



The Great Depression? Challenging the Periodization of French Business History in the Interwar Period

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In this essay we aim to demonstrate that economic and business historians' tendency to use moments of severe economic turbulence as turning points does not always fit with a periodization based on corporate change. In fact, our essay shows that the economic downturn of the early 1930s did not impact all companies' long-term strategies the same way and that it sometimes fostered management innovations or helped to reinforce nascent ideas. To illustrate our point we have chosen to look at two companies that, despite the Great Depression, developed new administrative methods and marketing innovations. They acted not only in a defensive mode but also to prepare for better times. The cases were deliberately taken from very different sectors. The first deals with heavy industry, using the metallurgy and chemicals company AFC-Pechiney; the second considers the family-owned and -managed retail group Galeries Lafayette.

Major economic crises have an obvious impact on businesses, influencing markets, prices, and ultimately the generation and allocation of resources by firms. From a managerial point of view, however, economic cycles might not be the only relevant framework to explain decision-making processes and cycles of managerial innovation. In this essay we question the synchronization between the chronology of economic history and the chronology of business history from the focal point of the firm and its leaders.

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The construct of “crisis” itself has evolved greatly since the inception of the word in philosophy and politics. With Karl Marx and Friedrich Engels, “crisis” switched from a purely political to an economic term. During the nineteenth and twentieth century, the term, according to intellectual historian Reinhart Koselleck, became a catchword with little technical or precise meaning.¹ Public perceptions of economic crisis have also evolved very differently over time. Economic crises brought despair and poverty and at the same time—in a Darwinian view—were also considered a “chronic process of selection” and “transitional phases in the path to progress.” There was also for Marxists the promise of a revolution to come.² Historians themselves have used “crisis” as a key concept to “characterize epochs or structures.”³ Since the late nineteenth century crises have been literally understood as “decisive” moments in history when choices are or are not made by society. It is important to notice that the “decisiveness” in the evaluation of the impact or span of the event or process is also—to some extent—a function of the actor’s perceptions.⁴

The Case for Cases

Because of its impact on the twentieth century, the Great Depression has inspired thousands of books and articles. Economists and historians have been at work since the early 1930s to understand the event. In the French case, several works have also been devoted to “la crise de 1929.”⁵ Economic historians have looked at the causes of the Depression, its effects and long-term consequences. Business historians, because they are more inclined to case studies and monographs at firm or industry levels, have not yet developed a grand synthesis on the impact of 1929 in France. Compared to economic history or macroeconomics, business history appears to generate limited or fractional insights, a circumstance viewed as a weakness by many social scientists and also by fellow historians. However, in this essay, we want to make a case for cases. In looking at two separate stories concerned with completely unrelated firms, we intend to understand the inner workings of organizations in times of crisis. Cases, when they provide counterexamples to macroeconomic phenomena elsewhere measured by statistical methods, are important.

¹ Reinhart Koselleck, “Crisis,” *Journal of the History of Ideas* 67 (April 2006): 357-400, at 397 (translated from “Krise” in *Geschichtliche Grundbegriffe: Historisches Lexicon zurpolitisch-sozialen Sprache in Deutschland*, ed. Otto Brunner, Werner Konze, and Reinhart Koselleck, 8 vols. [Stuttgart, 1972-1997], 3: 617-50).

² *Ibid.*, 393.

³ *Ibid.*, 399.

⁴ Laurent Commaille, ed., *Entreprises et crises économiques au 20ème siècle* (Metz, 2009), 4.

⁵ For the most recent French synthesis, see Pierre-Cyrille Hautcoeur, *La crise de 1929* (Paris, 2009), 128.

We also tackle the perceptions of the actors regarding the situation surrounding them, exclusive of sector specificities. Finally, we have also chosen to look at hard and soft innovations, invisible technologies, and long-term projects that started before the Great Depression and endured beyond it.

Perceptions

At the risk of anachronism, some scholars analyze the past as if the generation they write about should have acted as if it were aware of living through a specific historical phenomenon. Most educated people in France knew for certain by 1931-1932 that their country was facing an economic downturn, but none knew for how long and by what exact causes—still a debated issue seventy-five years later.⁶ In France, many industrialists had a disproportionately optimistic perception of the economic situation, at least until 1931. During the Galeries Lafayette annual shareholders' meeting that took place on the November 23, 1929, the managers announced the beginning of an important extension of the Parisian shop and declared, "c'est donc en toute sécurité qu'il nous est permis d'envisager l'avenir" (we can safely look forward to the future). One year later, steelmakers of "Les forges et Aciéries du Nord et de l'Est," while taking stock of the general economic crisis, were evaluating positively their own situation.⁷ On the other hand, Louis Marlio, Pechiney's vice-chairman declared in September 1927 that, in light of the "persistent crisis," the development of new production capacity might be delayed.⁸ The first mention of "crisis" during the Great Depression in Pechiney's executive committee minutes dates from February 1930. In a rather formal manner the two executive vice-presidents made clear that they wanted to fight against the mentality of liberal spending that seemed to have pervaded the company during the "prosperity years." They declared that, as of "now," appropriations would be approved only when evidence could be given of a demonstrated improvement or savings.⁹ These examples show that in the years immediately before and after 1929, "crisis" was used in a different meaning depending on the perception of the environment. The concept was also instrumentalized to achieve managerial objectives and to install new procedures and cultural change.

