Changing Patterns of Urban Retailing: The 1920s

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During the 1920s fundamental changes occurred in business institutions responsible for retail distribution. Most significantly, the large urban department store began a period of relative decline and new forms of retailing emerged as strong competitors for sales volume. This paper describes these developments and attempts to show their relationship to the changing structure of American cities and to the changing strategies and structures of retail business institutions. It attempts also to show that changes in urban retailing commonly associated with post-World War II were well underway by the 1920s.

First appearing in the third quarter of the 19th century, the department store occupied by 1900 the preeminent position in urban retailing, the consequence in part of the transformation of the city in the late 19th century. Rapid urban population growth and the spread of mass transit lines created a large number of consumers in a concentrated market area. Located at the convergence of transit lines and at the focal point of the newly concentrated central business district, department stores drew customers from the entire city and increasingly from the surrounding countryside -- as many as 40,000 a day through Philadelphia's leading department store [18; 48; and 45, p. 467].

The compact and centralized spatial structure of late 19th century cities was a primary factor enabling the department store to achieve unprecedentedly high sales volume. That high volume resulted also from the strategy of selling under one roof goods of great variety, especially those appealing to a rapidly growing middle-class urban population. A large New York department store advertised itself as "one grand Palatial Bazaar where from every corner of the whole world are gathered the products of the field, the loom, the mills, the factories...." [31, p. 38]. In addition to seeking volume from an expanding variety of goods, department stores also enticed customers with an ever increasing variety of services, including easy return of goods, credit, free delivery, and also the amenities of restrooms, waiting rooms, and checking rooms, lost-and-found and first-aid departments, restaurants,

postal stations, telephones, writing desks, public stenographers, and orchestral concerts. All this was housed in a multistory building designed on a scale and in a style to reflect the opulence or ambition of the department store manager and his customers [46; 36, p. 467; 44; 20; and 38].

In order to sell a variety of goods at high volume and yet maintain control, accountability, and flexibility, these new institutions organized their business into separate, nearly independent departments, usually around lines of merchandise. Department heads or buyers were responsible for buying and selling, while the central office provided storewide functions such as accounting, advertising, and general management. The department store organization allowed for internal economies of scale while maintaining some of the flexibility and uniqueness of small, more specialized retailers, and, because of their large sales volume, department stores were able to buy more cheaply than specialized retailers, often directly from manufacturers [47; 21; 36; and 45, pp. 341, 453, 455, 696, and 736].

So successful were department stores by the turn of the century that they attracted criticism similar to that directed against large industrial corporations. To critics -- many of whom were apparently small retailers -- department stores were examples of the evils of big business in retailing, especially of restricted competition and reduced opportunity for small businessmen. Calling for prohibitive taxes to force department stores "to disintegrate and divide up....," one critic testified before the Industrial Commission in 1900 that department stores were primary examples of "the concentrating of capital in a few hands and of business in a few centers of population. . . ." [45, p. 725; see also 34, p. 351]

The resentment of department stores by smaller retailers and the thousands of customers who daily entered their doors indicate the success and dominant position of this new form of retailing. During the 1920s, however, that position changed dramatically. Accustomed to rapid growth in sales volume before and during World War I, department stores increased sales by only 38 percent in the years from 1919 through 1928, and after 1923, sales increased at an annual rate of only 1.5 percent, about equal to the rate of population growth. At the same time, department store operating expenses increased steadily though the 1920s, from a low of 26 percent of net sales in 1920 to a high of 34 percent in 1930 [28; and 34, p. 153]. To many observers, such poor showings were evidence that the once innovative and progressive department store was now a status quo institution -- "conservative," "complacent," "lacking in vigor and initiative," "afraid to step out and do new and radical things" [27, pp. 37 and 39]. "Like all behemoths," one critic asserted, "many department stores have become so elephantine in structure as to loose much of their capacity for adjustment to changing conditions" [23]; and, another critic concluded, they suffered from "aggravated maladies,"

including "poor management, erroneous business conceptions, and unimaginative executive personnel" [10, p. 26].

These negative assessments reflected not only the lackluster record of department store sales and operating expenses but also the rise during the 1920s of the so-called new retailers -- the variety chain stores such as Kresge, Woolworth, Penney, and Grant and the former mail-order houses of Ward and Sears. Though department store sales increased 38 percent in the years 1919 through 1928, sales for the mail-order houses increased 47 percent and chain variety store sales increased 183 percent. By 1929 Sears alone had sales of nearly 10 percent of those of all department stores, a percentage that increased greatly through the inter war years, most of it after 1925 in the form of sales by the company's new retail stores [34, p. 229; and 11, p. 664]. In their organization, their strategy, and their adaptation to a changing business and urban environment these new retailers presented a serious and quickly felt challenge to the department store's preeminent position in urban retailing.

