UNITED STATES DEPARTMENT OF AGRICULTURE

BULLETIN No. 394

Contribution from Office of Markets and Rural Organization
CHARLES J. BRAND, Chief

Washington, D. C. ▼ November 3, 1916

A SURVEY OF TYPICAL COOPERATIVE STORES IN THE UNITED STATES

By

J. A. BEXELL, Dean, School of Commerce, Oregon Agricultural College; HECTOR MACPHERSON, Director, Bureau of Markets, Oregon Agricultural College; and W. H. KERR, Investigator in Market Business Practice, Office of Markets and Rural Organization, United States Department of Agriculture

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THE PURPOSE, SCOPE, AND METHOD OF THE SURVEY.

The financial success of the Rochdale Cooperative Store in Great Britain, as well as in several other European countries, notably Denmark and Switzerland, has aroused a widespread interest in that type of cooperation in the United States. This interest has resulted in the establishment of stores in all parts of the country, until it is estimated that there are now approximately 400 in the United States, distributed mainly in the North Central States and on the Pacific coast.

The movement has probably been stimulated by investigations carried on by the governments of various cities and States which have emphasized the cost of distribution as the chief factor in the high cost of living. The Department of Agriculture, as well as the various universities, agricultural colleges, and departments of state have received appeals for information regarding the feasibility of the cooperative store as a remedy for the great expense of distribution and the resulting high cost of living.

With a view to obtaining some definite information on this subject, the Office of Markets and Rural Organization, in cooperation with the School of Commerce of the Oregon Agricultural College, during

Note.—This bulletin should be of interest to cooperative stores and to producers and consumers generally.

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the summer of 1915, undertook to make a survey of a number of typical cooperative stores. The sole purpose of the survey was that some disinterested agency might be informed as accurately as possible regarding the subject of cooperative stores, and that some measure of guidance might be extended to stores which are now operating and to those which may be formed in the future.

No attempt was made to visit or question all the cooperative stores in any State visited. The investigation was confined to a number of representative stores which were chosen after a study of all available information. Care was taken to include as nearly as possible representatives of all existing types. Among them are found some of the most successful concerns, as well as others which, at the time of the survey, had already gone into the hands of receivers. A study of the tables makes clear the great range of stores investigated. The stores selected were in 10 different States: Michigan, Illinois, Wisconsin, Minnesota, North Dakota, Iowa, Kansas, California, Oregon, and Washington.

A list of questions, arranged in groups, was drawn up as shown on page 3. The investigator made a personal visit to each store, went over the entire list of questions with the manager, and supplemented the questionnaire by notes on points which could not be covered in this categorical form.

The present bulletin covers the material collected from 60 stores, but almost half of these were unable to supply sufficiently accurate data to be included in Table X. For the most part, the tables are allowed to speak for themselves. The supplementary reading matter is intended merely to bring out facts which either can not be included in the tables or which might escape the attention of the student if specific reference were not made to them. In the questionnaire (p. 3) the figures represent averages for the stores answering the question, which number is indicated in parentheses. The results may be studied to better advantage by reference to the different tables.

At the outset it must be made clear that neither the tables nor the observations make any pretense of finality. At the same time, it is believed that they are sufficiently reliable to offer timely suggestions to all who are interested in the cooperative-store movement. The investigator used as much precaution to obtain accurate data as the limitations of the survey would permit. Nearly all of the results are based on certified reports. In a few instances careful estimates were accepted; but these, it is believed, in no case materially affect

NOTE.—For further discussion of cooperative purchasing of farm supplies see Carver, T. N.: The Organization of a Rural Community, Department of Agriculture Yearbook, 1914 (separate 632), and Bassett, C. E.: The Cooperative Purchase of Farm Supplies, Department of Agriculture Yearbook, 1915 (separate 658).

the results. Where such estimates appear doubtful they have been eliminated. This accounts in part for the varying number of associations answering the different questions.

For obvious reasons care has been taken to conceal both the identity and locality of the stores investigated. The numbers in Table 10 bear no relation to the order in which the stores were visited nor to the numbers on the questionnaires. Stores which had been recently established and which had as yet little or no experience of value were usually omitted. Almost without exception the investigator found the store managers willing to cooperate in attaining the object of the survey and glad to furnish all the information in their possession.

ORIGIN OF THE STORES.

Inquiry into the origin of the stores investigated revealed a variety of causes. In some cases the stores were started as a protest against real or fancied abuses. In others the association was organized on the initiative of outside promoters who make a business of organizing cooperative stores. In still other cases there is reason to believe the stores were established on the initiative of individuals who expected to obtain permanent employment in the store.

As will be noticed by the answers to questions 6 and 7, there were 20 cases in which an established business was purchased. A great deal has been said in favor of this practice. It has certain advantages, to be sure, but from the cases examined in the present survey the advantages of the established business appear to have been offset by serious disadvantages. In some instances failing concerns succeeded in unloading stocks of goods upon the cooperative association at excessively high prices and with liberal allowances for good will thrown in. In other cases the association found itself with a large proportion of the purchased stock either shelf worn or poorly adapted to the needs of the community.

QUESTIONNAIRE ON THE BUSINESS PRACTICE OF COOPERATIVE STORES.[1]

Report No. ———. Date _____, 1915.

Information obtained by _____. Information given by _____.

I. *General:*

1. Name: ____; 2. City: ____; 3. Street and No. ____; 4. County: ____; 5. State: ____; 6. Was new business started: (20) Yes; 7. Established business purchased; (20) Yes; 8. Principal line: ____; 9. Secondary lines: ____; 10. Principal industry in locality: (31) Farming; 11. Is location desirable: (37) Good; 12. Present manager: ____; 13. His experience: ____.

[1] Numbers in parentheses are stores reporting. In most cases the difference between the number given and 60, the total number surveyed, were either answered in the opposite or not at all. Where not qualified figures represent averages.

II. *External or corporate organization:*

14. Organized under cooperative law: (32) Yes; 15. Corporation law: (10) Yes; 16. Number of members (43) 228; 17. Condition of membership: ____; Vote: (40) One per member; 19. Principal nationality of members (49) American born; 20. President: (46) Yes; 21. Vice president: (35) Yes; 22. Secretary: (38) Yes; 23. Treasurer: (34) Yes; 24. Auditors (24) Yes; 25. Other officers: ____; 26. Directors: (43) 5; 27. Term of office: (34) One year; 28. Committees and duties: ____; 29. Branches: (5) Yes; 30. Controlled by grange: (2) Yes; 31. Controlled by farmers' union: (1) Yes.

III. *Internal or operating organization:*

32. General manager: (47) Yes; 33. Sales manager: (7) Yes; 34. Buyer: (4) Yes; 35. Cashier: (10) Yes; 36. Bookkeepers: (31) Yes; 37. Salesmen: (44) 5; 38. Saleswomen: (28) 3; 39. Stenographers: (3) Yes; 40. Departments: (49) 2; 41. Is responsibility definite: (27) No.

IV. *Finance:*

42. Capital authorized: (32) $45,437; 43. Subscribed: (41) $20,143; 44. Paid in: (50) $16,627; 45. Par value of shares: (44) $53; 46. How transferable: ____; 47. Amount may be held by member: (31) High $8,000, low $10, average $1,200; 48. Interest paid on stock: (37) Yes; 49. Paid annually: (34) Yes; 50. Semiannually: (40) No; 51. Dividends to members: (35) Yes; 52. Dividends to nonmembers: (18) Yes; 53. Dividends paid annually: (30) Yes; 54. Semiannually: (39) No; 55. Dividends paid in cash: (27) Yes; 56. Dividends in merchandise: (29) No; 57. Dividends in stock: (35) No.

V. *Credit:*

58. Do you borrow money: (40) Yes; 59. Rate of interest: (37) 7 per cent; 60. Are bills discounted regularly: (18) Yes; 61. Estimated saving: (24) $997; 62. Is credit difficult to obtain: (33) No; 63. Security offered: (26) None; 64. Credit extended to customers: (45) Yes; 65. For how long: (27) Two months; 66. Losses due to credit: (15) $664; 67. Are accounts paid promptly: (25) Yes; 68. Advantages of credit: ____; 69. Disadvantages: ____. (For per cent credit sales, see question 86.)

VI. *Purchasing:*

70. Principal market: ____; 71. From salesmen: (43) Yes; 72. From catalogue houses: (21) No; 73. From manufacturers: (24) Yes; 74. Are lowest prices obtained: (27) Yes; 75. Estimated produce bought from farmers: (22) $12,126; 76. Are all orders reduced to writing: (30) No; 77. Invoices checked systematically: (39) Yes; 78. Difficulties: ____.

