THE MANUFACTURER AND THE DOMESTIC MARKET

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American Domestic Market.

The American domestic market is probably the most complex in the world. It has become so because it occupies the largest economically high-grade area under one political control, with a uniform language, system of weights and measures, trade customs and laws. In America there have been lacking the diversified agriculture, the household industry, the public market places and the inertia of custom, which, in other countries, have kept the domestic markets simple. Sharp territorial specialization has always characterized our industry. The different forms of agriculture, developed under an essentially manufacturing instinct, and compelled to specialization by the distance of the European market, have a clearly differentiated geography. The mining, lumbering, agricultural and manufacturing regions are singularly distinct. This has compelled an extensive internal exchange, to facilitate which adequate transportation facilities have been forthcoming; and it has necessitated comprehensive methods of performing mercantile functions, which the administrative genius of American industrial leaders has provided. The result of these forces in our national economy, as it finds expression to-day in the organization and processes of the domestic market, is too large a subject for an article.

There are many interesting and important tendencies which may be observed in the modern organization of the distributive industries. To one of these I invite your attention, namely, the tendency of American manufacturing concerns to take up a variety of mercantile functions, by means of which they are increasing their dominance in the domestic market.

Manufactures Forty Years Ago and To-day.

This movement, taken as a whole, is of recent origin. Before the Civil War manufacturers had very restricted control over the movements of internal commerce. There was no need for them to show special enterprise in securing supplies of raw materials, for the seller of the crude bounties of nature pursued the buyer. In the finished products market articles imported from foreign countries controlled, and the autocrats of commerce, if there were any, were the great importers, the so-called "merchant princes." The home manufacturers started with the humble rôle of supplying the lower grade of products. Prejudice was still strong against the home-made "style-goods," and much of the product of American factories went onto the market anonymously, or under misleading trade-marks, to be sold as imported goods.

The change of forty years has greatly altered the position of the manufacturer in the distribution of mercantile power. In the majority of modern national economies we find the most progressive industrial group to be the manufactures, the least so the extractive or raw material industries, while the mutually accommodative element is the mercantile. It is not difficult to mention some of the causes of the increased power of manufactures in this country. Manufacture (including railroad transportation, since the internal economy of a railroad resembles a manufacturing rather than a mercantile concern) possesses the advantage of being that form of industry which best utilizes inanimate forces in a country where power is cheap, and best allows an accurate division of labor in a country where labor is expensive. It has enjoyed the special advantage in this country of a high general average of intelligence and an unusual mobility of labor. There has been the negative advantage of an entire absence of prejudice against machinery, and the positive advantage of the unusual mechanical ability which characterizes Americans. When we couple with this the protective tariff, which has insured a large and profitable market and made all other forms of industry pay tribute to it, it can be readily understood that our manufactures have resulted in recent years in an enormous production of wealth, a portion of which has sought investment in promising types of industrial enterprise, and a part of it under the direct control of the parent concerns.

Not only wealth, but capable men, of constructive genius, have been produced in this branch of industry. In manufacturing, the applications of science are so numerous and convincing as to strongly develop the scientific frame of mind. The striking combination of factors of production opens the thought to large plans. The changes constantly required in machinery and processes impel the manager to progressive policy, while visions of the economy of production on a large scale attract him. The manager is in a training school for cultivating quick decision, figuring costs, managing men, freely laying out money where conditions justify, and grouping, combining and governing the productive factors. The result is that in and through our American manufacturing industries have arisen the "captains of industry," who have laid hands upon the undeveloped or loosely co-ordinated commercial functions wherever found and have developed them and assumed the direction of them.

Struggle for the Control of Raw Materials.

To take up our specific topic and define the controlling position which the manufacturing industries have secured over the domestic market, it will be convenient to divide the subject into three parts, conforming to three classes of markets, and to separate the causes operating on each.

