these practices work.

In the first place, we find that approximately one-third of all retail sales are handled through charge accounts or instalment purchases. This may seem like a great deal to some of us, but in other parts of the distribution system we find that manufacturers and wholesalers may do as much as 90 per cent of their total business on credit.

One of the most obvious ways in which consumer credit can add to the total costs of distribution is for consumers to leave their bills unpaid. This forces the business man to take a loss on the account, plus the cost of trying to collect it. In order to make up for it he must charge higher prices on his good accounts to cover his bad ones. Obviously, it is important to know how many of these accounts actually do go bad.

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* For details see *Cooperatives in the U. S.—A Balance Sheet,* by Maxwell S. Stewart, Public Affairs Pamphlet No. 32, 1939.

The consumers' record is surprisingly good. The United States Department of Commerce estimates that the bad debt loss of retailers on their open credit sales in 1936 amounted to less than half of 1 per cent of such sales. The losses on instalment sales were relatively much higher, but even these amounted to only a little more than 1 per cent of sales. The general run of American consumer seems to be a good credit risk.

Many persons believe that credit losses could be reduced even further if retailers were a little more careful in extending credit. It is doubtful, however, if such losses could be avoided entirely. They constitute one of the wastes in the distribution system, but economists point out that any real effort to reduce them would involve other costs, such as more expensive investigation of prospects and possible loss of sales.

Costs of Consumer Credit

How much interest a consumer has to pay for his credit depends largely on what form of credit he gets. No matter what the form he gets, however, it is almost certain to cost him from two to six times as much as business credit in the form of bank loans to large firms. This difference is not due to any discrimination against the wage or salary earner or to a large percentage of bad debts.

Consumer credit costs more than business credit chiefly because it is a retail business. Just as coal bought by the bushel costs far more than by the carload, so credit extended in amounts of $50 to $500 usually costs several times as much per dollar as in larger sums. Most of the cost consists of the sales, clerical, accounting, and legal expenses of handling the application, investigating the applicant, and collecting the payments.

It has been found that the average price of credit based on personal property comes to about 14 per cent a year. This average conceals very large differences among the various forms. Instalment loans, for example, cost about 15 per cent a year. The average rate charged by industrial banks is about the

same; while personal loan departments of commercial banks lend at a substantially lower rate. Open charge accounts at retail stores usually bear no interest whatever—at least up to a certain minimum.

Personal finance companies are generally the most costly source of credit that operates legally. They offer the convenience of ready cash in small amounts, without co-signers and without security other than a wage assignment or a mortgage on household goods. In return for these conveniences, their rates are usually high. The top rates are fixed by law in most states, and usually may not exceed 3 per cent a month. The rates charged by pawnbrokers vary widely, since they are fixed also by state laws. They range from 1 to 10 per cent per month, and extra charges are frequently allowed. There are, of course, all types of illegal lenders who charge whatever rate they can get.* Many of these lenders operating outside the law are extortionists and criminals who sometimes build up a large-scale "racket," especially in the larger cities.

One of the most efficient forms of consumer credit is that made possible by credit unions, in which consumers bind themselves together and obtain credit from a general pool to which all contribute. Credit union charges are usually no more than 1 per cent a month on unpaid balances.

Costs of Transportation

One large item in our total bill for distribution is transportation. Out of the distribution dollar, an average of 23 cents represents the cost of transportation at various stages in the whole process.

Some interesting facts turn up when we study these costs more in detail. For example, we find with railroads that the largest costs in moving freight frequently are not on the road but at the ends of the run. One leading railroad discovered that for many classes of goods, notably merchandise in less than carload lots, terminal and transfer expenses amounted to

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* For details see *Loan Sharks and Their Victims,* by William Trufant Foster. Public Affairs Pamphlet No. 39. 1940.

three-fourths of the total cost, whereas the actual freight charge amounted to only one-fourth of the cost.