VII. *Selling:*

79. Per cent country trade: (43) 63; 80. Per cent town trade: (43) 37; 81. Per cent membership trade (42) 60; 82. Nonmembership trade: (42) 40; 83. Per cent active members (37) 80; 84. Nonactive: (37) 20; 85. Per cent cash sales: (36) 50; 86. Per cent credit sales: (36) 50; 87. Advertising methods: (23) None; 88. Delivery system: (32) Yes; 89. Total annual sales by departments: (45) $87,781; 90. Rate of profit on sales by departments: (36) 20 per cent;[1] 91. Store opens: (37) 7 a. m.; 92. Closes: (37) 7 p. m.; Saturdays 9 to 10.

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[1] This is the estimate made by managers (see also Table 10).

VIII. *Accounting and business methods:*

93. When was system adopted: ____; 94. Satisfactory: (20) Yes; 95. Defects: ____; 96. Double entry: (36) Yes; 97. How often is trial balance taken: (36) Monthly; 98. Is total cash deposited daily: (28) No; 99. Sales slips used: (42) Yes; 100. Are trading coupons used: (27) No; 101. Is duplicating billing ledger used: (32) No; 102. Are cost accounts kept by departments: (34) No; 103. System of filing sales slips: ____.

IX. *Reports and auditing:*

104. Manager's report: (20) Monthly; 105. Contents: ____; 106. Form: ____; 107. When is report presented: ____; 108. Are audits made regularly: (34) Yes; 109. How often: (11) Monthly; 110. By committee: (21) Yes; 111. Cost: ____; 112. By professional auditor: (26) No; 113. Cost: (15) $56; 114. Auditor's report includes: ____; 115. Are members competent: (27) No.

X. *Mechanical equipment:*

116. Cash register: (39) Yes; 117. Customers' account file: (23) No—(20) Yes; 118. Typewriter (25) Yes; 119. Adding machine: (24) Yes; 120. Filing equipment: (29) Yes; 121. Overhead carrier: (34) No; 122. Check protector: (26) No; 123. Mimeograph: (39) No; 124. Addressograph: (41) No; 125. Other equipment: ____.

XI. *Business forms:*

126. Constitution and by-laws: ____; 127. Annual report: ____; 128. Stock certificate: ____; 129. Membership certificate: ____; 130. Membership register: ____; 131. Stock ledger: ____; 132. Purchase requisition: ____; 133. Order for goods: ____; 134. Settlement memorandum: ____; 135. Duplicating sales slip: ____; 136. Triplicating sales slip: ____; 137. Customers' ledger: ____; 138. Billing ledger: ____; 139. Credit memorandum: ____; 140. Credit rating blank: ____; 141. Cash sales ticket: ____; 142. Business summary: ____; 143. Cash receipts distribution: ____; 144. Cash payments distribution: ____; 145. Check, ordinary form: ____; 146. Voucher check: ____; 147. Double entry ledger: ____; 148. Journal: ____; 149. Purchase register: ____; 150. Sales register: ____.

XII. *Comments on accounting system:*

XIII. *Resources:*

151. Cash: (46) $2,074.78; 152. Merchandise inventories: (46) $18,049.41; 153. Equipment: (46) $1,640.21; 154. Accounts receivable: (46) $7,386.05; 155. Bills receivable: (46) $2,070.76; 156. Real estate: (46) $3,550.54; 157. Miscellaneous[1] (46) $2,092.58; 158. Total: (46) $26,864.33.

XIV. *Lidbilties:*

159. Capital stock: (46) $15,947.67; 160. Accounts payable: (46) $5,056.09; 161. Bills payable: (46) $5,151.87; 162. Surplus: (46) $4,353.10; 163. Undivided profits: (46) $5,182.74; 164. Unpaid dividends: (46) $192.28; Miscellaneous:[1] (46) $980.58; 166. Total: (46) $36,864.33.

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[1] Miscellaneous includes such items as interest, prepaid insurance, prepaid rent, and unpaid labor.

XV. *Summary of overhead expenses:*

167. Salaries and labor: (31) $4,695.93; 168. Rent: (23) $881.51; 169. Light and heat: (16) $137.14; 170. Insurance: (30) $301.81; 171. Taxes: (21) $283.69; 172. Telephone and telegraph: (8) $43.44; 173. Interest: (25) $587.83; 174. Postage and stationery: (5) $174.89; 175. Miscellaneous (36) $5,417.29; Total: (41) $9,609.27; 177. Net profit for last year: (31) $5,749.33; 178. Net per cent profit: ____; 179. Per cent on capital, including surplus and undivided profits: ____.

XVI. *Monthly salaries:*

180. President: ____; 181. Secretary: ____; 182. Treasurer: ____; 183. Manager: (42) $106; 184. Bookkeeper: (27) $68.87; 185. Cashier: ____; 186. Head salesman: (31) $74.13; 187. Other salesmen: (31) $49.95; 188. Saleswomen: (26) $32.10; 189. Extra labor: ____; 190. Total: ____.

XVII. *Comments:*

191. Is the business in satisfactory condition: (32) Yes. 192. Has the business been reorganized: (37) No; 193. Why: ____; 194. Expansion planned: (30) No; 195. Educational propaganda: (30) No; 196. Probable future: (20) Bright[1]; 197. Effect on service to the patrons: ____; 198. Effect on local commodity prices: ____; 199. Effect on the community: ____; 200. Cooperation with other merchants: (33) No; 201. How do expenses compare with private business in town: (12) Same; 202. Are employees members: (24) No; 203. Do they share in profits: ____; 204. Which employees are bonded: ____.

GENERAL ORGANIZATION.

Owing to the fact that the enactment of cooperative laws in the different States is a comparatively recent movement, a large proportion of the stores examined were originally established under the ordinary corporation laws. Most of them, however, are now organized under cooperative laws. At the time of this survey such laws had been enacted by 30 States, including all of the States covered by this study. Thirty-two out of 42 of the stores reporting on questions 14 and 15 were then organized under special cooperative laws. Those which still retained the corporate form of organization adhered to certain cooperative principles which were made a matter of agreement between the members through their constitution and by-laws. For example, 40 of the stores had adopted the principle of 1 man, 1 vote; while 5 of them adhered to the plan of voting according to investment. It was noticed, however, that in the older associations established under the corporate law there was a tendency for the stock to pass into a few hands, and in several of these cases the store was cooperative only in name.

An attempt was made to compile a table showing the size and financial success of stores on the basis of nationality, occupation, and

[1] This is the opinion of the managers.

religion of those participating. Although the figures were not conclusive, nor sufficient for tabular presentation, they seemed to bear out the opinion of many of the managers that a cooperative store is apt to be more successful in a community which is made up of people of one nationality. Similarly, in industrial communities, it was found that stores are more successful where a large percentage of the membership is of the same occupation; and at least one case was observed in which common church affiliation is the basis of successful cooperation.

The membership ranges from 1,600 to 30, while the average for all the stores surveyed was 228. Although there were some notable exceptions, as a general rule it was found that the success of the stores was almost in direct proportion to the membership. This may be due to the fact that the well-managed store usually has little difficulty in increasing its membership, while the poorly managed store soon loses the support of the members with which it begins operation.

It was surprising to find so small a proportion of the stores controlled by farmers' organizations, such as the Grange and the Farmers' Union. As a matter of fact, the farmers' organizations have taken the initiative in starting many stores, but not finding themselves strong enough to support the business out of their own membership, they have thrown the conditions of membership open. Even where such stores have been successful, they have frequently had a bad effect upon the farmers' organization. In some cases the farmers, expecting great things from their store, have allowed the local farmers' organization to fall into decay, claiming that the store was all the organization they required. In other cases, where the store fathered by a farmers' organization has been a failure, the effect has been even more disastrous to the association.

The survey brought out the fact that the location has a great deal to do with the success of the store. The best location, however, is not always synonymous with the most expensive or most central location. Much depends upon the type of trade. In the case of stores dependent largely upon country trade the proximity of horse sheds and hitching facilities is an advantage. Such conveniences usually can not be had in an expensive central location. On the other hand, there are instances which tend to show that the store should not be located too far from the points where country roads converge.

Five of the stores studied had undertaken the establishment of branches in outlying districts. Almost without exception, the policy of establishing such branch stores was found to be unsatisfactory. In all cases the branches were found to be a heavy drain on the working capital of the parent store. It was also found that the members in the branch district were inclined to rely for success upon the parent association, thus weakening the branch. It appeared, too,

that the average manager secured by cooperative stores lacks the business ability necessary for the management of more than one store. Hence, although the policy of establishing branches is right in principle, as shown in numerous cases under private and corporate management, notably the well-known chain stores, the results of this survey would indicate that a cooperative store should consider the matter with the greatest care before undertaking the establishment of branches.