The new retailers differed in many ways from department stores. Perhaps their fundamental characteristic was their attention to rapid turnover of stock. Rather than offering the variety of goods and the services of department stores, the new retailers concentrated on merchandise that was low or medium in price, high and constantly in demand, and standardized in design and appeal -- often goods that were mass-produced. Indeed, the new retailers represented a logical extension of the economies of mass production, sharing with leading industrial producers the goals of efficient, low-cost, high-volume, high-speed through-put of goods [7, pp. 135; 19, p. 220; 6, p. 153; and 42].

The new retailers differed from department stores also in that they were not dependent on one unit or one location to achiev high sales volume. By the 1920s the largest of them had extended their branch outlets to dozens of towns and cities across the United States. At the same time they retained in a central office the major decisions of retail management. Advertising, store layout and fixtures, markups, accounting, and control were responsibilities not of the individual branch units but of the central office. Above all, buying -- a jealously guarded prerogative of many nearly independent buyers in a department store -- was a central office function in the new retail enterprises. Buying was also an increasingly sophisticated function, as headquarters staff specialists began to analyze past sales data in order to forecast future demand and to buy accordingly. Central buying also provided the competitive advantage of large-volume buying, eventually enabling some retailers, such as J. C. Penney Company to dictate to manufacturers the price, specifications, and quality of the merchandise desired and to have it produced under the retailer's own brand. This retail-directed manufacturing was the ultimate step toward integrating the marketing function in one

enterprise and toward linking mass production and mass distribution [29; 7, pp. 86-92 and 122; and 10, pp. 64 and 72].

Woolworth, Kresge, Grant, Kress, and Penney were among the largest and most successful of these new retailers. Perhaps the outstanding testimony to their competitive position during the 1920s was the fear and confusion they created in the major mail-order houses of Montgomery Ward and Sears, Roebuck. Much of this response has been well studied by others, but it is important to note that the decision of Sears and Montgomery Ward to open retail stores in the mid-1920s was a direct effort to emulate the example of the earlier retail chains. In a memorandum of late 1921, Robert E. Wood, vice-president of Montgomery Ward, warned that the "keenest competition of all that we have to face is the chain stores at their own game" [11, p. 340]. Moving to Sears, Wood led the company's entry into retail store development, beginning in 1925. By 1929 Sears operated 324 stores, accounting for 40 percent of total sales. Montgomery Ward opened its first store in 1926 and by 1929 had 531 stores accounting for 22 percent of total sales. Although this expansion was accompanied by internal confusion and conflict, Ward and Sears used essentially the same methods as the earlier retail chains. concentrating on high volume, low cost, and rapid turnover [11, pp. 338-45; 5; and 25].

Despite the growth of the new retailers, department stores retained an advantage in higher-priced, higher-quality goods, especially ready-to-wear clothing. However, even here the new retailers began to compete, as they expanded the quality and variety of their merchandise and moved toward convergence with department store lines. An early indicator of this development was the lifting of the maximum price of 10 cents by many of the five-and-ten stores. In 1920, Kresge opened the first of its Green Front Stores, which sold goods priced as high as one dollar, and Grant soon began to carry items at even higher prices. The G. C. Murphy Company in the late 1920s added a wide assortment of cotton dresses, hanging them from racks in its larger stores, rather than folded on top of the counters. The larger stores of Sears and Ward also carried higher-priced goods, notably hard goods such as auto tires and appliances, but they too began to sell large quantities of such staples as linens, blankets, and yard goods and began tentative steps toward ready-to-wear clothing. The trend after 1920, therefore, was toward increased competition between department stores and the new retailers, as the latter offered more and more of the goods carried in department stores but usually at lower prices [19, p. 223; 24; 4; 33; 50; and 15].

The competitive position of department stores weakened during the 1920s not only as a consequence of the emergence of the new retailers but also because of the changing structure of cities. The compact, centralized 19th century city, with its mass transit lines converging on the downtown, was a perfect environment for department store growth. But this centralized urban structure

changed dramatically as population growth and extension of transit advanced the development of suburbs, speeding a process of rapid urban decentralization. Most significantly, during the 1920s the automobile gave middle- and upper middle-class urbanites spatial mobility independent of the urban transit lines, allowing them to live farther from the core of the city [14]. The interrelated forces of the automobile and urban decentralization created during the 1920s new problems for the central business district and especially for department stores.