In his analysis of the early perception (or lack thereof) of the Depression in traditional industries, Laurent Commaille posits that there

⁶ Hautcoeur, *La crise de 1929*, 6.

⁷ Laurent Commaille, "La tête dans le sable—perception de la crise économique au début des années 30 dans les entreprises des secteurs traditionnels en France," in Commaille, ed., *Entreprises et crises économiques*, 74.

⁸ Pechiney, executive committee minutes, 26 Sept. 1927, Archives Pechiney.

⁹ Ibid.

are indeed two separate levels of analysis.¹⁰ On the one hand, there is a large production of discourse generated outside the firm—in the press, by academia, and politicians. On the other hand, there is the perception at the company level of the firm's own situation based on proprietary information, industry sources, and past exposure to economic downturns. Business historians are well equipped to analyze the firms' perceptions through minutes of meetings and internal correspondence. They should be able to generalize their findings into a specific periodization effort, focused on the internal decision-making processes at firm level.

The Issue of Periodization

As Thomas Carlyle wrote in his essay "On History" in 1830:

Our clock strikes when there is a change from hour to hour; but no hammer in the horologe of time peals through the universe when there is a change from Era to Era. Men understand not what is among their hands; as calmness is the characteristic of strength, so the weightiest causes may be most silent.¹¹

Despite this early warning, there is a general agreement on periodization among most historians—political, social, economic, and business alike. This is the issue and the contradiction that all historians have to face, as Marc Bloch noted: "real time is in essence a continuum and at the same time perpetual change."¹²

The twentieth century is organized in most of our textbooks and articles according to the conventional divide including the two world wars and the pre- and post-1929 periods. Specialized works offer more sophistication, but for the sake of a common language, we tend to agree on such divisions.¹³ Nevertheless, one can question how relevant the standard divisions are to the inner workings and analysis of company decision making over the 1920s and the 1930s. This is what we intend to analyze in the following cases.

Cases for innovation in managerial practices

The scientific management movement as a method for the modernization of industry provides an interesting platform for analyzing the fate of innovation in a period of economic crisis. In her seminal book, Aimée Moutet considers that there were two waves of rationalization among

¹⁰ Commaille, "La tête dans le sable," 61.

¹¹ Cited by Lawrence L. Besserman, *The Challenge of Periodization: Old Paradigms and New Perspectives* (London, 1996), xi.

¹² Marc Bloch, *The Historian's Craft* (Manchester, England, 1992), 24.

¹³ For example: the periodization in four phases of the Depression in France proposed by Daniel Lefeuvre, "Les lumières de la crise : Les entreprises françaises dans la dépression des années 1930," *Vingtième Siècle: Revue d'histoire* 52 (1996): 31-40.

French enterprises.¹⁴ In a first period—roughly the 1920s—several engineers enthusiastically joined the Taylorist movement and tried to apply its principles in plants and offices. After 1930, Moutet explains, industrialists changed their view on scientific management and adopted “une rationalisation de crise,” or a crisis-specific effort toward scientific management that included aggressive cost-cutting policies. This certainly needs to be integrated into a larger wave of innovations that took place in French companies during the interwar period, when the rationalization movement used the crisis context to push forward already nascent initiatives.

Differences

We want to look at the cases of two different companies and their long-term strategies within changing economic conditions. The two companies we have chosen are very different in nature but still have some elements in common. Pechiney (Compagnie des produits chimiques et électrométallurgiques d’Alais, Froges et Camargue, or AFC-Pechiney), founded in 1855, was active in the period studied in chemicals and electrometallurgy. It is a vertically integrated group with mining interests, salt marsh, and other related assets making it a diversified enterprise. The company is also an electrical energy producer with interests in dams, stations, and power transportation serving mostly its industrial plants but also external clients. Publicly listed at the Paris stock exchange since 1921, AFC-Pechiney was born of a merger of the main French aluminum industrialists.¹⁵ The stockholders of the company originally represented founding families and related interests, but their influence was diluted with the growth of the company during the first years of the twentieth century. In the late 1920s, a few industrial groups were represented on the board of directors. After the 1921 merger, they effectively chose the new executive team, because there was no dominant shareholder able to impose choices on the salaried managers forming the executive team.¹⁶ The nonferrous metals industry is largely organized through various cartels at the international and national levels. Competition in the aluminum and, to a lesser extent, the chemical industries was thus partly “domesticated,” at least until after the Second World War.¹⁷

¹⁴ Aimée Moutet, *Les logiques de l’entreprise: la rationalisation dans l’industrie française de l’entre-deux-guerres* (Paris, 1997), 495.

