

METHODS AND POLICIES OF THE DISTRIBUTION OF
FOOTWEAR IN SOUTH AFRICA.

by

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in Economics, as an internal student of Rhodes
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I hereby declare that this thesis is
entirely my own work.

.....*G. Lipochnik*.....

FOREWORD

This thesis is mainly based on information obtained by discussion with footwear manufacturers, wholesale merchants, retailers and many other business men who were thoroughly acquainted with merchandising methods and policies. Many thanks to all those who assisted.

Government Blue Books, other published and unpublished Reports and Economic and Trade journals were consulted wherever possible.

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Special thanks are due to Professor Hobart-Houghton, of Rhodes University College, for his valuable advice and suggestions. The writer, however, bears the sole responsibility for the opinions expressed and the conclusions drawn in this thesis.

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CHAPTER 1.

HISTORICAL DEVELOPMENTS IN THE METHODS AND POLICIES OF THE DISTRIBUTION OF FOOTWEAR IN S. AFRICA.

1. Definitions.

In recent years economists, business men, the State, and the public, have been paying more and more attention to the problems of distribution, marketing and selling. Various definitions have been attached to these terms, and as a result a considerable amount of confusion has arisen as to their exact meaning. Thus, before continuing, it is essential that some distinction should be made between the various terms used in this thesis.

To the economist "distribution" has two distinct meanings. It may refer to the division of wealth between the various factors of production, or on the other hand it may refer to the process of transferring goods from the time and place at which they are produced to the time and place at which they are purchased by the consumer. For the purpose of this thesis, the latter interpretation of the term "distribution" will apply.

However, any definition of the term distribution must be an arbitrary one. Both production and distribution are essential and overlapping aspects of a single comprehensive process - that of giving commodities value. But at times it is extremely difficult to differentiate between what constitutes production and what constitutes distribution. Economists have tried to overcome this difficulty by defining production as the addition of physical or form

utilities to goods, whereas distribution is the addition of time and place utilities.⁽¹⁾ But even this distinction creates a considerable amount of difficulty. Should advertising, for instance, which has the effect of increasing the prestige value of a commodity, be regarded as a productive or a distributive function? The line that divides these two functions is a very thin one.

To many a businessman, the terms marketing, selling and distribution refer to the same process. This is not altogether true. Both marketing and selling are subsidiary functions of the distribution process. Marketing involves the determination of what goods are to be transferred in what quantities and at what time. In other words the method of distribution as well as the production programme is determined by the marketing policy. Selling, on the other hand, represents the efforts to influence the consumer or intermediaries to purchase a commodity.⁽²⁾ Selling is thus the last phase of the process of distribution, whereas marketing is the initial phase.

The process of transferring goods from the time and place at which they are produced to the time and place at which they are purchased by the consumer may be divided into four distinct operations :

1. The producer and consumer must be brought together.
2. The goods must be prepared for the market.
3. They must be transported to the place required, and
4. They must be held until required by the consumer.

These operations are usually undertaken by a number of distributing organisations.

(1) 20th Century Fund - Does Distribution Cost Too Much. p.6.
 (2) Simmat - Selling and Sales Management.

But before undertaking a detailed discussion of the distribution of footwear in South Africa, it would be very helpful to view the whole problem as an integral part of the economic system. The actual methods of distribution will depend upon the requirements of the community, which in turn are determined by social and economic environment. Any changes in the social and economic environment of the community will lead to corresponding changes in the methods of distribution. However, it is possible that changes in the distributive process may be brought about by the deliberate action of vested interest or pressure groups, but ultimately social and economic forces will be the deciding factors.

Thus a brief history of the methods of distributing footwear in the past, and its relationship to the social and economic environment would serve as a very useful guide in appreciating the present distributive structure, and in attempting to forecast any future tendencies.

11. The Distribution and Marketing of Footwear, 1652-1870.

It appears that from the time the Dutch East India Company established a half way station at the Cape in 1652 until the discovery of diamonds and gold in the 1870's, the demand for footwear can be divided into two distinct groups. Firstly, the demand by those who were living in the more settled areas of the Western Province, and later the Eastern Province, and secondly, the demand by those burghers who were consistently on the move.

The footwear requirements of the servants and the

soldiers of the Dutch East India Company, and the requirements of those burghers settled near and around Cape Town, were supplied from Holland through the company's stores. With the liquidation of the Dutch East India Company in 1789, and the final occupation of the Cape by the British in 1805, the source of supply was changed from Holland to Britain, and the wholesale merchant took the place of the Dutch East India Company.

During the whole of the nineteenth century the Cape wholesale merchant played the most important part in the commercial life of the country. He undertook the importation of goods and was thus responsible for the marketing function. He was also responsible for the operation of holding stocks until required by the retailer, and thus he bore all the risks which were brought about by changes in fashion and price fluctuations. These risks were great, as a considerable time elapsed from the ordering of the goods in England and their actual purchase by the consumer in South Africa. Further, the demand was constantly changing due to the fluctuating size of the garrison at the Cape.

Due to the small and scattered population and their lack of purchasing power, the turnover of the retail store was very small, and the retailer was thus obliged to stock all types of commodities that were required by the community. The retailer was unable to accumulate sufficient capital to be independent, and more often than not he was financed by the wholesale merchant. In many cases the retailer was acting as the agent for the

wholesale merchant, and was merely carrying out the last phase of the distributive process - that of selling. To quote the Association Chamber of Commerce, referring to the period of 1850: "The whole business of the country at that time was done exclusively by coast firms, and one of the methods was by means of supported accounts. The wholesale merchant in those days provided the necessary capital for the development of the country; they supported the retailer without capital, who in turn supported the farmer - the system of supported accounts suited the needs and conditions of the times".⁽³⁾

To get some idea to what extent the wholesale merchant dominated the distributive structure, it should be noted that in 1884 there were 834 people possessing wholesale licences and only 4,351 possessing retail licences,⁽⁴⁾ a ratio of 5 retailers to every wholesale merchant in the Cape Colony. Even taking into account the fact that many of the wholesale merchants were engaged in trading with the northern provinces of the Transvaal and the Orange River Colony, the ratio appears to be very high. It appears that as the wholesale merchant had to finance the retail store for a considerable length of time, and as considerable time elapsed from the ordering of the goods until they arrived, large amounts of capital were tied up, and consequently the number of customers had to be limited.

(3) Memorandum by the Association Chamber of Commerce of S. Africa on the Profits Report of the Cost of Living Commission U.G.-1-1919 (Appendix A).

(4) Select Committee on Wholesale and Retail Licences in the Cape Colony.

As one leaves the more settled areas of the Cape for the ever widening frontiers, the reliance on self-sufficiency becomes extremely important. The footwear requirements of the burghers were produced on the farm either by the farmer himself, or by a member of his household. Occasionally a local bootmaker or a travelling merchant may have supplied a limited amount of the footwear requirements. But judging from the descriptions of the dress of the people living further inland it appears that the bulk of their requirements were produced on the farm.

Under this system of "bespoke" manufacture, it is the consumer who undertakes the marketing function, for it is his decision that determines when and what goods are to be produced and in what quantities. Due to the absence of evidence that footwear formed an article of commerce or exchange⁽⁵⁾, it must be assumed that the problem of distribution did not exist to any great extent, and was entirely a personal matter for the head of the household.

The discovery of diamonds and gold in South Africa towards the end of the nineteenth century brought about a considerable change in the whole economic and social structure of the country, this leading to corresponding changes in the structure of distribution.

111. Changes in the Structure of Distribution, 1870) 1939.

Changes in the distributive structure came about as a result of a change brought about in the demand and in the supply of footwear.

(5) Schauder - The Economic History of the Boot and Shoe Industry (an unpublished thesis).

(a) Changes in the Structure of Demand.

As a result of the discovery of diamonds and gold, the first real commercial and industrial centres of the country were established at Kimberley and Johannesburg. We begin to witness the beginning of the process of urbanisation, which is still continuing to this day. Immigrants attracted by promises of rich rewards, farmers' sons who were finding great difficulty in acquiring new land, and natives in the hope of obtaining higher wages, flocked to the diamond fields and the Reef with the purpose of finding work on the mines or in the towns.

There was a complete change in the whole economic and social structure of the country. Self-sufficiency began to disappear; the division of labour, and the profit motive began to take its place, and as a result the national income of the country increased. The population had more money to spend and relied more on others to provide their requirements.

The demand for food by the new mining centres led to a gradual disappearance of the self-contained farm. The farmer began to produce for the market, and his reliance on domestic produced articles decreased.

In order to meet the new demands, trading stores sprang up along the diggings and on the Reef. Travelling merchants were selling their wares wherever they could. At first most of these stores started with very little capital, and had to rely on the wholesale merchant for financial support. However, due to the continual increase in demand, the difficulties of supply and the general chaos and confusion brought about by railway and tariff wars,

profits were large. As a result capital was accumulated by retailers.

The retailer began to become more independent, and his reliance on the wholesale merchant decreased. The larger retailers began to buy direct from the factories; no longer was the retailer's function solely confined to that of selling; buying became to be regarded as a very important function.

However, at the outbreak of war in 1914, more than 2/3 of the footwear consumed in the country was still being imported. And owing to the time which elapsed between the purchase of footwear and the arrival on the local market, a considerable amount of capital was required by importers, with the result that only the very large retailers were able to import. The greater portion were still dependent upon the wholesale merchant for supplies and financial support.(6)

(i) Urbanisation and the Increase in the Demand for Services.

During the twentieth century, the gold mining industry continued to expand rapidly, mainly as a result of the increase in the price of gold. Further, as a result of the formation of Union in 1910, and the Great War in 1914, a spirit of nationalism developed in the country. In the economic sphere this took the form of an expansionary policy in the industrial field. As a result of the improved methods in farming, the volume of output could be maintained with less labour.

All these factors tended to accelerate the movement of urbanisation, in spite of the various attempts made by

(6) Profits Report on the Cost of Living Commission Section 8 U.G.1-1919.

the government to encourage the population to remain on the land. European urban population increased from 51.7% in 1911 to 69.2% in 1941, and the Non-European population rose from 17.5% to 28.8%.⁽⁷⁾ Large concentrations of population began to take place along the Reef, Pretoria and the coastal ports.

As the result of the growth of large towns and cities, a considerable change took place in the economic and social environment of the people. Firstly, the urban population spend more of their time on a specific task, and thus rely on others to supply their necessary requirements. Secondly, leisure tends to have greater value to people living in cities and large towns than to people living in villages and farms, due to the facts that a) the urban population spends a greater portion of its time getting to and from work; b) problems of "parking" and transport are more difficult; (c) the number of places of amusement and entertainment are greater; and (d) the urban population is of a younger age group⁽⁸⁾ and thus on the whole tends to be more active. Consequently the increased reliance on others, and the increased demand for leisure by the urban population, has resulted in a corresponding increase ^{the} in/demand for the services of convenience, immediacy and variety.

In order to meet this increased demand, a complete change took place in the role of the footwear store; no longer was selling the main function, but the provision of service became of equal importance. The mixed

{7} Table Vlll Board of Trade Report 282.
 {8} Board of Trade Report 282 Annexure H.

merchandising store began to disappear, and in its place we begin to witness two developments. Firstly, the growth of the retail store specialising in footwear, so as to enable the consumer to make comparisons of price, quality and fashion in one store. Secondly, the growth of the large departmental store (with footwear departments) so as to enable consumers to purchase all their requirements under one roof.

This increased demand for services has resulted in the growth of specialisation and concentration in the retailing of footwear. Unfortunately, however, no statistics are available to indicate or trace this development, but from general observation it is evident that today this is considerable. Very few retail stores selling footwear are located outside the main shopping area; as a matter of fact it appears that the majority of footwear retail stores are located in the more popular part of the shopping centre⁽⁹⁾.

Further, it appears that the degree of specialisation and concentration increases with the demand for services. For instance, the demand for styles, colours, fashions and fittings tends to be very much greater for women's footwear than for men's, with the result that the retailing of women's footwear tends to be more specialised. In the main shopping area of Johannesburg it was found that out of the 30 retail stores stocking women's wearing apparel (that face street

(9) From observation it appears that the sunny side of the street tends to be more popular for the location of retail stores selling "shopping goods", which includes footwear. This, unfortunately, has the effect of increasing costs. Rents for such locations tend to be higher, and the loss due to "shop spoilt" greater.

level), none sold footwear⁽¹⁰⁾, whereas out of the 70 men's outfitting stores, 43 sold footwear⁽¹¹⁾. Similarly, in Port Elizabeth's Main Street, which caters for the middle and higher income groups and whose demand for services are great, two of the wearing apparel stores sell ladies' footwear, whereas in the "North End" shopping area, which caters for the working classes and whose demand for services are not great, practically all the wearing apparel stores stock footwear. In contrast, however, it was found that the degree of specialisation was not as great for the main shopping street of Pretoria⁽¹²⁾; approximately half of the 20 women's wearing apparel stores, and all but 3 of the men's outfitting stores, sold footwear. This is on account of the fact that the majority of consumers in Pretoria are government employees, who, being paid monthly, tend to buy more on credit than the average consumer in other cities, with the result that they purchase all their requirements from one store.

This specialisation and concentration of footwear retailing has been accompanied by the growth and the development of the chain store organisation. It is difficult to disentangle the various forces at play and try and isolate the factors that were responsible for this development, but it appears that the main factor in the growth and the development of the chain form of organisation was the fact that the division of labour principle could be applied to the "buying function". As soon as the buying function became an important factor in retailing, so the development of the chain system

(10) This excludes Departmental Stores, whose shoe departments are in many cases equal in size to that of a small footwear store.

(11) Information obtained from a survey undertaken by the writer.

began to take place.

In contrast to the independent retail store, where the buying and selling are carried out by the same personnel, the chain organisation separates these two functions. The buying is concentrated through a special purchasing department, the branch managers of the chain organisations having very little authority to make purchases, their sole function being to sell.

Due to the lack of information, it has been impossible to trace the growth and development of the chain store organisation. To-day, however, the chain plays an extremely important part in the distribution of footwear, particularly in the larger towns. To appreciate the importance of the chain form of organisation, it was found, in a survey undertaken by the writer, that, over a period of 5 months advertising in "The Star", chain store advertising accounted for 61% of all retail footwear advertising, and in the "Eastern Province Herald" over the same period, 57% of the advertising was attributed to the footwear chain organisations. In another survey carried out by the writer, it was found that of the 34 shoe stores in the main shopping areas of Johannesburg, 15 belonged to the 5 main chain organisations⁽¹³⁾. In Pretoria⁽¹⁴⁾ it was 4 out of 14, in Uitenhage⁽¹⁵⁾ 2 out of 5 and in Port Elizabeth⁽¹⁶⁾ 4 out of 5.

Urbanisation, besides leading to an increase in the demand for service, has considerably affected the volume of demand for footwear. Due to the less vigorous living and the increased use of the motor-car, the demand for men's footwear by the urban population has fallen off.

(13) Edworks, Cuthberts, Dodo, A.B.C., Economic.

(14) Church St. (15) Caledon and Market Streets. (16)

(16) Main Street.

Whereas urbanisation has increased the importance of style and fashion in ladies' footwear, the rate of obsolescence and the demand for the ladies' footwear is very much greater. Table 1 clearly indicates this trend in America. Unfortunately in South Africa there are no statistics available, but there is every reason to believe that this tendency is applicable to the European population.

TABLE 1 (17).

Consumption of Footwear per head of population in U.S.A.

<u>YEAR.</u>	<u>MEN.</u>	<u>WOMEN.</u>
1899	2.7 prs.	3.0 prs.
1904	3.0	2.6
1914	2.9	2.5
1923	2.6	2.9
1927	2.3	3.0
1935	2.1	3.5

The urbanisation of the Non-European population has had a totally different effect on the demand for footwear. Urbanisation has considerably influenced the social and economic environment of the native. The customary values and conventions of the kraal have very little significance in the cities and the towns. The native, in order to find a suitable substitute, has attempted to copy the European wherever possible. But due to the small family earnings and the social restrictions imposed by the colour bar, the Non-European can copy the European only with regard to small items of expenditure such as clothing, footwear and furniture. These personal items possess a considerable amount of prestige value to the native.

In the rural areas the possession of footwear has the same prestige value to the native as a mink coat or diamond

(17) Borden - The Economic Effects of Advertising, Page 199, Table 12.

bracelet would have to a European, that is, it is exclusive. If the native can appear in a public place such as a wedding or a feast with some form of footcoverage, he has attained some social standing. It is a common sight to see natives walking along country roads with their boots over their shoulders, wearing them only when reaching their destination. As footwear has mainly a prestige value and not utility value, the demand for cheap footwear, such as second hand footwear or cheap canvas shoes is great. (18)

In the urban areas the earnings of the native are such that he can afford to purchase cheap footwear, and as footwear has utility value to the native, it derives its prestige value only by being ostentatious, hence the popularity of suede shoes of all colours, patent leathers and two tone footwear. In an interview with the buying manager of a large "concession store" on the Rand, he maintained that some male Non-Europeans purchased large sizes of ladies' cuban heel footwear as they were attracted by the colours and designs.

Further, to the Non-European population "shopping" is quite a social occasion, it is something the native looks forward to, like the Saturday afternoon Rugby match. The Non-European spends a considerable time of his lunch hour gazing at shop windows, similarly one finds that native domestic servants usually spend "their day off" out shopping. Further, the native prefers to purchase footwear (or any other item of wearing apparel) at stores that cater for Europeans, hence the sale of footwear in native townships is very limited. On the other hand, the native is either shy or not attracted by exclusive

(18) In 1931, when the Japanese "dumped" large quantities of canvas footwear in this country, it was mainly purchased by the rural Non-European population.

stores with modern frontages and attractive window displays, thus it is on the outskirts of main shopping areas that we find stores catering for the Non-European population.