Another striking fact to emerge from the study of transportation is the increase in the use of motor trucks for hauling goods. The amount of traffic handled by intercity trucks is only about 8 per cent of the total ton miles, but between 1926 and 1937 this percentage just about doubled, going from approximately 4 per cent in the earlier year to approximately 8 per cent in the latter. Railroads are still far and away the most important factor in our transportation system, despite the loss of some business to trucks. In 1937 the railroads handled nearly 65 per cent of the total ton-miles of goods moved.

Inland waterways showed the greatest variations in cost of any form of transportation. They handle nearly one-fifth of the total interstate movement of commodities.

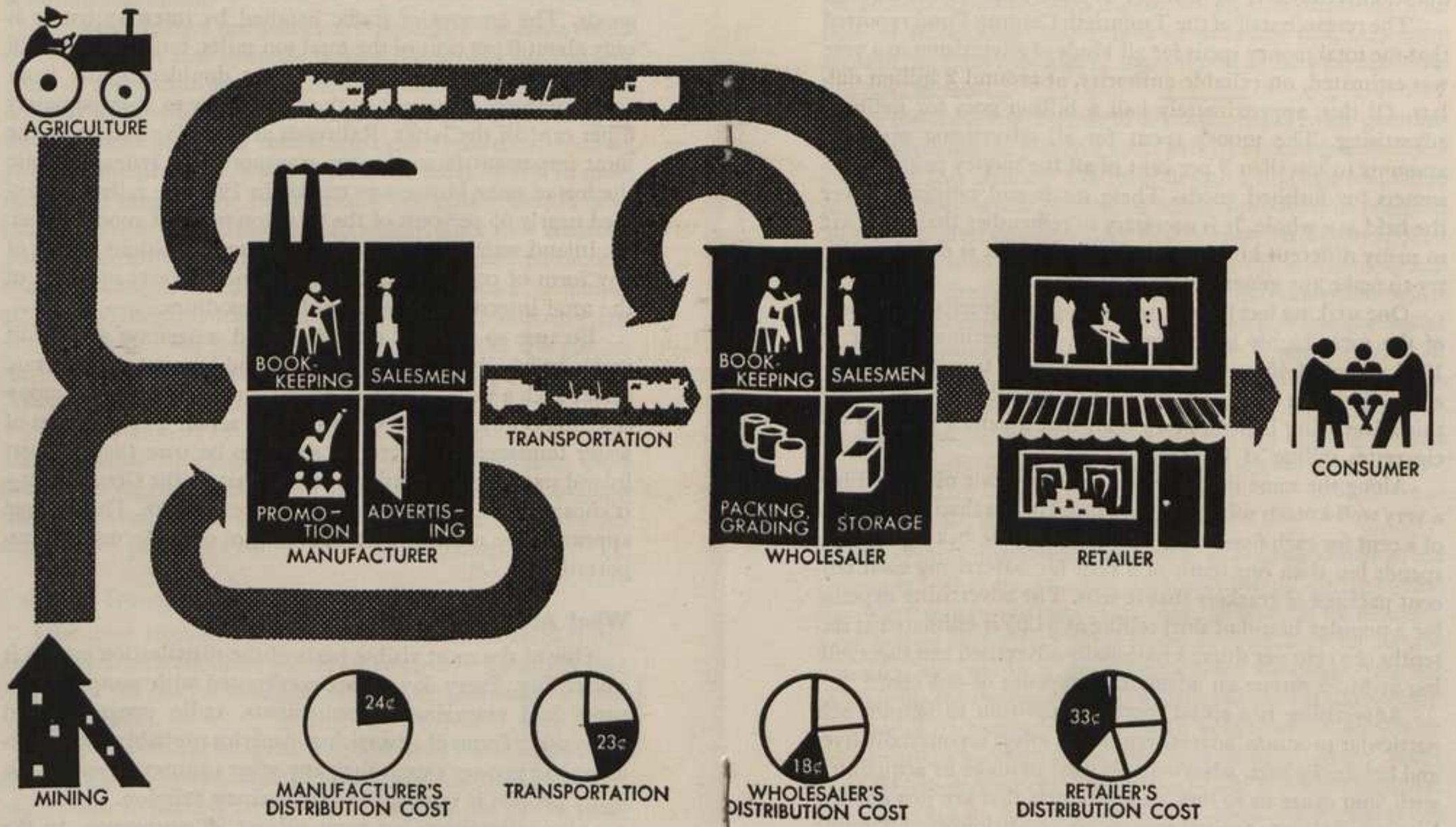
Because so many of our canals and waterways were built partly or wholly with public funds, and because they operate under such a wide variety of management, it is almost impossible to get any correct estimate of the actual transport cost of water tonnage. In general, it seems to be true that the best inland water transportation—such as that on the Great Lakes—is cheap, while the worst is extremely expensive. The average appears to be much higher than that of other forms of transportation.