It will be noticed that most of the stores have the usual officers and board of directors. The most common number of directors is 5 and the usual term of office is 1 year. Questions directed upon this policy seem to indicate that the 1-year term does not give sufficient stability of policy. Of course, it frequently happens that old directors are reelected; but in many instances new directors are elected at the end of each year, and it is stated that by the time they leave office they are just beginning to gain the experience necessary in order to be of real value to the association. In the case of one of the most successful stores many of the officers and directors had served for over 20 years, and the by-laws provided that only one-third of the directors should be elected annually. Even if new directors were elected, which did not often happen, at least two-thirds of the board were always made up of experienced men. It was found that in some associations the president was elected directly by the members and was ex officio member of the board of directors. In the majority of cases, however, he was elected by the members of the board from among their number. It would appear that on the whole the latter plan makes for greater efficiency.

It is a common practice for the by-laws to provide an auditing committee of two or three, to be elected from among the membership at its annual meeting. More rarely the auditors are appointed by the board of directors. The experience gained by those making the survey leads to the conclusion that the auditing committee should act as a connecting link between the membership and the management, keeping check at all times upon the business practice of the association and counseling the directors whenever the condition of the business appears to demand special attention. This would indicate that the auditing committee should be elected by the members at their annual meeting and be made directly responsible to them.

As will be more fully discussed in a later section, the results of the survey bring out very clearly that one of the greatest weaknesses of cooperative stores lies in the lack of thoroughness in their audits.

OPERATING ORGANIZATION.

The business organization of a cooperative store does not differ materially from that of any other retail store. The business is usually

too small to admit of the type of efficiency which can be secured only by having specialists charged with definite responsibility for certain divisions of the work. In most cases the manager himself is compelled to be a sort of business jack-of-all-trades. He is usually the responsible head of the store, and at the same time must act as buyer, head salesman, and bookkeeper. The man who combines efficiency in all of these kinds of work is rarely found, and is usually in business for himself. It is unusual for cooperative associations to be willing or able to pay the salary which will secure a man of this type. The salaries paid to the managers in the stores under consideration varied from $45 to $250 per month, making an average of $106 a month for the 42 stores for which figures were obtained. This fact alone is sufficient to explain why the majority of the stores were not more successful than the tables indicate.

From the tabulated results of the questionnaire on page 4 it will be noted that only 7 stores report the employment of a man whose specialty is to act as sales manager, 4 report a special buyer, 10 a cashier, and 3 a stenographer. Thirty-one stores report the employment of a bookkeeper. Careful inquiry, however, leads to the conviction that all but a small proportion of these men are not capable of keeping a satisfactory set of accounting records. It is the almost unanimous verdict of the store managers that greater attention must be given to the office end of the business, and that the auditing must be more efficiently performed.

FINANCE.

The points covered in the section of finance bring out the essential differences between the corporate and cooperative type of organization. In general, it may be said that with the cooperative type the shares of stock are smaller; that these shares do not determine the voting power of the member; that paid-in capital stock usually bears a fixed rate of interest, while dividends are based upon the business and not upon holdings of stock; and that certain restrictions are placed upon stock transfer. The laws of most States require that a definite authorized capital be fixed in the charter or articles of association, while in others the amount of stock need not be fixed. The latter practice corresponds with the cooperative laws of several European countries and aims to permit an indefinite growth in the membership and capital stock.

For the 32 stores reporting the authorized capital, the average was $45,437, while 41 stores giving the amount of capital subscribed average $20,143, and 50 stores giving their paid-in capital average $16,627. The shares of stock, as given in Table I, vary from $1 to $100, with an average par value of $53. When questioned as to the

best size for a share of stock, most managers expressed themselves as in favor of the share of large denomination. It seemed to be the consensus of opinion that the share should not be smaller than $25, but an examination of Table I indicates that much depends upon conditions. The character and density of population, the kind of business conducted, nearness to wholesalers, and many other features have a bearing on the best size for a share of stock. Well-capitalized stores were found with shares of small denomination, while other stores are very insufficiently capitalized on the basis of $100 shares. In general it is considered inadvisable for any store in the United States to begin operations with a share of less than $10, although here again there are exceptions.

TABLE I.—*The capitalization of typical stores.*

	Number reporting.	Total.	High.	Low.	Average.
Authorized	32	$1,454,000	$200,000	$10,000	$45,437
Subscribed	40	825,898	106,200	305	20,647
Paid up	50	831,377	106,200	267	16,627
Par value	44	.....	100	1	53
Paid up [1]	40	764,026	.....	.....	19,100

Vote: Forty stores allow 1 vote to each member; 5 stores allow 1 vote to each share of stock.

[1] These are the 40 stores reporting subscribed capital, and are given separately for the sake of comparison.

Most of the stores allow members the privilege of paying for stock in installments. Others, again, sell their stock and receive some form of note or agreement to pay for it at a specified time. Both of these practices appear to have been greatly abused. The former accounts to a large degree for the discrepancy between the paid-up and subscribed capital as given in Table I, and the result of the latter has been that many associations have accepted poorly drawn notes which are not bankable, and which merely burden the books of the association with fictitious assets.

The following abstract from an auditor's report is illustrative of an abuse which has weakened many of the cooperative stores:

> In view of the fact that a majority of your members have not liquidated their note obligation in payment for shares, I recommend that no patronage dividend be declared or paid covering the year 1914, and that the amount be carried as surplus. * * * Permit me, in conclusion, to express the hope that the members will pay their notes and thereby place the company where it rightfully belongs, and furnish the opportunity for it to grow large and successful.

A feature which probably has a greater influence on the successful capitalization of a store than the size of the share of stock is the amount of capital which one member may hold. Some of the earlier cooperative laws fixed the upper limit which one member could hold

at a figure which has since been recognized as too low. In the stores under discussion the upper limit varied from $10 to $8,000, with some stores placing no limit. It is difficult to say where the line should be drawn. With voting power restricted to 1 vote, with interest on capital stock limited to not more than current interest rates, and with the cooperative policy of distributing profits in proportion to the amount of business transacted by each member, it is difficult to see how serious injustice can result from the concentration of the bulk of the capital stock in the hands of a few members.

Of those stores reporting, 37 stated that interest was paid on the capital stock; the maximum given was 8 per cent, the minimum 5, and the average 7 per cent. These figures do not indicate any great advantage to the holders of capital stock. (See Table II.)

TABLE II.—*Practice as to the payment of interest and dividends on stock.*

Question.	Stores reporting yes.	Stores reporting no.	Average rate.	Remarks.
			Per cent.	
Interest on stock	37	8	7	3, 7 per cent; 2, 5 per cent; 12, 8 per cent; 11, 6 per cent.
Interest paid annually	34			
Interest paid semiannually	3			
Trade dividends paid to members	35	9		
Trade dividends paid to nonmembers	18	25		Usually half rate paid members.
Dividends paid annually	30	14		2 pay by means of a monthly discount.
Dividends paid semiannually	3	39		
Dividends usually paid in cash	27	9		
Dividends usually paid in merchandise	7	29		
Dividends usually paid in stock	3	35		

The manifest purpose of the cooperative store is to make savings for its members in the purchase of household and other supplies. Patrons are charged the customary retail prices for the locality in which the store operates. Then, at the end of the specified period, the accumulated surplus is distributed in proportion to the purchases which each patron has made during the dividend period. Following the Rochdale plan, nonmembers are frequently allowed half the rate of dividends on purchases allowed members.

The figures given in answers to questions 51 and 57 of the questionnaire do not indicate the degree to which the cooperative stores are attaining their chief object—making savings for patrons. They indicate, rather, the provisions in the by-laws as to distribution of dividends and not the actual practice. While the information given was not satisfactory upon this point, it is believed that the vast majority of the cooperative stores have been a disappointment in the savings effected for members and patrons.[1]

[1] See appendix, p. 30. Notes on the payment of trade dividends.

CREDIT.

Practically all of the stores required, at times, more capital than was provided by the sale of capital stock and accumulated surplus. The interest paid averaged 7 per cent, which can not be regarded as excessive (see Table III). As in the case of any other business, the ease with which a store is able to borrow depends upon its commercial rating. When a store is successful and has a high rating, it can secure all the capital it needs upon the note of the association. For many struggling stores, however, the only way in which credit could be obtained was by having those who were most interested indorse a bankable note in favor of the association. In many cases, especially where the borrowing has been done to bolster up a poorly managed and failing business, the practice of indorsing the notes of the association has been responsible for serious losses to members.