As a result of the development and the expansion of the gold mines, native compounds were established for the workers. This has led to a large concentration of male population and has increased the demand for men's footwear, without leading to a corresponding increase in the demand for women's footwear.

(ii) National Income and its Relationship to Demand.

As a result of industrialisation and the increase in population, the national income of the country as well as the national income per head of the population increased. Thus the community as a whole had more to spend on consumer goods, including footwear. Table 11 shows the relationship between consumption and national income.

TABLE 11.

The comparison between National Income and the Consumption of Footwear.

<u>Period.</u>	<u>National Income.</u> (19)		<u>Consumption of Footwear.</u> (20)	
	<u>Average over a period of three years (expressed in millions of pounds).</u>	<u>Index.</u>	<u>Average over a period of three years (in thousands of pounds).</u>	<u>Index.</u>
1918-20	216.1	90.4	3,273.6	128.7
1921-23	202.4	84.6	2,115.6	76.7
1924-26	239.0	100.0	2,755.6	100.0
1927-29	265.9	112.2	3,094.6 (21)	112.3
1930-32	229.2	95.2	-	-
1933-35	315.2	131.8	2,990.6	108.9
1936-38	400.8	169.4	3,969.9	144.0
1939-41	513.4	218.9	-	-

(19) Prof. Frankel's National Income figures.

(20) Average annual consumption consists of total production plus imports minus exports. Footwear produced or imported in one year is not likely to be consumed in the same year, thus the average of three years was taken.

(21) Figures not available.

From these figures there appears to be a certain amount of correlation, but we must not confuse cause with effect, a rise in the national income does not necessarily mean that the demand for footwear will increase. This is clearly borne out by a comparison between the 1927-1929 and the 1953-1955 figures. Further, it must be pointed out that the annual average consumption does not necessarily represent the amount spent by the consumer on footwear, for the former is at factory selling price, whereas the latter is at retailer's selling price. The price spread (that is the difference between factory price and selling price) will not always be the same.

The amount spent on footwear depends upon two factors, the earnings and the pattern of expenditure of the family group. A change in the national income will effect both these factors, but to what extent it is difficult to determine, as the whole problem of family earnings and expenditure is a vast and complicated one. This is particularly applicable to South Africa, where the gap between the wages of skilled (European) and unskilled (non-European) workers is probably the widest in the world, and where the standard of education, religion, tastes and habits vary to a considerable extent.

As the earnings of the family increase, one would expect the amount spent on footwear to increase, and vice versa, but to what extent it is difficult to say. Table 111 gives the monthly amount spent by different European family income groups in urban areas. It appears from this survey that up to the income group of £175-200, the family expenditure on footwear increases at a greater rate than the increase in income, and from £200 onwards, the family expenditure on footwear, although still increasing, does not increase at the same rate.

TABLE 111.

Income and Expenditure of European Families in
certain Urban Areas. (22)

<u>Family Income</u> <u>Group.</u> £	<u>Expenditure on Footwear</u> <u>(per month per family).</u>	<u>% of Total Expenditure</u>
0-125	5/10	2.92
125-150	6/8	2.9
150-175	8/4	3.12
175-200	10/1	3.28
200-225	9/3	2.65
225-250	9/3	2.3
250-275	9/9	2.25
275-300	12/8	2.61
300-325	12/1	2.34
325-350	14/3	2.52
350-375	12/9	2.10
375-400	13/8	2.12
400-425	14/6	2.13
425-450	15/1	2.08
450-475	15/5	2.01
475-500	18/2	2.28
500-525	15/5	1.62
525-550	18/5	2.10
550-575	18/11	2.04
575-600	19/9	2.03

However we are not concerned so much with the expenditure on footwear but with the increase in expenditure, due to a rise in the earnings of the family. It cannot be assumed that if the earnings of the family increase that they will spend their money in the same way as the group just above them. But it is not unreasonable to suggest that an increase in income of the lower income groups would lead to a larger increase in the expenditure on footwear than a corresponding increase in the income of the higher income groups. The increase in the national income in 1930-32 period, which was brought about by

(22) U.C. 21/1937. Not too much reliance should be placed on this table, as there appears to be a number of discrepancies. The increased expenditure on footwear by the £175-200 family group and the decrease in the £500-525 group seems to be out of proportion. This is probably due to the fact that the example taken (1681 families) was far too small.

a rise in the price of gold, was not accompanied by an increase in the earnings of the lower income groups, with the result that the increase in the national income did not lead to corresponding increase in the demand for footwear.

Unfortunately, statistical information with regard to Non-European income and expenditure is sadly lacking. But, due to the fact that footwear possesses a considerable amount of prestige value, and the fact that the Non-European falls in the lowest income group, it is not unreasonable to suggest that the expenditure on footwear by the Non-European would increase by a greater proportion than an increase in income. Retailers maintain that the average Non-European who purchase footwear at their store pay higher prices than Europeans. This, they maintain, was particularly noticeable in the last few years, as the earnings of native families have increased substantially.

B. The Supply of Footwear, and its Relationship to the Process of Distribution.

Before 1870 we saw that the bulk of the South African footwear requirements were either imported or produced under a system something similar to that of the domestic system. In the former case, the wholesale merchant undertook the greater part of the distributing and marketing functions, whereas in the latter case, due to the local nature of production, the distribution process was very simple.

However, with the discovery of diamonds and gold, farmers began to produce food for the market and the production of the domestic article decreased, and the retailers'

and wholesale merchants' importance in the chain of distribution increased.

As the production of the domestic article decreased, the production of the manufactured article by factory methods increased. This increase in production was mainly brought about as the result of protection. In 1852 Representative Government was granted to the Cape, and by 1872 Responsible Government had been attained. The Cape Colony took over the function of regulating the customs tariff. Duties on most articles increased, largely because of the importance played by tariff revenue in the finances of the Government. In 1883 and 1891 Select Committees were appointed for the purpose of assisting local industries, and as a result the duty on footwear was increased to 15% ad valorem.

This increased protection led to a remarkable growth of the local industry. The Cape census of 1891-2 gives the number of boot and shoe establishments having an out-put of £100. as 101. (23)

From the very outset local manufacturers came up against difficulties, mainly because the wholesale merchant had such a strong position in the distributive structure, and preferred to carry the imported article, as it gave him a larger profit.

(23) Schauder, however, warns us that these figures must be only regarded as a rough guide. For it is doubtful whether any clear distinction was made between manufacturing undertakings proper and trading establishments conducting negligible manufacturing operations.

It appears from evidence given in the Select Committee reports of 1883 and 1891, that the prejudice against the locally produced article was extremely difficult to overcome. Towards the end of the nineteenth century machine methods of manufacture were introduced in England and America. This called for large capital outlay, consequently manufacturers overseas were anxious to obtain outlets wherever possible, and there was a noticeable decline in production towards the end of the century. The tanners found that there was a corresponding decline in the demand for their products, and further the customs convention of 1903 reduced duties on imported leathers, and in self defence the tanners concentrated on the manufacture of veldschoens⁽²⁴⁾. This proved very successful, some of the larger merchants began to stock the South African article and it formed an efficient means of distribution. These tanneries plus their footwear manufacturing departments formed the foundation of the present industry, many of whom are still in existence to-day, still serving as tanners and footwear manufacturers.⁽²⁵⁾

From 1914 onwards, the story of the growth and development of the South African footwear manufacturing industry has been a series of booms and depressions. The boom is usually associated with difficulties of labour, machinery and raw materials supply and the relative unimportance attached to the methods and policies of the disposal of the output; whereas the depression is associated with the increased importance of the distributive problem and the agitation for increased protection.

(24) It is interesting to note that the first attempts in the integration of functions was brought about as a result of necessity, and not for the purpose of curtailing competition.

(25) Schauder - The Economic History of the Boot and Shoe Industry in South Africa.

As a result of the 1914-1918 war, the importation of footwear became difficult. Shipping shortages, increased insurance and shipping rates, and the fact that British factories were engaged in military production made the ordering of goods a sheer gamble. With the result production increased from a little over one and a half million pairs to nearly two and a quarter million pairs in 1918. The wholesale merchant undertook the initiative and approached the manufacturer, with the result the wholesale merchant still continued to be the most important link in the chain of distribution.

However, after the post-war boom, supplies came pouring into the country. Manufacturers found they could not meet competition. Production fell practically to the pre-war levels. In order to maintain production at the highest level possible, manufacturers attempted to sell direct to the retailer wherever possible. The industry agitated for increased protection. At first this was not forthcoming, but instead an embargo was placed on the importation of footwear that was likely to compete with the South African produced article. This was replaced in 1923 by a duty of 30% ad. valorem on all imported footwear with the exception of infants' shoes and with a rebate of 5% on British footwear. This duty was to be reduced by 2½% p.a. until the duty, after deducting rebate would amount to 17%.⁽²⁶⁾ In 1928 this provision was withdrawn on the recommendation of the Board of Trade.⁽²⁷⁾

As a result of this increased protection, production increased from 1½ million pairs in 1921 to four million pairs in 1929.⁽²⁸⁾

(26) Act of 1923. (27) Board of Trade Report C8.
 (28) Table X1 Special Report No. 137 - Office of Census of Statistics.

However, this increased protection had the effect of curtailing the tendency of manufacturers selling direct to retailers. It also had the effect of creating a tremendous amount of uncertainty in exporting countries, with the result it tended to discourage manufacturers establishing distributive depots in this country. In other words, the increased protection probably had the effect of postponing and curtailing the diminishing importance of the wholesale merchant in the distributive structure.

The results of the 1930 depression were very similar to the post-war slump. Manufacturers attempted to sell a greater portion of their output to retailers. In this connection it is interesting to note that in order to overcome the prejudice against the locally produced article, a large advertising campaign was undertaken by a group of manufacturers during this period.⁽²⁹⁾

As a result of the depression and the so-called dumping policy of Japan and Czecho-Slovakia, the industry agitated for increased protection. A 30% duty or 3/6 a pair, whichever was the greater, was imposed on women's and maids' footwear from size 2 upwards,⁽³⁰⁾ children's shoes 30% or 1/-, canvas footwear 30% or 2/- per pair from size 2 upwards, and men's boots and shoes 30% or 3/6.⁽³¹⁾ This increase in protection led to remarkable expansion in production from 4 million pairs in 1930 to nearly 10½ million pairs in 1939.⁽³²⁾

(29) Schauder - The Economic History of the Boot and Shoe Industry in S.A.

(30) Tariff 32 of 1930. (31) Tariff 27 of 1932.

(32) Table 1 "Facts and Figures of Footwear Manufacturing in South Africa", which is a specially prepared summary of a "Statistical Report and Observation on the Footwear Industry of the Union of S.Africa", by Dr. Stoker, the Leather Controller.

As a result of this large increase in production, the capital outlay in the form of machinery, buildings and raw materials increased. In 1916-17 the fixed capital invested in the industry formed 20% of the total production for that year, whereas in 1936-37 this figure had risen to 27%.⁽³³⁾ Further, wages in 1916-17 formed 17.81% of the total output, whereas in 1936-37 it was 28.48%.⁽³⁴⁾ In addition, this capital outlay was concentrated into fewer factories. In 1916-17 there were 104 establishments, 68% of them employing less than 100 employees, whereas in 1936-37 the number of establishments had decreased to 82, and only 13.5% of the establishments employed less than 100 hands.⁽³⁵⁾

This increased application of machinery increased the overhead expenses. In order to keep such expenses as low as possible, production has to be maintained at a high level, particularly as such establishments were operating under conditions of diminishing costs. Further, the application of machinery and the introduction of large scale production made it necessary for contracts of labour and raw materials to be negotiated far in advance, and corresponding arrangements had to be made for the disposal of output.

On the other hand, as a result of urbanisation, the specialisation and concentration of retailing and wholesaling took place. The numbers of retailers and wholesale merchants decreased, Thus we have an increased production concentrated into fewer factories and through fewer outlets.

(33) Tables III & XI Special Report No. 238 - Office of Census and Statistics.

(34) Table XX Special Report No. 238 as above

(35) Table VI do. do.

This increased manufacturers' risks of disposing of their output, and in order to reduce such risks it became increasingly important that manufacturing establishments should have guaranteed outlets for their products.

With this end in view, manufacturers began to control the disposal of their output by selling direct to the retailer through their own representatives. Aggressive advertising and selling, retail price maintenance, and the branding of products, all became part and parcel of the manufacturers' policy to obtain some form of guarantee over the sale of their products. Further, manufacturers began to amalgamate and combine with retail and wholesale interests for the purpose of obtaining guaranteed outlets. (36)

These developments were at first gradual and tended to be curtailed to a certain extent by the effects of the increased protection given to the industry. But after 1932 it appears that the movement towards guaranteed outlets began to accelerate. Manufacturers began to sell more and more of their output direct to the retailer. By 1942 69.8% of the output sold to the trade was sold direct to the retailer. (37)

As a result of the increased local production, imports of footwear declined from $4\frac{1}{2}$ million pairs in 1929 to $2\frac{5}{8}$ millions in 1939. (38) This change in the supply position had a considerable bearing on the distributive structure.

(36) See Chapter 111 Section B.

(37) Census of Distribution of Industrial Production 1942-3. Office of Census and Statistics. This figure only includes that part of the output that was sold to middlemen for resale.

(38) Table VII. Facts and Figures of Footwear Manufacturing in South Africa.

It was very much easier for the producer to approach the retailer when both were domiciled in the same country. Thus distribution costs decreased, and further had the effect of strengthening the position of the manufacturer and the retailer in the chain of distribution. Manufacturers, by selling direct to the retailer, began to undertake certain functions which were previously undertaken by the wholesale merchant. In order to do this, manufacturers had to establish their own sales departments. In trying to assess whether the manufacturer was able to undertake these functions as efficiently as the wholesale merchants, we must not make comparisons by isolating these functions, but we must view the position as a whole.

Manufacturers will tend to sell direct to retailers when the expected return from selling direct is greater than the operating costs of the sales department. The operating costs will tend to be low when selling to large towns and cities, and when the output of the factory is large. Expected returns will depend upon the reduction of the period of idle machinery and capital which will result from a guaranteed or controlled outlet.

Manufacturers will sell direct to retailers when the operating expenses of the manufacturer's sales department is not greater than the operating costs of the wholesale merchant plus the reduction of expenses due to the possible shortening of the period of idle machinery. In the case of the small manufacturer, this is only likely to occur when selling to large centres, whereas the large manufacturer's limits would be very much wider.

Many manufacturers have attempted to reduce both the operating costs of their sales departments as well as the period of idle machinery and capital, by undertaking to produce a very wide range of footwear. Out of the 85 factories in the Union, 30 today are operating on two systems of manufacture, and 13 are operating on 3 or more systems.⁽³⁹⁾ It is rather doubtful whether this increase is completely outweighed by the reduction of the operating costs of the sales department plus the reduction of the period of idle machinery. However, due to the lack of any reliable information and the difficulties of determining the effects of protection on the distributive structure, any discussion on this subject must be mere speculation.

(39) Footwear Manufacturers' Federation of South Africa
Year Book 1945, Page 105.

CHAPTER 11COSTS OF DISTRIBUTION.1. Introduction.

In Chapter 1, distribution is defined as those processes and operations that are necessary to transfer goods from the time and place at which they are produced to the time and place at which they are purchased by the consumer. The costs of carrying out all these operations are the costs of distribution.

However, we must distinguish between two concepts of costs; the costs to the community and the costs to the consumer. In the long run these two conceptions of costs under a competitive system will tend to be equal. But in the short run this is not necessarily so.

The costs to the consumer are closely associated with the term "price spread", that is, the difference between the factory cost of production and the price paid by the consumer. This is the sum paid by the consumer for giving a pair of shoes time and place value. To the community, however, the difference between these two prices does not necessarily constitute costs, as the payment to the various factors of production may be greater or less than their productivity. In times of booms, the costs to the consumer would be greater than the costs to the community, for the profits of the Entrepreneur would be greater than the marginal productivity of capital, as supply cannot be adjusted immediately to meet the new demand. In times of depression, the cost to the consumer would be less than the cost to the community as profits will tend to be less than

the marginal productivity of capital.

These two concepts of distribution costs are of considerable importance. A distributing organisation may be able to reduce distribution costs, but if this reduction is not passed on to the consumer in the form of lower prices, then the cost to the consumer will remain the same, whereas the cost to the community will decrease. Thus it is possible that the formation of monopolies, although leading to higher prices, may have the effect of decreasing costs to the community.

In recent years considerable attention has been focussed on the cost of distributing footwear. It is held that, in many cases, distribution costs of footwear are greater than the production costs, and as a result charges of "overcharging", "profiteering", and "inefficiency" have been made against the distributing organisations. The question arises, to what extent these charges are true. Are there any reasons for us to believe that the distribution of footwear is less efficient than the production of footwear?

We saw that in the self-sufficient farm in the nineteenth century, producer and consumer were in direct contact with each other, and the cost of transferring goods from the time and place of production to the time and place of consumption was negligible. With specialisation and the concentration of industry, improved transport facilities and the growth of large towns, the gap between producer and consumer has widened, and the cost of transferring goods are very much greater today.

The fact that distribution cost tended to increase and production cost to decrease with the concentration of

industry, has created the impression that modern methods of distribution are wasteful and inefficient. Every day the consumer is brought into direct contact with the defects of the distributive structure, which seem to confirm these impressions.

Undoubtedly, the distributive process is far from perfect, and opportunity to improve the efficiency and lower cost exists, but under dynamic conditions neither distribution nor production is perfect. The fact that costs of production are decreasing and distributing costs are increasing, is certainly no indication that distribution is less efficient than production.

The tendency in the past has been to approach the problems of distribution and production in the same way; that is, the statistical approach. This method is unsatisfactory. Engineering science has developed to such an extent that it is possible for the performances of machines to be measured in quantitative units (Kilowatts, revolutions per second), so as to make scientific comparisons possible. Even the human element which enters into the productive process can be reduced into quantitative units such as man hours, thus making comparisons possible.