What About Advertising?

One of the most visible parts of the distribution system is advertising. Every day we are confronted with posters, newspaper and magazine advertisements, radio programs, and many other forms of advertising. America probably uses advertising to a greater extent than any other country on earth. For many people, it is a part of our business religion.

Also, advertising is a great subject of controversy. In the heat of argument, many persons confuse the instrument with the deed. In other words, they fail to distinguish between advertising as a legitimate tool used in selling, and some of the uses to which advertising may be put.

THE FUNCTIONS AND COSTS OF DISTRIBUTION



National advertising and other costs amount to 2¢ of the distribution dollar

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The central question that concerns us now is—what effect has advertising on the costs of distribution and the price of goods? It is difficult to give a hard and fast answer to such a question. However, we can get at least some of the figures.

The research staff of the Twentieth Century Fund reported that the total money spent for all kinds of advertising in a year was estimated, on reliable authority, at around 2 billion dollars. Of this, approximately half a billion goes for national advertising. The money spent for all advertising probably amounts to less than 3 per cent of all the money paid by consumers for finished goods. These totals and estimates cover the field as a whole. It is necessary to remember that there are so many different kinds of advertising that it is dangerous to try to make any general statements about it.

One striking fact is the low unit cost of advertising in some of the most highly advertised lines. It is estimated that in 1937 a total of 45 million dollars was spent to advertise cigarettes. This is a huge sum; yet we find that the average cost of this advertising is little more than half a cent a package for cigarettes selling at 14 cents.

Along the same lines, we find that the costs of advertising a very well-known soft drink amounted to less than 16/1000ths of a cent for each five-cent glass. A nationwide baking concern spends less than one-tenth of a cent for advertising each ten-cent package of crackers that it sells. The advertising expense for a popular brand of shirt selling at $1.95 is estimated at six-tenths of a cent per shirt. A nationally advertised bed sheet selling at $1.75 carries an advertising expense of one cent.

Advertising is a social force. In addition to helping sell particular products, advertising has an effect on our daily lives and habits. In part, advertising is used to make us acquainted with, and cause us to buy, new products that are just coming into general use. Such things as air conditioning, hydraulic brakes on motor cars, and the importance of vitamins in diet, have all been made familiar to the consumer through advertising. The effect of much of this type of advertising is forward-looking, carrying us on to higher standards of living.

Of course advertising, like other forms of selling, may be put to improper uses. We may be given exaggerated claims about products that are all right, but simply are not as wonderful as their sponsors claim. Again, we may be presented with false or misleading descriptions of products that may have actually harmful qualities or ingredients; or may be harmless, but also useless.

In the economic system as a whole, there is no question that advertising has played a great part in widening the market for goods and creating the mass demand that has helped to make the spectacular economies of mass production possible. This is the effect of advertising that is most frequently spoken of by those who believe in it as a force for economic good. Research in the field, however, will show that sometimes when large sums of money are spent to lead us to buy one particular brand of product as opposed to another brand which is of almost identical quality, the net result may be to increase prices for the consumer. Thus nationally advertised and branded articles sometimes cost more than similar articles sold under private brands or no brand at all.

Where the Consumer Comes In

The entire distribution system is, of course, aimed at the consumer. All of us are consumers, and the things we prefer, the prices we are willing to pay, and the services we demand, have a large and direct effect upon the efficiency of the distribution system. In a great many ways we consumers are responsible for the high costs of distributing the goods we buy.

