

## Too Much Credit

### The System of Credits by the Distributing Trade in Western Canada

[Address by Mr. V. Brown, Superintendent of Western Branches of the Canadian Bank of Commerce, before a meeting of Retailers, Wholesalers, Bankers and Manufacturers at the Royal Alexandra Hotel, Winnipeg. (Abridged).]

The situation as defined by one of the Saskatchewan farmers' leaders is that the farmers have suffered not from any lack of credit but from too much credit and especially too much of the wrong kinds of credit.

What the farmers' representatives charge is that our faulty credit system has contributed to the financial difficulties of farmers in two ways:

1. That it has encouraged men to assume a load of debt beyond their capacity to bear readily;
2. That it has caused a heavy loading of prices for interest, bad debts and the indirect cost of a resulting inefficiency of retail service.

That there is a substantial foundation for these charges I do not imagine any of us would be disposed to question, and the responsibility for the existing situation must be shared by all the business interests: bankers, manufacturers, wholesalers and retailers.

The banks, however, have already recognized their broad obligations to the agricultural community by taking the farmers' leaders into conference in an endeavor to remove grounds of complaint, and a general policy acceptable to the farmers has been subscribed to by all the banks, so that the problems of rural banking credits can be said to be in a fair way towards solution.

What I have just said is by way of excuse for venturing to speak to you respecting the other side of rural credits, namely: the credit which is now dispensed to retailers by the wholesalers and to farmers by the retail trade.

Now the deficiencies of our retail merchandising service are being fought by the farmers in two ways:

- (a) By purchases from the mail-order houses and
- (b) By co-operative buying.

The former development is hurtful only to the wholesale and retail trade, but a serious feature of the co-operative movement is that it results in an expenditure of energy by the farmers' associations in merchandising which could be expended with great advantage to themselves and ourselves on the problems of production and marketing.

#### ON A CASH BASIS.

I wish to urge upon you the desirability of a united endeavor to speed the day when merchandising in our western provinces will be on a cash basis. I have not the slightest notion that we could possibly get on a cash basis by any action we could take in a day or a year. But of this I am convinced, that by co-operation of all interests we should be able to make vastly greater progress in that direction than would be the case without such co-operation.

The first step has already been taken. The bankers have agreed with the representatives of the farmers' associations to pursue a policy of encouraging the better farmers to take all their credit from the banks and pay cash for all their goods. There will be some immediate results from this policy, but it cannot be made widely effective without a large measure of co-operation from those others from whom the farmer is now accustomed to obtain credit, namely: the general merchants and dealers in lumber, implements, horses, etc. So long as easy credit is flung at the farmers from every side, it is possible for the banks to exercise but slight restraint on the man whose tendency is to hang himself with a rope woven with credit. Moreover, will you forgive me for saying that instead of such co-operation being now available to the banks, the general policy of the great majority of country merchants—whether consciously or not—is such as to utterly discourage cash buying, as I shall presently aim to show.

You will ask: How would it be possible to get co-operative action?

In the first place, in an attempt to offer at least a partial answer to this question, I am going to venture the assertion that in most of the provinces of Alberta and Manitoba and in the northerly portion of Saskatchewan, forty per cent of the farmers are in a position where they could go on to a cash basis today. In saying forty per cent I am endeavoring to avoid over-statement, but I believe the percentage to be considerably larger. They won't, of course, go on a cash basis immediately, for two reasons:

1. Because they have formed the easy and distressing credit habit, and
2. Because the average merchant will neither require them to pay cash nor make it worth their while to do so.

There are 890 merchants trading at points where are located the 140 odd branches of the bank I represent, and the conditions under which they are conducting business are indicated by the following statistics:

Total number of merchants .....	890
Number on a cash basis .....	155
Number giving credit .....	735

The 735 merchants giving more or less credit report allowing discounts for cash, as follows:

9 allow 10 per cent.
1 allows 8 per cent.
20 allow 5 per cent.
1 allows 2 per cent.
1 allows 1 per cent.
703 allow no discount.

The number keeping a proper set of books and striking an annual profit and loss statement is 368. In other words, 532, or nearly 60 per cent, do not keep a proper set of books.

These, gentlemen, are the facts in a nutshell regarding the retail merchandising situation at country points in the western provinces. 80 per cent of the merchants making no distinction between cash and credit prices, and 60 per cent not provided with a system of bookkeeping sufficient to strike a profit and loss statement at the year end! The figures are so startling that I would not blame you if you said they could not possibly be true. They have been carefully gathered, however, from the merchants themselves and there is no room for any wide error. They simply mean that the West is a veritable paradise for the mail-order business. A farmer who would take all his credit from a bank at 8 or 9 per cent in order to pay cash for goods, contenting himself with credit prices, should have a guardian. And having cash, would he not be a fool if, in the absence of a full cash discount from the local store, he didn't patronize the mail-order houses? Can you wonder either at the rapid development of the co-operative buying movement among the farmers?

But what is the remedy? Let me again emphasize that it is not my view that credit by the general merchants could be cut off over night.