The science of distribution, however, is still in its infancy. Very little is known on the subject, and as yet it is not possible to measure the costs of distribution in any quantitative unit. The traditional method used by business organisations is the percentage cost on sales principle. This is very unsatisfactory as a basis of comparison, due to the possibilities of price fluctuation. The number of variables are so many, that it is often

difficult to determine what variables are present, and frequently it is impossible to obtain data to measure those that are known.

For instance, Table IV gives us the distribution costs of a number of groups of footwear manufacturers. The establishments are classified according to the type of managerial organisation, namely whether it be in the form of an individual enterprise, a partnership, a private or a public company. (1)

TABLE IV

DISTRIBUTION COSTS OF S. AFRICAN FOOTWEAR MANUFACTURERS
1942-1943 (2)

	<u>Individ- ual concerns</u>	<u>Partner- ships</u>	<u>Private Compan- ies.</u>	<u>Public Compan- ies.</u>	<u>Total.</u>
No. of Estab- lishments.	25	24	43	6	98
Wages and Salaries	3,928	19,782	128,669	24,472	178,251
Railage outwards.....	318	2,530	12,286	1,551	25,867
Advertising	215	2,196	20,139	5,281	26,689
Delivery Expenses	1,284	2,367	4,823	692	9,166
Overhead	3,440	34,272	125,555	32,463	195,730
TOTAL	9,221	49,147	290,872	66,459	435,703
Total Sales	386,205	889,174	5,893,270	1,682,768	8,851,417
Distribution costs expressed as a percentage on sales	2.3	5.6	4.9	3.3	4.6

(1) This classification was not chosen for a particular reason, but it was the only one available.

(2) A specially prepared tabulation of "The Census of Distribution of Industrial Production" by the Department of Census and Statistics.

Assuming that the methods of cost accounting in the various factories were uniform, then one would expect from Table IV that the methods of distribution adopted by the 25 individual concerns as a group would be the most efficient. This is not necessarily so. In fact, it is very likely that this group is the least efficient.

There are various important factors to be taken into account when comparisons of distribution costs are made. The costs to the manufacturer of distributing large quantities to wholesale merchants or to the mines, is less than when distributing small quantities to retailers. In Table V it will be noted that the individual group of establishments sold 35.8% of their output to the retailer, whereas the other groups sold 56.2%, 45.9% and 50% respectively. It will also be noted that the individual concerns sold a large proportion of their output on contract to the mines. Further, the sales of the individual group organisation were mainly confined to that town where the manufacturer was situated.⁽³⁾ There are so many variables that it would be quite impossible to come to any definite conclusion as to which group was the most efficient.

Similarly, comparisons of distribution costs between wholesale merchants or between retailers would be of little value. The fact that one retail organisation is selling an identical article at a higher price does not indicate anything. The question of shop convenience, the skill of the shop assistant, the credit and delivery services, and the amenities provided in the shop, are all factors

(3) This is clearly indicated by the small amount of railage outward charges, and the large delivery expenses in comparison with other groups.

which have to be taken into account.

It is extremely difficult to disentangle the various factors that influence distribution costs, and to distinguish cause from effect by making statistical comparisons. The problem of cost can only be approached by carefully

TABLE V (4)

CHANNELS OF DISTRIBUTION.

	<u>Individ-</u> <u>ual</u> <u>concerns.</u>	<u>Partner-</u> <u>ship.</u>	<u>Private</u> <u>Compan-</u> <u>ies.</u>	<u>Public</u> <u>Coys.</u>	<u>Total</u>
Sales	386,285	889,174	5,893,210	1,893,270	8,851,417
% Sold to retailers.	35.8	50.7	45.9	50.05	46.7
% Sold to whole- sale merchants.	19.1	20.8	22.8	13.5	20.8
% sold to industrial consumers	35.9	8.9	5.9	.9	6.4
% sold to Govt. & Provincial Admin.	6.2	18.1	22.9	33.4	23.7
% sold to household consumers.	2.7	.2	.2	.05	.3
% Exports	.2	1.3	2.3	2.1	2.1
	100	100	100	100	100

analysing the four main operations⁽⁵⁾ of the distributive process with the purpose of revealing defects and suggesting improvements. And for the rest of this chapter our attention will be confined to a discussion of these operations.

11. The Operation of bringing Buyer and Seller together.

The place where buyers and sellers come together for the purpose of exchange is regarded as a market, irrespective of whether the place be the street, the retail store, the warehouse of the manufacturer or the showroom of the wholesale

(4) Prepared from a special tabulation of the Census of Distribution of Industrial Production - submitted by the Dept. of Census and Statistics.

(5) See Page 2

merchant. The main feature of a market is that there must be some form of an offer and an acceptance. Even under the most favourable conditions neither buyer nor seller can remain entirely passive. Both buyer and seller must acquire a certain amount of information before the exchange can take place, even if it is to the effect that an article is demanded or available at a particular time or place. The cost of obtaining such information is the cost of bringing buyer and seller together. These costs, although paid by the buyer and the seller, are eventually passed on to the consumer.

Where demand is scattered and supply concentrated, the seller will usually undertake the initiative and approach the buyer, and the greater part of the cost of bringing buyer and seller together is borne by the seller. This is clearly indicated by a comparison between Tables IV and V. The manufacturer's cost of distribution tends to increase as sales to retailers increase.

The sending out of sales representatives and the establishing of showrooms by manufacturers and wholesale merchants, the exposing of stocks in shelves, windows and showrooms, and the locating of premises in prominent positions by retailers, the supplying of information and advice by sales assistants are all means whereby sellers take the initiative and inform buyers of what they have to offer.

Where demand is concentrated and supply scattered, the buyer usually undertakes the initiative and approaches the seller with the result that the greater part of the costs are borne by the buyer. Comparisons between Tables IV and V clearly indicate that as sales to buying organisations such as the government and large industrial concerns increase, the

manufacturer's distribution costs decrease.

The purchasing department of large chain stores and wholesale merchants in many cases takes the initiative and approaches manufacturers. Similarly the Transvaal Chamber of Mines, through a special purchasing department, the Union Government and Provincial authorities through the Union Tender Board, take the initiative and inform sellers of their requirements. The cost of operating the buying departments of the chain store, the wholesale merchant and the Transvaal Chamber of Mines are the costs of bringing buyer and seller together.

Where the demand is concentrated, the buyer usually undertakes certain functions, which are normally carried out by the seller. Buyers are able to perform these functions more efficiently as they are in possession of more information.

In times of depressions, sellers will tend to approach buyers to a greater extent than during a boom. This has been particularly noticeable in the last few years. Consumers have spent more and more time walking from store to store, and standing in queues. Retailers and wholesale merchants have undertaken numerous buying trips within the country, and when hostilities ended, to America and England. Unfortunately no statistical information is available, but it appears that in times of depressions the costs to the community of bringing buyer and seller together is greater than in times of booms.

Other things being equal, the cost of bringing buyer and seller together will depend upon the information available to both buyer and seller. The more the information, the less the costs. For it requires less expense and effort to sell a product if consumers know what they want, and if sellers know what consumers wish to purchase.

A. Consumer's Knowledge of the Product.

Unfortunately, the majority of consumers, when entering a store, only have a vague idea as to the colour, size, fitting and style of shoe they wish to purchase. Even if the customer did come in for a particular article, it is not very unusual for him or her to purchase another. In other words, there appears to be very little of what is commonly referred to as "consumer insistence" for footwear.

There seems to be no exact method of determining the factors that influence a consumer's choice. On occasions consumers make up their minds on the spur of the moment, without even knowing what influenced their decisions. At times the consumer's choice appears to be quite irrational. However, other things being equal, the greater the variety of goods offered to the consumer, the greater will be the difficulty of deciding what to purchase.

Generally the fashion element has a considerable effect in standardising consumers' requirements, as it is unlikely that a consumer would purchase an item of wearing apparel that is not in vogue. But the fashion element of footwear, particularly ladies' footwear, is extremely wide. In the opinion of numerous people the market is very much over styled.⁽⁶⁾ And thus it is very doubtful whether the fashion element has had very much effect in narrowing down the consumer's choice of footwear.

The range of styles and fashions, although ultimately determined by the consumer, may be considerably influenced by producers. It is held that manufacturers deliberately create

(6) Mr. Anderson in his Presidential Address to the Footwear Manufacturers' Federation in 1945.

new styles and fashions with the purpose of increasing the rate of obsolescence. This has the effect of increasing the variety of goods, and thereby increasing the time spent by consumers in deciding on what to purchase; thus increasing the cost of bringing buyer and consumer together.

But living under a political and economic structure in which freedom of choice and opportunity is highly valued, it is extremely difficult to see how it would be possible to limit styles without interfering with the liberties of the individual. Unless, of course, this is done voluntarily. In America a scheme⁽⁷⁾ has been worked out, whereby manufacturers have agreed to release a certain number of styles every month so as not to overstyle the market at the beginning of the season. This scheme has vast possibilities for reducing distribution costs, as it would have the effect of standardising styles to a considerable extent over short periods, and at the same time of allowing the consumer a considerable amount of freedom of choice over long periods.

The demand for footwear to a certain extent may be regarded as a joint demand, as a consumer usually purchases a pair of shoes to complete an outfit. Thus the consumer has to take into account the general fashion and colour harmony of the times. The greater the consumer's knowledge of fashion trends, the less will be the cost of bringing buyer and seller together. Fashion journals, fashion parades, shoe exhibitions, advertising⁽⁸⁾ and window displays are all of considerable importance in spreading such information.⁽⁹⁾

(7) Known as the Balanced Programme for Footwear.

(8) See Chapter 111 Section on Advertising.

(9) The writer suggests that the Footwear Manufacturers' Federation in conjunction with dress manufacturers should undertake the publication of a fashion journal with the purpose of giving advice as to style and colour.

The main property of a pair of shoes is not so much the style or colour, but the fit. When purchasing any other item of clothing, the size and fitting is not of the same importance, for it can be altered to suit the consumer's requirements, and further, nothing can be so inconvenient and painful as incorrectly fitting shoes. Thus the consumer tends to be more careful and is prepared to spend a considerable amount of time when purchasing footwear; this particularly applies to women. Consequently, a certain amount of what we might term "sales resistance" develops in the consumer, thus making it more difficult to bring buyer and seller together.

Experienced footwear retailers maintain that the average customer does not know his or her correct size and fitting. And for this reason retailers insist that their sales assistants should not require the size and fitting required by the customer, but instead the sales assistant should determine the size and fitting by personal inspection of the foot or by means of measurement. This has had the effect of increasing retailers' costs. Managers of large departmental stores maintain that the wages and salaries of their shoe departments are greater than other departments, as a considerable time is spent in fitting shoes, and highly trained sales assistants are required for the purpose.

The main reason for the lack of knowledge by consumers as to size and fitting, is due to the lack of standardisation in the markings of sizes and fittings. Size and fitting markings on footwear do not conform to any particular standard. The fact that a pair of shoes is stamped a certain size does not indicate any information to the buyer or to the retailer. Even the sizes and fittings of shoes manufactured in the same

establishment do not conform to a set standard. The sizes and fittings of what is commonly referred to as the "American system of fittings" differ from those of the British. A size $5\frac{1}{2}$ in the former is more or less equivalent to a size 4 in the latter.

The consumer thus tends to become confused. This particularly applies to women, due to the various styles of heels and shoe construction. A woman may have purchased a size 4 on a previous occasion, and subsequently finds that a size 4 on an entirely different last does not fit. She tends to become suspicious. Often women have been heard to remark "that they cannot wear S.African shoes as they do not fit well" or that "a particular brand of shoes burn her feet". The reason for this is that she tends to associate a particular brand or make of shoe with the comfort or discomfort she has experienced from wearing a certain size and fitting, little realising that there is no uniform standard and that she might have purchased the incorrect size or fitting. The result is that a "sales resistance" develops against footwear in general or against a particular brand of footwear.

If some form of standardisation of markings was possible, the consumer would then be in a better position to know his or her correct size and fitting. And the time spent in fitting shoes, and the "sales resistance" of the consumer would be reduced.

Many manufacturers in South Africa, however, maintain that any form of standardisation would be technically impossible. They maintain that no two feet are alike. This however is an ungrounded and unproved conviction, and the belief is (10)

(10) William A. Rossi - Hides, Leather and Shoes. May 1946, page 15.

scientifically untested. However, in determining size and fitting not only should length and width measurements be considered, but also those of arch, instep and heel, which are as important. In addition, the fact that foot contours change with different heel heights must be taken into consideration. Thus in order to arrive at some form of standardisation, it is necessary that a gigantic survey should be taken, so as to obtain precise and scientific information about foot types. The Leather Industries Research Institute are at present busy engaged in experimenting with apparatus for the purpose of undertaking such a survey. A report has already been issued on new methods of recording foot shapes.⁽¹¹⁾

The reduction of fashion and styles, and the standardisation of the markings of fittings and sizes will be of little use in reducing distribution costs, if consumers are unable to express their requirements in a language that can be understood. Non-Europeans, particularly natives, due to the fact that the majority are unable to read or write, or express themselves clearly in English or Afrikaans, find great difficulty in informing the retailer of their requirements. It is a common sight to see natives walk into a store, look around without saying a word, and then walk out again. These consumers have to rely on their sight as their only source of information. Thus window displays,⁽¹²⁾ footwear displayed on the counter, or hanging from the ceiling, or footwear displayed outside the store are all means of informing the native consumer of what

(11) S.G.Shuttleworth - Report No.18. L.I.R.I.

(12) It is interesting to note the different techniques in window displays. Stores catering for the Non-European and lower income groups try and display as much as possible in the window, as this is the main source of distributing information, whereas window displays catering for the higher income groups display more elaborate and less informative. The purpose of the display is to try and alter the consumer's subjective valuations.

the retailer has to offer. This method of providing information is expensive; footwear on display becomes spoilt and thus mark downs tend to be high. Further there is always the added risk of theft.

The fact that South Africa is a bilingual country tends to have the effect of increasing the cost of distribution, as occasions do arise where the operation of bringing buyer and seller together is hampered by the language question.

Thus a higher standard of education, particularly amongst the native population would materially assist in reducing distribution costs.

B. Sellers' Knowledge of the Market.

In order to bring buyer and seller together, it is essential that not only should the buyer be conscious of his own requirements, but the seller should be in the position to understand such requirements. The greater the seller's information with regard to the consumer's requirements, the less will be the cost of bringing buyer and seller together.

The seller in order to estimate consumers' requirements must have the ability to understand the consuming public in relation to the commodity he wishes to market. Firstly, he must have specialised knowledge as to their likes and dislikes; this is of particular importance when the fashion element enters into the picture. Secondly, he must have information with regard to the foot shapes of consumers, so as to estimate the correct ranges of sizes, fittings and lasts. Thirdly, he should have a thorough knowledge of the spending habits of consumers, so as to estimate the type and the quantity of footwear required.

With regard to fashion, style and colour it appears that South African manufacturers find very little difficulty in estimating consumers' requirements, as consumers tend to follow the fashion trends of England and America. By modifying the more successful overseas styles to South African conditions, the manufacturer is able to estimate consumers' requirements fairly accurately. The time lag between English and South African fashion trends enables the sellers to make all the necessary preparations.

With regard to fittings, sizes and lasts, however, the seller, particularly the manufacturer, relies on his own estimation of consumers' foot shapes. Such estimations are usually based on past experience, judgment or on "hunches". And as a result such estimations have not always been accurate. There have been numerous complaints against South African footwear, the main complaint being that they cause a "burning" of the feet. This has resulted in a considerable amount of prejudice against South African footwear, which in turn has developed into a consumer sales resistance.

Manufacturers are urged to undertake sample surveys of footshapes so as to assist them in their selection of lasts. The foot survey, which the Leather Industries Research Institute contemplates undertaking should be extremely valuable to manufacturers.

According to manufacturers, however, the sensation of burning is caused by "undue pressure" and is due to the incorrect fitting of shoes by retailers. Like the manufacturer, the retailer mainly relies on judgment and intuition, in many stores no measurement of the foot is taken. In a number of stores certain devices of measuring feet are employed, such as

the tape measure, size stick, the Brannock device and the X-Ray machine. All these, although reducing the human element, have their limitations, as they are unable to take into account all the factors that are necessary to make a good fit.

Thus the correct fitting of footwear depends to a considerable extent on the training of the retailer's sales assistant. At present the majority of the sales assistants are trained in the store. In particular cases such training may be adequate, but more often than not the training is insufficient. In the larger centres it is estimated that wages and salaries paid to sales assistants are responsible for 10%-12% of the price paid by the consumer for a pair of shoes. It is the opinion of a number of retailers that these costs could be reduced if sales assistants were given special training in shoe fitting. It has been suggested that special courses should be started at the Technical Colleges for this purpose. It is maintained that the employment of specially trained assistants would reduce the time spent on fitting shoes; the number of incorrectly fitted shoes sold would decrease, thereby decreasing the number of returns as well as the sales resistance of the consumer.

With regard to the spending habits of the consumer, here again the seller has had to rely on his own experience. Thus the seller's (particularly the manufacturer's) estimation of the type of footwear required by the consumer, particularly the poorer sections of the population, has not been too successful.

It appears that it was only as the result of the establishment of an Australian slipper firm⁽¹³⁾ and the Japanese dumping of

(13) Before establishment of Australian slipper organisation.
Average annual consumption of slippers 1925-31 = 332,000 pairs
Average annual production of slippers 1925-31 = 16,000 "

After establishment of Australian slipper organisation.
Average annual consumption of slippers 1934-39 = 1,459,000 pairs
Average annual production of slippers 1934-39 = 1,071,000 " .

canvas footwear,⁽¹⁴⁾ that the latent demand for cheap foot cover-
age in the form of slippers and shoes was discovered.