One of the most obvious ways in which we consumers increase costs is by abusing the returned goods privilege. Many of us act like spoiled children. We take out goods on approval when we have no intention of buying them. We return goods for the most trivial reasons. We return them when the fault is entirely ours, rather than that of the store.

This practice has grown to such an extent that returns and allowances, on an average, amount to one day's sales out of eight in department stores. Obviously, this greatly increases

the cost of running the store. It is equally plain that the increased cost is passed right back to us consumers. A customer who orders several articles on approval with the intention of buying only one, or perhaps none; or who returns purchases three or four times because they do not suit, injures every other customer at that store. Others of us may not indulge in these wasteful practices, but nevertheless we have to pay higher prices to cover the cost of these abuses.

It is interesting to find out why goods are returned. A government survey made in Washington showed that women shoppers at least recognized their own faults. Nearly 48 per cent of the women interviewed reported frankly that they themselves were at fault when goods were returned. About 26 per cent said that the retailer was responsible; and not quite 16 per cent laid the blame on the manufacturer of the goods. The women also reported that more than 56 per cent of the articles returned were intended for their own use.

All these returned goods cause a vast amount of extra work and expense for the store. One study showed that the routine handling of a typical return transaction may require as many as twenty-three persons to perform the necessary operations involved.

Changing Habits of Consumers

Aside from abuse of the return privilege, many more legitimate practices of consumers cause the costs of distribution to mount up. Our desire always to be in style is, of course, a great factor. We want seasonal goods, and we want a large array of them from which to choose. We want small packages, and certified, sanitary packages of foodstuffs. We like to have several brands to choose from.

Beyond the simple buying of goods, we consumers always want more and more services. Delivery often is just the beginning. We want recipes, instructions, repair and upkeep service, advice, credit, periodic testing—and a wide variety of other things, depending upon the type of goods bought. Any one

can see that all these things greatly add to the cost of distribution.

Who is responsible for them? The answer seems to be a divided one. Consumers have been both the victims and the cause of higher distribution costs. For several generations there has been a general drift of population from the country into the cities, and likewise a spreading out of city culture into the rural regions. This has brought about more elaborate tastes and demands for new and costly services and a wider range of choice. Producers and distributors feel that they must cater to this demand or go out of business.

On the other hand, it was some enterprising producer or dealer, seeing a possibility for increased sales, who first offered each one of these new services to the public. The increasing cost of distribution that results from them cannot be set down as wholly the fault of consumers or distributors.

Does Distribution Cost Too Much?

After we have looked at the distribution system as a whole, and have studied the part played in it by consumers, we get to the basic question—does it or does it not cost too much?

This question was put to the special committee on distribution of the Twentieth Century Fund. The committee was made up of leaders in varied walks of life who were deliberately chosen to represent many different points of view. The goal was to find the subjects on which these persons could agree in order that they might work out some truly nonpartisan recommendations for improving the distribution system.

After reviewing all the facts brought out by the research staff in its survey of the costs of distribution, the committee concluded that the answer to the basic question is—yes. Distribution does cost too much.

Going more into detail, the committee pointed out many features of the distribution process on which there would be an opportunity for saving. The wasteful practices were listed under three main heads:

1. Competitive excesses, such as duplication of sales force,

multiplicity of sales outlets, excessive service, multitudes of brands, and wasteful selling activities—many of which appear in the price we are willing to pay in order to preserve our democratic system of free opportunity in business and free choice for the consumer.

2. Unreasonable demands and misinformed buying on the part of consumers.

3. Lack of proper knowledge of costs among distributors themselves; resulting in too great zeal for volume, poor management and planning, and unwise price policies.

The committee also pointed out that new kinds of distribution agencies and new methods have succeeded in many cases in bringing about lower costs. Again, distributors have managed to work out improved methods and lower costs through a better understanding of their own operations and their own problems. There is every reason to believe that the distribution system itself will continue to evolve lower costs.

In saying that distribution costs too much, the committee first makes it clear that the excessive cost is not due to general high profits. Also, while recognizing that the process of distribution as a whole costs too much, the committee declares it is impossible to say "how much too much it costs. In other words, we can say with confidence that there is waste in distribution, but we cannot reduce it to a percentage figure—as a whole, or in any of its parts. Nor can we say that distribution is more or less wasteful than production."