TABLE III.—*Practice as to credit.*

Question.	Number reporting.	Low.	High.	Average.	Yes.	No.
Do you borrow money					40	7
Rate of interest	37	6 p. ct.	10 p. ct.	7 p. ct.		
Is credit difficult to obtain					6	33
Security required					16	26
Are bills discounted regularly					18	15
Estimated annual discount	24	$150	$6,949	$997		
Credit extended to customers					45	2
Losses due to credits	15	$25	$4,231	$664		
Accounts paid promptly					25	5

It was found that some stores systematically used their credit at the bank in order to discount their bills, saving a profit to the store by this method. That this is not common, however, is indicated by the fact that only 18 stores reported the uniform practice of taking advantage of discount, while 15 never discounted their bills. Among those reporting the practice of discounting their bills, the saving ranged from a minimum of $150 to a maximum of $7,000 a year, with an average of $1,673 for the 18 stores taking regular discounts. The figures indicate that not enough attention is given to this source of profit. It was found that among the most successful stores following the practice, the cash discount paid a considerable proportion of the operating expense. In addition to the saving effected, the practice of taking discounts has an important effect upon the wholesale houses and the buying efficiency of the store.

Of 50 stores, only 2 were found to be doing a strictly cash business. Most of the managers claimed that the extension of credit to customers was absolutely necessary. The time for which credit was allowed varied from 1 to 6 months, the average credit period given for 27 stores being 2 months.

The practice is unfair in that the man who pays cash usually secures goods at practically the same price as the man who uses 6 months' credit. This unfairness has led to the practice among a few of the most successful stores of charging interest on all bills running over 30 days. In many cases it was found that inexperienced managers, in their enthusiasm to expand the business, had involved the association in serious difficulty by a too wide and promiscuous granting of credit to customers. In some instances it was found that the accounts receivable amounted to more than the entire subscribed capital stock.

On the other hand, one of the advantages claimed for the cooperative farmers' store is that it serves as a credit institution, tiding the members over until harvest or until "pay day." Indeed, one of the most successful stores preferred to do a credit business, and reported that 98 per cent of its trade was on this basis. The reasons given for its preference were greater simplicity and uniformity in its accounting system and the larger volume of trade resulting from the credit business. The reports of 36 stores showed that, on the average, half of the sales were on credit and the other half cash.

For 24 stores the average annual loss due to the granting of credit is 1.17 per cent. This is much higher than the average for stores under private management, as indicated by the results of the Harvard survey, which found the common loss for bad debts to be one-half of 1 per cent.[1] Moreover, there is reason to believe that this does not tell the whole story. As a matter of fact, the estimate placed by the manager of an unsuccessful cooperative store upon the uncollectible proportion of the accounts and bills receivable, which he is carrying upon his books, is very unreliable. In one case, which is probably typical of many others, the amount was estimated at $145 for the year, when, in reality, the amount which was afterwards found to be uncollectible was nearer $2,000. This loss, of course, falls upon all who pay for their goods.

Entirely apart from the loss involved, the credit system is unjust. Either those enjoying credit should pay interest, or customers paying cash should receive a cash discount. The reports of those who have tried to do business on a cash basis indicate that the credit system has become so rooted in American business as to be practically ineradicable. Many of those questioned characterized it as "a necessary evil."

PURCHASING.

Table IV, showing the practice regarding purchasing, is largely self-explanatory. One important fact, however, is not brought out

[1] Harvard University. Bureau of Business Research. Bul. 5: Expenses in Operating Retail Grocery Stores. 1915. Sup. 7.

by the table—a fact which many merchants overlook. The most successful stores confine their purchases to a few reliable firms, rather than scatter their orders among too many wholesale houses. In fact, one store on the verge of bankruptcy ascribed its failure in large part to this practice, since, in time of difficulty, it could claim but little support from its numerous creditors. Among the many objections to scattered buying are: (1) Greatly increased and useless office work; (2) divided support of the wholesalers; (3) excessive buying and danger of overexpansion; (4) too great diversity of stock; and (5) loss of advertising opportunity afforded by standard lines.

TABLE IV.—*Practice in purchasing.*

Question.	No. reporting.	Low.	High.	Average.	Yes.	No.
Largely from salesman					43	
From catalogue houses					19	21
From manufacturers					24	19
Are lowest prices obtained					27	11
Produce from farmers	22	$1,500	$35,000	$12,126		
All orders reduced to writing					10	30
Invoices checked systematically					39	2

It is interesting to note that only 27 stores believed that they bought at the lowest price, while 11 said positively that they bought at a disadvantage. The reasons given were: (1) Inability to take advantage of discounts, and (2) in a few cases, discrimination on the part of wholesale houses against the cooperative store. The former handicap is to be traced generally to such causes as insufficient original capital, tying up of capital in accounts receivable, overinvestment in slow-moving or dead stock, loss of capital through bad management, etc. On the latter point a few stores asserted that they were sometimes discriminated against in the prices they were compelled to pay; that they were not given equal credit privileges with private and corporate enterprises; and that they were refused certain lines of goods at any price. Credit men say that this obtains only when the store has unsatisfactory credit rating or record and when cut prices and discounts are allowed on fixed-price goods.

SELLING.

As shown in Tables V and X, the annual sales of the stores under consideration ranged from $7,500 to $623,703, with an average approximating $88,000. Table X includes only 35 out of the 60 stores visited during the survey, and it will be noticed that of these 5 were unable to give sufficiently complete data for a statistical estimate of their financial success.

TABLE V.—*Practice as to selling.*

Question.	Stores reporting.	Low.	High.	Average.
Per cent country trade	43	0	95	63
Per cent town trade	43	5	100	37
Per cent membership trade	42	10	98½	60
Per cent nonmembership trade	42	1½	90	40
Per cent active members	37	25	100	80
Per cent nonactive members	37	0	75	20
Per cent cash sales	36	2	85	50
Per cent credit sales	36	15	98	50
Total sales	45	$7,500	$623,703	$87,781
Rate of profit on sales [1]	36	12 p. ct.	30 p. ct.	20 p. ct.

[1] This is the estimate made by managers (see Table X).

The percentage of expense to sales indicates a wide variation, ranging from 7 to 17 per cent. Even more surprising is the range in the percentage of gross profit made on the business, ranging from 10.5 per cent to 24.5 per cent. In accounting for this range one element is the kind of business. The higher figures are for businesses having a large trade in dry goods, shoes, and men's furnishings, while the lower rates were made in stores handling groceries and a few farm staples. The percentage of net profits to sales shows the variation one would expect.

Almost all of the stores under survey were located in country towns, with the majority of the membership drawn from the farms. Hence there is an average of 63 per cent of farmers' patronage for the 43 stores reporting, with a range of from 4 per cent to 95 per cent of country trade.

Most of the stores reported a large percentage of nonmembership trade, the range being from 1½ per cent to 90 per cent, with an average for the 42 stores reporting of 40 per cent of the trade from nonmembers.

This nonmembership patronage is due to several factors. Eighteen of the stores hold out the prospect of some dividends on purchases to nonmembers, thus securing trade. Again, many persons are in sympathy with the cooperative movement and expect to become members if the store succeeds, and in the meanwhile they give it a share of their trade. Finally, a great deal of the nonmembership trade which falls to cooperative stores is more or less accidental and due to the fact that many Americans give little thought to their choice of a place to trade. This indifference also helps to some extent to account for the fact that 34 stores reported an average of 20 per cent of their members as "nonactive," showing little interest in the store and giving it practically none of their trade.

It was found that success, loyalty of members, and nonmembership trade hang very closely together. Let a store fall behind and fail to pay dividends and it soon loses the support of both members

and nonmembers. The opposite case is illustrated by the experience of one of the most successful stores, which in 26 years has missed paying a dividend but once. It reported 100 per cent active members and a large nonmembership trade.

It must be admitted that in general the results in net profits are somewhat discouraging. Only 11 stores out of 60, or 18⅓ per cent, were able to show a net profit of 5 per cent or over.

If we conclude, as we are forced to do, by the supplementary notes found in the questionnaires, that the 30 stores for which the net profits could not be calculated would make a still poorer showing, we are convinced that much greater caution should be exercised before starting cooperative stores.

ACCOUNTING, REPORTS, AND AUDITING.

One of the principal objects of this survey was to ascertain the business practice of existing cooperative stores and to study their systems of accounting and auditing. Questions 93 to 150 in the questionnaire show the different points which were studied with great care. In addition to recording the answers to these questions, the investigator aimed to see as much of the accounting and office system as time and conditions would permit. As has been stated, the survey made evident that the business practice, including the system of records, is probably the weakest point in the management of cooperative stores. Investigations by the Office of Markets and Rural Organization have shown this to be true of nearly all other cooperative enterprises.[1]

This weakness is due to lack of training on the part of the managers themselves, to inability to pay the salary required by trained accountants, and to the general failure on the part of the membership of cooperative associations to realize the importance of a clear and constant record of the state of their business.

To the question, "Is the accounting system satisfactory?" 20 managers answered in the affirmative, 16 answered "Fair," 9 answered in the negative. The investigator's "remarks" show that the closer examination which he made of the systems led him to believe that a very small proportion of the stores visited had what could reasonably be called a satisfactory system of accounting. In fact, in almost 50 per cent of the cases, the results of the attempts to get answers to questions relating to the status of the business showed that the managers themselves had no definite records from which they were able to give a satisfactory statement of the condition of the business.