Certain types of information concerning consumers re-
quire special attention, for example the credit standing of a
buyer is of considerable importance in bringing the buyer and
seller together. When selling a pair of shoes there is the risk
of non-payment by the buyer. The greater the information con-
cerning the buyer's credit standing, the less will be the risk
to the seller. In the past, manufacturers, wholesale merchants
and retailers have relied mainly on their own experience, and
on information obtained through their representatives, friends
or other business acquaintances and to a certain extent on
information provided by banks and credit agencies.

As the gap between buyer and seller has widened, so the
credit risk has increased. In order to reduce the risk, more in-
formation with regard to the buyer is required. Further, it is
possible to reduce these risks to a known cost by means of
insurance. In America, manufacturers have formed a large mutual
organisation, known as the American Manufacturers Credit Insur-
ance Exchange,⁽¹⁵⁾ whereby a system of insurance plus increased
information has reduced the cost of the credit risk. There is
no reason why all the South African manufacturers through their
various representative organisations should not form an organi-
sation on a similar basis.

(14) Before Japanese "dumping" of canvas footwear.

Average annual consumption 1925-28 470,000 pairs.
Production during this period was negligible.

After the "dumping" and the imposition of extra duties
on canvas footwear.

Average annual consumption 1933-39 over 3,000,000 pairs
Average annual production 1933-39 2,260,000 "
Exports increased from practically nil in 1932 to 114,000
pairs in 1938.

(15) A.H. Swain - Commercial Credit Risks, Page 67.

Of late, considerable attention has been focussed on the possibilities of expanding the South African export market, particularly to the neighbouring African territories. Unfortunately information concerning the requirements of the market is negligible. Buyers from African territories have been more or less "forced" to accept what has been offered to them. Various complaints have been made, all indicating that the South African exporter, and particularly the manufacturer, is not paying sufficient attention to the requirements of the export market. The Union Trade Commissioner to the Belgian Congo reported that during the past two years footwear exported by South Africa has fallen off to such an extent that customers have lost confidence. The principal reason for the complaint being in respect of packing and price, the latter being mainly attributed to the exorbitant rates of commission charged by agents.⁽¹⁶⁾ The same criticism was made in a speech by the present President of the Footwear Manufacturers' Federation, who was also a member of the recent Goodwill Trade Commission to African territories.

It appears that the S.African exporter, due to the lack of information, has missed a marvellous opportunity of establishing S.African footwear on the export market.

111. The Preparation of Footwear for the Market.

Very little is really required to prepare a pair of shoes for the market after it has been given form or physical value. Unlike agricultural produce no sorting or grading or bulk breaking is necessary. However, certain types of footwear are packed into cartons before being placed on the market.

(16) Footwear Manufacturers' Federation, Year Book 1945, page 42.

This is more often than not undertaken by the manufacturer, and the costs of packing are actually regarded by the manufacturer as a production cost, but in fact, it is really a distribution cost, as the placing of shoes in a carton assists in giving it place and time value.

The packing of footwear is undertaken by the manufacturers for various reasons. The manufacturer is able, due to the division of labour, to perform the functions of packing more efficiently and at lower costs. Further if packed at the production stage, the risks of damage and deterioration in transit is reduced considerably.

It is often held that attractive and expensive containers have the effect of increasing distribution costs and prices. This is not true. For footwear will only be packed in cartons, where the cost of packing is less than the reduction of the distribution costs, which result from the packing.

Practically all types of shoes are packed in cartons, as the cost of the carton is small in comparison with the price of the shoe, and further the reduction of distribution costs, which result from the use of the carton will be great. The use of a carton will reduce deterioration caused by handling in transit and in the store. Further cartons facilitate the warehousing and selling of shoes at the wholesale merchant and retail store, and the carton is of considerable use to the consumer, for it can be made up in an attractive and convenient parcel.

Further retailers maintain that attractive cartons tend to produce a tidy effect in the store, and thereby create an impression on the consumer, which in turn has the effect of reducing the consumer's resistance. However, attractive cartons,

which have the effect of altering the consumer's subjective valuation of the product, may be regarded as adding form or physical value to the article, and thus should be regarded as a production cost.

Heavy boots, however, are usually not placed in cartons, as the cost of a larger and stronger carton, which is required for this type of footwear, forms a greater percentage of the price paid by the consumer than for other types of footwear. The reduction of costs due to packing would be negligible, for the risks of deterioration due to handling in the store and in transit would not be very great. Moreover, the main purchasers of heavy boots are mainly Non-Europeans, who, due to the language question, purchase goods that can be seen. Thus the placing of heavy footwear in cartons may even be regarded as a handicap.

Similarly the cost of packing cheap canvas shoes and slippers in cartons would be greater than the reduction of distribution costs. For slippers and canvas shoes are usually mass produced, and in order to maintain the packing facilities to the rate of production, a considerable amount of extra expense would be necessary.

In spite of the difficulties of shortages in packing materials and cartons, the writer is of the opinion that if manufacturers paid more attention to the problems of packing, distribution costs could be reduced. Cartons containing brown shoes, for instance, should have brown labels and those containing black shoes should have black labels. This would assist the wholesale merchant and retailer considerably. Shoes that are purchased mainly by natives should have labels in the native language, The markings on the labels in many cases are

very indistinct; the size, the fitting, the reference number, and the description of the shoe should be clearly marked on the label. Manufacturers should mark clearly on each shoe, whether it is the left or the right shoe, this would reduce the time spent in retail stores checking pairs, and further it would decrease the number of odd pairs sold.

The main complaint from the African territories has been that of packing. The use of stronger cartons and packing cases has been advised by numerous people. Further the labels should be in the language of the importing country. (17)

The packing of slippers and canvas footwear in boxes, which open at either end, needs considerable improvement. Retailers complain that this method of packing is very unsatisfactory, as such cartons are usually made of inferior cardboard and tend to become damaged easily. This tends to increase the amount of handling by the retailer, more time is wasted, stocks tend to deteriorate, and it is often found that the wrong size or pattern is sold by mistake, thus increasing the number of returns and the number of odd shoes sold.

Bad packing by manufacturers tends to prejudice the retail store against the manufacturer. The manager of a large retail store in Johannesburg showed the writer a large consignment of footwear that had just arrived from America. About 50% of the shoe cartons were damaged, and although there were numerous different styles and colours of the same shoe, the cartons were unlabelled and there was very little indication to the sales assistant as to the style and colour. The manager maintained that a consignment of such a nature was more of a nuisance than anything else, as a considerable amount of

(17) Consul General in Madagascar advised Union exporters that labels should be in French.

sorting and marking became necessary. This naturally takes up a considerable amount of time, and upsets the general routine of the store. Further, he pointed out that sales assistants tend to sell those articles which are easy to handle; thus a stricter supervision of staff and stock becomes necessary in the case of badly packed goods.

1V. The Transporting of Footwear to the Market.

In the self-supporting farm of the nineteenth century, shoes were usually made up to order, the producer and consumer were in direct contact with each other, and the problem of transporting goods was non-existent. The application of the division of labour and the introduction of the factory system of production has led to the concentration of production of footwear in certain areas. In South Africa production is mainly concentrated in Port Elizabeth, Johannesburg, Cape Town, Pietermaritzburg and in a number of smaller towns in the South Western and North Western Districts of the Cape. It has now become necessary to transport large quantities of footwear from the place of production to the place of consumption, and the cost of transporting the footwear forms a portion of the cost of distribution.

In South Africa practically all transportation is undertaken by the South African Railways. The cost of transporting footwear is determined by the tariff policy of the railway administration, and not necessarily by the economic factors of supply and demand.

Of late, the railway rating policy has been severely criticised by the Board of Trade in its latest report, the Chamber of Mines, The Federated Chamber of Industries and the

Association Chamber of Commerce. There seems to be no relation between the actual costs of transportation and the rates charged. The tariff is determined "by what the traffic can bear" and not on the "cost of service" principle. Thus the amount paid by the consumer for transporting is not necessarily equal to the cost of transporting footwear. (18)

From Table VI it appears that other things being equal, the rating policy will tend to force manufacturers to establish their factories at the market for the finished product and not at the source of the raw materials, or along the coast.

TABLE VI. (19)

The Cost of Transporting 100 lbs. of Footwear and Leather from the various Ports to Johannesburg.

	<u>Footwear</u>	<u>Imported Leather</u>	<u>Locally produced Leather.</u>
Cape Town	193	143	73
Mossel Bay	107	138	70
Port Elizabeth	135	98	53
Durban	132	95	40
Lourenco Marques	125	92	37

In spite of the fact that Tables VII and VIII refer to different sets of production figures, they clearly indicate that production has increased at faster rates where consumption is the greatest. The production of bulky footwear such as miners' and farmers' boots is concentrated at the place of consumption, as railage costs form a high percentage of the total cost. In 1939 the production of men's footwear accounted for 80% of the total Transvaal production. (20) On the other hand, the railage costs of ladies' and children's footwear form a small proportion of the price, thus production tends to

(18) In other words the cost to the consumer is not necessarily equal to the cost to the community.

(19) Official Tariff Book No. 21.

(20) Table 14. Facts & Figures of Footwear Manufacturing in S.A.

be concentrated at the source of raw materials or along the coast. Port Elizabeth accounts for roughly 40% of all women's and children footwear produced in the Union.

TABLE VII. (21)

Production of Boot and Shoe Establishments by Geographic Areas
(expressed as a percentage of Union Gross Output).

	<u>P.E.</u>	<u>Cape Western</u>	<u>Rest of Cape</u>	<u>S.Transvaal</u>
1917	35.5	17.66	28.21	7.41
1926	45.25	15.87	19.45	10.91
1930	40.84	16.81	13.48	17.10
1933	38.8	16.91	14.70	18.6
1936	35.25	16.40	15.36	19.7

TABLE VIII. (22)

Production of Leather Boots and Shoes by Geographic Areas.

	<u>Midland</u> & <u>Border</u>	<u>Cape Town</u> & <u>N.W. Dist.</u>	<u>S.W.</u> <u>Districts</u>	<u>Natal</u>	<u>Transvaal</u>	<u>O.F.S.</u>
1936	38.9	16.4	17.4	8.1	18.4	.8
1939	34.3	19.1	14.3	9.8	21.7	.8
1944	35.3	15.2	10.0	14.2	24.2	1.1

It is impossible to evaluate the effects the railway rating policy has had on the cost of distributing footwear. It appears, however, that the tendency to locate the industry at consuming areas has probably had the effect of reducing the costs of bringing buyer and seller together, as producer, wholesale merchant and retailer are in closer contact with each other. The fact, that the majority of the large wholesale merchants and the buying organisations of the large retail chain and departmental stores are situated in Johannesburg, is of considerable importance to the small manufacturer, who due to his small output cannot afford to have representatives

(21) Table 15. Special Report No.137 - Office of Census and Statistics.

(22) Table 1. Facts and Figures of Footwear Manufacturing in S.A.



in the various parts of the country . It is partly due to this reason that the distribution costs of the 25 individual concerns (see Table IV) are lower than the other groups. (23)

The whole problem of the location of industry and the railway rating policy is a very difficult and delicate one. Even if it has had the effect of lowering the distribution costs of certain classes of footwear, it is very unlikely that there has been a net saving to the community, for the location of industry on the Rand and at Port Elizabeth has resulted in numerous difficult social and economic problems, a discussion of which falls completely outside the scope of this thesis.

The fact that footwear manufacturers paid a considerable proportion of the transport costs (see Table IV) is of great interest. Unfortunately it is impossible to state to what extent these charges were afterwards passed directly on to the purchaser in the form of a separate charge, or whether the manufacturer included a flat rate charge for transport costs, irrespective of the actual railage paid. It is very likely that both methods were used, The effect of the latter method, however, is that consumers residing near the place of production subsidise those living further away. The fact that postal rates are on a flat rate basis, irrespective of distance, may be one of the reasons why the mail-order business seems to flourish in outlying areas such as S.W. Africa and Rhodesia.

In order to reduce the cost of railage it is desirable that as a large proportion of the total journey from factory

(23) From Table 1 the delivery expenses of the individual enterprise group in relation to output is higher than other groups, and from this it is assumed that a greater percentage of the output of this group is sold in the town in which it is produced.

to consumer should be made at the cheaper rates applicable to bulk consignments, particularly in view of the fact that rates taper with increasing distance. Wholesale merchants and chain stores, due to the fact that they purchase in large quantities and act as distributing centres, are able to obtain considerable economies, as against manufacturers who despatch small quantities direct to retailers. In order to reduce transport costs manufacturers are urged to consider the possibility of establishing distributing depots in the main consuming areas, particularly on the Rand.

The fact that footwear can be packed in large cartons without any considerable wastage of space makes it very doubtful whether an improvement in packing would materially assist in reducing transport costs. However, footwear manufacturers and wholesale merchants should pay careful attention and see that the size of the packing case bears some relation to the size of the shoe carton and the average size of the order despatched, so as to prevent the wastage of unnecessary space.

V. The Operation of holding Footwear until required by the Consumer.

Under the "bespoke" method of manufacture, footwear was made up to order, thus the period that elapsed between the time of production and the time of consumption was negligible. Under our present factory method of production footwear is produced in anticipation of demand, with the result the period between the time of production and the time of consumption has increased considerably. For the purpose of this thesis, this period will be referred to as the holding period.⁽²⁴⁾

(24) Braithwaite and Dobbs - Distribution of Consumable Goods.

The expenses involved in "holding" stocks can be divided into three distinct groups:- 1) The cost of providing warehousing accommodation, 2) the cost of financing stocks, 3) the cost of bearing the risk of loss while stocks are being held.⁽²⁵⁾

The cost of warehousing stocks during a fixed period of time will depend upon the rent, the cubic space the commodity occupies and the degree of difficulty of handling and storing the product.

In South Africa the costs of warehousing are mainly paid by the wholesale merchant and the retailer, for very few manufacturers undertake to produce "in stock lines". The rent of the wholesale merchant and the retailer, particularly the latter, is substantial,⁽²⁶⁾ but it is extremely difficult to determine what proportion of the rent can be directly attributed to the function of holding stocks, or to the function of bringing buyer and seller together.

Footwear, in comparison with other items of wearing apparel, occupies a greater cubic space in relation to its value. This partly accounts for the fact that the rent of footwear stores is greater than for other wearing apparel stores.⁽²⁷⁾ The cost of handling footwear during the holding period is not great, as it is very conveniently packed in cartons.

(25) Braithwaite and Dobbs- Distribution of Consumable Goods, page 65.

(26) In the larger centres, it is estimated that the rent of the footwear retailer forms approximately 5-7½% of the price paid by the consumer for a pair of shoes.

(27) Managers of large departmental stores on the Reef maintained that the rent allocation to the footwear department was greater than other wearing apparel departments. In America it was found that the rent of footwear stores was greater than other wearing apparel stores - Page 130, "Does Distribution Cost Too Much".

Financing costs arise from the fact that until a pair of shoes is purchased and paid for by the ultimate consumer, some person in the chain of distribution has paid for it and has not received payment. He is therefore losing interest on his money, or if he bought the goods with borrowed money, he has to pay interest. The greater the rates of interest, the greater will be the financial costs of holding stocks.

During the time goods are held they may lose their value due to deterioration (shop spoilt), changes in fashion or to changes in the value of money. Thus the distributor when holding stocks has to bear certain risks. Some of these risks, such as fire and burglary, can be reduced to a definite cost by means of insurance. The remaining risks, however, are borne by the entrepreneur, whether he be producer, the wholesale merchant or the retailer. The greater part of his profits are payments for bearing such risks. The greater the risks, the greater will be the payment demanded by the entrepreneur. A considerable proportion of the price paid by the consumer for fashionable shoes is a payment to the entrepreneur for the risks of stocking such shoes. By standardising styles and fashions it would be possible to reduce such risks and the prices paid by the consumer. Manufacturers have undertaken large advertising campaigns with the purpose of influencing consumers' decisions in certain directions. This has had the effect of reducing the risks of holding advertised footwear.

Other things being equal, the costs of holding stocks will depend upon the time that elapses from the completion of production to actual consumption. The longer this period, the greater will be the costs of holding stocks. The time that

elapses between production and consumption is made up of the time a pair of shoes is held by the manufacturer, the wholesale merchant and the retailer (and in case of hoarding the time it is held by the consumer). The time a pair of shoes is held by the producer, the wholesale merchant and retailer will vary considerably, depending upon numerous factors, but it is the total period which is of importance. The retailer may by a hand to mouth buying policy reduce the time he holds a pair of shoes, but this may only lead to the wholesale merchant or the manufacturer holding greater stocks for longer periods, so as to meet the more frequent demands of the retailer, with the result there has been no shortening of the total holding period. Or alternatively, the hand to mouth policy may lead to the manufacturer producing in smaller quantities, which in turn would probably mean increased production costs. It is very unlikely that the reduction in distribution costs would be greater than the increased costs of production.

A hand to mouth buying policy can effect a saving in holding costs if the holding costs of the retailer are greater than the holding costs of the manufacturer or wholesale merchant, but this saving must be weighed against the economies to be obtained from large scale buying and transport.

Many writers and businessmen believe that the shortening of the period of holding stocks is the most hopeful way of reducing distribution costs. Thus considerable attention has been paid to the problem of "stock turn" or the "rate of turnover". The rate of turnover is defined as the number of times during a given period (usually a year) that the merchant's average stock during the period is sold and replaced. It is held that, other things being equal, profits will be

greater and expenses (holding and selling) will be lower as the rate of turnover increases.

Rapid stock turnover, as a factor in successful retailing or wholesaling, is very much over emphasised. For firstly, other things are seldom equal; secondly, the rate of average stock to total sales, which is used by most business organisations as the rate of turnover is most unsatisfactory, due to price fluctuations and the fact that average size stocks are at cost price whereas sales are at selling price. The ideal method of ascertaining the rate of turnover is by the use of physical units - that is pairs of shoes sold.