Profits and Costs

Going into the question of profits in distribution, the committee finds little evidence of generally high profits. In the relatively prosperous year of 1936, for example, half of all the trading or distributing corporations in the United States showed a loss on the year's operations. It is probably true that the smaller, unincorporated units had a record that at best was not better than this.

The research staff of the Twentieth Century Fund estimated that the elimination of net profits of distribution all

along the line from primary producer to consumer would result in an average saving of not more than 3 cents out of every dollar paid by consumers for finished goods.

The findings show that a large part of what the consumer pays for the wholesale and retail process goes for wages and salaries of workers. Other expenses, such as rent and maintenance, heating, light and power, taxes, and supplies, also ultimately find their way, in large measure, into the payrolls of agencies supplying these services.

It seems fairly clear that if present distributors are to bring about a reduction in the total cost of distribution, they will have to do it largely by reducing their own expenses. Obviously, the drastic cutting of wages and salaries is not a desirable way to go about this; and indeed, such a move might eventually have bad effects on the economic system as a whole. If costs are to be reduced, it seems evident that distributors must eliminate some of the functions and services they now offer consumers, or else perform these functions more economically and efficiently.

A PROGRAM FOR ACTION

AFTER a Twentieth Century Fund special committee has reviewed the factual findings, it next works out a recommended program of action. The endeavor always is to find the largest possible area on which there can be general agreement. The committee realizes that constant reiteration of opposing points of view blocks rather than aids progress. It seeks to provide a program upon which all persons can unite for the common good.

A further factor is that a Fund committee does not aim at distant and Utopian goals; it confines itself to practical, next-step-forward measures that could be put into operation at once under existing conditions. In making its recommendations, the distribution committee accepts our system of democracy in government and free enterprise in business. It examines the distribution system that has grown up within that framework,

and endeavors to point out improvements which are a practical possibility and which do not involve the blueprinting of some future Utopia—that may or may not be attainable.

The Anatomy of Prices

If we consumers are not willing to cut down on our demands for special services and hold ourselves in check so as not to abuse privileges offered us—at least we ought to realize how much these things are costing us.

With this thought in mind, the Fund committee suggested a system whereby consumers would be reminded directly of the cost of some of the things they demand. The committee urged a study of the feasibility of adopting a system which would clearly show separate prices for a single article depending upon the amount of services involved in its sale, such as credit, delivery, return privileges, etc.

In practice, this proposal would mean that a purchase paid for by cash, carried out of the store by the buyer, and not returned, would cost less than if any or all of these services were required. The committee recognizes the difficulties involved, especially for any one store that might try to start such a system alone, but believes the plan is worth serious study. Variations of this plan are already being used in many wholesale and manufacturing businesses, and there has been at least some experimentation with it in retail trade.

Know Before You Buy

Very few of us consumers try to get any accurate, scientific information before we set out to buy an article. In most cases our information comes either from the maker or the seller and, naturally, both are eager to put the best possible light on the article they are trying to sell. If they succeed in selling us an article that may be all right in itself but which does not fit our particular needs, or is less efficient for our purpose than a competing article that we might have bought if we had only known about it, the net result is a waste to us. The distribution system did not work well for us in this particular instance.

Our position as consumers is stronger if we have some way of getting reliable buying information in advance. The Fund committee believes there should be an increase in and better coordination of government agencies to provide information about qualities, standards, and grades of goods which would enable consumers to get better value for their money. Along the same line, the committee suggests that there should be more opportunity to use the facilities of government and private agencies for testing and appraising consumer goods.

Another approach recommended by the committee is the greater and more efficient use of voluntary, private, nonprofit testing and reporting agencies. Such agencies have certain difficulties, says the committee, especially in some of their attempts to evaluate highly complex manufactured products without having sufficient laboratory facilities for really adequate tests, but the committee believes they might be able to do more effective work if increased patronage gave them more receipts to work with.