For some time an effort has been made by manufacturers to more effectually control the source of supply of their raw materials. For those materials of which the quantity is relatively fixed, this has resulted from the definite development of sources of supply and the increase of manufacturing demand carried to such a point that the chances of accommodation on the open market are deemed by business managers to be precarious. As a result manufacturing concerns in many lines are anticipating their needs and are buying or have bought stocks of undeveloped materials, and are erecting exploitive works and establishments for preliminary manufacture. We find makers of soap and lard substitutes building cotton-seed-oil mills in the South. Pulp mills invest in pulp-wood lands; fertilizer manufacturers open phosphate-rock quarries; oil refineries lease and purchase oil lands. The change is already complete for anthracite coal and northern pine; it is just now being completed for Bessemer ore and western timber; it is rapidly going on for coking-coal, non-Bessemer ores and southern pine. One of the striking signs of the advent of a new economic condition in this country is the rapid rate at which, during the last fifteen or twenty years, raw materials have passed out of the hands of small holders, who offered them upon open markets, into the hands of large corporations closely affiliated with manufacturing and transportation interests. To use an expressive phrase, there has been a scramble to prevent being frozen out. This has not been due so much to exhaustion of supplies as to the fear of their monopoly. It has therefore been immensely stimulated by the formation of great consolidated corporations, and by the increased use of holding companies, stock syndicates and harmony of interest arrangements.

With respect to raw materials which are readily reproducable, like wheat, cotton and wool, the policy of our manufacturers is not to own and manage agricultural and other industries. But the tendency is increasingly shown to pass by the great primary or terminal markets and the visible supply points on which raw materials were formerly secured, and purchase upon the remote local markets at which they first appear in commerce. There are several reasons to account for this.

In the first place, the imperfect and unorganized condition of many raw material markets has forced it. The effort of our manufacturers to produce finer products, coupled with the increased value of materials, and the closer specialization of processes, has compelled a sharper scrutiny of the supplies they purchase to secure purity and uniformity. The offering to manufacturers of poorly graded and mixed lots of materials has necessitated the substitution of professional for amateur local buyers, as in the case of wool. A poorly housed and protected product, coming onto the market water-soaked and stained, as often happens with our cotton, has favored direct shipments as opposed to the passage of materials through several markets with their delays. The agriculturalist is with great difficulty able to take initiative for the improvement of these conditions by commercial organization. As Prof. L. H. Bailey has said, "The farmer reacts so slowly to changes in his environment that after all other businesses have become adjusted he is still out of harmony with commercial conditions. Collective or co-operative movement among the agricultural classes is difficult because of the lack of common interests. Farming is not one occupation, but many occupations." The American farmer has furthermore been engrossed in other things than the adjustment of markets. He has had laid upon his shoulders the great task of finding out the physical capabilities of a new country. Each region, climate, slope and soil has required countless experiments to explore. A stupendous investment of labor and capital has been and is being made in these experiments, the results of which will be enjoyed to remote generations.

A second force drawing the manufacturer into the raw material market is connected with the financing of the products of agriculture. The farmer is hampered by lack of ready money. The period of his turn-over is long; the fixed capital is large in proportion to the circulating. A considerable part of the spare money he has had has been attracted to investment in land. The statistics of unimproved land included in farms show that land is the chief storehouse of surplus agricultural wealth. Approximately one-half of the land included in American farms is unimproved. Under these conditions the farmer has sought money crops, and has been obliged to market as soon after production as possible. To secure adequate supplies of materials, therefore, some lines of manufacturing have been obliged to take direct part in the organization of a spot-cash market, on which materials would always be sure of sale at fair prices. Such materials are then rendered good money crops and hence attractive to short-handed farmers. An excellent illustration of the way in which this has been done by manufacturers is afforded by the various union stockyards of this country, in most of which the packing interests are prominent. The financial problem of accommodating the even requirements of a manufacturing plant for materials throughout the year to the necessity which the farmer feels of disposing of his crop at once, when it is matured, has been solved through the co-operation of several agencies. The early purchases of manufacturers involve them in speculative risks. The profit or loss showing of a cotton or woolen mill, or the milling profit of a flouring mill, often depends principally upon the correctness of the buyer's estimate of speculative conditions. There are also independent institutions, illustrated by the grain elevator companies, which aid in carrying speculative risks and controlling storage conditions. Furthermore, by the organization of produce exchanges, it has been made easy for the general public, through speculative investments, to assume a considerable part of the financial burden of carrying food-stuffs and other materials through the year.