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[1] Bassett, C. E., Moomaw, Clarence W., and Kerr, W. H., Cooperative Marketing, and Financing of Marketing Associations. *In* U. S. Dept. of Agriculture Yearbook 1914, pp. 185–210. Kerr, W. H., and Nahstoll, G. A., Cooperative Organization Business Methods, U. S. Dept. of Agr. Bulletin 178, 1915, p. 20.

TABLE VI.—*Showing business practice, accounting, and auditing.*

Question.	Yes.	No.	Monthly.	Quarterly.	Semiannually.	Annually.	Remarks.
Satisfactory system	20	9					15 fair.
Double entry	36	5					
Total cash deposited daily	9	28					
Sales slips used	42	3					
Cash coupons used	12	27					
Billing ledger used	10	32					
Cost accounts kept by departments.	10	34					
Manager reports regularly	40	9	20	1	18	9	8 report both monthly and annually.
Are audits made regularly	34	8	11	2	3	10	3 weekly; 3 bimonthly.
By committee of members	21	22					
By professional auditor	17	26					
Are members competent	8	27					
Cost per year							High, $300; low, $30; average, $56.
Cash register used	39	6					
Customers account file	20	23					
Typewriter	25	19					
Adding machine	24	20					
Satisfactory filing equipment	29	15					
Overhead carrier	10	34					
Check protector	17	26					

One thing that impressed the investigator was the lack of uniformity of systems, forms, and equipment. This lack made it very difficult to secure statistics which would give a comparative estimate of the success of the stores. The investigation conducted by Harvard University in its attempt to bring about standardization of accounts and office methods disclosed the same lack in practically all other retail stores.

Among cooperative stores, a beginning in the right direction has been made by two or three promoters who are attempting to install uniform systems of accounting and auditing for the stores they organize. An examination of the work of these promoters, however, tends to show that the good they are accomplishing is largely offset by the fact that they have started many stores for which there was not sufficient demand in the locality, and which were therefore doomed to failure from the start. Moreover, they have frequently advised an association to purchase an old and sometimes failing business, and in many of these instances the cooperative association found itself in possession of a large stock of shopworn goods and a tradition for inefficiency in the store which was hard to live down, although it had been paid for as "good will."

No less than 36 of the stores reported that their books were kept by double entry; but where it was possible to get at the facts, it was found that the systems were very imperfect, and that in many cases it would have been difficult to secure a trial balance from the records. It is probable, however, that the fundamental weakness is in the bookkeepers rather than in the systems of accounting. This is shown in a number of instances where systems of accounting, installed by experts, have become entirely disorganized through the inefficiency

of the bookkeepers. On the other hand, one of the most successful stores studied in the survey had an accounting system which was crude and out of date. Although the system was kept in a set of old-style books, which necessitated a great waste of energy, the work was done so thoroughly that the records were up to date at all times, and at a moment's notice the management could find out the exact state of the business.

One good feature in the systems of records is the almost universal use of the duplicating or triplicating sales slips. In those cases where the triplicating sales slip was used systematically, and the triplicates carefully checked at the close of each day, the office system was found to be securing fairly accurate results.

The cash coupon seems to have gone out of favor; only 12 reported using it and 27 answered in the negative. Among the 12, several forms were found. The most common was the book form with coupons of different denominations perforated for ready detachment. Another type resembled the mileage book commonly used on railroads, with cents represented instead of miles. Various forms of tickets and metal checks were used in paying for produce. Like the coupons, these were redeemable in goods.

The billing ledger was reported as being used in 10 stores, while 32 answered in the negative. When it is not used, amounts of sales are either posted from the sales slips to an ordinary ledger, from which statements are rendered at the end of each month, or the sales slips are filed in the short-account filing cabinet as customers' ledger accounts.

Ten stores reported that they were keeping cost accounts by departments, while 34 reported in the negative. Further examination, however, showed clearly that not over 1 or 2 stores out of the 60 actually kept accounts by departments in such a way as to show the cost of operation and profits for each department of the business. Closer questioning revealed the fact that the stores recognized the advantage of having departmental accounts, and intended to organize their bookkeeping system on that plan; but for various reasons, usually because of the lack of a sufficiently trained bookkeeper, they had not yet put their plans into operation.

The by-laws of practically all of the stores examined require that the manager shall make reports at stated intervals. This provision seems to be adhered to with more or less regularity. Twenty of the stores required the manager to report monthly, 18 semiannually, 9 annually, 1 quarterly, and 1 daily. Eight of those requiring an annual report were included among those requiring a monthly report.

Defective as are the bookkeeping systems of cooperative stores, their auditing is still more unsatisfactory, although 32 reported that

a regular audit is made. Of these, 13 required that the audit be made weekly, 11 monthly, 3 bimonthly, 2 quarterly, 3 semiannually, and 10 annually. In addition to these, several others stated that they had an audit at more or less irregular intervals. When questioned as to the auditors, 21 stated that the auditing was done by a committee elected from the membership, while 17 reported that the services of a professional auditor were secured. When further questioned as to the cost per year of the auditing, only 15 stores reported a regular outlay for this purpose. Of these, the highest gave an annual cost of $300, while the lowest was $30, the average for the 15 stores being $56 each.

The results of this survey demonstrate that the precariousness of the cooperative mercantile business is due to inefficient accounting and auditing more than to any other single cause. Where complete records are kept of the business, and where these are used as the basis of a regular monthly financial report, there is furnished a continuous barometer by which a board of directors can take warning at the first signs of mismanagement or failing business. In addition to this, at the end of each fiscal year some competent outsider, preferably a certified public accountant, should be hired to audit the records for the year.

Of course it must be recognized that efficient bookkeeping and expert auditing cost more than the small cooperative business can afford. Much progress toward efficiency, however, may be secured by the adoption of some simple standardized system of bookkeeping and business practice that will give complete and accurate records which can be easily interpreted. To meet this need the United States Department of Agriculture has devised a system which is described in Department Bulletin No. 381, entitled "Business Practice and Accounts for Cooperative Stores."

The auditing committee elected by the members should not undertake to do the annual auditing itself, unless it enjoys the rare advantage of having a certified public accountant in its membership. The members of the committee should know enough of bookkeeping to appreciate the necessity of accuracy. They should see to it that this is accomplished, and the association should make provision for the necessary expense.

These conclusions have been borne out by the long experience of the Rochdale stores in England. Their experience is summarized in the preface to "A Manual of Auditing," published by the Cooperative Union (Ltd.), with headquarters at Manchester, England, for the guidance of the societies. The author says:

> It is essential to the interest of members of societies generally that great attention be paid to the importance of strict audit, first, for self-protection;

second, in the interest of the societies generally; third, for the protection of the creditors with whom the society may do business; fourth, for the maintenance of the reputation of the cooperative movement. The true end and aim of every system of audit being supervision, external check, and testimony, experience proves the necessity of the officers of cooperative societies understanding the principles of bookkeeping, followed up by an efficient and strict audit of accounts. With this end in view, we propose to lay down a treatise, arranged in systematic order, placing fully before those who may consult these pages a safe mode for auditing the transactions of societies.

EQUIPMENT.

The answers to the questions on mechanical equipment which are summarized in Table VI are self-explanatory. They indicate that the average cooperative store is about as well equipped as the average store under private or corporate management. There was a wide variation in the stores studied, however. The equipment ranged from small, poorly lighted, and insanitary stores, without cash registers, filing equipment, or any other mechanical convenience, to one or two of the most modern stores to be found in the United States (see Pl. I).

It was found that most of the managers appreciate the economy of many of the devices entering into modern store equipment, and their absence in a store is usually due to a lack of funds. There is also a general demand among patrons of all classes for a store that is up to date in its equipment and appearance. (See Pl. II.) To some extent this demand would seem to be part and parcel of the modern efficiency movement, which is reaching a considerable proportion of farm homes in the form of modern household conveniences and farm appliances.

THE BALANCE SHEET.

Table VIII and Sections XIII and XIV of the questionnaire present a summary of the resources and liabilities for 46 stores. The most interesting figures are those showing the surplus, undivided profits, and unpaid dividends, amounting to a total of close to $460,000, or an average of almost $10,000 per store. From these figures it would appear that the stores are in a very prosperous condition. Only 4 stores out of 46 show a deficit aggregating $9,214. Moreover, if to the amount of average surplus, undivided profits, and unpaid dividends, the capital stock of $15,948 is added, the total average resources will exceed the average liabilities by $25,676.

If the stores are in such splendid financial condition, why is it that most of them are not paying regular dividends? The fact is that for the majority of the stores this prosperity is more apparent than real. In the first place, the stock carried is too large and the average number of stock turns a year too low. Many of the stores are carrying a lot of stock which is dead for the greater part of the

EXTERIOR VIEW OF A MODERN COOPERATIVE GROCERY AND MARKET.