As a spur to greater efficiency by private distributors, and as an educational help to consumers, the Fund committee recommends a further organization of consumer cooperatives and group buying agencies. Similarly, the committee would like to see the extension and further development of courses on consumer problems in educational institutions, and the making of scientific studies of family budgets and expenditures.

Informative Labels

The label on any product usually does a two-fold job. The manufacturer or seller wants it to help sell the goods. The buyer wants it to tell him what is in the package—what the goods are really like.

Much good work already has been accomplished in the direction of laws requiring honest labeling. The committee believes, however, that much remains to be done in protecting consumers from fraud and misrepresentation in printed and

verbal descriptions of products. There are two ways to approach this. One is through legislation; and the committee believes existing laws should be extended and strengthened, to promote more accurate labels and also labels giving more complete information to help the consumer in making a wise choice. The other approach is through voluntary action of makers and distributors; and the committee believes such agencies as Better Business Bureaus, trade associations, and other groups, can do much to get rid of remaining evils.

Toward a More Efficient Distribution

If distributors are to achieve greater efficiency in their own activities, they must know exactly how their business now operates. Surprisingly few of them do; mainly because cost accounting in distribution is so extremely difficult. Few distributors are able to calculate with any certainty what are their costs of operation on an item-by-item basis, or even a departmental basis. Until they have some such actual knowledge, it is difficult for them to find the wastes and leaks in their operations. Also a more accurate knowledge of costs would make it possible for them to adopt wiser and sounder price policies.

For this reason, the Fund committee lays great stress on what may seem a rather abstract recommendation. Their primary recommendation for distributors seeking increased efficiency is the development of improved methods of distribution cost accounting and analysis. They believe such methods should be worked out both by government research and organized commercial efforts on the part of distributors themselves.

The Fund committee also thinks there should be more general recognition of the fact that distribution is a highly specialized business for which proper preparation should be made by those who plan to go into it. They think there should be training courses for distributors in high schools and other educational institutions. Along this line, the committee believes that educational institutions should cooperate with government agencies in spreading information about the diffi-

culties of survival in distribution, especially in retail trade. They should point out that retailing (which seems so simple to most people) is actually a very complicated activity, and that the death rate of retail business is very high. They should give some information as to the personal qualities, training, and capital that are needed for a fair chance to survive.

To provide some of the necessary information, the committee recommends studies of the causes of failure in the distribution field, and the effect of such failures on the individuals involved, on creditors, property owners, labor, and other interested groups.

More Light on Distribution

Distribution has expanded so rapidly and has so recently begun to play a major role in our economic life that a great deal of essential information is not yet available. We certainly need to have more facts, and better organized facts, about distribution.

To this end, the committee recommends that a national institute for research in consumption and distribution be set up under independent auspices with a liberal endowment.

Along with this, the Fund committee suggests a cooperative program of research and education by the Department of Commerce and qualified university schools of business, such as is now being considered by Congress.

Further studies listed by the committee as highly desirable are detailed inquiries into the amounts and significance of price spreads between original producer and final consumer; studies of cost relationships; analysis of advertising costs and results; and effects of lower prices on volume of sales.

In general, the committee urges that government agencies provide more comprehensive, accurate, and promptly available statistics on distribution.

Should There Be a Law?

We Americans have a great fondness for attempting to settle our difficulties by passing a law. This holds for those of

us who are in business, as well as in other activities. If we are distributing one type of product and a brand-new competitor appears in the field, we like to figure out a law that will protect us from him, and bring pressure to get it passed.

However, much as such laws may aid or harm any given group, it is our duty as citizens to consider how they affect the distribution system and our country as a whole. It was on this basis of the general welfare that the Fund committee made a very careful study of the whole question of legislation. They finally recommended:

> The immediate repeal of all laws which are designed merely to preserve, or to destroy, some special group in the distribution structure, without regard for the general public interest.

An outstanding example of this type of legislation is, of course, the chain store tax law. The Fund committee believes that this type of law is unjustified on economic grounds. The committee likewise advises against attempts to freeze the distribution structure already in existence, or to control the process of its development, or to tax certain types of distributors out of existence, or to give special governmental financial aid to others. The Fund committee is convinced that legislation of this type seldom can be justified on economic grounds, and says that any such proposal should be most carefully studied in the light of the general welfare before it is advocated or adopted.