A third force drawing the manufacturer upon raw material markets is railway competition. The result of intense competition for traffic has sometimes been that, in pursuance of a compact, a road has given substantial advantages to a large consumer when he has acquired the ownership of materials at the market of their origin, and is hence able to prevent their being diverted from the line at any competitive point and insures their routing as desired. The transportation arrangement may include both the outgoing and incoming traffic of a concern in an agreement permitting manufacture in transit. Between a group of competing roads manufacturing interests have occasionally obtained advantages in return for acting as traffic distributers. The classic case of this is in the early history of the Standard Oil Company. In these transportation struggles the manufacturer has been unable to keep aloof. The old-time free lance, the commission merchant, has been thrust aside; the raw-material producer has been confined increasingly to his local market; the manufacturer has taken up transportation worries and commercial functions unknown years ago.

Elimination of Intermediate Markets.

We now turn to a different type of buying and selling center, namely, that group of intermediate markets lying between manufactories and on which the finished product of one establishment is transferred to another to be further elaborated.

From the beginning of the factory system in America there have been fewer of these intermediate markets than in Europe. In the older countries the introducers of machinery found already in existence a strong household and shop manufacture, including the preparers of materials, those expert in the various intermediate processes and the finishers. The factory system took possession of one process at a time and thus independent concerns grew up, each engaged in but one stage of manufacture, and between these there continued to exist many of the intermediate markets. In America the projecters of the first factories usually found the entire field open and the products imported, consequently they were obliged to provide simultaneously for all stages of production. Hence we find, for example, as a characteristic difference between the American and European textile industry that here the several processes of scouring and combing, or throwing and spinning, weaving and finishing, are more often all controlled by one cotton, worsted or silk concern than in Europe.

Just as it began to be realized that there were disadvantages in the American system, particularly in the adjustment of production to a rapid succession of styles, the trust movement made itself felt and stimulated the process of combination in all branches of industry. The organization of consolidated corporations has had many effects. It has made profits for the organizers through, what Mr. Lawson calls, "made dollars." It has given us a highly centralized type of business administration to experiment with. It has substituted a system of delegated authority for individual initiative. It has eliminated some competition, substituting therefor emulation and the comparison of records, and it has changed the form in which competition manifests itself. It has secured certain economies of production on a large scale. But among its various effects there is one which has not been sufficiently noticed, and that is the elimination of intermediate markets. Complex manufacturing corporations have been constructed, involving not only former competitors, but businesses bound together in the sequence of production, capable of manipulating materials from their first appearance as economic goods until they are ready for the ultimate consumer, without at any time making them the object of purchase or sale. This linking together of processes in great corporations has coerced the independents to similar consolidation, through the fear of the monopoly of raw materials, to which reference has already been made. The movement has been, in this manner, made general, with the result that many series of consecutive establishments can now be found which are working into one another's hands within non-competitive groups. The blast furnaces have acquired ore properties, and steel manufacturers have in turn absorbed them and transportation facilities. Furniture factories have built saw mills upon their own timber lands. Cooperage works are owned by flour mills and whisky distilleries. Pulp mills and their spruce timber are owned by paper mills. The meat packers establish can and car works; the car builders operate linen factories; the reaper works control the manufacture of binder twine; the breweries engage in the production of malt. These combinations are made possible by the improvement in systems of cost-accounting and internal administrative methods.

They give the supplying plants certainty as to markets, the receiving plants certainty as to supplies and absolute control over their quality. Shipments to and from intermediate markets are unnecessary, and the expenses of traveling salesmen, dealers, advertising and the waiting period of the market are all eliminated. In short, for the uncertainty and expense of competition is substituted the economy and exact calculation of a system of book-keeping.

Before leaving the subject a word should be said about an entirely different operating cause which is at work to withdraw many businesses from intermediate markets. This is the application of science to the utilization of wastes. The growth of large concerns has often made the quantity of mill supplies and advertising materials, packages, etc., so great that subsidiary industries can be profitably started in the interest of a single corporation. Repairs also become important enough to warrant the erection of well-equipped shops. In a like manner the accumulation of large quantities of waste products in concerns of efficient management, equipped with scientific laboratories, and possessing the capital necessary to put through any logical extension of the business, has given rise to a great variety of by-product manufactures. These allied businesses are owned and managed by the principal concerns, and receive their materials without purchase from them. They have been able to offer very effective competition on the finished products market, and so to command attention to the commercial principles which they illustrate.

Approach of the Manufacturer to the Consumer.

