"A More Definite System": The Emergence of Retail Food Chains in Canada, 1919-1945

Barry E.C. Boothman, University of New Brunswick, Fredericton N.B., CANADA

Examinations of the rise of modern retail activities traditionally have emphasized developments in the United States, where firms could exploit strong economies of scale and scope and could service transcontinental markets. In middle-sized economies such as Canada, the opportunities for expansion were more limited and firms often were slower to adopt new modes of marketing organization. This paper reappraises the rise of large retailers in the Canadian grocery industry during the inter-war era. It provides an overview of the issues that propelled the formation of the firms, their organizational traits, and the factors that slowed the ability of the firms to achieve market dominance.

"Chain stores are here to stay," declared Theodore Loblaw in the spring of 1925. This optimistic statement, by the founder of one of the most profitable of Canadian food retailers, was widely accepted by contemporaries who expected modern merchandising techniques would allow big enterprises to gain rapid ascendancy in the retail sectors during the inter-war era. The shift toward large-scale retailing was well developed in the United States and the initial successes garnered by department stores appeared to suggest a similar trend north of the border. The T. Eaton Company and Simpson's implemented practices similar to those developed by Macy's, Wanamaker's, and Marshall Field (Santink, 1990). Like those American 'cathedrals of consumption,' the Canadian department stores undermined small retailers by making an array of goods available in single locations, selling at low prices and on a cash-only basis, and by making goods available to consumer touch or to examination through innovative displays (Chandler, 1977, 1990; Leach, 1994). The executives of big food chains expected their new firms also would supplant traditional small grocers by offering consumers "a more definite system" with lower prices and better organization (*Financial Post*, 13 March 1920). Their efforts experienced initial success but then encountered competitive and managerial difficulties.

Managerial capitalism arose quickly in the United States via the exploitation of new types of economies and the ability of firms to tap transcontinental markets. The result, as Richard Tedlow (1990) has noted, was a three stage process. The pre-industrial era was characterized by a fragmentation of markets into hundreds of localities with thousands of firms. This was followed by a unification stage as producers and distributors employed economies of scale and scope to incorporate an entire nation into a mass market. Strategic practices were re-configured to stress high volume with value pricing based upon demographic and psychological segmentation. However, the process of development often was more convoluted in other countries, where demographic and economic conditions constrained the opportunities for expansion and new modes of retailing or organization arose spasmodically.

Research about the development of retail operations in Canada remains scant. The available studies have stressed department store operations or the reactions of shopkeepers to the rise of big business and pressures for professional sales management. This essay begins to redress this deficiency by examining the initial rise of large-scale retailing in one sector – food distribution. It considers the transitional forces that propelled the emergence of chain food stores. The paper explores how the new companies sought to restructure the grocery trade. It explores why those initiatives became stalled and reviews the countervailing forces that enabled many smaller firms to survive for an additional generation. The final section outlines the shifts that presaged a true development of mammoth markets after 1945.

Professionalizing the Trade

Retail food shops displaced stalls in public markets in urbanized areas during the nineteenth-century as merchants began to specialize in different forms of commerce. Located near residential areas for access to customers or to minimize property costs, the proprietor-controlled shops relied upon trade from local street traffic and offered delivery services or credit to regular clients. Clients necessarily shopped on a daily basis since they lacked storage space or refrigeration at home. The firms dealt with one form of food distribution: dry groceries, fruits and vegetables, or meat. Opening a business required little capital and, with improving transport systems, drummers from wholesale houses ensured shop inventories were replenished. Grocers initially dealt in generic bulk items but goods had high margins.

TABLE 1
Canadian Market Traits 1881-1951

	1881	1891	1901	1911	1921	1931	1941	1951
Population								
National Pop. (000s)	4325	4833	5371	7207	8788	10377	11507	14009
Rural%	74.35	68.20	62.50	54.48	50.48	46.30	45.66	43.32
Urban %	25.65	31.80	37.50	45.42	49.52	53.70	54.34	56.68
Urban Centres (000s)	- - -	1441	1867	3008	3977	5161	5854	7512
>100,000	141	398	476	1081	1659	2328	2645	3261
30000-99999	221	225	343	489	496	697	928	1148
5,000-29999	298	391	503	783	1058	1305	1370	1947
Working Pop	- - -	1608	1783	2725	3173	3927	4196	5219
Clerical/Sales	- - -	84	111	226	390	465	518	852
GNP								
GNP ($000s)	564394	702884	985080	2232214	4046099	4693000	8282000	21889000

SOURCE: Urguhart and Buckley, 1965: Series A1, A15-24, C1-C7, C30-31, E12.

Their use facilitated a transition by shopkeepers to more professional practices, which included regular accounting records, cleanliness, and the use of displays to entice consumers (Mayo, 1994; Monod, 1996).

Grocery market organization in Canada during the late nineteenth-century was characterized by numerous efforts to restrict competition or to demarcate alternate economic activities. Small retailers, usually cash poor, struggled for stable shares of the modest trade available in given locale. The firms negotiated voluntary agreements (or failing that, demanded legislation) that could control shop hours, constrain the types of goods different retailers could sell, or block practices such as Christmas gift-giving to customers. Many attempts were made to cut off the 'guerrilla trade' of salesmen who were not based in local communities – farmers, peddlers, and the like – through licensing. Formed in 1884, the Dominion Wholesale Grocers' Guild gained a dominant influence. Wholesaling was a bottleneck in retail activities even though the firms did not sell directly to the public. The Guild sought to regulate trade and discount practices and to construct price-fixing arrangements with processors that covered tobacco, baking power, starch, pickles, and other goods. It set the prices under which goods were resold to retailers and compliant manufacturers then refused to supply any price-cutting wholesaler or retailer. Few companies dared challenge this system and bankruptcy often became the fate of those who tried (House of Commons, 1888; Bliss, 1973).

Industrialization and the development of urban centres after 1890 created new opportunities but Canada, unlike the United States, was sharply divided by geography and ethnicity into several regions. A true 'national market' did not emerge in many sectors until the second half of the twentieth-century. As shown in Table 1, the population was less than a tenth of that for the United States, scattered from coast-to-coast near the American border, and rural. Several railways linked the different regions but travel was problematic, owing to weather and the lack of integration of the different systems. Road networks remained poor and as late as 1919 it still took over a day to travel from Toronto to Niagara Falls, a mere 100 kilometres away. The potential for firms to expand accordingly was restrained.