In times of rising prices, the rate of turnover, using value units, will be higher than when using physical units, as the value of sales increases by a greater amount than the stock.

Further, distribution costs during a period of rising prices do not increase to the same extent as the rise in the price of consumer goods. Moreover, profits tend to be higher during times of booms. Thus, a comparison between the rate of turnover, distribution costs and profits tends to give an inaccurate impression. There is probably some relation between costs and turnover, but it is difficult to disentangle the various influences at work and to distinguish cause from effect.

The reason for holding stocks for long periods is mainly due to the irregularities of supply and demand, and the difficulty of estimating these irregularities. The cost of holding boots produced for the Transvaal Chamber of Mines is small, as the mines are able to estimate fairly accurately the demand, and the factories are able to supply accordingly.

However, with civilian footwear there appears to be a

distinct seasonal demand. The demand for summer shoes is greater in December than in any other month; this is mainly due to the Christmas shopping season and the fact that a considerable number of people seem to take their annual holidays during this period. The demand for footwear in the July season is greater in Durban than in any other month. The demand for boots is greater in winter, as the majority of rural natives tend to purchase their requirements in the colder months of the year. The demand for children's shoes is greatest during the Christmas shopping period and just before the first school term commences.

These seasonal fluctuations are predictable, and the supply may be adjusted so as to avoid the piling up of stocks. Unfortunately, such adjustments can rarely be made complete. Manufacturer's productive capacity is limited, with the result stocks must accumulate.

Table 1X gives the monthly production of leather boots and shoes for the Union for the year 1944. In spite of the fact that the industry was working at full capacity, there appears to be distinct peaks in October and November in anticipation of the Christmas period. And due to the holidays, a slackening off in December and January. Unfortunately, figures are not available for pre-war years, but it is very likely that these peaks were more pronounced.

TABLE 1X. (28)

Monthly Production of Civilian Footwear in 1944.

(in thousands pairs)

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec.</u>
Mens	174	244	266	221	260	269	263	276	249	266	287	170
Youths	23	30	34	28	26	30	27	29	28	32	36	21
Womens	213	321	352	287	336	340	344	368	341	363	387	216
Maids	15	19	22	22	21	26	22	21	22	24	23	13

(28) Table 13 "Facts and Figures of Footwear Manufacturing in South Africa".

On the demand side it would be extremely difficult to smooth out seasonal fluctuations without materially affecting the freedom of choice of the individual. However, it has been suggested that demand could be staggered by staggering fashions and styles and by staggering the supply of purchasing power.

It has been suggested that instead of introducing a complete range of styles at the beginning of the season, manufacturers should introduce new styles gradually throughout the season.⁽²⁹⁾ It appears, however, that there is to a certain extent a staggering of demand for fashion shoes. The more exclusive and highly fashionable shoes are in keen demand at the beginning of the season, and the cheaper and mass produced article is mainly purchased towards the middle of the season, as the middle to lower income groups will only purchase their new Winter or Summer outfits, when it becomes absolutely essential.⁽³⁰⁾

Besides being a distinct seasonal demand for footwear there appears to be a considerable amount of irregularity of demand over short periods, due to the irregularity of the supply of purchasing power. These fluctuations are to a certain extent predictable, but complete adjustment of supply can never really be complete. The volume of sales on Friday and Saturday, and at the end and the beginning of each month is greater than production over similar periods, with the result

(29) A scheme of this nature has been suggested by American manufacturers so as to avoid the peaks and valleys in production.

(30) It is interesting to note, that according to a number of departmental stores, there appears to be a time lag of approximately two weeks between the demand for new outfits and the demand for fashion shoes.

stocks must pile up in anticipation of this demand.

The supply of purchasing power depends upon two factors, firstly the time of payment of the factors of production, particularly that of labour, and secondly, the credit facilities available to consumers.

With regard to the time of payment of labour, the writer suggests that the present system of paying monthly wages at the end of the month, and weekly wages on Friday should be revised so as to stagger the supply of purchasing power. It could be easily arranged that the various government departments paid their employees at different times; the railways, for example, could be paid on the first week of the month, the other departments on the second week, Municipal, Provincial and other public authorities on the third week, and Commerce and Industry at the end of the month. This would not entail any extra expense, and there appears to be no reason why such a scheme should not work smoothly once the initial adjustment has taken place.⁽³¹⁾

The staggering of weekly paid wages would be difficult to put into practice, as wages are usually paid just prior to the weekend, that is, on Friday. Payment on any other day would have the effect of increasing the rate of absenteeism, and thereby increase the cost of production. This particularly applies to industries, where Non-Europeans are employed.

According to the management of a number of departmental stores, the granting of credit has the effect of staggering demand. However, in many cases, the risk of non-pay-

(31) Retailers pointed out that during the war years, demand tended to increase just before the end of the month, as a result of the payment of military allotments and dependants' allowances.

ment is greater than the reduction of holding costs, brought about by the granting of credit.

Besides lengthening the holding period, demand fluctuations tend to have the effect of increasing the retailer's selling costs, as extra staff have to be employed and services tend to decrease during rush periods. Moreover during a rush period, sales assistants tend to sell those articles that are easy to handle; thus a stricter supervision of stock and staff becomes necessary, otherwise mark downs on "unsaleable" goods tend to increase.

It may be possible to predict or estimate seasonal demand fairly accurately over long periods, but day to day fluctuations in demand are impossible to predict. Retailers maintain, that for unaccountable reasons, a number of shoes of a certain type, colour, size and fitting may be purchased on one particular day, and weeks may go by before another pair of the same type is purchased. Thus the retailer must always prepare himself, and must keep a considerable stock on hand so as to be in a position to satisfy demand, wherever and in whatever form it may happen to come.

Further, due to the demand for services, consumers wish to be shown a large selection of footwear before making a choice, thus retailers have to carry a large range of styles, colours and fittings, if he wishes to attract custom.

On the supply side, it appears that the holiday period of the footwear manufacturing industry has the effect of increasing the holding period, especially as the holiday period occurs when demand is greatest, that is over the Christmas shopping season.

If the holidays were staggered so that a few workers

went off every week, then it is very likely that the supply position could be adjusted to meet the demand. This suggestion, however, may lead to opposition from Trade Unions, and further it may lead to an increase in administration and production costs.

If the holidays, however, were in the months of January or February, that is, when demand slackens off, supply could be adjusted so as to prevent a piling up of stocks. Employees would probably object, as the Christmas season is of considerable value to them. Furthermore the employees would in any case receive Christmas, Boxing and New Year's days as holidays, and the degree of absenteeism after such holidays would be so great as to upset production and increase costs.

The irregularities of supply and demand are intensified by the fact that the market is split amongst individual traders, and that in order to secure as large a turnover as possible, all traders must hold reserve stock so as to cope with the irregularities of demand. Retailers and wholesale merchants have hopes of increasing their sales, and this prompts them to keep more stock than is necessary.

By reducing the number of retailers it would be possible to decrease the amount of stock held by retailers and wholesale merchants as a group, and thus decrease the holding period. This reason is probably the most important one put forward by those demanding a limitation of retail outlets.

The irregularities of supply and demand are less violent for a chain system than for an independent retailer, as stocks carried by each individual branch of the chain is considerably less than an independent store carrying the

same range of footwear. The reserve stocks of a chain are pooled at a central depot, and these are considerably less than the reserve stocks of the same number of independent retail stores. Further stocks may be transferred from one branch to another, so that the period of holding stocks and the percentage mark downs would be less.

CHAPTER 111.RECENT DEVELOPMENTS IN DISTRIBUTION.1. Introduction.

In Chapter I, we saw that industrialisation, by affecting the demand and supply factors, had a considerable influence on the distributive process. In this Chapter the writer proposes to discuss the more recent developments and problems, which have arisen as a result of the continued industrialisation, urbanisation and the increase in national income.

Due to the difficulty of obtaining adequate information, it has been necessary to confine the discussion to certain aspects of the distributive process. And even then, it has not been possible to treat the problems and the developments as the writer would have liked to, as information has not always been available or forthcoming.

11. Amalgamations and Combinations.

Reference has already been made to the amalgamation and combination of footwear interests, but it is only as a result of recent developments that this movement has begun to accelerate. To-day, it has reached such dimensions that it is perhaps one of the most important developments in the footwear industry.

The purpose of this section is not so much to trace the growth of the movement, but to try and indicate to what extent it has taken place, and the effect it has had on the distributive structure.

Amalgamations and combinations can be divided into two distinct types - the vertical and the horizontal. The former refers to the integration of different interests, that is amalgamations of units of production and distribution, whereas

the latter refers to a combination of the same interests, that is units of production or units of distribution.

With regard to vertical combinations it appears that the main reason for amalgamation is the desire or need by manufacturers for a guaranteed outlet for their products. This tendency towards guaranteed outlets is not entirely new. In the 1870's a Wellington footwear manufacturer, finding great difficulty in inducing wholesale merchants to stock his products, decided to open his own retail stores in the various centres of the Cape.⁽¹⁾ Towards the end of the last century, tanners experiencing a falling off in demand for their products, undertook the manufacture of veldschoens.⁽²⁾

As a result of the protection afforded by the Great War in 1914-18, and the increased customs duty, South African manufacturers found little difficulty in obtaining outlets for their products. However, as production and size of the manufacturing establishment increased, so the need for guaranteed outlets became necessary. Since the last increase in customs duty on footwear in 1932, the amalgamation movement has begun to accelerate. To-day there are two large footwear organisations.

Firstly, there is the Goodwear Shoe group of companies, comprising W.Lipworth & Co.,⁽³⁾ (the largest footwear wholesale

(1) Schauder - "The Economic History of the Boot and Shoe Industry"

(2) Schauder - "The Economic History of the Boot and Shoe Industry".

(3) W.Lipworth & Co. commenced business as wholesale footwear merchants in 1908. In 1930 The Flexo Manufacturers and The Vulcan Rubber Works were taken over. In 1939 Goodwear Shoes Ltd. was formed, which was a combination of Lipworth and Goodwear Shoes interests, the latter company consisting of two manufacturing establishments. In 1946 Kaffrarian Boots (Pty) Ltd. was taken over.

merchant in the country, the foundation member of the group, and the main distributor) and the following manufacturing establishments:- Goodwear Shoes Ltd., (Ladies and Maids), Children Shoes (Pty) Ltd., (Children), Flexo Boot Manufacturers (Men's Welted), The Vulcan Rubber Works (Pty) Ltd., (Canvas Shoes and Sandals) and Kaffrarian Boots (Pty) Ltd., (Miners' and Farmers' Boots).

Secondly, there is the Edworks group comprising three manufacturing establishments:- Edworks Ltd., Sandals Ltd., and Eddels Ltd., and two retail chain systems of Edworks and Dodo Shoe Company. ⁽⁴⁾.

Besides these two large groups, the Crown Boot and Leather Works is closely associated with J.W. Jagger & Co., and C.F. Bally is associated with Cuthberts Ltd. There are probably many other manufacturers who are in some way or another connected with wholesale merchants and retailers, but to what extent is mere speculation.

All in all, there are 10 manufacturing establishments who have guaranteed outlets for their products, either through wholesale or retail channels. Amongst this group are probably the largest producers in the country. On the basis that in 1943, 8 of the largest manufacturing establishments accounted for 57.5% ⁽⁵⁾ of the total production, it is not unreasonable to suggest that these 10 manufacturing establishments are responsible for at least one third of the total production of the country.

As a result of these vertical combinations, the importance of the independent wholesale merchant and retailer

(4) In March 1944, Edworks share capital was increased to acquire Messrs. Sandals Ltd., and Eddels Ltd., of Pietermaritzburg, and the Dodo Shoe Company of Johannesburg.

(5) Table 16B. "Facts and Figures of Footwear Manufacturing in South Africa."

in the chain of distribution has declined considerably. The "group organisation" has become a very important factor in the distributive structure. The importance of these group organisations is illustrated by a survey undertaken by the writer on footwear advertising in "The Star" over a period of 5 months during 1946. From this survey it was found that 39% of all advertising **by** footwear manufacturers, and, with the exception of one chain organisation, all retail chain advertising (which comprised 61% of all footwear retail advertising) can be attributed in one way or another to these "group organisations".

Combinations and amalgamations of a horizontal nature have been mainly brought about as a result of the expansionary policy of certain organisations, and the economies to be obtained from large scale buying and selling. We have already discussed the combination of retail stores - in the form of the chain organisation,⁽⁶⁾ and at present we are mainly concerned with combinations of manufacturing establishments.

Horizontal combinations and amalgamations have been brought about by cross directorates, as in the case of United Shoes (Pty) Ltd., and Modern Shoes (Pty) Ltd.;⁽⁷⁾ and Sargents Ltd., and Bagshaw, Gibaud & Company Ltd., or by holding companies as in the case of Consol. Footwear (S.A.) Ltd., the

(6) See Chapter 1, page 11.

(7) Modern Shoes (Pty) Ltd. was incorporated on the 1st Jan. 1944 to acquire the family partnerships of Messrs. J.K. Smith & Co., and Modern Boot & Shoe Company. In Nov. 1943, the George Boot Factory was acquired and incorporated as United Shoes (Pty) Ltd. In June 1945, the shareholding of Messrs. United Shoes (Pty) Ltd. was purchased by Messrs. Modern Shoes (Pty) Ltd.

subsidiary companies being S.O.S. Boots Ltd. and Johannesburg Boots Ltd⁽⁸⁾; and Felt and Textiles of S.A. Ltd⁽⁹⁾, the subsidiaries being R. Faulks Ltd. and S.A. Slippers (Pty) Ltd.

As a result of these combinations amalgamations, manufacturing establishments have been encouraged to undertake more and more of the distribution function, and to-day, these establishments play an important part in the distribution of footwear. The manufacturers have established large sales departments with the purpose of selling direct to the retailer, and thus have undertaken functions, which were previously carried out by wholesale merchants. Further, by carrying out large scale advertising campaigns⁽¹⁰⁾, these manufacturers have undertaken the provision of information to the consumer, which previously was regarded as the function of the retailer. In other words, horizontal combinations, like vertical combinations, has had the effect of reducing the

(8) Consol. Footwear(S.A.) Ltd. was formed in June 1940 to acquire all the shares of S.O.S. Boots Ltd, which was founded in 1919. In Jan. 1942, the Johannesburg Boot and Shoe Company, an old established partnership business was acquired.

(9) Mr. R. Faulks arrived in Durban from Australia in Nov. 1931, and started a small slipper manufacturing establishment. The firm expanded its activities very rapidly. In 1936 an insolvent shoe factory and a slipper factory were acquired in Johannesburg, these two businesses were amalgamated under the name of Felt Industries (Pty) Ltd. In 1938 another factory was established in Cape Town. The firms' activities were extended to the manufacture of felts, carpets, cotton wool, etc. In 1943, Felt and Textiles (Pty) Ltd. was formed in conjunction with the Industrial Development Corporation to amalgamate the various interests, the following year this was converted into a public company - Felt and Textiles of S.A.Ltd.

(10) 35% of the advertising undertaken by footwear manufacturers over a period of 5 months in "The Star" during 1946 was attributed to this group.

importance of the retailer and the wholesale merchant,

111. The War and its Effects on the Distributive System.

As the result of the outbreak of war in 1939, overseas supplies of footwear were cut off, imports declined from 2 million pairs to a little under $\frac{1}{2}$ million pairs in 1944.⁽¹¹⁾ On the other hand, due to the increase in the earnings of the lower income groups, demand increased. In addition manufacturers were engaged on large military contracts.⁽¹²⁾ The result was a remarkable increase in production of leather boots and shoes from $7\frac{1}{2}$ million in 1939 to $11\frac{3}{4}$ million in 1944.⁽¹³⁾

After the cessation of hostilities, both demand and production continued to increase, mainly as a result of the difficulties of obtaining supplies from overseas, and the demand by returned ex-servicemen. Further, large purchases were made by refugees and members of passing convoys; and large consignments were despatched to Europe by relief organisations.⁽¹⁴⁾

As a result of this increased production, the productive capacity of the manufacturing establishments expanded. Manufacturers, realising the possibility of a falling off of demand, attempted to obtain guaranteed outlets for their products by controlling the disposal of their output.

As a result of the increased demand, the financial position of small manufacturers and small retailers was strengthened, and their reliance on the wholesale merchant as a means of disposing their output or obtaining long credit de-

(11) Table 7 "Facts and Figures of Footwear Manufacturing in S.Africa"

(12) Total production of leather boots and shoes for the armed forces up to 1944 was a little over 8 million. Canvas footwear produced for the armed forces was a little over 3 million prs.

(13) Table 1 "Facts & Figures of Footwear Manufacturing in S.A."

(14) Footwear Manufacturers' Federation Year Book 1945, page 43.

decreased.

Thus, the increased demand and production have had a considerable effect in reducing the importance of the wholesale merchant and increasing the importance of both the manufacturer and the retailer in the chain of distribution.

The war, however, also set into motion certain forces which tended to have a counteracting influence. For instance, the price control regulations, which enabled manufacturers to obtain the same price for their produce, whether they sold to the retailer or the wholesale merchant, had the effect of encouraging manufacturers to sell to the wholesale merchant in preference to the retailer. Further, as result of the rationing of petrol and tyres, and the shortage of stocks, manufacturers called on retailers less frequently, and thus the retailer was obliged to fall back on the wholesale merchant for prompt deliveries.

Another very interesting feature arising out of the war was the increased interest taken by mining and financial "houses" in industrial enterprises. This was brought about by the fact that during the war, large cash reserves were accumulated by mining and financial "houses", and as a result of the curtailment of building and mining, considerable difficulty was found in obtaining profitable outlets for these funds. The Government taxation and borrowing policy was not bold enough to absorb these liquid reserves, with the result the supply of money was greater than demand. Interest rates fell and share values rose. With the cessation of hostilities and the rich gold strike in the Free State, the "bullish tendency" on the stock exchange developed into a major boom.