Let us pass to the third main division of the subject and consider the attitude of the manufacturer toward the finished products market. It may be observed that while there is a great difference in the policy pursued by large concerns, and we may find plate-glass jobbed, meat sold from subsidized shops and Standard oil hawked upon the streets, many of the consolidated corporations which have acquired large control over the market do not attempt to invade it directly or supplant dealers in the performance of mercantile functions. These rather content themselves with exercising power over prices and the terms of sale by curtailment agreements, price pools, joint selling agencies and other more direct means. The greatest invasion of the mercantile field in the distribution and sale of consumers' goods occurs under the influence of strong competition between manufacturers, and especially where this meets a more or less obstructive conservatism, not to say inefficiency, in the regularly constituted agencies of distribution. Of the positive force, the competition between manufacturers, it will not be necessary to say anything; of the negative condition, found in the inertia of wholesale and retail trade, a few words may be in place.

Confining our attention to the retail trade, for the sake of brevity, we must at once make an important admission. In this field there has sprung up the remarkable institution known as the department store. These establishments, dealing directly with manufacturers, willing to engage in want creation, and increase the volume of business by advertising and price reduction, willing to accept new goods of merit because understanding the profit of novelties, and having a clear grasp of the principles of merchandising, have not only been able to serve the consuming public well, but have been satisfactory distributive agents for manufacturers. The rank and file of the million or more proprietors of retail stores have, however, been unsatisfactory to such manufacturers as have been chafing for better outlets under the stress of competition. The average retail store proprietor has too easily accepted as unsurmountable the apparent limitation of his local field, and has often been caught in the infinite detail which characterizes the business and rendered by it incapable of constructive commercial policy. Competition has choked many who are lacking in ingenuity, for retailing is a business easily entered on a small scale and competition in it, almost more than in any other type of business, takes the form of simple multiplication of concerns and division of trade. More than anything else, however, the business of retailing, as a whole, has been held back by confusion of mind as to the proper policy—the economic laws, so to speak—of the business. This confusion may be partly accounted for by the extreme variety of establishments which fall under the general caption of retail institutions, but the chief explanation lies in the recent history of American trade.

During the period of the Civil War, and the immediately subsequent years, there was such a scarcity of goods that overbuying was almost impossible and the check upon buying, always so essential in normal retail trade, did not seem so necessary. For a long period prices rose with such rapidity that the profits of a rapid turn-over of capital paled beside the estimated profit of appreciating stocks lying on the shelves. Under these conditions it was natural that the merchant should treat his customers with indifference. The fluctuation of values made price publicity and a policy of fixed price impossible. Dickering and bargaining became a natural accompaniment of all important sales of goods. In the settlement of accounts long credits were not found to be very dangerous. Recent years have reversed all of these conditions, and hence have demanded an entire reversal of policy. The generation which did business in the previous period has been put at sea, and there has been established a confusion of principles penetrated, until the last few years, only by a few of the stronger minds. The result has been to cramp the growth of the retail industries as a whole, and render them unsatisfactory to the manufacturers as the distributers of their products.

The invasion of the realm of the retailer has been made by the manufacturer in several ways: by establishing a mail order trade and eliminating dealers entirely; by distributing through the dealer, but absorbing many of his functions and controlling his actions; and finally by the ownership of retail establishments.

Direct Selling.

When a manufacturer has been met with unwillingness on the part of the dealer to educate new wants in the public, and a refusal to stock and introduce new goods, he sometimes appeals directly to the consuming public. Direct selling has always had a considerable field. Natural monopolies of necessity use it. Producers goods, such as leather, billet steel and boilers, are usually sold in this manner. Neighborhood manufactures, such as custom mills, and manufacturing retailers, such as bakers and tailors use it. The country at large is familiar with the canvasser. As important as some of these lines of distribution are the great modern development of direct selling has come with the perfecting of its chief instrument, advertising. So great is the progress made in the arts of publicity that the entire complexion of trade has been changed by it. Advertising is often spoken of as a science. It is certainly a complex and powerful engine. The development of the arts associated with it, that is, printing, and especially illustration, has increased its potency. The vehicles which convey it to the public are numerous. The weekly newspaper is largely supported by it. The low-priced magazine of our day exists because of it. Through it house organs are built up, scarcely distinguishable from independent scientific and trade publications. It counts in its service the bill board, the dodger, the sample, the catalogue of encyclopædic proportions, the commercial package and the follow-up system. Its technique has been carefully considered, and the statistical study of circulations has been made the basis of a profession. Even its psychology is being explored in college laboratories. There is no need to enlarge on the extent to which advertising has been applied by manufacturers to direct selling. The examination of any popular magazine will be convincing. As a method of distribution this affords a manufacturer an outlet independent of the will of any dealer. It serves well to introduce new articles, and trade built up by it can be used as a means to bring pressure to bear upon dealers.