Canadian Grocer, the industry journal, sought to reshape practices by publicizing the value of display and promotion. Advertising had been rare, it noted. With small operations geared to local traffic, few merchants would advertise given the uncertain payback. The "intangible character of the transaction is so present with them in their consideration that they think of advertising as nothing more or less than a gamble" (*Canadian Grocer*, 1 January 1904). Advertising entailed a acceptance of comparison pricing and a shift away by grocers from their traditional opposition to price-cutting. "The store that advertises goods without giving prices stands a very poor chance of getting the irregular and transient trade." Advertising was 'a sort of "bait," a thing to attract, to capture" (*Canadian Grocer*, 8 January 1904). Permanent business could "be built up only by securing the trade of the better class of customers" with "money to spend" and for whom "quality is the first consideration." "The bargain hunting class can be interested only so long as they are getting something for nothing … They drift from one store to another, and there are few merchants who find their trade profitable. They are useful only because they are always ready to relieve a merchant of his otherwise unsaleable stock at bargain prices" (*Canadian Grocer*, 26 February 1904).

Building the First Chains

Experiments in large-scale retailing were carried out in Europe and North America during the nineteenth-century. Félix Potin, originated the grocery store concept in Paris during 1844, based upon the notion of volume sales with reduced profit margins. The Great Atlantic and Pacific Tea Company became the first grocery chain in the United States, expanding from its original mail-order operation to branch stores that stressed volume sales. During the 1880s Bernard Kroger, a Cincinnati grocer, also constructed multi-unit operations to realize unit cost savings through bulk purchasing. The chain networks of these and other American firms were extended across urban areas during the early twentieth-century but their main growth occurred after the First World War. The major firms (A & P, First National, Kroger, Safeway and National Tea) had 7,723 stores in 1920 and 30,453 by 1930 (Baxter, 1928: 195-6; Beckman and Nolen, 1938:34-44).

Only a few Canadian experiments with multi-unit operations can be identified prior to 1914. Caroll's, a proprietorship established in Hamilton, Ontario, during 1893 sold groceries, fruits and vegetables on a 'cash and carry' basis. A second store was created during 1913, a tentative step towards a network which later reached 113 units across south-western Ontario. H.M. Jenkins appears to have launched the first self-serve operation during 1917 (*Canadian Grocer*, 6 July 1928, 4 January 1929; Kennedy et al. 1935a: 990).

The construction of grocery chain stores in Canada paralleled American developments and was triggered by an inflationary spiral between 1917 and 1921 that stimulated consumer demand for low-cost suppliers Small shopkeepers and wholesalers could not hold prices down and many failed in a wave of bankruptcies. Moreover, Canada's population increased by 18 percent between 1921 and 1930 but the number of people living in urban areas expanded by 28 percent and the four largest metropolitan centres grew by 38 percent. The physical volume of production increased by more than one-half during that decade, a trend that propelled a modest rise in the standard of living. Given these conditions, the founders of the multi-unit distributors expected their firms might displace traditional grocers (Kennedy et al., 1935a: 201; Monod, 1996). Their activities were modeled upon developments south of the border and there is little evidence that British or European retail innovations influenced the practices of the early Canadian chains. During the inter-war era, the biggest firms focused upon the most populous region, southern Ontario and the Montréal region of Québec, where volume sales might be realized. The spread to other urban centers or to less populated regions was slow, although smaller chains and alternate modes of supply subsequently arose in those regions, as noted later in this paper.

Even to contemporaries, the construction of the first mover, Dominion Stores, assumed legendary dimensions. The originator, Robert Jackson, had been involved with the merchandising of men's shirts and was unacquainted with grocery stores. A trip to Boston during the First World War convinced him that the strategic profile developed by A & P could be applied in Canada. In conjunction with William J. Pentland (a general superintendent with A & P) and Robert Jameson, he mobilized $2 million in start-up capital to launch a network focussed upon central Canada. As new securities were issued, ownership was diversified among private investors and brokers, with approximately 71 percent of the equity held by American interests. This financial structure permitted the top managers (who held less than 4 percent) to retain control. Long-term debt was not assumed to avoid interest charges and the firm's expansion was financed out of retained earnings or new issues of equity. Operations were launched in 1919 with the acquisition of a small Toronto chain and, on average, the chain opened a new store per week during the 1920s. The network peaked in 1931 with 571 units located in Ontario, Québec, and the Maritime provinces (*Canadian Grocer*, 18 January 1929; Kennedy et al., 1935b: 769-776, 789-791).

The strategy imitated the 'economy store' format elaborated by American retailers like A & P (Tedlow, 1990; Walsh, 1987). Each unit, operated by one manager, was capitalized at $3,000 — one-third respectively in inventory, fixtures and property. The stores were rented premises on high volume routes and typically were positioned near middle or upper income neighbourhoods. They emphasized national branded goods, which commanded premium prices. Given the minimal investment associated with individual stores, units could be created or closed as conditions warranted. Dominion replicated the A & P layout right down to the store front: big picture windows and red signs with the company name. Designed like a factory, the facilities were geared for a stream, not a large volume, of clients. From a central space surrounded by counters, behind which packaged goods were stacked to the ceiling, people made their selections which were assembled by clerks. The stores functioned on a 'cash and carry' basis, rather than via the extension of credit to clients, and the stock was limited to a standard issue of 300 items. Sales were stimulated by extensive newspaper advertisements and a selective use of loss leaders. Inventory thus turned over rapidly, generating cash flow before payments to suppliers were due (Tedlow, 1990; Mayo, 1994).

Lower prices were realized through enhanced efficiencies such as the use of warehouses to minimize wholesale costs. During the late 1920s the firm converted some stores in the biggest cities into 'combination' stores (which sold groceries, fruit, vegetables and meat) to enhance sales per unit. Through the pre-pricing of merchandise, bargaining with customers during the selection process was sharply constrained. None the less, store operations remained labour intensive. As one worker later noted, "there was no such thing as self-service. A customer usually came in with a list. All day long there'd be a team of us either bagging sugar— or rice or flour or any other bulk item, like rolled oats. If somebody came into the store and other clerks were waiting on people, the ‘bagging’ team would break up and we’d get out there and serve the customers” (Dominion Stores, 1953: 9-10).