The most immediate concern was automobile traffic and automobile parking. Traffic counts in Boston, for example, showed that the daily number of autos entering the downtown increased by over 20 percent in the two years from 1924 to 1926 [14, pp. 124-25]. As cars jammed narrow streets and inadequate parking facilities, growing numbers of suburban residents became less and less eager to shop in the central business district. Automobiles created demands for alternate shopping locations; and it was the new retailers who most successfully met these demands.

Many of the new retailers located their first stores away from the heart of the central business district out of economic necessity, since rents were significantly lower. But by the 1920s economic necessity became virtue as locations away from downtown centers provided the advantage of reduced traffic congestion and more parking space. By that time the central offices of the larger chains included specialized real estate departments which carefully studied new store locations. J. C. Penney and Sears took special care when planning store locations to capture the benefits of lower rents and reduced traffic congestion; and they ringed their stores with parking lots, one of the best possible inducements to suburban customers [2; 7, p. 46; 30; 49; and 11, p. 348].

Other of the new retailers sought the additional advantage of nascent shopping centers. In suburban Philadelphia, for example, one such center developed quickly in the mid-1920s at the Sixty-Ninth Street section of West Philadelphia, five miles from the downtown at a point where several highways and suburban transit lines converged. Kresge, Grant, McCrory, and Woolworth quickly located stores at the Sixty-Ninth Street center, as did other major chains selling shoes, drugs, and groceries. Additional Philadelphia suburban shopping areas emerged during the 1920s in Ardmore, Jenkintown, and Camden. As a consequence, for more and more Philadelphians there were fewer reasons for the long and difficult journey downtown to Wanamaker's or Strawbridge and Clothier [40; 39; 43; 32; and 37].

Urban decentralization helped make possible retail decentralization. It was the large chains, with their flexibility to open new stores across the urban landscape, who benefited from and contributed to this shattering of downtown dominance.

The response of department store management to the challenge

of the new retailers and the changing structure of cities was slow, haphazard, and largely ineffectual during the 1920s. Several joined together in federations or nominal chains in an effort to derive some of the economies of the new retailers, especially in buying. Boston retailer Edward A. Filene warned in 1927 that the new chains would destroy department stores unless they themselves organized into chains with "centralized administration, management financing, control and buying, combined with or tempered by decentralized operation and selling." In 1929, Filene's store joined with Abraham and Straus, Lazarus, and later Bloomingdales to form the Federated Department Stores, one of several holding companies of department stores to begin operation in the 1920s. But these organizations derived few of the benefits of centralization, largely because their members jealously guarded their independence [13; 26; 14, p. 129; 17; and 10, pp. 50 and 56].

Department stores also acted in other ways to meet the threat posed by the new retailers. Some opened basement stores to attract a wider range of customers to compete on price with chains. Some opened mail-order departments to attract suburban customers. Many attempted to lease parking lots and garages. In Philadelphia, Wanamaker's and Strawbridge and Clothier provided financial support for traffic and regional planning studies, doubtless in the hope of easing downtown congestion [14, pp. 125 and 127-28; 51; and 16].

A few department stores developed branches in suburban locations. Marshall Field opened three stores in suburban Chicago in 1929. By 1931 Strawbridge and Clothier had two Philadelphia branches. But these were among the very few major department store branches begun in the 1920s. Not until the 1950s did department store branches begin large-scale expansion outside the central business district. The most apparent reasons for this delay were the restraints of depression and war and the large investment in downtown plant. Delay may also have resulted from a too strong attachment to the tradition of high volume under one roof and the failure to appreciate fully the radically changing structure of cities [3; 35; 9; 41; and 12].

It became fashionable during the 1920s to blame department store management for the relative decline of their institutions. Retail analysts asserted that management was overly conservative and complacent, content to rest on past traditions and -- in the classic indictment of "sick" industries -- riddled with inbreeding especially with incompetent relatives [23 and 10].

It is very likely that department store management was culpable, but the difficulties that began in the 1920s were due largely to forces that even the best of managements could not have successfully countered: above all, to the changing structure of cities and to the rise of the new retailers. It was not simply that both these developments altered the business and urban

environment but that they changed it so rapidly and so forcefully. As so often in the case of such change [8], department store managers may have been slow to perceive the transformations and slow to respond, but it is difficult to imagine how they could have reasonably overcome these new threats during the 1920s.

In any case, mass distribution and the decentralized city came to retailing in the 1920s, constituting a double threat to the preeminent position of the department store. Tied to the central business district of a single city and to a concept of retailing that emphasized variety and service as generators of volume rather than rapid turnover and low cost, the department store entered the Great Depression a battered though hardly broken business institution.

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