Control of the Dealer.

It is not always, however, in attacking the market that a manufacturer is willing to cut loose entirely from the established distributive agencies. Many articles cannot be readily sold by mail order. A way has therefore been discovered by which the manufacturer can distribute his goods through the dealers, and still so control every important part of the distributive process that the dealer is reduced almost to the condition of an automaton. When he is in complete command of his entire field the retailer is perhaps the most universal servant of industrial society. His functions are both varied and intricate, blending a mechanical element with the art of personal service; controlling a flow of goods involving endless detail by a system the correct formulation of which is a masterpiece of commercial statesmanship. The task of the retailer is to furnish the consumer goods wanted, at the time and in the quantity and place desired. He chooses his stock from the infinite variety of manufactured articles. He educates the customer to new wants, making known to him new goods and showing their use. He advises with him in his purchases that the adjustment of the want, the goods and the pocketbook may be as perfect as possible. He makes the buying process easy and agreeable for his customers. He protects his merchandise from deterioration. He guarantees it to be as represented, putting his reputation behind it. He measures it out in quantities convenient for the customer, puts a fair price upon it and delivers it.

Now consider how many of these services can be rendered by a manufacturer. Take the case of the sale of a spool of photographic films. The manufacturer puts the article in a form ready for immediate use. He furnishes a package which protects the goods and shows the size, quantity and age, besides carrying a guarantee and serving as a memorandum of exposures and a cover for mailing. A pamphlet of instructions is given away by the manufacturer who advertises extensively to attract trade. The price is fixed and is everywhere the same. If you look for the goods in a strange city, you will probably be guided by a sign furnished to the dealer by the maker, and you will be attracted by large photographs, from the same source, to show the range of work possible. As the films must be developed, the company offers to do this, but it also puts on the market a simple apparatus and all the necessary chemicals. The value of the films depends largely upon the possibility of obtaining them in travel, consequently the makers have established agencies in almost every important locality in the world. In the solution of this distributive problem, which was unusually complex and difficult, the manufacturer has originated all the plans, done all the work and controls all the essential conditions. The most ignorant clerk can quickly learn all that remains to the retailer to be done. The inventive genius and advertising talent shown by leading American manufacturers in putting their goods upon the market are certainly remarkable. By advertising, with the powerful individualizing agency of the trade-mark, by sample distribution, by demonstrations at the consumer's house or the merchant's place of business, by exhibits at universal expositions, the manufacturer educates new wants in the customer and makes known new goods. By explicit printed directions, in several languages perhaps, and accompanied by ingenious pictures, he so clearly shows the use of the goods that the advice of the dealer is rendered unnecessary to a person of any intelligence. By the use of a package, perhaps air tight or moisture proof, the dealer looses all credit for keeping goods in presentable condition. As the customer knows, when he opens the package, that it was closed at the factory, he feels that responsibility for its quality is removed from the dealer; and when with the package there is a strong and carefully emphasized guarantee, the dealer sinks into a mere agent for the transfer of any complaints to headquarters. Personal relations of customer with dealer are in this way weakened, and the more so since the customer realizes that in any store where this article with its identifying trade-mark can be had, an absolutely identical good is found. The package, furthermore, does away with the necessity of weighing or measuring, and it usually carries prominently marked upon it a price which sets a maximum upon the charges of the dealer.