The most profitable chain was founded by Theodore Loblaw, who later was eulogized as a ‘rags to riches’ entrepreneur. As a teenager, he had left his home town of Alliston for Toronto and gained employment as a junior clerk in a grocery store owned by William Cork. Loblaw built a position within the firm from his accounting skills, while retailing was handled by Milton Cork, the owner’s son. He gained prominence with the 1906 publication of the Loblaw Accounting System, the first comprehensive means of record-keeping for Canadian wholesalers. By 1910 Loblaw and Cork became convinced the system in which manufacturers and wholesalers determined retail prices was non-competitive. Based upon American practices, they believed grocers could achieve greater profitability by reducing prices, seeking higher volume, and eliminating credit or delivery services. Their first experiment was launched in Toronto during 1910, a cash and carry unit that expanded to twenty stores. The firm was sold, when Loblaw agreed to direct the formation of cooperative enterprises when the United Farmers party was elected the provincial government. The company was re-sold to Dominion Stores the following year, an action that formed the nucleus of that firm (*Financial Post*, 26 March 1925. *Canadian Grocer*, 8 April 1933).

Returning to the private sector in 1921, Loblaw and Cork established a self-service or ‘groceteria’ operation, which expanded from $200,000 in sales for two units to $18.4 million for 95 stores by 1930. Even though the growth of the firm compelled them to take the firm public during 1925 with an issue of preferred shares, the two officers retained 55 percent of the voting equity. Loblaw insisted that the firm focus upon the large Toronto market and eschewed the strategy of geographic expansion employed by Dominion Stores. A second company, based in Buffalo, gained a modest presence in mid-western American cities. Loblaws stores initially were small but in high traffic areas quickly moved to a ‘combination store’ format, that supplied alternate forms of foodstuffs including meat, fruit, and dry groceries. By the late 1920s, Loblaws groceterias, on average, utilized two to three times more floor space than Dominion stores and realized much higher sales per outlet (see Table 2). The self-service format allowed lower labour costs and Loblaws became the first Canadian firm to introduce variations such as self-service meat wrapped in cellophane.

Although the approach was promoted as distinctive, Theodore Loblaw admitted he had learned from American developments, specifically from the Piggly Wiggly chain formed by Clarence Saunders (*Financial Post*, 8 April 1933). He attributed the unwillingness of Canadian wholesalers to abandon retail price maintenance as a key to his firm’s success. This practice “is simply holding the umbrella for the weaker distributor. Price maintenance to my mind means that retailers with lower overhead costs are overcharging to the disadvantage of the general public … and if the wholesaler had not stuck to it for so long but had cooperated more with his retail customers, chain stores would not have developed the way they did” (*Financial Post*, 26 March 1925). The company purchased large quantities to achieve potential discounts from manufacturers but minimized the stock carried by each outlet, ensuring a turnover of inventory every ten to twelve days. Delivery services and credit for consumers were eliminated, while the range of goods available was kept under tight control, practices that permitted sales at minimal prices. Loblaw claimed his firm was based upon a simple proposition: “Short margins to induce buyers to make staples out of luxuries — this perhaps the main factor in the development.” He assumed this strategic recipe could not work in smaller centres or rural areas, which were characterized by poor transportation facilities or a perseverance of consumer preferences for full-service merchandising (*Financial Post*, 26 March 1925). As shown in Table 2, with a focus upon the Toronto market, the firm achieved extraordinary sales per store, two to four times the performance levels of other chains.

The widely anticipated entry of A & P, which had 15,400 stores in the United States, was expected to have a devastating impact. The sales of the Great Atlantic and Pacific Tea Company were equal to nearly a third of all Canadian retail trade during the late 1920s (Whiteley, 1936: 69). Cautious and conservative, the firm’s executives secured a Canadian charter during 1919 but did not start up operations until 1927 with plans to extend operations throughout Québec and the Maritime provinces. Already coping with problems from its complicated organizational system and growing competition in the United States (Adelman, 1959), attention to the Canadian operation was diffident (*Canadian Grocer,* 25 November 1927, 9 November 1928, 7 December 1928). The division centred upon Montréal had 114 units by 1933, while the Toronto division operated 163 stores. Three-quarters of the Montréal stores operated at a loss between 1927 and 1933, while between 40 and 50 percent of the Toronto stores lost money in any given year. To sustain the venture, the American parent firm was forced to advanced repeatedly advanced additional cash infusions (Kennedy et. al, 1935a: 862-863).

This initiative unfolded concurrently with the entry of the T. Eaton Company, the nation’s biggest retailer. Grocery sales had been a staple of the mail order catalogue activities of Sears Roebuck and Montgomery Ward since the 1890s. Like major department stores like Harrod’s, Eaton’s had operated a ‘food court’ or offered specialty food products at its largest locations. Following the First World War, the stores in Toronto and Montréal offered a grocery service, where customer orders would be taken by

TABLE 2
Canadian Food Chain Operations, 1924-1945

	1924	1927	1930	1933	1936	1939	1942	1945	
<u>Market Status</u>									
# Ret. Food Chains	– – –	– – –	87	91	89	87	70	66	
Sales (C$ Mil.)	– – –	$41.0	$127.6	$103.6	$122.0	$123.8	$193.4	$220.3	
Total Food Sales (C$Mil.)		– – –	– – –	$488.4	$347.4	$385.8	$417.0	$755.0	$959.0
Chain % of Sales		– – –	– – –	26.1	29.8	28.9	30.6	25.6	23.0
<u>Number of Stores</u>									
Retail Food Chains	– – –	847	2352	2398	2334	1867	1431	1325	
Voluntary Chains		– – –	1487	4472	6026	6670	6706	– – –	– – –
Dominion	354	510	526	505	488	378	258	234	
Loblaws		20	49	95	107	111	113	114	113
<u>Sales Per Store</u>									
Retail Chain Average	– – –	$58288	$57521	$45041	$50028	$68530	$136644	$168930	
Vol. Chain Purchases	– – –	$27592	$5081	$4435	$4098	$4836	– – –	– – –	
Dominion	$29232	$37806	$45854	$39125	$39826	$47290	$98019	$146341	
Loblaws		$230290	$214634	$194053	$132888	$145536	$204435	$377193	$404425