INTERIOR VIEW OF A MODERN COOPERATIVE GROCERY AND MARKET

year, and are listing at full value goods which are shopworn and upon which it will never be possible to realize in full. Then, too, the accounts receivable, bills receivable, and miscellaneous assets, with a total of over $700,000, an average of $15,000 per store, contain many items which can never be collected and should be dropped, as they only becloud the financial condition of the store. As an illustration, one small store has been carrying $1,200 worth of notes taken for shares of stock, although they are all past due; and the same association has on its books over $2,000 in accounts which might almost as well be wiped out and charged off to loss and gain. This large proportion of more or less fixed and doubtful assets probably goes far toward explaining the reason why dividends can not be paid.

TABLE VII.—*The balance sheet.*

[46 stores.]

	Total.	High.[1]	Low.[1]	Average.
Resources:				
Cash	$95,439.97	$20,997.40	$28.15	$2,074.78
Merchandise	839,272.96	98,460.12	800.00	18,049.41
Equipment	75,449.40	10,195.88	23.00	1,640.21
Accounts receivable	339,758,05	48,549.71	.....	7,386.05
Notes receivable	95,255.10	12,253.77	.....	2,070.76
Miscellaneous	259,583.69	28,502.83	.....	5,643.12
Total	1,695,759.17	201,091.24	1,113.00	36,864.33
Liabilities:				
Capital stock	733,592.74	106,200.00	267.00	15,947.67
Bills payable	236,986.04	22,000.00	.....	5,151.87
Accounts payable	232,579.93	18,363.84	.....	5,056.00
Surplus	200,242.68	33,318.14	6.02	4,353.10
Undivided profits	238,406.18	13,750.60	5.57	5,182.74
Unpaid dividends	8,844.96	3,343.92	.....	192.28
Miscellaneous	45,106.64	19,200.00	30.00	980.58
Total	1,695,759.17	201,091.24	1,113.00	36,864.33
Total resources	1,695,759.17	.....	.....	36,864.33
Total liabilities, exclusive of capital stock, surplus, undivided profits, and unpaid dividends	514,672.61	.....	.....	11,188.54
Total net worth	1,181,086.56	.....	.....	25,675.79

[1] Figures in these columns are independent of each other, and the totals represent high and low totals not totals of the other figures given.

OPERATING EXPENSES.

Table VIII shows the annual operating expenses of 41 stores. This table shows salaries and labor, which appear separately in Table IX. The comparative statement of expenses in relation to net sales is found in Table X, which should be studied carefully in this connection. The number of stores reporting each of the various items in Table VIII indicates how difficult it was to get satisfactory figures under the different subheads in the questionnaire. In fact, it was found to be impossible to make a segregation of the expenses on account of the difference in classification used by the stores. Many

of them did not segregate their expense accounts at all, but included everything under the one title of "General expense."

TABLE VIII.—*Annual operating expense.*

	Number of stores.	Total.	High.	Low.	Average.
Salary and labor	31	$145,553.98	$12,021.95	$720.00	$4,695.93
Rent	23	20,279.76	1,800.00	84.00	881.51
Light and heat	16	2,194.18	250.00	24.00	137.14
Insurance	30	9,054.41	1,905.44	22.00	301.81
Taxes	21	5,957.55	1,259.22	25.00	283.69
Telephone and telegraph	8	347.50	56.00	25.00	43.44
Interest	25	14,695.68	2,300.00	37.00	587.83
Postage and stationery	5	874.44	644.32	25.00	174.89
Miscellaneous	36	195,022.36	83,623.79	7.10	5,417.29
Total expense [1]	41	393,979.86	86,553.74	946.00	9,609.27
Profit for year	31	178,229.31			5,749.33
Loss for year	2	2,453.38			1,226.69

[1] The different columns will not balance since the answers are given in each case for the number of stores indicated.

TABLE IX.—*Monthly salaries and labor.*

Question.	Number of stores.	High.	Low.	Average.
Manager	42	$250.00	$45.00	$106.00
Bookkeeper	27	125.00	10.00	68.87
Head salesman	31	150.00	45.00	74.13
Other salesmen	31	90.00	35.00	49.95
Saleswomen	26	55.00	16.00	32.10

Officers and directors usually receive the nominal sum of $1.50 per meeting, except where they are actively engaged in the business, when they are paid a salary for managerial or accounting services.

It is believed that the salary and rent items for 32 and 23 stores, respectively, are fairly trustworthy, the average salary roll being about $400, and the average rental about $75 per month. Even these items are not typical of the stores covered by the survey, on account of the small proportion included.

The percentage of expense to net sales is not excessively high. It ranges from 7 to 17, with an average of 11.7. This percentage is for 33 of the stores, and is probably a much better showing than would have been made had all the stores been able to contribute to the data from which this percentage was calculated. In view of the fact that some of the managers stated it as their belief that it cost somewhat more to run a cooperative than a privately owned business, this percentage is surprisingly low. The Harvard investigation of grocery stores found the lowest cost of operation to be 10.4 per cent of sales, the highest 25.2 per cent, and the common percentage 16.5, as against the cooperative averages just quoted.

In considering this showing for the expense of operation, there must be taken into account the average gross profit of 21 per cent for

the stores studied by Harvard as against 17.7 per cent for the 30 cooperative stores for which the gross profit could be calculated. The circumstances under which this investigation was made did not permit the investigator to go back of the accounting system in every case to see whether the data upon which gross profits could be estimated were sufficiently reliable.

For some of the stores not included in this percentage column of gross profit, it was quite certain that the manager was working in the dark, and did not actually know the amount of his gross profit. For example, in several cases a manager who handled principally groceries and farm produce said that his gross profit was about 21 per cent. Upon analyzing the statements, however, the amount was found to be very much below what he estimated. This was due to the fact that certain commodities, such as butter, eggs, sugar, flour, and practically all farm produce was handled upon a very close margin, and sometimes at an actual loss. These items bulked much more largely in the total business than the manager realized. One store, for example, went bankrupt within a period of 10 months because its manager thought he was running upon an average of 20 per cent gross profit, while in reality he was running at a net loss of 7 per cent on sales, and his gross profit was only a little over 10 per cent.

Referring once more to Table X, we find that the average cost of all salaries and labor amounted to a total of 6.4 per cent of the net sales as compared with 11.7 per cent for the total expense. That is, the salaries and labor form 54.7 per cent of the total expense of running the business. This surely is not excessive. The Harvard survey of grocery stores disclosed the fact that the salaries in the average retail grocery under private management were 60.6 per cent of the total expense, or almost 6 per cent higher. This is borne out by Table IX, which summarizes the results of the investigation of wages paid. For 42 stores the average salary paid the manager was $106 per month. But if 6 of the stores which pay their manager $150 per month or over are eliminated, the average for the other 36 amounts to only $79.50. The average salary for the bookeeper was also too low to secure efficiency. The 10 States in which these stores are located have average wages considerably higher than the average would be for the country as a whole; from this it is seen that the wages paid by the cooperative stores are very low.

In addition to the regular salaries and wages indicated in Table X there are insignificant outlays for officers and directors, and often for an occasional helper. The most common policy is for associations to pay their directors $1.50 for each meeting attended, except where they occupy a position in the business on regular salary. Occasional help costs the daily wage of from $1 to $2.50 a day, with an average

of about $2 per day. The proportion which these items bear to the total wages paid is not very significant and has been included in the labor percentage column in Table X.

In addition to their regular wages, the cooperative laws of some States stipulate that employees shall receive dividends on the amount they receive as wages, just as members receive dividends on purchases. As a matter of fact, however, this principle of dividends and bonuses to employees is generally ignored, and some stores even go so far as to stipulate in their by-laws that no employee shall receive any reduction on purchases. Employees in such stores must become members in order to participate in dividends. Among the stores visited during the survey only 2 were found which actually had distributed dividends on wages.