This incursion of the manufacturer into the province of the dealer has been disadvantageous to the latter in several ways. In the first place, it has reduced the portion of the profit which the manufacturer leaves to the dealer, for with every function which the manufacturer takes up he makes a corresponding reduction in the profits allowed the retailer. Again, it sharpens the competition of dealers in the same line. The use of packages and trade-marks has, in a few years, vastly increased the list of goods which can be recognized by customers as identical in different establishments. The significance of this lies in the use of leaders and other forms of price competition. A leader, in retail trade, is a line of goods put on sale at a very low price, to attract the attention of the public and impress upon it the idea that the establishment in question has very low prices in general. There is no direct profit in leaders to the trade, since they must be sold at or near cost. Now those articles serve best as leaders which can be identified by customers as absolutely the same in different establishments, because this identity gives force to the price difference. If there were not identity the customer and the higher priced dealer could easily claim that the difference in quality accounted for the difference in price. Consequently the widely advertised goods which carry trade-marks everywhere known, and which are bought by most dealers, all of them serve more or less as leaders. That is to say, many of them do not yield satisfactory profits, unless specially protected, because of the directness of the competition of dealers with respect to them. The manufacturers have also created a new form of competition between dealers in different lines of trade. The majority of retailers have handled a restricted group of merchandise, as drugs, shoes, hardware or dry goods. There are many articles which cannot well be sold by one not expert in the business. The druggist could probably not explain the operation of certain tools; the dry goods merchant would be dangerous as a compounder of prescriptions. Within certain limits, therefore, stores in different lines have not competed directly. There has always been, however, a class of goods so easy to sell that they have been carried by dealers of all sorts as side lines. The manufacturers have now succeeded so well in rendering the retailing of many of their wares simple, that they have vastly increased the list of articles which any dealer, regardless of his line, can sell. The consequence is that dealers of all types are introducing side lines taken from each other's field of trade. Reprisals are everywhere made, and so the number of competitors with whom each dealer has to reckon is increased. The manufacturer, by direct selling to large retailers, whether they be department stores or mail order houses, has put the small dealer, who depends upon the jobber, under a great disadvantage. This compels the jobber and semi-jobber, with the various classes of syndicate buyers, to take part in the confused competitive strife now prevailing in the distributive trades.

In this struggle, for which the manufacturers are largely responsible, it is interesting to see that appeals for help are made to them by the dealers. These appeals, through trade associations and otherwise, take the form of requests that the manufacturers should control the retail price at which their goods are sold, and in so doing protect and regulate the profit which the dealer is to receive. There has been considerable response to these appeals, since the manufacturer has a direct interest in the soundness and profitableness of the business engaged in distributing his products.

From this has resulted a variety of plans by which the manufacturer can regulate retail prices and profits. One method is through the establishment of Exclusive Agencies. By this I do not mean the practice of giving an extra cash discount to dealers who handle no rival goods, a practice pursued by some concerns which are trying to perfect a monopoly, but I refer to the plan of choosing a dealer as agent in each market and making it impossible for his near-by competitors to secure the goods in question. The retail exclusive agency is the application of an arrangement long common between manufacturers and jobbers. The manufacturer regulates the price at which the goods are sold, and, since the outlets are restricted in number, keeps up an aggressive advertising campaign to drive trade to them. Some articles sold in this way are tools, prepared paint, men's linen, dress patterns, shoes and silks. The exclusive agency prevents goods from being made common upon the market as leaders, and this pleases a certain exclusive element of the buying public. Its chief service, however, is to limit competition by providing one dealer only with the goods on each market.

A second way of regulating retail profits is by means of a Price Contract. This involves an agreement regulating the selling prices and signed by manufacturers, jobbers and retailers. Such agreements have been freely used in the sale of patent medicines, under the name of the N. A. R. D. plan, from the National Association of Retail Druggists. When there is printed upon the goods or their labels directions as to retail price and terms of sale, and these are worded to form a contract with any dealer who may purchase the goods, the arrangement is known as the Worcester plan. In the attempt to enforce these contracts by law, different interpretations have been encountered in various courts. In Massachusetts the Supreme Court has held that the fixing of the price of proprietary medicines is not contrary to public policy, and that as between the manufacturer and dealer the acceptance of goods billed makes the printed contract on their labels, regulating distribution, binding on the dealer as a part of the contract of purchase. In Rhode Island and Pennsylvania it has been held that the mere purchase or acceptance of goods by a dealer, without specific assent to a contract printed on them, does not bind him. Price contracts have been used freely in the sale of patent medicines, books and in the case of at least one celebrated brand of soap.