SOURCES: Corporate data from listings in *Annual Financial Review*, *Financial Post Survey of Industrials*. Data for 1927 from *Canadian Grocer*, 26 October 1928. Statistics on corporate and voluntary chains extrapolated from multiple sources including: DBS: 63-403, *Retail Food Chains in Canada*; 63-409, *Food Retailing in Canada, (Independent Grocers)*.

clerks seated at fine Victorian tables. The items would be located and bundled behind counters before being brought out to the clients. As the firm sought to expand nationally and came under greater competition from ‘five and dime’ retailers (such as Woolworth’s and Kresge’s) it acquired Canadian Department Stores, a low-end discount operation comprised of smaller retailers (*Canadian Grocer*, 18 June 1926, 20 January 1928; *Financial Post*, 30 March 1928).

Seventy-five Eaton Groceterias were established between 1927 and 1933, predominantly in Ontario and the Maritimes. Some stores in smaller cities like Brandon, Sydney, or Kenora became locally prominent, not only because of the reputation of the parent firm but because the major chains had not located in those areas. Buying from a warehouse, these facilities operated separately from the grocery departments in the department stores. While operations in the Maritimes, Québec and the western provinces achieved marginal profitability, between 1927 and 1933 the Ontario stores (which represented half of the network) lost $400,000. Annual sales per store initially approximated the level achieved by Dominion Stores but crumpled to $29,733 (Kennedy et al. 1935a 1361-1396). Eaton’s lacked familiarity with the dynamics of the grocery business and could not displace the first movers. The Eaton family also tended to stress investments in their core business (especially grand stores in Toronto and Montréal). As a result, the grocery venture was so weak that that one member of the Royal Commission on Price Spreads later expressed puzzlement since “here is a great institution, a tremendous institution, maintaining separate competing grocery stores all over the province of Ontario and about 90 per cent of them are consistently losing money.” (Kennedy et al. 1935a: 1372).

Retail food chains accounted for 8 percent of the central Canadian market by 1925, *Canadian Grocer* estimated. Data from alternate statistical surveys by the Dominion Bureau of Statistics suggests their share of national sales peaked at 33 percent during the early 1930s. By 1930, the four largest networks accounted for approximately 40 percent of sales of all retail food chains. Another eighty-four chains were formed in response to the perceived potential of food retailing. Data about these companies is very limited but most were much smaller in size and often located in alternate cities and regions. American firms such as Safeway and Piggly Wiggly extended their networks into geographically contiguous areas of Canada. Small chains garnered positions in local markets such as McBrides Limited of Moose Jaw, O.K. Economy Stores of Saskatoon, Patterson and Black in Manitoba, and Acadia Stores or Corkum and Ritcey in Nova Scotia. Manufacturers wishing to spur sales of their products also launched chains. Canada Packers constructed a system of 15 units, while P. Burns of Canada established 200 meat stores along with a portfolio of dairies, packing plants and wholesale depots in the western provinces (Cheasley, 1930: 60-64; *Canadian Grocer*, 7 December 1928, 20 January 1928, 22 June 1928, 17 August 1928; *Financial Times*, 30 November 1928).

A More Definite System?

The major networks were popularized as evidence of a superior mode of distribution, which achieved new efficiencies or spread costs over additional units. In fact, the savings for consumers were marked but not dramatic. A 1929 survey by *Canadian Grocer* appraised the prices on fifty products from food chains as 2 percent lower than those from independent grocers. The Royal Commission on Price Spreads estimated goods could be purchased between 3 and 8.5 percent more cheaply from the chains during the late 1920s but it also indicated that the price gap vis-à-vis independent grocers narrowed after 1930 (*Canadian Grocer*, 10 and 24 May 1929; Kennedy et al., 1935b: 217). These trends paralleled developments south of the border, where chain grocers offered price savings to consumers but had difficulty maintaining the differentials (Philips, 1935).

Large merchandisers in the United States were able to realize significant discounts on volume purchasing. However, even the biggest of the Canadian retailers were diminutive relative to their American counterparts. Most of the chains serviced regional markets within provinces, thereby limiting the ability to garner lower prices through volume orders. Suppliers provided discounts for product promotions or the liquidation of excess inventory but the evidence is limited that the biggest distributors received radically lower prices. Food processors, determined to protect their own profit margins, by the late 1920s were reluctant to offer concessions, and the sharpest discounts occurred for chains with up to ten stores. During hearings by the Royal Commission on Price Spreads, representatives from Dominion Stores estimated quantity sale allowancesduring 1932 at just 0.2 percent of total sales. Secret or 'special beyond the ordinary' discounts also occurred, they conceded, but were never recorded. In addition, the chains used loss leaders to attract customers. Dominion limited these to less than 2 percent of weekly sales but the firm's executives claimed they did not know the effect upon consumer purchases. Twenty-five percent of goods were advertised weekly at lower prices but loss leaders accounted for three-fifths of the mark-downs. Advertised specials were restricted to 2.5 percent of sales and the mark-downs were not dropped more than 2 percent from regular prices. Loblaws placed ten items on advertised sale per week, mark-downs that reduced overall dollar sales by 1 percent (Kennedy et al., 1935b: 863-865, 868, 870-871).

Market power enabled the biggest chains to extract a key advantage: rebates and lump sum payments from manufacturers. Loblaws, for instance, received $196,651 during 1932, an amount equivalent to 13.3 percent of the firm's total net profits. The company recouped its annual advertising costs in two ways. Through cooperative arrangements, suppliers provided contributions for newspaper advertisements of product promotions. After 1924, the firm's managers also negotiated contracts with manufacturers, each worth the equivalent of 7 percent net profit from $30,000 of grocery sales. The suppliers were allowed to put up advertising in window displays or shelves. Although Loblaws' executives wished to issue additional contracts, the policy was constrained by "the number they could put in each store." Dominion Stores similarly received rebates and discounts, which in 1932 amounted to 52.4 percent of net profits or 0.8 percent of total sales. A third of its advertising expenses were "recouped from contributions from manufacturers and others, such contributions being directly or indirectly related to the advertising of their brands" (Kennedy et al., 1935b: 792, 795, 1137, 1150-1151).

