

Retail Marketing and the Productive Process

It has long been realized, by those who are in a position to know, that the distribution of economic goods is but another phase of the productive process

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Now and again criticism is heard to the effect that the retail merchant is a non-producer—that however useful he may be he adds nothing to the value of goods in the productive process. This reasoning, however, is quite antiquated and is ready to be thrown upon the scrap-heap of outworn economic theories. It is true that the classical economists lent the weight of their authority to this conception of the function of the retailer. Such masters of the science of economics as Adam Smith, Ricardo and John Stuart Mill, wrote and reasoned much concerning the production, distribution and consumption of goods. It has long been realized, however, by those who are in a position to know, that the distribution of economic goods is but another phase of the productive process—that the so-called "finished" goods that leave the factory are not produced in the truest sense until they are transported, it may be thousands of miles by sea and land, and finally placed in the hands of the ultimate consumer.

Most people understand quite readily that the railroad and ocean shipping are factors in the productive process even although they are being utilized merely for the distribution of goods. It puzzles them, however, when the term "production" is applied to the merchant who keeps goods in stock and distributes them over the counter to his customers. The problem becomes perfectly clear, nevertheless, when it is realized that production, in the true economic sense, consists solely in adding utilities to goods—utilities of time, of place, and of form. The carpenter manifestly is engaged in productive work when he shapes wood into the form of tables and chairs, although he thereby adds nothing to the material with which he has been furnished by nature. It is a well known law in physics that matter cannot be created nor destroyed, although it may be gathered together and dissipated in a thousand different ways. The wood-worker, therefore, produces an economic good not in the sense of creating any material thing, but merely by making that material which nature itself has provided for man more useful. Factory workers and others engaged in similar occupation add utilities of form to the goods upon which their labour is expended. The cold storage operator, who stores up in the months of abundant foodstuffs for the lean months, is adding to those goods utilities of time. The shipping company that transports wares from place to place gives to them place utilities. And the merchant who stocks his shelves with seasonable goods adds to them utilities of time and of place. He is, therefore, the producer *par excellence* in the community, bringing together the producers of one hundred and one different commodities and the final consumers. All this may seem very obvious, but it is in need, nevertheless, of continual emphasis. One grows weary, for example, of the editorials in the Canadian press, as well as of the news items, which constantly refer to middlemen as "non-producers." In truth, it is the fashion today to speak of fishermen, miners, farmers and factory workers as the sole producers in the community—that is, those men who are extracting materials from nature, or working upon them. When it is understood, however, that production consists, as has been said, merely in the adding of utilities to goods it will be realized that the middleman is as truly a producer as anyone else in the community, and for that reason, if for no other, can find his justification for his place in the community.

ESSENTIAL WORK.

It is, however, not sufficiently impressed upon the public mind how great and important a function is performed by the retailer. Consider merely the simple breakfast of which you partook this morning and the materials necessary to provide it. Your plate came from Staffordshire, your cutlery from Sheffield, your linen from Belfast, your pepper from Sumatra, your coffee from Java, your sugar from Jamaica, your cereal from Niagara Falls or Battle Creek, your wheaten bread from Saskatchewan, your egg from Swift's or Armour's storage plant, your marmalade from Dundee and—But enough. It is surely plain to the veriest Helot that the retailer, co-operating

with the wholesaler, has ransacked the world to serve your simplest needs. And yet he has been called "non-producer!"

The retailer performs a further essential work through specializing in his market operations. In days gone by producers and consumers were compelled to carry on the bargaining process mainly through fairs and public markets, a very laborious process, indeed. In backward communities merchandising is still carried on largely in this way. At Nizni Novgorod, in Russia, is found today one of the greatest, if not the greatest, annual fair in the world. There foregather the caravans from Turkestan, the peasants from far off Tobolsk, the Jews from Lodz, Minsk and Warsaw, and many other non-descript traders from within the vast Russian Empire. The business turn-over is enormous, but so also is the labour involved. One can hardly realize that the people of past centuries were forced by circumstances to trade largely in this manner. The merchant, acting as middleman, has eliminated all the wastes and loss of time and labor involved in bringing together the scattered producers and consumers, and has performed a service thereby of inestimable value to the state.