A third means of regulating prices, known as the Factor or Rebate Plan, is more elastic than the price contract. It has been used chiefly between manufacturers and wholesalers, but is equally applicable to retailers. According to this arrangement, after the proper contracts have been made in writing, a manufacturer sells to a dealer at a certain open price, giving the usual rebates for cash. It is agreed that the dealer shall sell at a given price, and the difference betwen this and the manufacturer's price involves a small, but unsatisfactory, profit for the dealer. At the end of a given period, say, six months, the dealer makes an affidavit to the manufacturer that he has not sold his goods at less than the mentioned price, thereupon the manufacturer pays to him a per cent. of the original purchase price in the form of an extra discount, which, added to the direct profits of sale, makes the transaction remunerative to the dealer. The contract establishing these relations is so devised as to take the form of creating the relation of principal and agent between the manufacturer and dealer. The dealer is not bound to sell at a given price, but he is paid a bonus when he does so. The rebate plan has been most prominently applied in the sale of sugar. The so-called Whisky Trust at one time used it. It is now used in a number of the lines handled by grocers, such as soap and baking powder. The Pittsburg Plate Glass Company employs it.

Probably the most effective of the means now in use for regulating retail prices is called the Serial Numbering Plan. As used by a prominent manufacturer of medical preparations the plan involves, first, an exclusive system of distribution. Only authorized wholesale houses handle the goods, and they are under contract to sell only to the retail agents of the company. Every retail dealer, before he can purchase the goods, must sign a contract by which he becomes an agent of the manufacturer, and agrees not to sell the medicines to any other dealer who is not an agent at any price whatever, and to sell to others only at the authorized retail price. Second, the system provides a means of keeping track of goods. Each dozen of bottles sent to the wholesaler bears a certain consecutive number, and with it is a postal card having stamped upon it the same number. When the goods are sold by the wholesaler, he sends the card to the manufacturer with the name and address of the dealer to whom sold and the date. The retailer must not sell or otherwise dispose of a bottle until his firm name has been plainly written or printed across the face of each wrapper. By this means if a bottle of the preparation is anywhere sold at less than regular prices, and the manufacturer can ascertain the serial number, he can trace out the responsible agent. The latter, on proof of price cutting, becomes liable to the company for specified liquidated damages.

Ownership of Retail Establishments.

We turn finally to the last of the methods by which the manufacturer is making his power felt upon the finished products market. This is by the direct ownership and operation of retail establishments. As a method of distribution this innovation is as little subversive of the usual equilibrium of trade as any irregular method. Each establishment takes its place simply as one among other competitors.

Let us consider the actuating motives as they present themselves to various classes of manufacturers. Take, for example, the sewing machine makers. In the sale of certain kinds of goods a somewhat elaborate demonstration is necessary, and, after sale, occasional repairs, both of which require the presence of an expert more skilled than the average storekeeper. Experience shows that these experts are best chosen, trained and superintended as direct agents of the manufacturer. When sales made in this way are of sufficient density to warrant the permanent location of an agent in a neighborhood, and when the articles are sufficiently attractive to make the opening of a public place of business with a stock room worth while, the system of traveling agents gives place to permanently located retail agencies. The firm controlling the largest number of retail agencies in this country is probably the Singer Company, which has eight hundred stores in the United States, besides many in other parts of the world. Automobiles, safes, phonographs and typewriters are sold in part by this system.

The case presented by the sale of carriages, wagons, plows and agricultural implements, generally is very similar to the above. Here an added motive for the direct control of retail agencies lies in the economy of shipment by car lots. An agency, because it pushes the make for which it was established and carries a full line of the goods, is able to take a larger proportion of its supplies from the factory in car lots than the average independent dealer. If, therefore, the goods to be distributed are very bulky, so that the question of car lots is important, the establishment of a few agencies in the chief markets may be profitable, because they will be able, through their own sales, to take goods in car lots, and they will also serve as transfer houses in distributing supplies to smaller markets. If numerous agencies are desired, to penetrate and hold a field, the expense may be lessened by selling the goods of other makers on commission. If the establishing concern makes plows, its agencies can add on and sell goods germane to a plow agency, such as reapers, wagons and carriages. By selling on commission car lots of assorted goods can be frequently sent out, keeping the stock fresh without overloading the agencies.