"Balkanizing" America

The United States originally consisted of thirteen independent governments. After years of struggle, culminating in the bloodshed of the Civil War, these original states and the others that later joined them were finally welded into a unified nation. In modern generations it has been our proud boast that the United States represents "the greatest free trade area in the world."

In recent years there has been a tendency to reverse this historic development in America. States have put up what

amount to tariff barriers to keep out competing products from their neighbor, or distant states.* Sometimes the barriers take the form of special taxes, or "use" taxes, or import and quarantine regulations. Inspection stations have been established at strategic points. Traditional state lines in America have come to resemble the borders of European nations. The Fund committee believes that this growth of sectionalism on the part of the states not only is a reversal of historic American policy but also is a serious threat to the interests of commerce throughout the country. In strong, explicit terms, the Fund committee urges:

> The prompt repeal of all state legislation designed to discriminate against the products of other states and to restrict the free movement of goods between the states.

On Monopoly and Competition

Our business system is founded on free competition. The theory is that if we are not rendering a useful service at a fair price, some other person will arise in competition to give the desired service at a desired price. Thus competition serves as a regulating factor in the business system as a whole.

Any of us can see, however, that completely free competition often leads to excess. There is virtually unanimous agreement that there must be some policing of business by the government. For example, completely free competition may enable one organization or group of organizations to get so far ahead of its competitors as to achieve a virtual monopoly and thus—in theory, at least—be in a position to dictate its own market terms. In line with this reasoning, the Fund committee believes:

> The existing laws designed to prevent and destroy private monopoly, to eliminate price fixing, and to prevent other monopolistic practices, except under government sanction and supervision, should be strengthened and more effectively administered.

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* See *State Trade Walls,* by F. Eugene Melder. Public Affairs Pamphlet No. 37, 1939.

There is, also, the other side of the monopoly medal. Sometimes in our zeal to prevent industry-wide agreements and other practices that might have some overtones of monopoly, we actually preserve wasteful and costly features of the distributive system. Relaxing of this vigilance should be undertaken cautiously, but the Fund committee does urge:

> Permission by appropriate government agencies, under specific statutory authority, for distributors to agree on the limitation of certain costly excesses in competition where the result will be to reduce the cost to the consumer.

FOR FURTHER READING

Books

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Edwards, Alice L. *Scientific Consumer Purchasing.* Washington, D. C. American Association of University Women. 1938. 60c.

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Hotchkiss, George Burton. *Milestones of Marketing: A Brief History of the Evolution of Market Distribution.* New York. Macmillan. 1938. $3.50

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Lazo, Hector, and Bletz, M. H. *Who Gets Your Food Dollar?* New York. Harper. $1.25

Reid, M. G. *Consumers and the Market.* New York. Crofts. 1938. $4

Rost, O. Fred. *Distribution Today.* New York. McGraw-Hill. 1933. $3

Stewart, Paul W., and Dewhurst, J. Frederic. *Does Distribution Cost Too Much?* New York. Twentieth Century Fund. 1939. $3.50

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Foster, LeBaron R. *Credit for Consumers*. Public Affairs Pamphlet No. 5. Revised Edition. 1939. 10c.

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Stewart, Maxwell S. *Cooperatives in the U. S.* Public Affairs Pamphlet No. 32. 1939. 10c.

Stewart, Maxwell S. *How We Spend Our Money*. Public Affairs Pamphlet No. 18. Revised Edition. 1939. 10c.

FILMS

Commerce Round the Coffee Cup. 11 minutes. 16mm. sound. Available from Department of Commerce, Washington, D. C.

Night Mail. 24 minutes. 16mm. Rental, $6, from Museum of Modern Art Film Library, 11 West 53rd Street, New York

Protecting the Consumer. March of Time. 5 minutes. 16mm. sound. Rental from Extension Divisions, Universities of Calif., Ga., Ia., Minn., and Wis.

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