Financial and mining "houses" realising the opportunity of obtaining ready cash from the public, began to float large industrial and financial houses and expand existing ones. These funds were then used to acquire large shareholdings in commercial and industrial undertakings; interests in 8 large footwear manufacturing establishments were thus acquired.

TABLE X.

The Control and Interest of Industrial and Financial Houses
in Footwear Manufacturing Establishments.

<u>Manufacturing Establishment.</u>	<u>Financial or Industrial House.</u>
United Shoes (Pty) Ltd. } Modern Shoes (Pty) Ltd. }	Second Merchants Corporation.
Consolidated Rubber (Pty) Ltd. } Algoa Boots Ltd. }	South African General Industries.
Nugget Footwear Ltd. P.E. Boot Co. Ltd.	Porterfield Estates. Rock Holdings.
African Rubber & Shoe Manufacturing Co.(Pty) Ltd.	Orkin Holdings.
Felt and Textiles(S.A.) Ltd.	Industrial Development Corporation.

As yet it is impossible to predict with any certainty what effect this movement is likely to have on the distribution of footwear. So far it appears that the division of labour principle has been merely applied to finance, for the management and to a certain extent the control of these organisations still appear to be vested in the previous proprietors.

However, within the Orkin Holdings group there are a number of distributing organisations, and it is very likely they will act as the main distributors for the African Rubber and Shoe Manufacturing Co.(Pty) Ltd. Further, South African General Industries have recently acquired the Atlas Footwear Ltd., a distributing organisation. From this it appears that it is very likely that in the future these financial and industrial houses will be instrumental in carrying out large

combination and amalgamation schemes.

IV. Recent Developments in the Advertising of Footwear.

As numerous references have already been made to the part played by advertising in the distributive structure, this section will be mainly confined to a discussion of the present advertising methods of manufacturers and retailers, with particular emphasis on newspaper advertising, and the effects of footwear advertising. For the purpose of this discussion, advertising will be divided into manufacturing advertising and retail advertising.

A. The Advertising of Footwear by Manufacturers.

Before the war manufacturers relied mainly on retailers to provide the necessary information to consumers about their products, and thus the advertising undertaken by manufacturers were mainly confined to the retail trade, through trade journals and dealer assistance, but even this form of advertising was on a very small scale. It was only on special occasions that manufacturers undertook any consumer advertising on a national scale. In "The Eastern Province Herald" over a period of four months⁽¹⁵⁾ in 1939, there was only one advertisement of 12 inches of one column space. In "The Star" over a period of 5 months⁽¹⁶⁾ there were 13 advertisements totalling 176 inches.

As a result of recent developments a complete change has taken place in the advertising policy of manufacturers.

(15) The four months were January, February, April and December. These months were not chosen for any particular purpose, but were regarded by the writer as a sample for the year. The figures for December 1945 were taken to represent December 1946.

(16) The five months were January, February, March, April and December.

During 1946, over a period of four months advertising in "The Eastern Province Herald", there were 65 footwear advertisements with a total space of nearly 1000 inches of one column spacing, that is nearly a hundredfold increase over the 1939 period. In "The Star" over a period of 5 months there were 99 advertisements totalling 1392 inches.

In addition, manufacturers have begun to advertise extensively in weekly periodicals, magazines, fashion journals and on the screen, whereas before the war very little or no advertising of this nature was undertaken. Advertising agencies in various centres maintained that they were unable to obtain sufficient advertising space to satisfy the demands of the footwear manufacturers.

A conservative estimate is that advertising by manufacturers has increased by at least ten times in the last 6 years. Production over the same period has increased by a little more than 25%. This means that advertising costs per pair of shoes has increased considerably. It is very unlikely that this increase in advertising has resulted in a decrease in other distribution costs or production costs. It is extremely difficult to know exactly to what extent these costs have been passed on to the consumer in the form of higher prices. The method of price control in the footwear manufacturing industry until very recently was the 1939 "mark up", multiplied by a factor. Costs were defined so as not to include advertising expenses, but due to the lack of strict supervision and the elasticity of the price control regulations, it is not unreasonable to suggest that it is possible that some manufacturers are including advertising costs in the price of the product.

There appears to be two main reasons for this tremendous increase in advertising. The first reason has already been discussed on previous occasions, that is, manufacturers, in order to obtain a control over the disposal of their products, have undertaken large scale advertising campaigns. Secondly, expenditure on advertising is a rather useful means of reducing the manufacturer's liability for Excess Profit Duty. In other words £100 spent on advertising only costs the manufacturer £50.⁽¹⁷⁾ Thus the present value of manufacturers' expected returns of £100 of advertising is greater than £50.

The high Excess Profit Duty is probably the main reason for this tremendous increase in advertising. In fact in certain business circles it is actually referred to as "E.P.D. Advertising". As E.P.D. is reduced, the volume of advertising will decline, but it is very unlikely that it will be reduced to anything like the pre-war level.

B. The Advertising of Footwear by Retailers.

As a result of conditions arising out of the war, the demand for consumer goods has increased, whereas supply has been reduced, with the result a greater portion of the burden of bringing buyer and seller together has been shifted on to the buyer. Thus the necessity for advertising by retailers has decreased. In five months' advertising in "The Star", it was found that the volume of advertising had decreased from 136 advertisements (occupying a space of 2336 inches of one column space) in 1939 to 96 advertisements (occupying a space of 1504 inches) in 1946. This reduction may have been greater, had it not been for the high Excess Profit Duty. A reduction

(17) Here again we note the difference between the costs to the consumer and costs to the community. The community pays the full cost of the advertising, whereas the consumer only pays a part thereof.

of £100 advertising would only result in a saving of .350 to the retailer, who paid Excess Profit Duty.

To what extent this decline in advertising is due to the fact that there was "seller's market" is difficult to say. For there were other important factors that influenced the volume of advertising, such as increased advertising rates, shortage of advertising space, and the fact that manufacturers had undertaken large scale advertising campaigns.

Unfortunately there is no statistical information available to indicate whether there has been a corresponding decrease in the value of sales, as well as the number of pairs of shoes sold, by those retailers who advertise in "The Star". This is unlikely. Assuming that those retailers who advertised in "The Star", decreased their total advertising expenditure in more or less the same proportion as they decreased their advertising in "The Star", then the retail advertising expenses per pair of shoes during 1946 was less than in 1939.

In spite of the fact, that there has been a seller's market, retail advertising in "The Eastern Province Herald" has increased from 52 advertisements of 1134 inches of one column space over a period of 5 months in 1939 to 138 advertisements of 2129 inches during the same period in 1946.

This increase has been brought about by local conditions in the last few years. Two chain organisations have opened up branches and 3 new footwear stores have been established in Port Elizabeth. The initial advertising outlay in new stores tends to be greater, and in addition competitors were more or less forced to advertise in order to maintain competition.

The most striking feature in retail advertising of footwear is the considerable fluctuation in the volume of

advertising. In "The Star" and "The Eastern Province Herald", approximately 50% of the advertising was on a Friday (see Table Annexure 1) and approximately 75% of the advertising fell on Wednesday, Thursday and Friday. The main reason for this is that in large centres there is a considerable number of weekly paid workers, who are usually paid on Friday. Thus the purchasing power available on Friday and Saturday, particularly Saturday, the conventional shopping day, is greater than other days of the week.

And for similar reasons, advertising tends to be highest in the first week of the month and lowest towards the middle of the month (see Tables 1 and 11 Annexure 1).

Another noticeable feature is that the volume of advertising undertaken by chain organisations forms a greater percentage of retail advertising in 1946 than in 1939. It also appears that chain, departmental and independent stores all tend to have different advertising policies (see Tables V, VI and VII Annexure 1).

C. The Effects of Advertising.

Irrespective of the purpose and reasons for advertising by manufacturers and retailers, advertising tends to have the effect of firstly, altering the consumer's subjective valuation of a particular brand of footwear, and footwear in general; and secondly, influencing the operation of bringing buyer and seller together.

Due to the lack of standardisation of shoes, and the difficulty of setting a valuation for the varying product characteristics, such as style, the niceties of manufacture and comfort qualities, it is very unlikely that the advertising of footwear or a particular brand of footwear would affect

consumer's subjective valuation of footwear, or a particular brand of footwear, to any great extent.

However, all advertising tends to be competitive, either between commodities or between commodities and leisure, thus not only will the advertising of footwear, but all advertising, whether it be for patent medicines or cinema shows, will affect the consumer's subjective valuation of footwear.

As for the operation of bringing buyer and seller together, it is held that as advertising is informative and has the effect of standardising consumer's requirements, it reduces the cost of distribution. The fact that retailers' selling costs of advertised articles is less than that of the non-advertised product, tends to substantiate this belief. There appears to be no scientific proof for this belief. In order to carry out a successful advertising campaign, the advertised product must be slightly different to others, thus advertising has the effect of increasing styles and fashions, which in turn confuses the consumer. In addition advertising tends to make it more difficult to sell a non-advertised product.

Due to the number of variables present, and the difficulty of measuring these variables, it is absolutely impossible to determine whether advertising has increased or decreased the consumer's subjective valuation of footwear, or whether there has been a reduction in distribution costs.

V. Management and its Relationship to Distribution.

The consumer through the pricing system will ultimately determine the methods and policies and even the costs of distribution. Under the "bespoke" method of production, the working of the pricing system was simple and straight forward,

but under the present factory system production has to be planned far in advance and the process tends to become rather complicated. Decisions taken by the management and the co-ordination of such decisions will have a considerable influence on the distributive structure. The ability of the management to make decisions depends upon two factors (a) the structure of management, and (b) the standard of training.

(a) The Structure of Management.

In order to make decisions and to carry out such decisions successfully, it is essential that the management should be so arranged that the work of every person in the organisation should be confined as far as possible to the performance of a single leading function, and each function should be so co-ordinated as to obviate waste and friction. Questions of responsibility and authority should be clearly defined so as to avoid confusion. (18)

Thus the distributive process if it is to be carried out successfully, should be under a separate department known as the Sales Department. The head of such a department should be an executive and should have a certain amount of control in the policy of the organisation, particularly in the production programmes in the case of the manufacturer, and the buying policy in the case of the wholesale or retail merchant.

In South Africa, due to the family influence on the

(18) Taylor - "Scientific Management"

business organisation,⁽¹⁹⁾ proprietorial interest tends to become involved with executive decisions, which are often influenced by sentiment and proprietorial interests and motives and not necessarily by reason. Responsibility and authority are very seldom defined and it is not unusual for one member to interfere in the function controlled by another. More often than not the various functions of the distributing organisations are controlled jointly by a number of members of the family.⁽²⁰⁾

This family influence on management has had a considerable influence on the methods and policies of distribution. The family organisation very seldom plans far ahead, with the result the policy of such organisations tends to be shortsighted, and clashes with the general interests of society.

In this connection it is interesting to compare the

(19) Out of the 96 manufacturing establishments, 24 were individual concerns, 24 were partnerships, 43 were private companies and 6 were public companies. The management of the individual and partnership organisations were to a great extent controlled by family interests. Many of the company organisations are entirely or partially controlled by the family. On an examination of the letterheads of 32 companies, it was found that of approximately 50% of these, at least two of the directors had the same name. Even the two largest footwear organisations have a tremendous family influence, in the one, 2 out of the 6 directors, and in the other, 3 out of the 9 have the same name. For the exception of a few large retail and wholesale organisations, the majority are individual and family concerns.

(20) According to the Census of Distribution of Industrial Production 1942-43, out of the 96 manufacturing establishments only 23 claimed to have had sales managers, This means that sales function in the other establishments must have been carried out by persons in charge of other functions, probably the proprietor himself. The fact, that the average salary paid to the Sales Managers was only £872 p.a. is sufficient indication that the Sales Managers were, in the majority of cases, carrying out routine functions and not making decisions. For the exception of the larger chain organisations and department stores, the majority of the functions are carried out by the proprietor himself or by a member of his family.

policies of the chain organisation, which is usually a non-family organisation, and a family-owned retail store, towards the ownership of property. The former organisation usually possesses ownership of the building in which the retail store is situated, whereas the individual retailer does not. Admittedly the former organisation has greater funds at its disposal, but this is not the main reason. The chain organisation tends to plan further ahead than the independent store, for by possessing ownership of the property, a retail store is able to build up a considerable amount of goodwill, as a result of a permanent location. This in turn will probably have the effect of reducing the cost of bringing buyer and seller together.

Another example of this lack of foresight is the attitude of manufacturers towards the export trade in the last few years. The Minister of Economic Development and the Footwear Manufacturers' Federation have both emphasised and stressed the importance of manufacturers obtaining and retaining export connections with a view of establishing a permanent export market for South Africa. The Controller of Leather has from time to time reported that export quotas were not being filled.

As a result of recent developments, particularly the move towards amalgamations and combinations, the family influence on management has slowly begun to decline. This decline has been retarded by the protection afforded to manufacturers in the form of high customs duty. In addition, the continual rise in the price of gold has had the effect of bolstering South African economy at regular intervals, and has produced a considerable amount of slackness in South

African Industry.

As the family and the free enterprise system is still the basis of our society, it is more than likely that the family organisation will continue to play a very important part in the structure of distribution for many years to come, particularly in the young and undeveloped parts of the country, where initiative and enterprise are needed for the building up of capital.

(b). The Standard of Training.

The majority of people engaged in distribution do not possess the necessary qualifications or training. Both retailing and manufacturing, but particularly retailing, offer many attractions to the man with little capital and initiative and no professional aptitudes, for it gives a person the opportunity of being an employer and the chance and the hope of making large profits. The opportunity is of considerable value to minority groups (Indians, Greeks, Chinamen and Jews), for retailing offers them a certain amount of security.

It has been suggested that people wishing to undertake the distributive process should possess the necessary qualifications before being issued with a licence. It is held that doctors, lawyers and accountants are required to pass certain examinations before given the right to practise. Further, their behaviour as doctors, lawyers and accountants are governed by a set of regulations so as to protect the public from malpractices. Artisans have to undergo long periods of training and apprenticeship before being able to undertake certain kinds of work: It is held that a similar system should be applied to the distributive trade. A distributor of footwear, who has very little knowledge of fittings

and footshaped is not in the position of being able to carry out the distribution function efficiently. Moreover, he has the effect of increasing distribution costs.

The main objection to such a licensing system is that it interferes with individual liberties, and that it would be extremely difficult to put into operation. The first objection is a political factor and falls outside the scope of this thesis. The second objection is mainly of a technical nature and could be overcome with a little difficulty.

Alternatively, it has been suggested that manufacturers and wholesale merchants, in order to restrict the number of retailers, who do not possess the necessary qualifications, should pay more attention to the ability of the retailer to succeed, before granting long credit terms. It is held that this may have the effect of eliminating the less efficient retailers, and thus reduce costs. In addition a restriction of credit may have the effect of reducing holding costs, for retailers will exercise more care when making purchases.

Similarly, it is held that machinery and supply companies should pay more attention to the qualifications of the manufacturer before leasing machinery.

In South Africa, it appears that the more successful organisations have been built up by individuals or family interests, who have had very little scientific training in executive responsibilities. This fact has influenced their attitude towards the employment of trained personnel. However, the mood of the business community is slowly changing, but a considerable amount of propaganda is still necessary to bring about this change in attitude. In this connection, Excess Profit Duty has had a considerable retarding effect on the

movement, for the incentive to increase efficiency has declined.

V1. The State and its Relationship to the Marketing and Distribution of Footwear.

No direct attempt has been made by the state or any other public authority to regulate or interfere with the distribution of footwear. However, the activities and policies of the state and other public authorities have had a considerable influence on the distribution process. These activities can be conveniently divided into those that influence the demand and those that influence the supply of footwear. This division is an arbitrary one. Certain activities of the state may affect both supply and demand. Others may only have an indirect influence by improving the efficiency of the marketing and distribution structure.

(a) Demand Factors.

The demand for footwear depends upon two factors (1) the income of the family group, and (2) the pattern of expenditure of the family group. The state or any public authority by influencing either of these factors will affect the demand for footwear.

In recent years the distinction between the satisfaction of the consumer (measured in terms of money) and the welfare of society (a term used in the broadest sense and which cannot be measured in any unit value) has become apparent. A consumer may derive a considerable amount of satisfaction from drugs, but its consumption has become harmful to society. On the other hand, the satisfaction derived from health services may be less than its contribution to the welfare of society. The state has influenced the demand for both these

commodities with the purpose of protecting the interests of the country. In the one case this has been done by means of legislation and strict police supervision, and in the other by subsidies.

Footwear, however, is a commodity where the satisfaction of the consumer does not generally clash with the general welfare of the country. Thus the state policy towards the demand for footwear may be regarded as passive. However, there is one exception; in certain classes of employment the nature of the work makes the protection of the feet necessary, and it is very likely that in certain cases the satisfaction of the consumer may be less than is reasonably necessary to protect the health of the country. Thus the state by means of legislation has made it compulsory for an employer to provide free of charge and maintain in good condition an adequate supply of protective clothing and appliances, including footwear, to an employee, who in the course of his work is exposed to wet processes, or to heat, or any poisonous or other injurious substances liable to cause injury or disease.⁽²²⁾

It would be extremely difficult to try and evaluate the actual effect this legislation has had on the demand for footwear. It is more than likely that it has led to an increase in the demand for certain types of footwear, such as rubber boots or miner's boots. Further, it has enabled a concentration of demand to take place, and so has probably had the effect of reducing distribution costs. On the other hand, the increased demand for occupational footwear has reduced the

(22) Sec. 10 (1) Wages Determination No. 105 - Unskilled work on the Witwatersrand and the Reef, Para.18 of the regulations promulgated under Section 51 (1) (c) of the Factory, Machinery and Building Works Act No. 22 of 1941 and by Govt. Notice No.1227 of 1941 also makes similar provisions.

demand for other types. .