The direct retailing of shoes presents an entirely different case from that of agricultural implements. The general buying public has recently become familiar with retail establishments, owned by manufacturers, and which are stores in the usual meaning of the term. They are not as yet very numerous, and their establishment is not stimulated by any of the advantages which we have just considered. They are not practicable, except for goods which can be successfully sold by themselves in specialty stores (that is, they are impossible for articles like sugar or saws), and in this fact of depending upon specialty sale they meet their strongest check for the prevailing tendency which has originated among retailers, is integrating in its nature and is expressed in the department store. Furthermore, a system of retail stores operated by a manufacturer cuts him off from distribution through independent dealers, for the dealer will not buy of his rival in trade. There are arguments, however, which have apparently been deemed convincing to many manufacturers. A chain of stores absorbing the output of a factory, affords an independent outlet entirely free from the control of jobber or retail dealer. The maker also, by coming into direct contact with the customer through his agencies, has the benefit of the direct criticism of the user. He can from week to week follow the changes in demand as they effect styles. He can to some degree avoid the intensity of rush seasons and the idleness of dull ones in his factory by supplying his stores evenly throughout the season. The dominant argument in most cases is, however, undoubtedly the fact that it is only through the ownership of retail stores that the full profit of an extensive advertising campaign can be realized by the manufacturer. By means of retail stores he takes all of the highest retail price which the force of his advertising will induce the customer to pay. The stores themselves also are an advertisement. The independent dealer always wants his own name over the door. The manufacturer's store exerts its entire force as an harmonious element in the general scheme of publicity which is being followed. This principle which makes the store one means of realizing the profit out of the modern gigantic campaigns of advertising, helps to account for the shoe stores of Douglas and Means, the forty-five of Bliss & Co. and the twelve Crawford shoe stores. It applies to the Knox hat stores. Together with the desire to intrench a monopoly, it explains the policy of the American Tobacco Company in effecting distribution through the United Cigar Stores Company and other firms.

It is worthy of notice that there is a tendency at work which in the near future may lead to an increase in the number of stores owned by manufacturers or combinations of them. This is connected with the growth of advertising. When a few manufacturers only are conducting strong advertising campaigns, they are conspicuous because they are the exception. When a large number of competitors besiege the public the conspicuousness of any one is lessened by the eagerness of all. We have, in this country, in a generation been introduced into an age of advertising. The very great advertisers are yet conspicuous because they are not numerous. But when the time comes, as it appears to be coming rapidly, that the multitude of great advertisers in any single line is so large that the average consumer is bewildered, then the retailer may again perform the service he once performed; he will choose for the customer and the customer will follow his advice. Under such circumstances, unless monopoly or some other combination of factors intervenes, the manufacturer will feel a strong motive to directly control retail establishments, and so get a step closer to the consuming public than advertising will bring him, and, if possible, distance his rivals.

Conclusion.

In conclusion let me recall briefly the chief points in the situation I have tried to picture, which is one phase of our evolution from a raw material producing to a manufacturing nation. Because of its natural strength as a form of industry, and because of special advantages accorded it in this country, manufacturing has in recent years greatly increased its dominance in domestic commerce. In the raw material market this is shown, first, by the increased ownership of materials of fixed quantity, stimulated by the fear of monopoly and the trust movement. Second, for materials easily reproduceable it is shown by the advent of the manufacturer on the market of origin and the causes which have brought him there are, the unsatisfactory condition of materials offered, the necessity of taking part in financing the movement of raw materials and railway competition. The intermediate markets we have seen are being depleted by the withdrawal of manufacturing concerns from them, which either became parts of non-competitive groups during the period of trust formation or have become attached to other industries as by-product or waste-utilizing manufactures. On the finished product market the dealer has been eliminated from some lines of distribution by direct selling, which advertising has made possible, or by the ownership of retail stores, the function of which is to secure to the advertiser all of the profit his advertising will create. In other lines of distribution the retail dealer has been deprived of many of his functions by the use of packages, trademarks, guarantees, printed directions and advertising. This has resulted in a smaller margin of profit for the dealer, and sharper competition because of the increase of leader goods and side lines. In his extremity the dealer has besought the protection of the manufacturer, and the latter, in many lines of trade, now dictates the retail profit and protects it by exclusive agencies, price contracts and the factor and serial numbering plans.

I have no wish to overemphasize the tendencies I have presented. Many of them are not as yet prevailing tendencies, but if all of them taken collectively establish the fact that manufacturing in this country is assuming an increased range of mercantile functions, it is a subject worthy of serious study. It involves the internal economy of businesses because, up to this time, it has been an axiom of trade that it is dangerous for a business man or a corporation to undertake two kinds of business the fundamental principles of which are entirely distinct. It involves also larger considerations of the national economy because the three great categories of industry, agriculture, manufacture and trade have in the period previous to this been distinct, and a change in the domestic market more fundamental than the coalescence of two of these or the dominance of one by the other would be hard to imagine.