My idea of the first step in the remedy I will state in the form of a question which I must leave you to answer: Is not the first step to induce our retail merchants to make the cash price the basis of their trading—not the credit price less a discount for cash; to get their cash prices as nearly as possible in line with mail-order prices and fix their credit prices at whatever higher level may be necessary to fully cover interest and the percentage of bad debts which might be expected to arise from credit sales made with discrimination?

If such a condition were brought about, would we not automatically get on to a cash basis within the shortest possible period of time?

#### THE REAL QUESTION.

The real question is merely how this is to be accomplished expeditiously. My answer to this I will also put in the form of a question: Does the situation call for anything less than immediate and concerted action by the Wholesalers' and Retailers' Associations to spread the gospel of Efficiency among the retail merchants in every part of the country, and particularly to disseminate information which would provide the means for a study and thorough understanding by retailers of the proper relation between cash and credit prices?

It might at first appear that the situation is peculiarly one for action by the Retail Merchants' Association. Certain it is that theirs is the primary responsibility and that the Executive of that Association have an enviable opportunity of rendering a service of great national importance.

The wholesale trade, however, have just as much at stake, and I am not sure that theirs is not even the greater opportunity for service by reason of their facilities for personal communication with country merchants through their army of travellers.

I am aware that some wholesalers are satisfied with existing conditions; that they feel there is a satisfactory volume of credit business now to be had on a profitable basis. But can this go on? Are we not reaching a point where the existence of the country store as the important factor in retail merchandising is endangered, and where self-interest alone will demand the co-operation of every wholesaler in the movement towards a cash basis? There is, however, a much bigger consideration involved than that of self-interest, namely: the duty of the individual to join in any measures calculated to

build up an efficient system of service to the consumer.

There is room for the co-operation with you by the banks also, through their system of country branches, and I am authorized to assure you of their readiness to join in a conference of representatives of the three interests if they should be asked to do so.

#### AN IMPORTANT POINT.

One very important point on which an understanding with the banks would appear to be highly desirable is with regard to what constitutes sound lines for banking credit to the retail merchant. At present the banks are all giving credit to retailers against farmers' notes with a good margin, irrespective of how much credit the retailers may be taking from the trade, but I wish to project upon you, as purely my own personal opinion, that in the very best interests of all concerned there should be a considerable narrowing of the present policy of the banks in this matter. I think that the desirable situation would be this:

That unless a retailer has sufficient capital in his business to enable him to confine all his floating liabilities to his bank, with the aid of a line of credit which he could liquidate once or twice a year when his merchandise is at its low point, or cover with customers' notes of a reasonably good quality—he should look to the wholesale trade for all his credit. In the latter case the relation of the wholesaler to him should be not merely that of a vendor of merchandise, but also that of a financial adviser, and the lines for his own crediting should be adjusted to meet the approval of his wholesale backers as expressed by the lines of credit they in turn accord to him.

#### EASY CREDIT.

In other words, a retail merchant should take his credit either from the bank or the trade, not from both. Under existing conditions what frequently happens is that a merchant becomes badly extended with credits to poor risks and the weakness of his crediting methods is concealed from his trade creditors by the use of a bank credit against collateral notes, until it is too late to save him. An easy-going bank manager, misled by an apparently safe margin in his security, accepts notes made by farmers, scattered over an enormous area, concerning whose standing he has little or no knowledge. The ability to raise money at the bank against his customers' notes prompts easy crediting injurious to the merchant, and the use of money so obtained creates a fictitious appearance of satisfactory payments in his accounts with the wholesalers.

Easy credit is a vicious form of competition, and where one merchant in a town indulges in it, another merchant with sounder views of credit finds his hand badly forced. So I indulge the belief that the best of our general merchants would welcome a situation where all credits to retailers from the banks and the trade would be fixed on well-considered and well-defined lines agreed to by all the interests.

Boiled down, all that is said herein constitutes merely an argument that our Western business interests owe a duty to the country at large—a duty enormously emphasized by the necessity for after-war preparedness—to take concerted action to place the distribution of merchandise on a high level of efficiency, and so reduce costs to the consumer; one of the most important objects to be sought being the improvement of the service of the country store. Precisely what lines such action should take I have not attempted to suggest, though there are two outstanding points I should like to make:

1. That with a view to the gradual establishment of retail distribution on a cash basis, outstandingly the first effort at reform should be to induce retail merchants everywhere to make the clear logical distinction between cash and credit prices. This would perhaps involve—

- (a) A spot cash price.
- (b) A price for credit to a given date—as, for example, until after harvest—with interest added for any further extension; and
- (c) Recognizing the convenience of a monthly account—the credit price for monthly purchases subject to a stated discount only where settlement is made promptly by the 15th of the succeeding month.

2. That as part of the general campaign for increased efficiency of the country store

- (a) The relations of the wholesale travelling representatives towards the general merchant should be placed on a footing where the latter would look for and receive the benefit of the traveller's information respecting efficient retailing methods; and
- (b) A General Service Bulletin should be issued at frequent intervals to every retailer in the three Provinces.