Gains also came from a squeeze-out of wholesalers and jobbers. Each firm established a purchasing department, which negotiated directly with suppliers, along with warehouse facilities to service its network. With respect to the latter, Loblaws was consistently cited by industry observers as the most effective enterprise, in part because it was focussed on Toronto and did not encounter the transaction or transportation costs associated with geographic diversity. Loblaws gained reduced distribution costs well below the levels of its competitors by maintaining an extensive trucking fleet and a warehouse complex. To a greater degree than the other chains, the company internalized important activities like baking, candy packing, fruit cleaning, and egg, tea or coffee processing. In contrast, Dominion, like other chains, tended to limit the internalization of manufacturing or distribution (Kennedy et al., 1935b: 1140-1141, 1143-45, 797, 799).

The Canadian grocery chains were managerially-thin and not complex bureaucracies. Seven executives coordinated the Dominion network in 1925 and this group shrank to five by 1932. Loblaws had four officers at its headquarters who handled major decisions. A & P retained six officers but they answered to the parent firm. Most executives of the grocery chains were paid by salary and at levels somewhat higher than prevailing patterns among Canadian corporations. The conspicuous exception was Loblaws where (due to the ownership structure) the senior officers also garnered preferred dividends, which amounted to $1.56 million for the period of 1929 to 1933 (Kennedy et al., 1935b: 1131-1134). 'Middle management' for each company took the form of two or three district superintendents who interfaced with the operating units and who received bonuses when territorial earnings improved or expenses were reduced. Administrative expenses in the form of payments for salaried staff (including accountants, buyers, superintendents) and overhead remained a major component of costs. With limited vertical integration, Dominion reduced this issue from 28 percent of operating expenses in 1924 to 16.3 percent by 1933, whereas it remained static for Loblaws at 34 percent (Kennedy et al., 1935b: 781-783, 788, 831-834, 872-873, 1158).

The store operators worked under rigid administrative framework. During the expansion of the chains, it appears likely that more than three-fifths of the operators were untrained or lacked substantive experience with merchandising. They were held responsible stock management, cash or the acts of clerks. Little, if any, room was made for spillage or waste even on the transfer of bulk goods to bags. Store operators bought and sold goods at prices determined by a central office and set as close as possible to retail sale levels. Fixed profit percentages had to be achieved on sales and in combination stores targets were set for weekly profits for specific departments. Dominion expected meat sales to realize a 28 percent profit, baked goods 32 percent, canned goods and fruit 33 percent. During hearings by the Royal Commission on Price Spreads, the chains were forced to release their price schedules, some revealing profit levels over 125 percent on various goods. (*Canadian Grocer*, 16 October 1926; Kennedy et al., 1935b: 786-787, 809, 995, 1134).

The growth of the biggest chains triggered a dialectical process that restricted their expansion. The companies represented monopsonistic purchasers to manufacturers of food products. Thus, even as the firms expanded, a countervailing movement of mergers and acquisitions unfolded, which entailed the construction of foodstuffs manufacturers that would gain additional productive efficiencies or synergies among different activities and thereby retain better bargaining positions. In the United States, E. W. Gillett, Fleishmann, Royal Baking Power and Chase and Sandborn amalgamated to form Standard Brands, while General Foods consolidated Postum Cereal, Jell-O, Hellman's Mayonnaise and a variety of other products. In Canada, a series of mergers between 1927 and 1929 led to the formation of Canada Packers, Maple Leaf, Catelli Macaroni Products, George Weston, and Canadian Biscuit(Eis, 1969; Mueller, 1982). Manufacturers concurrently propelled a rationalization of the wholesaling function, claiming they had a right to choose who would handle distribution. Desk jobbers had accounted for 2 to 5 percent of the profit on food sales. In response to price cutting pressures, numerous producers announced they would only deal with full service wholesalers, forcing a squeeze-out of those operations (*Canadian Grocer*, 5 March 1926, 23 July 1926, 6 August 1926).

These developments triggered a fundamental reorientation at the wholesaling stage. Determined to prevent further erosion of their competitive status, thirty-one wholesalers during 1925 merged to form National Grocers. The firm moved "to effect economies in the distribution of food commodities" by closing half of the consolidated facilities (*Financial Post*, 31 July and 14 August 1925; *Canadian Grocer*, 1 January 1926). Two years later National Grocers purchased Red and White stores in Ontario and Leader Stores in western Canada. With these units serving as a nucleus, it organized small retailers into a voluntary chain. Comprising 705 stores under the Red and White logo by 1933, the organization carried out collective advertising, coordinated use of loss leaders and gained from bulk purchasing. Under the terms of affiliation, members bought all of their dry groceries from National Grocers but this policy was not strictly enforced (Kennedy et al., 1935b: 1095-1096). Other small retailers formed analogous organizations and stores belonging to voluntary chains quadrupled between 1925 and 1933 (see Table 2).

The Failure of Consolidation

The 'success' of the largest distributors was somewhat illusory: a function of the growth of networks rather than sustained performance improvements. Major urban centres became 'over-stored' across the 1920s, with an intensification of price-based competition. The entry of A & P and Eatons convinced smaller producers that they could only survive either by amalgamation, membership in a voluntary chain, or by joining a major firm. During 1927 Consolidated Food Products was formed as a chain of 160 stores through the merger of Arnold Brothers, Piggly Wiggly Canada, Pure Foods, and George Arnold. Just a holding company, Consolidated encountered financial problems and lasted three years. The Hamilton-based chain controlled by William Carroll entered negotiations with A & P, while several small chains in western Canada sold out to Safeway (Monod, 1996: 409).