It is necessary, also, to draw attention sharply to the fact that consumers, as well as retailers, gain economically in the modern merchandising process. It is too generally held that merchants somehow or other gain at the expense of buyers—that a good bargain, from their point of view, is one that shows a profit to them and a loss to the consumer. This traditional view of the merchant's functions comes down from the Middle Ages, and centres around the old theory of a "just price." Such a price was regarded as fair only when the merchant received a return for his actual labour and nothing by way of interest upon the money sunk in the enterprise. There is much talk today of a "fair" price—manifestly one which has to do with the ethics of the productive process. Manufacturers, wholesalers and retailers from this point of view are expected to deliver the goods to the consumer at, or close to, the cost of production—that is, at a price that will cover merely the expenses involved and a reasonable return as wages of superintendence. This obscures altogether the fact that in almost all bargaining there is a margin of surplus within which the two parties to the transaction may manoeuvre for position. The producer—and the retailer is a producer—manifestly has a lowest cash price beneath which he cannot sell without actual loss; but the conditions of the market are such that he can generally obtain a higher price which will give him a surplus return. Likewise the consumer, in each case, can determine the maximum price that he can afford to pay; but the conditions of the market usually bring it about also that he is not obliged to pay so high a price, but one considerably lower—a price indeed which will yield to him a surplus. It is by realizing the validity of these facts that the modern economist can confidently assert that, in the vast majority of cases, both the merchant and the customer, the producer and the consumer, gain in every business transaction. It is obviously absurd, therefore, to contend that the retailer flourishes at the expense of the community. He is not only a producer, in the strictest economic sense, but he renders a service to society that is of the utmost importance. He is, indeed, the forerunner of the factory efficiency expert; for his main function has been to eliminate waste of time and of place and to bring manufacturer and customer together with the least possible friction and with a minimum of delay and loss.

INCREASED SPEED.

The retailer adds greatly to the productive process, also, by increasing the speed at which it is carried on. The rapidity of operation of the machinery of a modern factory is of no less importance than the equipment itself. Indeed, so essential is this in some lines of manufacturing that the plants are operated night and day. In a great smelting centre such as Sheffield or Pittsburgh the blast furnaces redden the skies day in and day out, week by week, and month by month throughout the whole

year. It would be too costly to close them down or to permit the ovens to cool. The same factor, the full utilization of the equipment, makes all the difference between profit and loss in the railway business. Western farmers clamour for cars to move the wheat crop and fail to understand that if the Canadian railroads increase their equipment to the extent essential to move the crop within a few months, it would necessitate the holding of thousands of cars idle during a great part of the year. It is because of the holding of equipment idle for long periods that transportation companies find it so difficult, during normal years, to run the business at a profit. This explains why, also, railroad companies fight so hard, notwithstanding traffic agreements with one another, to get the extra traffic that makes all the difference in their profit and loss statement. True, western farmers must also carry, in sum total, an enormous capital value of equipment during many idle months, in their harvesters, threshing machines, drills, plows, and so forth. There is still room here for a vast amount of planning to be done by the agricultural efficiency expert when he arrives. Now it is just in this direction that the retailer performs his best service for society. He keeps stocks moving, pushes trade in every direction, increases the rate of turnover, speeds up commerce, and by so doing makes it possible also for wholesalers, producers of raw material, and factory operators to keep their equipment utilized to the fullest extent. What that means to the manufacturer of boots and shoes, of textiles and so forth, is not adequately appreciated. Insurance upkeep and repairs are constant throughout the year. If the volume of output can be increased the fixed charges can manifestly be spread over a great number of products, and the cost per unit materially lowered. This results in a double gain—a gain to the manufacturer and to the consumer, and one which is mainly effected by the thoroughness, the enthusiasm and the enterprise with which the retailer conducts his business. Those who loosely talk of the functions of the middleman, and assert that his day is done have really no glimmering of the enormous importance of the role which he plays.

The latest indictment to be brought against the retailer, and the wholesale establishments with which he is associated, is that the present distributive process entails enormous waste in advertising. The getting of a market for commodities is essential to the whole productive process; and, as has been explained, goods cannot be said to be really produced until they are placed in the hands of the consumer. In days gone by the Town Crier paraded the streets, the highways and the byways, and cried the wares of his employer to the townsfolk. The only modern analogy to this is the Dutch auction which is still used by itinerant merchants and dealers in second-hand goods. The "sandwich-man" sometimes appears on the streets of great cities to advertise amusements, but seldom to create a market for goods. The press is indispensable to the retailer and the wholesaler of our day if goods are to be marketed expeditiously and effectively.

There are other important phases, however, of the advertising problem, that in this connection, must not be lost sight of. Advertising widens the market, increases sales, and thereby lowers the cost of production. Those critics who complain of the waste of advertising lose sight almost altogether of the obvious fact that volume of sales tells tremendously in cheap and efficient producing and marketing of goods. As already explained, overhead expenses must be carried by the manufacturer whether the output is large or small; and for this reason the extent of the market and the volume of output become a matter of paramount importance to the producer. An expenditure of \$100,000 per annum, or even of \$1,000,000, can be more than justified provided the volume of sales is increased to the point where the burden per unit of the overhead expenses is reduced to a minimum. In this case the manufacturer may, and likely will, secure a larger net profit on his total output, and the retailer will make a larger profit through his increased turnover also, without laying any additional burden upon the consumer. In truth, the reverse is the case—the consumer can purchase two articles at the former price of one. It may therefore be confidently asserted that the heavy advertising expenses of modern merchandising lay, in reality, no burden upon the community at large, and that they are a most efficient factor in creating a market and in establishing new wants, and therefore in enriching life for the consumer. For the more wants that are created among men and women, the more goods must be produced for their satisfaction, and therefore the more employment for all. Beneath the use of money, modern economic life consists merely in the exchanging of goods for goods; and in this process the retailer plays an important, if not the main, role.