The state's economic and political policies have had a considerable influence on the factors that determine the demand for footwear. Wage legislation, taxation, customs duty and railway rates have all influenced the pattern of expenditure of the family as well as the amount available for expenditure. The government's "civilised" labour policy has had the effect of preventing an increase in the earnings of the Non-European population, and increasing the earning capacity of the European population. This has materially affected the demand for all consumer goods, including footwear. A more equal distribution of wealth would lead to a greater demand for all consumer goods. .

During the war the clash between consumer satisfactions and the welfare of society became more apparent. The state by means of various controls and increased taxation was able to influence not only the pattern of expenditure and the income available for expenditure, but also the supply of consumer goods. It is held that footwear was less scarce than other wearing apparel, and thus the demand for footwear during the war period was regarded as above "normal".

(b) Supply Factors.

With the growth of large scale production and selling, conditions of perfect competition began to disappear, and monopoly conditions began to develop. Certain profit-seeking operations of businessmen tend to clash with the broader interests of society. The state in attempting to prevent this clash of interest, undertook to control and regulate a number of distribution functions, Certain practices are dishonest because they involve fraud, deception and bad faith.

The state in order to protect the consumer from such practices has attempted to control and regulate the sale of commodities. Under the Weights and Measures Act⁽²³⁾, the sale of commodities must comply with certain regulations as to weights and measurements. Act 32 of 1923 prohibits the manufacture or the importation of footwear made from adulterated leather. Certain activities, although not dishonest, tend to be against public policy, such as trading on Sunday,⁽²⁴⁾ or advertising on national roads.⁽²⁵⁾

Certain competitive practices of to-day tend to hinder the ability of business men to compete. The state has attempted to control the plane of competition so as to retain all the benefits which result from competition, while excluding those manifestations which seem to thwart the best interests of society.

For instance, the Trade Marks, Designs and Copyright Act⁽²⁶⁾ encourages initiative and incentive by giving the owners of trade marks certain privileges, but at the same time laying down certain provisions so as to prevent business men obtaining unfair advantages over their competitors. In this connection it is interesting to note the case of Cuthbert & Co., vs. Southall & Co.,⁽²⁷⁾ where it was held that the trade mark "lightfoot" was a term which had special reference to the quality of the shoes, and thus would give the firm an unfair advantage over its competitors. Further, the Footwear Manufacturers' Federation opposed the application of the

(23) Weights and Measures Act. 32 of 1922 amended by Act 13 of 1933 and Act 8 of 1940.

(24) Sunday Observance Ordinance 1838.

(25) Advertising on Roads and Ribbon Development Act 21 of 1940.

(26) Act 42 of 1941 as amended by Act 31 of 1941.

(27) Volume 19 S.C.P. page 435.

International Shoe Company of U.S.A. for the registration of the trade mark "Happy Hiker", on the ground that the term hiker had direct reference to the character of the shoe, and would give the trade the impression it was built for the purpose of hiking. (28)

The giving away of free gifts or coupons (29) is also regarded as illegitimate competition, for it tends to influence the consumer to purchase an article on account of the free gift of coupon, thus giving certain manufacturers and distributors an unfair advantage over competitors. Further it is held that such a scheme tends to have the effect of increasing prices. (30)

In order to maintain open competition in trading on mining grounds, the Gold Laws (35 of 1908) of the Transvaal were passed. These Laws prohibit persons carrying on mining, being interested in a business on which such mining is carried on and for which general dealer's licence or a municipal licence is required. The Gold Laws enable the Mining Commissioner to put up for auction certain trading concessions on mining ground. It is very doubtful whether this method of granting licences has had the effect of maintaining competition. The present method of trading on mining ground appears to have all the disadvantages which result from competition and none of the advantages of the lack of competition. Thus it has been suggested in certain quarters that a public utility corporation should be set up by the state for the purpose

(28) F.M.F. 1945 Year Book, page 49.

(29) Trades Coupon Act 18 of 1935.

(30) It is interesting to note that one of the largest manufacturing concerns in S.A. was contravening this regulation before the war, by placing balloons in children's shoes. This tended to influence children to persuade their parents to purchase a particular pair of shoes.

of trading on mining ground. It is held such a system of trading, if efficiently administered, would have the effect of reducing distribution costs. This suggestion is, however, mere speculation; but a thorough investigation of the present methods of trading on mining ground would be highly desirable.

Besides controlling the plane of competition, the state has the power through the Board of Trade of Industries ⁽³¹⁾ to enquire and report upon the extent and the effects of agreements, arrangements, combinations, associations and trusts in any industry, which has the effect of creating monopolies and agreements in restraint of trade. In the past the Board has not exercised these powers to any great extent as far as the footwear industry is concerned. At present, however, the Board is preparing a full report on the activities of the Boot and Shoe industry. In addition, the Board has the intention of carrying out an investigation into the amalgamation and combination movement in industry in the near future. ⁽³²⁾

The state's economic and political policies not only affect the factors that determine the demand for footwear, but also influence those factors that determine the supply of footwear. Business men, when estimating consumer's requirements, have to take into account the state's future policies. If the policy of the state is consistent, then business organisations' estimations of consumer's requirements are likely to be accurate. If, however, the policy of the state is constantly changing or the policy is very uncertain, then the estimations of consumer's requirements are likely to be less accurate.

(31) Sec.1 (1) Act 28 of 1923.

Sec.9. Act 19 of 1944.

(32) Board of Trade Report 282, page 75, note 1.

Recently, government's policies have created a considerable amount of uncertainty in the business world. In 1946 Mr. Hofmeyer reduced E.P.D. as from July 1945. It is expected that the same procedure will be adopted in his 1947 budget. This means that when estimating future requirements another unknown factor has to be taken into account. Further, the attempt to pass Clause 6 of the Income Tax Amendment Act of 1946 caused a considerable amount of opposition. In referring to the withdrawal of this clause, the Minister made a threat, (we cannot call it anything else) to the effect that he would devise some other means of achieving his purpose, and this is bound to create a feeling of uncertainty amongst business organisations. (33)

The future policy of Railway Rating is very uncertain. The Board of Trade Report No.285 recommended a revision of the present principle of "what the traffic can bear" to the principle of "cost of service", as the means of determining rates. The Minister of Transport in a White paper subsequently supported the present system. In a recent speech made by the Minister, he vaguely hinted that some of the recommendations of the Board may be adopted in the future.

The government's future labour policy has not been very clearly defined. This particularly applies to the state's attitude towards African Trade Unions.

The price control policy of the government has also come in for a considerable amount of criticism. In interviews with numerous manufacturers, as to the method of price control adopted in their organisations, contradictory answers

(33) Statement made by Mr.H.J. Sanderson at the 8th Annual Report of the Nassau Investment Corporation.

were given. Many organisations were rather vague as to the methods used, others confessed that in many cases they were unable to understand the regulations. In addition, the methods of determining prices were constantly being changed. Of late the government's attitude towards the gold mines has created a considerable amount of uncertainty, and the government's policy is partly responsible for the crash on the Stock Exchange, which in turn has affected the purchasing power available for consumer goods.

All this uncertainty has made the estimation of future requirements of the consumer rather difficult, and the payment to bear the risks of undertaking these estimations has increased accordingly.

The state, however, attempts to reduce the uncertainty of the future in numerous ways. The laws of the state relating to purchase and sale, and the laws relating to insolvency, companies, bills of exchange, etc., lay down procedures and regulations which have to be followed in the business world. This has the effect of reducing to some extent a certain amount of risk. Further, the state by providing certain statistical information, assists the business organisation in estimating future requirements.

VII. The Co-ordination of Methods and Policies in the Distribution of Footwear.

It will be found that in any society people with like interests will tend to come together in order to provide certain facilities for their interests. Business men undertaking the distribution of footwear are no exception to this rule. In order to form an association of like interests, it is necessary that certain functions should be delegated to a

collective body. Business men, however, will tend only to delegate those functions, where the expected return to the business organisation is greater than any loss or inconvenience the business organisation is likely to suffer as a result of the delegation.

As a result of the concentration and specialisation of industry and commerce, the profit motive of the individual, on occasions, tends to clash with the welfare of society. The state has thus been obliged to intervene, either by controlling or prohibiting certain activities of the business man. This increased state intervention has in turn endangered certain interests of the business organisation, hence increasing the necessity of co-ordinating their interests.

A. Retail Trade Associations.

The footwear retailer's main function is to provide certain services to the consumer, such as variety, convenience and immediacy. The provision of such services depends to a considerable extent on the individual personality of the organisation. The retailer regards this as a sort of trade secret, and thus is not very willing to delegate any of his functions. The expected return will be less than the loss or inconvenience the retailer will experience as a result of the delegation of such functions. This is probably the main reason why there is no footwear retailers' association to-day.

However, as soon as the state began to take an interest in the various activities of the country, it became apparent that the state's interest tended to clash with the interest of the distributor. Thus distributors came together for the purpose of organising themselves as a front against the

state. As far back as 1857, at the first meeting of the Durban Chamber of Commerce, the President summed up the purpose of the Chamber in the following words; "The fact of the existence of such a body will often tend to prevent the very attempt at partial or vicious legislation". (34)

The main function of the Chamber of Commerce has been the scrutinising of legislation that affects its members, and to agitate for legislation wherever needed. Railway rating policy, postal matters, customs duty and problems of taxation have always been the main items on the agenda.

The growth and the development of the Chamber of Commerce can be closely correlated with the growth of government interference in trade and industry. The government, due to the war, has been given considerable powers under the emergency regulations. Problems of imports, exports, prices, rents and the allocation of resources and manpower have been decided by various government appointed control boards, instead of the interaction of supply and demand. As a result of these increased powers, the Chamber of Commerce has been extremely active. During the war, the Chamber of Commerce in the various centres acted as an liason between the government and the distributor for the purpose of deciding matters arising out of control. After the cessation of hostilities, the Chamber has been very active in agitating for the relaxation of such controls.

Numerous footwear retailers and wholesale merchants have joined the Chamber of Commerce, which is a simple trade association of traders, aiming merely at assisting its members in their business activities. The object is not to inter-

(34) "Rules of Association of the Durban Chamber of Commerce".

ferre with the business itself but to promote general conditions favourable to traders.

B. Manufacturer's Association.

Like the retailer, the manufacturer had very little to gain by delegating any functions. The powers of the Manufacturer's Association were very much the same as those of the Chamber of Commerce. It merely aimed at assisting its members in their business activities with no object of interfering with business itself.

With the expansion of the footwear manufacturing industry in the 1930's, and the growth of the large manufacturing unit, the problems of the industry and the manufacturer became rather complicated. Further, as a result of the increased activity of the state, particularly during the last 6 years, the industry's and the manufacturer's associations' problems increased. It soon became apparent that some of the tasks could be best undertaken by an organisation representative of all the associations. In 1944, this need was fulfilled, the Footwear Manufacturers' Federation of South Africa was formed, consisting of the five existing footwear manufacturers' associations. The functions of the new organisation can be roughly divided into three categories.

Firstly, it provided the machinery to enable footwear manufacturers to co-ordinate their activities with that of the state and other industries. Such co-ordination was in many cases already in existence, but the national organisation was more competent in arranging for this co-ordination, The Footwear Manufacturers' Federation was represented on The Controller of Leather Central Advisory Committee, The Army Boot Committee, Leather Industries Research Institute,

The S.A. Federated Chamber of Industries and the War Disposals Board. It further co-operated with the Institute of the Boot and Shoe Industry. A permanent liason committee was set up to deal with matters with tanners and the general leather goods section.⁽³⁵⁾ It was suggested that the Footwear Manufacturers' Federation should encourage co-operation with other industries. Proposals were put forward for the formation of a National Colour and Style Committee, with a view to maximising the efficiency of selling fashion goods and giving better service to the public.⁽³⁶⁾

The setting up of the Footwear Manufacturers' Federation enabled the manufacturers to tackle their most important problem - protection. The Federation has been very active in this sphere, especially with regard to the continuation of import control. Various representations have already been made to the Board of Trade on this problem.

Secondly, the Federation undertook certain tasks which were previously in existence, but due to the nature of the tasks, could not be undertaken by local manufacturers' association. The most important of these tasks was that of publicity and the supplying of certain services.

In the publicity sphere the Federation, although only in operation for a short while, has made remarkable progress. It has already made known its views and has arranged for both advertising and publicity in the various trade journals such as "Shoes and Views", "S.A. Industry and Trade", "The Buyer" and through the daily press. At the request of the Secretary of Commerce and Industries it arranged a display of S.African

(35) "Footwear Manufacturers' Federation Year Book" 1945
Page 35.

(36) National Secretary's Report 1944.

footwear in Leopoldville, and arranged a very attractive display this year at the Rand Easter Show.

In a Presidential address in 1945, Mr. Anderson gave what he considered the aims of the Federation for the future, in the form of 14 points. The first two of these points were the organising of fact-finding statistics and the organising of a monthly publication of statistical and market reports and current manufacturing trends.⁽³⁷⁾ Already the Federation has arranged for the printing for private circulation a summary of Dr. Stoker's "Statistical Report and Observations on the Footwear Industry of South Africa". The Federation invited the Economic Research Officer of the Leather Industries Research Institute to undertake a survey with the object of improving the official statistical information relating to footwear manufacturers. It has also given an undertaking to the Board of Trade and Industries that it would promote an investigation with the object of establishing a standard method of costing.

Thirdly, the Federation has extended its functions to include the actual promotion of sales programmes, which was previously regarded as being the function of the individual manufacturer and not of the association of manufacturers. In fact in this sphere the Federation has been very active and helpful; it circulates advice to manufacturers with regard to the export market, particularly with regard to the Belgian Congo and Madagascar. The Federation has been active with regard to contracts to U.N.N.R.A. and has also assisted in placing order for 10,000 pairs for the relief of the Children of France, which was organised by the S.A.W.A.S;

(37) Footwear Manufacturers' Year Book, 1945, Page 30.

and further agreed to assist in placing orders of another 10,000 pairs for Holland. (38)

The co-ordination of marketing and distribution functions is merely a further application of the principle of the division of labour. The Footwear Manufacturers' Federation being a specialist organisation, is able to carry out certain of the marketing and distribution functions more efficiently than the manufacturer himself. For instance, the Federation's publicity policy has done more to reduce the prejudice against South African footwear than the combined efforts of each individual manufacturer. Further, the Federation is able to provide certain information with regard to the market at a lower cost. Moreover, by delegating certain functions, the manufacturer is able to specialise and concentrate on the remaining functions more efficiently. Thus it is not unreasonable to suggest that the co-ordination of certain marketing and distributing functions of the manufacturer, through the Footwear Federation, has resulted in the reduction of distribution costs to the consumer as well as to the community. On the other hand, this co-ordination of interest may lead to the formation of agreements in restraint of trade or against the general interest of the consuming public. This, in the opinion of the writer, is inevitable. In other words, the co-ordination of activities may at the beginning lead to a reduction in distribution costs and prices, but ultimately this may only lead to a reduction in distribution costs to the community, prices may increase. This, however, remains to be seen, and depends to a considerable extent on the state's attitude towards such agreements.

(38) Footwear Manufacturers' Federation Year Book 1945.

CHAPTER IV.Summary, Conclusions and Future Prospects.

Before trying to decide whether the distribution of footwear costs too much, or whether the methods of distribution are inefficient, it is important that we should view the function of distribution as an integral part of the economic, political and social structure of the country.

Firstly, we must take into account the changing role of distribution. Under the bespoke method of production, producer and consumer were in close contact with each other, and as a result the process of transferring footwear from the time and place of production to the time and place of purchase by the consumer, was simple and straightforward. The bootmaker played the combined role of producer, entrepreneur and distributor. As a pair of shoes was usually made to order, it was the buyer's decisions that determined what was to be produced, in what quantities and at what time.

To-day, however, under the factory system, production is concentrated into certain areas. The producer and consumer are no longer in close contact with each other, with the result the process of giving a pair of shoes place and time value has become extremely complicated. Numerous intermediaries have to be employed, such as wholesale merchants, retailers, transport and banking organisations. A pair of shoes is now produced in anticipation of demand, thus it is the seller's estimation of consumers' requirements and not the buyer's decisions, that determine the production programme.

Secondly, we must remember that we are living under a free enterprise system, where the individual has a freedom of choice and opportunity. Complaints and criticisms of

"too many retail outlets", too much advertising and high pressure merchandising, "too many similar products" and "too much duplication of services" are not complaints directed solely against the distributive structure, but against our whole capitalistic society. The limiting of retail licences and the restricting of consumers' choice are a means by which distribution costs can be reduced, but these methods tend to have the effect of interfering with the personal liberties of the individual. Thus a certain portion of distribution costs may be regarded as a payment by the consumer for his or her freedom of choice and opportunity.

In addition, we have to take into account the fact that a distinction has arisen on certain occasions between the welfare of society, on the one hand, and the profit-seeking operation of the business man and the satisfaction of the consumer on the other hand. In order to protect the interests of society, the state has begun to control and influence, in one way or another, both the sellers' estimations of consumers' requirements and the consumers' choice.

Of late there has been a strong tendency on the part of the state to increase these regulations. This has been brought about by the fact that the world to-day is a very closely knit organisation, both politically and economically. Decisions taken at U.N.O., U.N.N.R.A. and other world organisations have repercussions on all phases of life and in all parts of the world. The allocation of leather by Washington and London has had a considerable influence on the policies and methods of the distribution of footwear in South Africa. The passing of the so-called Indian "Ghetto" Act has led to the severing of trade relations by India, with the result

that the main source of supply for certain types of leather linings are no longer available to South African manufacturers. Railway, coal and shipping strikes in England and America tend to influence the distributive structure. The main problem that faces every country to-day is to try and tie up domestic policies with world programmes with the least possible dislocation. And as a result, the state's activities have begun to have an increasingly important bearing on both the consumers' choice and the sellers' estimation of the consumers' requirements.