TABLE X.—*Important percentages based on sales.*

Store No.	Sales.	Expense.	Per cent.	Salary and labor.	Per cent.	Net profit.	Per cent.	Per cent gross profit.	Inventory.	Stock turns per year.
1	$623,703	$86,554	13.8	.....	.....	$66,282	10.6	24.4	$98,460	6.3
2	232,060	16,221	7.0	$11,261	5.0	10,050	4.3	11.3	30,477	7.3
3	200,000	24,915	12.4	.....	.....	6,375	3.1	15.5	51,952	3.8
4	177,546	24,904	14.9	.....	.....	8,712	4.9	18.9	67,588	2.5
5	174,997	23,037	13.1	12,022	7.0	4,377	2.5	15.6	24,104	7.3
6	168,546	16,115	9.6	10,193	5.5	17,192	10.2	19.6	42,660	3.8
7	143,000	11,522	8.0	9,000	6.3	9,927	6.9	14.9	40,007	3.5
8	129,385	14,941	11.5	7,801	6.0	9,313	7.2	18.7	30,781	4.2
9	96,000	12,558	13.0	6,472	6.8	5,170	5.4	18.4	11,169	8.6
10	95,916	13,325	13.9	6,440	6.7	.....	.....	.....	.....	.....
11	87,009	7,285	8.3	.....	.....	9,763	11.2	18.4	9,924	8.8
12	69,000	6,840	9.9	4,980	7.2	648	.9	10.8	31,071	2.2
13	68,060	10,114	14.9	6,075	9.0	[1] 753	[1] 1.1	13.8	11,850	5.7
14	67,074	8,164	12.2	4,909	7.3	2,696	4.0	16.2	19,075	3.5
15	65,768	6,445	9.7	.....	.....	4,424	6.7	14.9	4,066	16.1
16	65,152	6,719	10.2	3,982	6.1	3,775	5.8	16.0	18,413	3.5
17	63,978	6,938	10.8	4,359	6.9	1,453	2.2	13.0	19,141	3.3
18	60,000	5,404	9.0	2,685	4.5	928	1.5	10.5	14,593	4.1
19	60,000	5,037	8.3	3,800	6.3	2,774	4.6	12.9	18,161	3.3
20	56,000	5,512	9.8	3,563	6.4	4,032	7.2	17.0	16,122	3.4
21	44,000	5,332	12.1	2,858	6.3	3,279	7.4	19.5	15,587	2.8
22	44,000	4,964	11.3	3,080	7.0	536	1.2	12.5	8,799	5.0
23	42,000	6,097	14.5	3,960	9.4	1,310	3.1	17.6	18,278	2.3
24	41,000	4,167	10.1	3,015	7.4	1,245	3.0	13.1	11,004	3.7
25	40,000	4,620	11.5	3,300	8.2	783	2.0	13.5	7,249	5.5
26	40,000	5,169	12.9	3,246	8.0	400	1.0	13.9	9,300	4.3
27	40,000	4,000	10.0	.....	.....	1,701	4.2	14.2	9,158	4.3
28	38,000	5,949	15.5	3,357	8.8	.....	.....	.....	12,816	2.9
29	36,413	.....	.....	2,752	7.7	.....	.....	.....	9,171	3.9
30	34,804	3,086	8.8	1,772	5.2	1,027	3.0	11.8	7,495	4.7
31	22,000	3,730	17.0	1,900	8.6	460	2.1	19.1	6,733	3.3
32	20,000	.....	.....	.....	.....	.....	.....	.....	8,341	2.4
33	20,000	3,249	16.2	1,976	9.8	138	0.7	16.9	8,813	2.3
34	19,000	2,957	15.5	1,620	8.5	.....	.....	.....	8,999	2.1
35	7,500	946	12.6	720	9.5	362	4.8	17.4	1,731	4.4
Average	.....	.....	11.7	.....	6.4	.....	6.0	17.7	.....	4.4

[1] Loss.

The directors of one of the most progressive of the stores have made the provision that when profits reach a certain figure employees are made participants in the increase. This is in the form of a bonus, the payment and amount of which is left to the discretion of the board of directors.

As has already been noted in the introductory section, the results summarized in Table X can not be considered conclusive. In the first place, the number of stores having accurate records is too small. Again, the great variety of method in keeping the records makes it impossible to classify the data accurately. Finally, although most of the 30 stores from which the best records were obtained are of the general-merchandise type, the number of departments and the amount of business done in each varies greatly throughout the list. The rate of profit as well as the expense of handling varies for each kind of goods, such as groceries and provisions, dry goods, boots and shoes, drugs, hardware, and implements. Accurate comparison of operating expenses would necessitate separate sets of records for each of these different lines, but since expenses are not segregated, it follows that a comparison of operating expenses does not give an accurate index of the efficiency of the management.

However, the table does indicate that it is possible to make a saving through cooperative stores. It indicates also, to some extent, the conditions under which a saving is possible. There are two factors entering into the determination of the net profit. The first is the percentage of gross profit made on sales and the second is the percentage which the expense bears to sales. The table indicates the relationship which must exist between these percentages if a saving is to be made which will justify the existence of a cooperative store. The careful manager should never delude himself by vague generalities, but must take into account every single factor in his business bearing on both the gross profit and the expense. Only by constant checking on both of these factors can he be certain of permanent success.

TABLE XI.—*Summary of preceding tables.*

Average number of members (43 stores)	228
Total resources (46 stores)	$1,695,759.17
Total liabilities (46 stores)	$514,672.61
Total paid-up capital (50 stores)	$831,377.98
Average resources (46 stores)	$36,854.33
Average liabilities (46 stores)	$11,188.54
Average paid-up capital (50 stores)	$16,627.56
Average net worth (46 stores)	$25,675.79
Average surplus, undivided profits, and unpaid dividends (46 stores)	$9,728.12
Average per cent membership trade (42 stores) per cent	60
Average per cent credit sales (36 stores) do	50
Average rate of interest paid on borrowed capital (37 stores) per cent	7
Average per cent active members (37 stores) per cent	80
Average annual sales (45 stores)	$87,781.91
Average gross profit on sales (29 stores) per cent	17.7

Average rate of operating expenses on sales (33 stores)--per cent--	11.7
Average produce bought (estimated) (22 stores)	$12,126.08
Average annual cost of audit (15 stores)	$56.00
Manager's average monthly salary (42 stores)	$106.00
Salesmen's average monthly salary (31 stores)	$50.00
Saleswomen's average monthly salary (26 stores)	$32.00

OBSERVATIONS AND CONCLUSIONS.

The figures collected in this survey bring the conclusion that the majority of the cooperative stores established are unsuccessful in achieving their main object—saving on purchases to members and a reduction of the high cost of living. This conclusion is borne out by the supplementary notes collected from managers who could not apply statistics, and by notes on interviews with leaders who are acquainted with the store movement in whole sections which could not be covered in detail. But that there is one real service which the cooperative stores have performed seems to have been demonstrated again and again. Even in cases where stores have failed absolutely and gone into bankruptcy, they have frequently been responsible for the introduction of improved business methods in the towns where they were established. They have had the effect of stimulating competition. In cases where the merchants have competed keenly against the cooperative store, they have been compelled to adopt more efficient business methods. This has resulted in lower prices to every consumer in the locality and frequently in better prices to farmers on produce.

In the case of one particular farmers' store, it was estimated that the farmers of the locality received an increase on their butter, eggs, and poultry in one year which would have amounted to more than the entire paid-in capital stock of the cooperative store. This gain went to every farmer in the community regardless of whether or not he was a member of the cooperative association.

TABLE XII.—*General comments.*

Is the business in satisfactory condition (manager's opinion)	32 yes; 15 fair; 1 no.
Has the business been reorganized	6 yes; 37 no.
Expansion planned	12 yes; 30 no.
Educational propaganda	12 yes; 30 no.
Probable future (manager's opinion)	Bright, 20; good, 11; fair, 3; doubtful, 12; not good, 3.
Cooperation with other merchants	8 yes; 33 no.
Are employees members?	9 yes; 24 no.
How do expenses compare with private business in town?	4 higher; 12 same; 11 lower.

The manager of one of the most successful of the stores included in the survey expressed the conviction that the cooperative store is to the business community what the governors are to the steam engine, and that on account of its regulative influence there ought to be a cooperative store in every town. The same manager was of the opinion that it would be an equally undesirable condition to eliminate privately owned business from any town.

In addition to whatever salutary influence the cooperative store may have upon the business community, the survey shows that there are possibilities in the cooperative store, if properly organized and managed, for the accomplishment of important savings to members, thus opening the way for a reduction of the high cost of living. This leads to a summary of the conditions of success and the causes of failure.

Briefly stated, the conditions of success may be summarized under the headings[1]: (1) Leadership; (2) capable management; (3) favorable environment; (4) adequate legal safeguards.

(1) *Leadership.*—In every case where a store was found to be a conspicuous success, that success could be traced to the influence of some conspicuous leader. The part which leadership plays in holding the membership of the association loyal to their store is not confined to the organizer. The outstanding leader who has the ability to round up the community must be supported by others who have some talent for leadership. The manager himself must be "a good mixer." In fact, in the most successful stores every clerk has been chosen with a view to adding more enthusiasm and support to the business. Leadership, to be permanently successful, must build up an organization which will be self-supporting and self-perpetuating. A mistake frequently made by the leader responsible for the establishment of a successful association is that he does not provide the necessary organization which will enable it to perpetuate itself after he has severed his connection. Where such is the case, the society is foredoomed to go to pieces as soon as the strong leader is removed. Cohesion must ultimately rest on education, on loyalty to an institution, and on principle rather than on the blind following of a leader.