Press rumours abounded that William Pentland, on behalf of Dominion Stores, offered to buy Loblaws, an apocryphal tale that covered up more complicated manoeuvres. Theodore Loblaw was injured in a riding accident in 1928. His slow, painful recovery precipitated family discussions about the future of the business and the need to protect the fortune. Loblaw and Cork, in their late fifties, had no obvious successors. Loblaws' Chicago banker brought in Merrill Lynch, the investment banking operation that had financed an expansion of the firm's separate American chain. Merrill Lynch had begun to broker negotiations aimed at rationalization of the American industry, via a $600 million merger of Kroeger, A & P, Safeway, and National Tea. An amalgamation of the leading Canadian firms rested on idea of economies gained from the consolidation of warehouse operations. The activities of Dominion Stores were scattered and not cost efficient, whereas Loblaws had a warehouse facility that could cut trans-shipment expenditures. This strategy, noted one observer, "offers many advantages including economies in management and operation, increased purchasing power and the opportunity to furnish the public with merchandise of the highest quality at a low cost" (*Globe*, 11 October 1929). "The modern tendency is for chain grocery stores to consolidate into larger systems," Pentland rationalized, but it was an option that also allowed the American shareholders to cash out their investments (*Financial Post*, 17 October 1929). Merrill Lynch perceived the Canadian merger as a necessary precursor for an amalgamation south of the border.

The negotiations turned on issues of finance, not marketing. Theodore Loblaw was to serve as the head of a new company for one year but Pentland and his associates would manage the operations. Investment bankers and securities dealers would dominate the board of directors, while Dominion Stores was allocated two representatives. Dominion Stores would receive an option to gain over 50 percent of each class of Loblaws stock and secure about 70 percent of the equity. The new firm then would issue preferred stock, purchase warrants, and common shares for sale to the public. The promoters planned to double the cash stock as a first step. Merrill Lynch would secure technical profits through its holdings of warrants on 125,000 shares of Dominion Stores, as well as a large cash payment.

Timing and an inability to reach an agreement scuttled the scheme. The acrimonious outcome was well publicized in the Canadian media. The deal hinged upon the acquisition of 85 percent of Loblaws' common shares. A meeting of the shareholders of Dominion Stores approved the tentative deal in October 1929 but the possibility of selling securities for the holding vehicle vanished as stock markets imploded. Minority shareholders of Loblaws were dependent upon the provisions for share warrants and chose to hold out, either until they received more favourable terms or market conditions improved.

Concurrence about the true value of the companies proved elusive. Dominion sold fewer lines of goods, had a stronger cash position, and had a modest amount of capital stock even though it was the larger chain. Loblaws had never published data that permitted observers to gauge its performance. The company was widely viewed as overcapitalized, with a mix of voting and non-voting shares. Loblaw and Cork, the two largest shareholders were offered a secure return (nearly fifty percent above the prevailing prices in the Toronto exchange) but no protection was offered for the minority shareholders. Instead, the price they could receive was contingent upon the share value of Dominion Stores and the board of the new firm could delay a settlement. Equity prices for the two firms dropped by three-quarters from the highest values that had been posted during February 1929. Small investors in Loblaws, convinced they were being chiselled, held out for better times, while Theodore Loblaw did not renew his option. The disputes proved moot, however. Merrill Lynch could not even raise bridge financing of US$5 million (*Financial Post*, 15 August 1929, 17 October 1929, 24 October 1929, 14 November 1929). The firm tried again for a continental merger in 1930 but found limited interest.

Going Backwards by Standing Still

The major companies were concentrated in the urban areas, particularly in southern Ontario and Québec, and they struggled onward under increasingly harsh economic conditions. Approximately 41 percent of their sales occurred in cities with a population larger than 100,000. The share of sales accounted for by the food chains did increase from 12.7 to 17.2 percent from 1930 to 1945 among cities with a population range of 30,000 to 99,999 but in smaller towns or villages it decreased.

At the provincial level, the inability to sustain positions was more apparent. Chains accounted for 19.6 percent of grocery sales in Québec during 1930 but the share declined to 15 percent by 1939, a level maintained until the post-war era. In the Maritimes, they handled 20 percent of sales during 1933 but only 13 percent by 1939, remaining at that level until 1946. A similar pattern unfolded in the western provinces. The share of chains for British Columbia and Ontario sales expanded across the Great Depression but their status weakened during the early 1940s. In the former, it rose from 26.1 percent in 1930 to 40.2 percent in 1939 but deteriorated to 28.8 percent by 1947. For the latter, it respectively expanded from 34.2 to 41.6 percent and declined to 35.7 percent.

Why did this trend occur? Some independent retailers sought laws that could restrict the big retailers or enforce retail price maintenance but most enhanced their operations, thereby restricting the organizational gains the chains supposedly retained. Trade publications publicized the chain's techniques: layout, displays, budgetary controls, advertising, loss leaders, self-service. *Canadian Grocer* regularly described the counter-strategies of shopkeepers (its subscription base) who mixed attributes (such as service or groceteria, combination, and economy formats) to block further inroads. Coverage of the meetings of American associations also represented a source of information.

The ability of the chains to grow was affected by several issues. The biggest firms had similar cost structures but their expansion created more capacity than could be fully utilized. This problem was exacerbated as new competitors entered and it became acute for follower firms like Eaton's and A & P. Moreover, chain stores were located in middle and upper income neighbourhoods. The 'better class' of clients was willing to accept the shift away from credit-based sales and to pay the premiums associated with branded goods. As economic conditions worsened, the viability of this strategy eroded. Indeed, the chains responded to the intensification of competition by trading up rather than by lowering prices. Many consumers expected traditional services from grocers and would not make purchases just on cost criteria. By the end of the 1920s, with the exception of Loblaws, the large firms added slow moving items to inventories or granted store operators discretion to supply credit and delivery. A & P's executives, for example, noted that it was "not part of the company's original plan of operation to deliver goods, but this policy has been changed in certain localities in order to maintain sales volume by giving the customers this extra service" (Kennedy et al., 1935b: 874-875).