There are numerous schools of thought as to the extent the state should interfere and regulate business activities, but due to the number of variables present and the difficulty of distinguishing cause from effect, any discussion on this controversy falls completely outside the scope of this thesis.

What we are concerned with is whether distribution costs are too high, taking into consideration the present role of distribution, the faults of our capitalist society and the limitations imposed by the state. It is the opinion of the writer that these costs are too high, and could be reduced by improving consumers' knowledge of the product, sellers' estimations of the market, and finally by co-ordinating marketing and distributing activities.

At present consumers' knowledge of footwear is rather vague. By educating consumers to appreciate the quality, style and fittings, distribution costs could be reduced. Advertising, for instance, should be more informative, instead of the present day method of merely bringing to the notice of the public the name of a brand. The publication of fashion

journals and consumer guides, the development of informational labeling, the establishment of Consumer Advice Bureaus, and the standardisation of the markings of fittings and sizes should be encouraged so as to assist consumers in improving their knowledge of footwear.

The formation of consumer buying clubs should be encouraged, for the information available would be greater to the buying club than to the individual consumer. This particularly applies, where due to the nature of the work, the footwear requirements of the consumer are very similar. Further the economies to be obtained from large scale buying would be an additional advantage to the consumer.

The problem of assisting the consumer, however, is not as simple as might at first appear. The majority of consumers have not shown any great interest or desire in becoming better informed. In South Africa the task becomes even more difficult, on account of the fact that the greater portion of the population are unable to read or write.

There appears to be considerable room for improvement in the seller's estimation of the market, but of all the improvements that are necessary, none requires more attention than the selection of lasts by manufacturers, and the method of fitting footwear by retailers. In this connection the writer wishes to emphasise the importance of taking into account the requirements of the native population. It appears that in the future the Non-European will play a more active part in the life of the country, particularly in industry, and it can be expected that the demand from this section of the population is likely to increase at a greater rate than that of the European population.

Special attention should be paid to the production of occupational footwear. Each type of work entails different standing, walking and crouching positions. The policeman on his beat has a different walk to the postman on his rounds. Tram conductors, shop assistants and factory workers, who spend most of their time standing, have different footwear requirements from office and clerical staff, who spend most of their time sitting. At present the choice of footwear suitable to a particular occupation is left to the consumer to determine, which he usually does by trial and error.

It seems that in the past, the majority of sellers, whether manufacturers, wholesale merchants or retailers, have relied mainly on their experience, their trade connections and their flair for picking up useful information as their means of estimating the requirements of the market. When the buyer and seller were in close contact with each other, this method proved to be useful, but to-day, the gap between buyer and seller is too wide to place any reliance on such information, and distribution costs have probably risen as a result.

To-day, with the growth and complexity of the production and distribution unit, a more scientific outlook is required. Special scientific investigations, generally referred to as market research, should be undertaken with the purpose of estimating consumers' requirements more accurately. Special statistical records, sales forecasting and cost accounting systems are the means by which such investigations can be conducted. For instance, by an intricate Hollereth system of stock control, a large organisation has been in the position to find out exactly the types, sizes, fittings, colours, prices of shoes sold at its various branches. Such information is of

considerable value in assisting the seller in his buying policy in the case of a retailer or a wholesale merchant, or his production programme in the case of a manufacturer.

The undertaking of special investigations usually entails a considerable amount of research. The cost of such research is usually too expensive to be undertaken by any individual distributor. At present the state through the Scientific Council of Industrial Research and the leather industry are financing the Leather Industries Research Institute, whose field of activities cover problems dealing with marketing and distribution. The main task of the marketing section has been the collection of valuable statistical information with regard to production. Unfortunately statistical information dealing with distribution is conspicuous by its absence, and to undertake research in the field of distribution, without reliable statistical information is quite hopeless. Both the Social and Planning Council⁽¹⁾ and The Distribution Costs Commission⁽²⁾ have advocated that a census of distribution should be undertaken by the state. Such information would be extremely valuable in encouraging research, and in improving the methods and efficiency of distribution, and in addition it would assist the state in framing policies.

The conducting of special investigations and the undertaking of research would be of little use, if the results of such investigations cannot be properly interpreted with the purpose of improving the seller's estimations of the requirements of the market. This entails an improvement in

(1) Economic and Social Planning Council Report No.6. Annexure VII.

(2) "The Distribution Costs Commission", Annexure 1.

managerial ability of the distributing organisation. A change of attitude on the part of South African footwear distributors to the employment of highly skilled executives would be a very important step towards a reduction in distribution costs.

The importance of employing scientifically trained executives has been stressed by every British industrialist, who has visited this country in the last few months. In this connection an improvement in the training facilities for business executives is highly necessary. Business courses offered at Universities and Technical Colleges are inadequate. Very little attention has been paid to the problem of management. The writer suggests that a course on Sales Management on similar lines to the Personnel Management course at Rhodes University College should be started at Universities.

It is the opinion of the writer, that the most hopeful way of reducing distribution costs is by means of a co-ordinated and "planned" marketing and distribution policy. Such a policy would have vast possibilities, particularly in shortening the holding period.

For instance, at present there appears to be very little correlation between the volume of consumers' purchases and the volumes of factory output. Retail sales tend to be highest at the end of the month and at the end of the week, whereas the potential productive capacity of manufacturing establishments is more or less uniform for the five working days of the week, with the result stocks must pile up. However, with a little planning, it is possible, without even interfering with the consumer's freedom of choice, to stagger the payment of factors of production and thus stagger purchasing

power so as to adjust demand to that of supply. Admittedly it would be quite impossible to make such an adjustment complete, for demand due to other reasons would still continue to fluctuate, but it is more than likely that the staggering of purchasing power would result in a reduction of the holding period.

Further, by co-ordinating the sales and buying policy of retailers and wholesale merchants with the production programme of the manufacturer, it is possible to make the adjustment of demand and supply as complete as possible, without interfering with the consumer's choice. For instance, retailers are in the habit of postponing purchases just before stocktaking; this obviously is brought about by reasons which bear no relation to demand, and must lead to a piling up of stocks, or alternatively to a decline in production, which in turn has the effect of increasing the period between the time of production and the time of purchase by consumers. A certain amount of co-ordination of policies would obviate this.

Manufacturers, for instance, should consider the possibility of doing away with the present practice of granting the annual leave to all their employees at the same time, particularly as the customary period falls over the Christmas shopping season. For this has the effect of piling up stocks in anticipation of the Christmas season. Manufacturers should either postpone the holiday period to February, when demand is lowest, or should stagger the leave, so that production is continuous.

Further, the advertising policies of manufacturers and retailers should be co-ordinated with the object of

increasing demand in periods, where the potential productive capacity tends to exceed consumer purchases.

The few examples just quoted are merely an indication as to what can be achieved by a co-ordinated policy. Difficulties arising out of packing, transporting of footwear, problems of style and fashion, and questions of finance can be rectified with a certain amount of co-ordination between retailers, wholesale merchants and manufacturers. The formation of a Footwear Distributors' Association would be the first essential step towards the attainment of such a policy. The formation of such an Association has already been discussed by the Footwear Manufacturers' Federation, and apparently the manufacturers have found great difficulty in arranging a joint meeting with retailers.⁽³⁾ The writer suggests that the manufacturers should not give up the idea of forming such an association, and should if possible undertake the publication of propaganda pamphlets, so as to convince the retailers of the advantages.

Any prediction as to the future can only be mere speculation. Certain trends, however, are clearly discernible and give us an indication as to what may happen.

Firstly, it appears that to all intents and purposes, South Africa is embarking on a large scale era of industrialisation. This is likely to lead to a further concentration of population, urbanisation and a rise in the national income. Thus in the future we can expect an increased demand per head of population, particularly amongst the Non-European population. Further, we can expect an increase in the demand for services, which will be accompanied by further specialisation and the decline of the mixed merchandising store. The gap

⁽³⁾Footwear Manufacturer's Federation Year Book, p.23.

between the producer and consumer is likely to increase, and thus we can expect a rise in distribution costs.

Secondly, there appears to be a distinct trend away from the independent middleman. The importance of the independent wholesale merchant and retailer is decreasing, more and more of the distribution functions are being undertaken by the manufacturer and the "group organisation". The war, we saw, retarded this movement to a certain extent, but as the present boom comes to an end, the small retailer and wholesale merchant will find it more and more difficult to compete. The chain organisation due to the improved supply and building position will be able to open new branches, and, as in the past, a recession of trade will tend to encourage manufacturers selling a greater portion of their output to the retailer.

Thus in the future, we can expect a further decline in the importance of the independent middleman, particularly in the larger centres. To what extent this will take place will depend upon a number of factors. The opening of the new Free State Gold Fields, a possible rise in the price of gold and the new immigration policy may have the effect of maintaining purchasing power at present levels or possibly decrease the likelihood of a depression, which in turn would have the effect of reducing the decline of the small retailer and wholesale merchant.

The decline of the independent middleman will be accompanied by the growth and development of the "group organisation", who in the future will play an increasingly important part in the chain of distribution. At first this development may be beneficial to the country, but as the competition from

independent retailers decreases, prices would probably rise, in spite of the fact that distribution costs to the community may be reduced. In order to obtain the advantages of lower distribution costs and at the same time prevent an increase in prices, some form of control will become necessary. At present the Board of Trade has only the power to carry out investigations and make reports, but it has no executive power. With the exception of the common law, the Price Control Act⁽⁴⁾ and Act 24 of 1931 - "The Unlawful Determination of Prices",⁽⁵⁾ the state has no power to control or regulate these organisations, whose activities are against the interests of the community. It is desirable that in the future the state should take a more active part in controlling and regulating monopoly organisations.

However, before this will come about, we can expect a relaxation of the various control regulations arising out of the war. Already import and export control regulations have been lifted. This will only be temporary, for as the world becomes a more and more closely knit organisation, and as the demand for social security increases, the state will be called upon to take an increasingly important part in regulating the affairs of society.

One of the more important questions the state will have to solve in the near future will be that of protection. The future policy will probably depend upon the competition

(4) Price control regulations are regarded as a temporary measure.

(5) This act lays down regulations to prevent the restriction of the freedom of distributors to fix the prices of petrol. Under Sec.3 (a) these regulations can be applied to any commodity, providing it has been authorised by a resolution in both Houses - thus to all intents and purposes this act is quite ineffective.

from overseas, and the state of unemployment in the country. During the next few years the danger of unemployment and foreign competition seems rather remote, and there appears to be no likelihood of an increase in protection in the near future. In fact the Board of Trade, who advises the state on such matters seems determined to prevent a rise in customs duty; the Board recommended the relaxation of import regulations against the wishes of the footwear manufacturers. On the other hand, the International Trade Conference, which is to be held shortly, and the Chamber of Mines' demand for a lower cost structure may possibly lead to a reduction in customs duty and a revision of the railway tariff.

The increased state activity of the future will in turn lead to an increase in the importance of such organisations as the Footwear Manufacturers' Federation and the Chamber of Commerce.

Thus in the future we can expect the group organisation, the Board of Trade, the Footwear Manufacturers' Federation, the Chamber of Commerce and possibly the Footwear Distributors' Association to be the most important factors in determining the methods and policies of the distribution of footwear in South Africa.

ANNEXURE 1.RETAIL ADVERTISING OF FOOTWEAR.TABLE 1.Retail Advertisements of Footwear in "The Star" in 1939.

	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	%
1st Week	86	14	45	176	480	14	34.8
2nd Week	26	10	122	90	196	-	19.0
3rd Week	30	24	50	120	214	12	19.3
4th Week	24	46	64	180	192	22	26.9
%	7.1	4.1	11.9	24.2	50.6	2.1	100

TABLE 11.Retail Advertisements of Footwear in "The Star" in 1946.

	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	%
1st Week	96	32	136	16	206	16	38.8
2nd Week	64	-	48	48	171	-	21.8
3rd Week	16	72	84	32	124	16	18.9
4th Week	16	32	32	28	200	-	20.5
%	12.7	9.1	19.0	8.2	47.9	2.2	100

NOTE: 1. Figures represent one column inch spacing. The fourth week includes all the days after the 21st of the month.

11. Friday appears to be the most popular day for advertising, as weekly paid employees are usually paid on Friday. Saturday and Tuesday are not very popular days for advertising, as Sunday is a non-shopping and Wednesday is a half shopping day for many retail stores. Monday is also not considered as a good advertising day, as the housewife is usually engaged with domestic work.

111. The volume of daily advertising tends to be more staggered in 1946; this is probably due to the rationing of advertising space, and possibly to a staggering of purchasing power as a result of the war.

IV. The volume of advertising is the greatest in the first week of the month, and lowest towards the middle of the month. This is due to the fact that monthly paid employees are paid towards the end of the month and at the beginning of the month. Thus purchasing power is greatest during these periods.

TABLE 111.

The Monthly Volume of Advertisements of Footwear in the "Star".

	<u>1939</u>		<u>1946</u>	
January	452	19.2%	320	21.3%
February	650	28.1%	252	16.8%
March	564	14.2%	318	21.2%
April	280	11.9%	314	20.8%
December	384	16.6%	300	19.9%
	<u>2330</u>	<u>100.0</u>	<u>1504</u>	<u>100.0</u>

TABLE 1V.

The Monthly Volume of Advertisements of Footwear in "The Eastern Province Herald".

	<u>1939</u>		<u>1946</u>	
January	200	17.3%	466	21.9%
February	211	18.7%	272	12.5%
March	288	25.5%	446	21.0%
April	211	18.7%	529	25.0%
December	224	19.8%	416	19.6%
	<u>1134</u>	<u>100.0</u>	<u>2129</u>	<u>100.0</u>

NOTE 1. The volume of advertising fluctuates to a greater extent in 1939. The reason for this is that purchasing power was more evenly staggered in 1946, mainly as a result of the payment of war gratuities and possibly as a result of the Stock Exchange boom in the earlier part of the year.

11. There has been a noticeable decline in advertising

in February of 1946. Usually February is the month for clearance sales, but as the result of the war, the necessity of mark-downs has decreased, with the result that there has been a decrease in the number of clearance sales and the volume of advertising.

111. The marked increase in April 1946 is mainly due to the lifting of paper control and possibly due to the increased demand for fashionable winter footwear.

1V. As footwear is not regarded as a suitable Christmas gift, footwear advertising during December month does not show a marked increase. In this connection it is interesting to note that the greater portion of the advertisements in December are for slippers, which are regarded as a suitable gift.

Classification of Footwear Advertisements according to Chain, Departmental and Independent Stores.

TABLE V.

Volume of Advertising in "The Star".

	1939	%	1946	%
Chain	1126	48	919	61
Departmental	272	12	261	17
Independent	932	40	324	22
	<u>2330</u>	<u>100</u>	<u>1504</u>	<u>100</u>

TABLE VI.

Volume of Advertising in "The E.P. Herald."

	1939	%	1946	%
Chain	527	46	1251	57
Non Chain	604	54	978	43
	<u>1131</u>	<u>100</u>	<u>2229</u>	<u>100</u>

NOTE 1. Chain store advertising is increasing at a faster rate than non-chain store advertising, or in the case of "The Star" the decline is not as great.

TABLE VII

The Daily Volume of Footwear Advertising in "The Star"
(expressed in the form of percentages).

	Mon.	Tues	Wed.	Thur.	Fri.	Saturday
Chain 1939	12.6	3.4	6.3	10.5	59.5	7.7
1946	18.0	7.3	25.1	3.5	42.6	3.5
Departmental 1939	-	26.1	37.8	22.0	14.1	0
1946	20.8	13.8	13.8	28.6	13.0	-
Independent 1939	-	19.0	10.9	32.1	50.8	4.3
1946	-	7.3	12.5	4.1	76.1	-

TABLE VIII

The Weekly Volume of Footwear Advertising in "The Star",
(expressed in the form of percentages.

	<u>Chain</u>		<u>Departmental</u>		<u>Independent</u>	
	1939	1946	1939	1946	1939	1946
1st week	37.1	30.1	11.4	27.0	36.2	42.4
2nd week	15.5	25.2	34.4	27.2	23.0	15.7
3rd week	23.4	21.8	15.4	26.2	16.6	26.2
4th week	23.4	22.9	36.8	19.0	24.2	15.7
	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>

TABLE IX

The Monthly Volume of Footwear Advertising in "The Star"*
(expressed in the form of percentages.)

	<u>Chain</u>		<u>Departmental</u>		<u>Independent</u>	
	1939	1946	1939	1946	1939	1946
January	21.0	23.4	7.4	13.0	20.0	19.9
February	26.8	17.0	16.4	14.0	30.0	15.9
March	25.3	22.0	23.1	20.4	24.7	20.4
April	11.1	15.6	27.1	32.2	11.8	28.3
December	15.8	22.0	26.0	20.2	13.4	15.6
	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>	<u>100.</u>

Note 1. The number of stores in each group are comparatively small, the advertising policy of one member of the group may materially affect the volume of advertising of the group, and thus not too much reliance should be placed on these figures.

Note 11. Chain store advertising tends to be more staggered in 1946 than in 1939, though Friday still accounts for nearly half the advertisements and the first week of the month for 30%. The monthly volume in 1946 does not fluctuate to the same extent as in 1939.

111. Departmental store advertising is more evenly spaced than the other groups. The reason for this is that departmental stores' credit sales are greater than the other groups, and thus the time of payment of factors of production do not exert the same influence on sales policy as in the other groups. In addition, in a departmental store the advertising of footwear has to fit in with the general advertising and sales policy. As the departmental store usually specialises in highly fashionable footwear, advertising increases just before the winter and summer seasons.

1V. Independent stores rely mainly on cash transactions, thus the advertising policy is determined by the time of payment of factors of production. Thursday and Friday are by far the most important days for advertising, and there appears to be less staggering of advertising than the other groups.

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