(2) *Capable management.*—After all that has been said, little need be added in support of capable management as an essential condition for the success of the cooperative store. It should always be remembered that business efficiency is as essential in the cooperative as in any other type of business organization. Unfortunately for the movement, the average enthusiast who feels a call to promote the cooperative movement has in the past laid more stress on sentiment

[1] Compare with the rules adopted by the Rochdale pioneers in 1844 and the causes of failure of cooperative stores as given in: Wisconsin State Board of Public Affairs. Report upon Cooperation and Marketing, 1912, pp. 29, 34.

than on business efficiency. This type of promotion is usually followed by a policy which soon brings the business to a disastrous end.

(3) *Favorable environment.*—In several communities in which successful cooperative stores were found, investigation revealed that there had previously existed some natural bond of union, which in itself was an important factor in determining the welfare of the business. Of these may be mentioned predominating nationality, common occupation, church affiliation, and fraternal organization. The existence of such communities may be taken as a good omen for the success of any kind of business organization on the cooperative plan.

(4) *Adequate legal safeguards.*—A cooperative association, even more than a corporation, requires a legal standing which will secure safety. Every cooperative association is intended to be a sort of public-service institution, and, as such, it should have the legal safeguards which some States have provided by recently passed cooperative laws. In one of these laws, a survey of the locality is strongly recommended before an organization is effected. The same law requires financial statements to be sent twice a year to an official charged with the duty of protecting members of cooperative associations.

The causes of failure, it is evident, are largely the opposite of those conditions which make for success. The converse of the foregoing four conditions of success would be: (1) Lack of leadership; (2) poor management; (3) unfavorable environment; and (4) lack of proper legal safeguards.

(1) *Lack of leadership.*—Frequently an outside leader comes into the community and through his enthusiasm arouses the people to a condition in which they are ready to enter upon the establishment of a cooperative store. Then, after seeing the enterprise started, he goes to other communities and leaves the association to work out its own salvation. In many such communities the organization dies from lack of interest as soon as the promoting spirit is gone. In other cases, the leadership in a community may be of such an unpractical character as to lead the association into attempting something which is actually impossible of realization. In such cases, also, disaster is sure to follow.

(2) *Poor management.*—Let the management be ever so efficient, an association may still fall short of success if unpractical leaders force it into attempting the impossible. But even if it be presupposed that the business is adapted to the needs of the community, and every other condition favorable, it may still fail entirely through bad management. Among the outstanding shortcomings of the inefficient manager have been noticed reckless buying, excessive exten-

sion of credit, too great overhead expense, overexpansion, failure to provide a surplus, no allowance for depreciation, inefficient business practice and accounting methods, lack of proper auditing, and failure to secure the support of wholesale houses because of scattered buying.

(3) *Unfavorable environment.*—Where a cooperative association has been thrust into a community which is naturally divided against itself through racial prejudice, interdenominational strife, excessive individualism, or where there is insufficient business to pay the expenses of a store, there can be little hope of success for the association.

(4) *Lack of proper legal safeguards.*—One cause of the failure of many different types of cooperative associations is the lack of proper legislation. Some of the stores organized in the early days under corporation laws have had their stock centered in the hands of a small body of members who have controlled the association in their own interests, and have distributed among themselves whatever surplus accrued as dividends upon capital stock. This means the entire failure of the association from the cooperative standpoint. On the other hand, cooperative laws have been passed by many States that offer no adequate safeguards in the form of preliminary investigation and subsequent inspection. On account of the semipublic nature of the cooperative business, it is believed that both of these safeguards are essential to success.

APPENDIX.

Notes on the Payment of Trade Dividends.

I. Stores having paid dividends regularly out of profits (17):

[1] 1. Organized 1905. Had missed paying trade dividend only once in 10 years.

2. Organized 1908. 1909, 21 per cent; 1910, 16 per cent; 1911, 10 per cent; 1912, 10 per cent; 1913, 8 per cent; 1914, doubtful. One of the mistakes of the first years was the payment of too large dividends.

3. Organized 1912. Interest on stock has been paid regularly. Dividends: 1911, 10 per cent; 1912, 6 per cent; 1913, 14 per cent; 1914, 12 per cent.

4. Organized 1911. Seven per cent interest paid regularly. Dividends: 1911, $1,734.30; 1912, $8,140.52; 1913, $9,170.59; 1914, $9,914.30.

5. Organized 1912. Made large profit every year, and paid interest and trade dividends regularly.

6. Organized 1904. Stock now worth $140. Has paid interest and dividends regularly.

7. Organized 1908. Dividends: 1911, 2 per cent; 1912, 2½ per cent; 1913, 3 per cent; 1914, 3 per cent. Surplus, $4,339.

8. Organized 1890. Interest and dividends paid regularly for 25 years. Total, $1,277,865.94. Range from 9 to 13 per cent on purchases, to members only.

9. Organized 1889. Forty-nine semiannual dividends in 25 years; 3 per cent purchase dividend to all. Regular stock dividends to members only.

10. Organized 1893. Twenty-two years old. Trade dividend every year from 3 to 5 per cent, members only; $6,600 surplus and undivided profits.

11. Had paid dividends regularly; 1913, 5 per cent; 1914, 6 per cent.

12. Organized 1912. Paid $2,300 dividend 1913; making good profit.

13. Organized 1897. Paid 12 per cent dividends and 6 per cent interest in 1914; very successful.

14. Organized 1890. Except first year had paid dividends ranging from 6 to 10 per cent.

15. Organized 1913. Claims regular payment; business seems prosperous; no specific figures.

16. Paid 5 to 15 per cent dividend every year for 6 years; had large surplus.

17. Organized 1906. Trade dividends have been paid every year until last year, 3 to 5 per cent. Had a very small surplus.

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[1] The numbers are not the same as in Table X.

II. Stores having paid dividends irregularly out of profits (3):

18. Paid dividends 1903, 1904, 1905; surplus, $33,000.
19. Organized 1912. Auditor in 1914 advised not paying dividends because of large amount of subscribed capital unpaid, although profit was made.
20. Organized 1876. Originally paid dividends, but not since 1912.

III. Stores paying trade discount instead of dividends (3):

21. Organized 1912. Discount of 5 per cent if account is paid in full within 30 days.
22. Organized 1911. Discount of 5 per cent if account is paid in full within 30 days.
23. Discount of 5 per cent to members if account is paid in full within 30 days.

IV. Stores having paid dividends out of capital (7):

24. Organized 1913. Paid 5 per cent in 1915 out of capital. Report shows that in reality there was a deficit.
25. Organized 1910. Only one dividend has been paid, in 1911. Deficit, $1,200, in 1914.
26. Organized 1913. Paid first year only. Suffered from overexpansion, but is now in fair way to succeed.
27. Organized 1912. Dividends paid first two years out of capital; deficit, $5,000.
28. Organized 1912. Paid 6 per cent first year only; present deficit, $5,000.
29. Organized 1903. Paid several large dividends out of capital; now in hands of receiver.
30. Organized 1903. Paid dividends regularly 1906 to 1912 out of capital. Failed to take into consideration bad debts and depreciation, with resultant false showing. "One of the great mistakes of the store." Surplus, $800.

V. Stores paying only stock dividends (3):

31. Organized 1876. Average 70 to 10 per cent annually on stock.
32. Average for last five years is 10 per cent to members. None to nonmembers. Now a regular stock company, but said to retain "the cooperative spirit."
33. Organized 1889. Now a regular stock company. Had failed to make profit only one year. Stock now worth 500 per cent, because the profits of five years were allowed to remain in the business. Twenty yearly dividends on stock only have been paid, ranging from 6 to 50 per cent.

VI. Stores having paid no dividends (14):

34. Organized 1913. No dividends paid "on account of disloyalty of members."
35. Organized 1910. No dividends have been paid. In 1914 had a $4,000 deficit.
36. Organized 1910. Neither interest nor dividends have been paid; planning to reorganize as stock company.
37. Organized 1912. On verge of bankruptcy.
38. Organized 1914. Hopes to pay 6 per cent to members and 3 per cent to nonmembers; very conservative management.
39. Organized 1912. No dividends paid, "due to excessive credit." Expect to pay one in the near future; 6 per cent interest paid on capital.

VI. Stores having paid no dividends—Continued.

40. Organized 1911. No dividend paid. "Victim of early mismanagement," but now said to be on road to success.
41. Organized 1912. No dividends paid. Has a considerable deficit.
42. Organized 1877. No dividends or interest paid; bad management.
43. Organized 1909. Failed twice, due to mismanagement. No dividends have been paid.
44. Organized 1912. No dividends; business in unsatisfactory condition.
45. Organized 1903. No dividends paid, due to excessive credit and loss by fire.
46. Six years ago had large deficit. No dividends. Is building up surplus now, and appears to be in prosperous condition.
47. Organized 1912. No reliable information, but appears to be in very unsatisfactory condition.

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