In essence, the firms proceeded through what Malcolm McNair and Stanley Hollander characterized as the 'wheel of retailing" (McNair, 1958; Hollander 1960) Having started as low-price, low margin suppliers, the chains were converted into their opposites — holders of the price umbrella. Mark-up policies were increased to enhance the payback for shareholders. For Loblaws, gross profit as a percentage of cost escalated from 15.9 percent in 1922 to 26.7 percent by 1933. As a percentage of sales, it rose from 13.7 to 21.8 percent. For Dominion Stores, gross profits to cost rose from 23.6 to 31.1 percent during the same period, while gross profit to sales expanded from 19.1 to 23.7 percent. Although prices deflated after 1929, the firms raised mark-ups further. The headquarters at Dominion in 1932, for example, demanded an average mark-up of 31 percent on dry groceries, equivalent to 23.7 percent gross profit on sales, eliminating any price advantage over independent grocers. Unable to meet unrealistic goals, some store managers responded by short-weighting, chiselling, or trimming payments to clerks (Kennedy et al.: 1935: 798-799, 854, 1124-1125, 1149-1150).

The organizational attributes of the chains placed them at disadvantage after 1930. Not only did consumer demand weaken and shift toward staple products, but customers bought in small lots — patterns that could be serviced by traditional grocers who were prepared to extend credit. Ironically, this behaviour continued until the late 1940s as government rationing restricted the goods allocated to firms, forcing customers to travel from store to store (Wagner, 1942). Given infrastructure, rental charges and advertising requirements, the chains found the control of costs difficult. Dominion's operating expenses grew from 17 percent of sales in 1929 to 22 percent by 1933, while the ratio at Loblaws expanded from 11 to 14.5 percent. The chains tended to lose money on their smallest stores, those with annual sales less than $20,000. The companies had little leeway with those units because the operations were labour-intensive and the compensation for clerks or delivery staff had been kept low (Kennedy et al., 1935b: 805-808, 831-832, 1172–1176).

The thinness of the managerial ranks left the big firms exposed. Theodore Loblaw's health declined and he died suddenly in 1933. Milton Cork continued to guide the chain but could not pass control to a new generation of managers. Although Cork retained the largest block of equity, Theodore Loblaw's holdings were scattered among Emmanuel College of the University of Toronto, several investment trusts, and the Toronto Kiwanis Club. Those interests were content to hold their shares and collect dividends, not to support infusions of new capital or to act as entrepreneurial investors. The company survived the worst of the Great Depression, in part, by selling off the Chicago operations of the American subsidiary to Jewel Tea (*Financial Post*, 19 March 1932). As economic conditions improved, revenues permitted an incremental expansion of store size and by the early 1940s Loblaws began to introduce larger 'supermarket' stores in the Toronto area (Davies, 1987). A reliable source of investment capital was not secured until 1947, when the Weston Company, Canada's largest supplier of bakery products acquired a minority equity position. Dominion Stores was weakened by Robert Jameson's departure after failure of the merger and the company stagnated after the death of William Pentland in 1933. His successors were unwilling to make innovations and financial losses accrued. William Horsey was appointed as a new president of Dominion Stores in 1939 and he quickly announced a plan for store modernization. But he was not able to take action the reluctance of shareholders to commit new capital. Only after ownership passed to a new group of financiers in 1946, was Horsey able to undertake the investments.

Imitations of the Red and White initiative eroded the perceived advantages that the chains offered consumers. Although wholesaler-sponsored groups became the primary type of voluntary chain, various independent grocers organized themselves into two alternative groupings. Some formed retail cooperatives, such as Superior Stores in Ontario, buying pools that bought from any producer or wholesaler. These became precursors of the cooperative firms that expanded dramatically in subsequent decades. Others grocers formed buyer syndicates, which used standardized signs and advertising. By 1930, 23 voluntary chains had been organized in Canada, accounting for 4,472 shores with aggregate purchases of $22.7 million. The movement peaked in 1938 with 39 chains comprising 7,158 stores which had aggregate purchases of $29.4 million. The performance of the voluntary groups was noticeably weaker than the major chains. Gross profit on sales or cost tended to fall in the range of 10 to 12 percent, less than half of their rivals. Purchases per member of voluntary groups were diminutive in comparison with average sales by chain stores. Many independent grocers persevered at or near the poverty line. Still, membership in those organizations enabled them to stave off elimination for a generation.

Adding to the woes of the chains were the entry of manufacturing firms into distribution such as; Épiciers Modernes, affiliated with Hudon-Hébert-Chaput; Victoria Stores, operated by Laporte Martin; or Adanac, supplied by James Lumbers and Company. Couvrette & Sauriol represents a useful illustration of this practice. A supplier of packing goods, the firm expanded into wholesaling, and during the late 1920s organized its clients into Magasins Frontenac. Each of the 800 members paid an annual fee of $25. In addition to the supplies purchased from C & S, the members gained from coordinated promotions and modest group advertising. Sales later expanded after the managers received training in the United States and the organization sent out a catalogue (*Notre Vendeur*) across Québec to 4,000 small grocers (Provost and M. Chartrand, 1989).

The willingness of small merchants to resist chain store operators varied. For instance, during the 1920s and early 1930s grocers and butchers in Québec were represented by several associations but a coherent enhancement of their activities came with the formation of the Association des Détaillants en Alimentation du Québec (ADA). The organization popularized concepts widespread in Ontario: the use of professional business methods and establishing stable relations with food processors. But because the chains did not expand beyond Montréal, a majority of Québec wholesalers remained convinced that the firms would not survive and they were more suspicious of working together than of meeting the long-term threat (Provost and Chartrand, 1989). Although the Great Depression had a devastating impact upon their operations, not until 1942 did the Chambre de Commerce de Montréal sponsor a meeting to discuss ways of handling the spread of chains. A need to improve relations with manufacturers was recognized, but it took until 1953 for the wholesalers to form their own group, the Association des Épiciers en Gros de la Province de Québec (AEG).

CONCLUSIONS – An Uneasy Transition

The inability of the biggest food chains to gain dominant positions prior to 1945 masked several trends which presaged a transition toward true mass markets. As resources permitted, the firms incrementally expanded store size or shifted toward a combination format to raise the volume of sales. Government data suggests that approximately 58 percent of food chain stores increasingly employed the 'combination' format during 1930 but this expanded to 80 percent by 1945. The manoeuvre converted food stores to the equivalent of department stores, 'one stop shopping' facilities, but until the post-war era most consumers supplemented their purchases at a primary location with visits to other stores. The shift accelerated the transformation of grocery sales: converting store managers from employers to employees, assigning clerks to particular departments, and employing separate accounts for each department. Combination stores, nevertheless, were an interim action for increasing volume.

Equally crucial was the tendency of grocery chains to liquidate small or less efficient facilities, where financial losses had often occurred, in favour of larger operations. The number of food chain stores dropped from 2,334 during 1936 to 1,325 by 1945 but average sales per store increased. Nearly 80 percent of chain stores during 1934 earned less than $100,000 annually (and 42 percent earned less than $50,000). About 85 percent of the chain stores earned more than $100,000 yearly by 1946. While no single location achieved annual sales exceeding $1 million (the benchmark minimum during the post-war era), a growing proportion of stores earned more than $500,000 (Kennedy et al., 1935b: 1092-1093, 1096; DBS, 1940, 63-403: 7).

Despite the optimistic notions espoused during the early 1920s, the dominance of the big food chains did not occur until after 1945. The industry was representative of the difficulties that Canadian retailers experienced in mastering the concepts of volume sales, efficient distribution, and professional management. Public rhetoric by corporate executives varied from organizational action. Indeed, by the 1930s the executives of the food chains forgot the strategic logic formulated a decade earlier. The companies started as low-price distributors but lost those advantages due to mark-up policies and an inability to control operating expenses. As new rivals entered the industry and independent grocers gained countervailing power, the chains were forced into a partial retreat and reorganization. Thus, far from a simple stage-like evolution, the industry's development was a swirl and ebb among distributors, producers, wholesalers and shopkeepers.

And yet, observers and industry participants were aware of the issues necessary for a transformation. Supermarkets arose in southern California and spread to the eastern states via King Cullen and Big Bear by the late 1930s. The formation of the Supermarket Institute during 1937 provided a vehicle for consultation and the dissemination of information about architectural design, layout, inventory management, and labour relations. The ability to succeed with this new orientation was a function of innovative management, market position, and financial stability (Zimmerman, 1953; Mayo, 1994).

Post-war changes brought about the conditions that facilitated large-scale food merchandising: a new highway system linking regions, growing levels of professional education, popular media (especially television) that projected commercial values and the image of a happy middle class, and rising consumer incomes. The chains overpowered smaller rivals with an expansion into suburban areas and organizational techniques pioneered by American distributors. The construction of new supermarkets would become the most visible indicator of an era of economic prosperity and the shopping cart, the full hamper, the symbol of a new generation. For the retail food chains, it would be the best of times as they finally found their mammoth market.

REFERENCES

Adelman, M. A. 1959. *A & P: A Study in Price-Cost Behavior and Public Policy*. Cambridge, Mass.: Harvard University Press.

Baxter, W. J. 1928. *Chain Store Distribution and Management*. New York: Harper and Brothers, 1928.

Beckman, T. N., and H. C. Nolen. 1938. *The Chain Store Problem*. New York: McGraw-Hill.

Bliss, Michael. 1973. *A Living Profit: Studies in the Social History of Canadian Business, 1883-1911*. Toronto: McClelland and Stewart

Canadian Grocer, weekly, 1888-1940.

Chandler, Alfred D. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, Mass.: Harvard University Press.

Chandler, Alfred D. 1990. *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge, Mass.: Harvard University Press.

Cheasley, C. J. 1930. *The Chain Store Movement in Canada*. Orillia: Packet-Times.

Davies, Charles. 1987. *Bread Men: How the Westons Built an International Empire*. Toronto: Key Porter.

Dominion Bureau of Statistics, annual or bi-annual statistical series for 1926 to 1948, 63-209, *Retail Trade*; 63-210, *Retail Chains*; 63-403, *Food Chains*; 63-409, *Food Retailing*.

Dominion Stores. 1953 *Annual Report*. Toronto: Dominion Stores.

Eis, Carl. 1969. The 1919-1930 Merger Movement in American Industry. *Journal of Law and Economics*, 12:2, 267-296.

Financial Post, weekly, 1908-1945.

Hollander, Stanley C. 1960 The Wheel of Retailing. *Journal of Marketing*, 25 (1960), 37-42.

House of Commons. 1888. *Report of the Select Committee to Investigate and Report on Combinations in Manufactures, Trade, and Insurance in Canada*. Ottawa: Queen's Printer.

Leach, William R. 1994, *Land of Desire: Merchants, Power, and the Rise of a New American Culture*. New York: Vintage.

Monod, David. 1996. *Store Wars: Shopkeepers and the Culture of Mass Marketing, 1890-1939*. Toronto: University of Toronto Press.

Mueller, Willard F. 1982. The Food Conglomerates. *Proceedings of the Academy of Political Science*, 34:3, 54-67.

Kennedy, William, et al. 1935b. *Report of the Royal Commission on Price Spreads*. Ottawa: King's Printer.

Kennedy, William, et al. 1935b. *Proceedings of the Royal Commission on Price Spreads*. Ottawa: King's Printer.

Mayo, James M. 1994. *The American Grocery Store: The Business Evolution of an Architectural Space*. Westport, Conn.: Greenwood Press.

McNair, Malcolm P. 1958. Significant Trends and Developments in the Postwar Period. In A. B. Smith, ed., *Competitive Distribution in a Free High-Level Economy and its Implications for the University*. Pittsburgh: University of Pittsburgh Press, 1-25.

Philips. Charles F. 1935. Chain, Voluntary Chain, and Independent Grocery Store Prices, 1930 and 1934. *Journal of Business of the University of Chicago*, 8:2, 143-149.

Provost, R., and M. Chartrand. 1989. *Provigo*. Scarborough: Prentice-Hall, 1989.

Tedlow, Richard S. 1990. *New and Improved: The Story of Mass Marketing in America*. New York: Basic, 1990.

Urquhart, M.C., and K.A.H. Buckley. 1965. *Historical Statistics of Canada*. Toronto: Macmillan.

Wagner, Louis C. 1942. Price Control in Canada. *Journal of Marketing*, 7: 2, 107-114.

Walsh, W. I. 1986. *The Rise and Decline of the Great Atlantic and Pacific Tea Company*. Secaucus: Lyle Stuart.

Whiteley, A. S. 1936. Retail Trade in the United States and Canada. Journal of Political Economy, 44:1, 54-69.

Zimmerman, M. M. 1953. *The Super Market*. New York: McGraw-Hill