¹⁵ See Ludovic Cailluet, “Stratégies, structure d’organisation et pratiques de gestion chez Pechiney des années 1880 à 1971” (Ph.D. diss., Lyon II University, 1995).

¹⁶ Ludovic Cailluet, “Hiérarchies managériales chez Pechiney (1880-1960): Chandler en pays alpin?” in *Des barrages, de usines et des hommes*, ed. Herve Joly et al. (Grenoble, 2002), 135-56.

¹⁷ See Donald H. Wallace, *Market Control in the Aluminum Industry* (Cambridge, Mass., 1937), and Florence Hachez, *L’Aluminium Français, l’invention d’un marché, 1911-1983* (Paris, 1999).

Galeries Lafayette had developed since its incorporation in 1893 from the department store business into an integrated textile and retail group. The company was formed by two cousins, Théophile Bader and Alphonse Kahn, whose Jewish families had emigrated from Alsace, a French territory occupied by Germany after the Franco-Prussian War of 1870. Bader and Kahn started in business with a novelty shop near the Opéra in Paris. Aux Galeries Lafayette was the last major department store founded in Paris. When the store opened for business on a very small sales area, well-established competitors such as Le Bon Marché or their next-door neighbor Le Printemps had been set up thirty to forty years before. In 1899, they transformed their partnership into a limited liability company and raised money to expand their businesses into full-scale department stores before going public. Between 1899 and 1914, the group's annual turnover increased twenty-two-fold.¹⁸ As in the case of the aluminum industry, department stores used cartels to limit the adverse effects of competition. Despite their apparent fierce rivalry in Paris around the Opéra area, Galeries Lafayette and archrival Le Printemps agreed at least since 1941 not to open a new outlet where one of the companies already had an existing department store.

Galeries Lafayette opened department stores in the largest towns of France and integrated vertically with textile factories in the 1910s.¹⁹ From the 1920s onward, the sons-in-law of the two founders entered the group in managerial positions, forming the second generation of family leaders. They participated in the internationalization of activities with openings and alliances in Europe and North Africa.

If there are differences in size and the nature of their business, especially in terms of capital intensity and ownership, there are also similarities. Pechiney and Galeries Lafayette were in their respective sectors major players at national or international levels. Both companies and management teams were operating in an environment of limited shareholder pressure toward short-term profitability and high dividends. Management teams were very stable in both cases, though their stabilities derived from different sources.

Despite being listed on the stock exchange, Galeries Lafayette was (and still is in 2010) to some extent a family-controlled and -managed company with in-laws involved in the executive teams. At Pechiney, the stability of the management was based on educational networks. Most of the executives were alumni of the *École Polytechnique*, an elite engineering school. On top of their training credentials, all but a few had

¹⁸ Florence Brachet Champsaur, "Aux Galeries Lafayette, 1893-1919: Naissance d'un leader de la distribution dans le secteur de la mode" (Master's thesis, EHESS, 2005).

¹⁹ *Le siècle des Galeries Lafayette, 1896-1996*, Les éditions stratégiques (1996), 6.

served in the public sector and developed excellent networks of government contacts before joining the company.²⁰

Long-term strategizing vs. short-term anti-crisis policies?

Pechiney and Galeries Lafayette did not confuse their long-term strategy with the concerns originating from the general economic situation. They both developed during the 1920s at a fast pace, certainly benefiting from a generally positive economic context. They also took advantage of long-term trends in society and the changing patterns of consumption. Both companies took part in new forms of production and distribution and technological advances. Even the Depression, with its very sharp decline in terms of macroeconomic indicators, was not a complete black hole for many French companies of the time. Daniel Lefeuvre has shown that the total assets of the largest French companies increased during the Depression. While the GDP was decreasing by 16 percent between 1929 and 1938, the annual growth of the “wealth” of large companies, measured using companies’ annual balance sheets (in constant Francs), reached almost 3 percent.²¹ In Galeries Lafayette’s annual balance sheet, assets continued to grow until August 1933. Despite the Depression and the fall in turnover after 1930, managers went on investing in real estate, carrying out a growth in fixed assets.²²

Pechiney: A Science- and Innovation-Based Company Thriving on New Technologies

Pechiney, a major nonferrous metal producer and manufacturer, encouraged new applications of light metals in electrical equipment (as a substitute for copper, which was suffering from volatile prices), packaging (foil, cans), cycles, appliances, cooking utensils, and decoration. The automotive industry, believed to be a major future market for the aluminum industry, was certainly a growing customer for Pechiney and L’Aluminium Français (a cartel serving as its sole distributor) in the 1920s, with the improvement of aluminum castings.²³ While important in the

²⁰ Florence Brachet Champsaur, “Les dirigeants des Galeries Lafayette,” in *Dictionnaire historique des patrons français*, ed. Jean-Claude Daumas et al. (Paris, 2010), and Ludovic Cailluet, “L’impact de la Première Guerre mondiale et le rôle de l’État dans l’organisation de la branche et des entreprises,” in *Industrialisation et sociétés en Europe occidentale de la fin du XIXe siècle à nos jours, l’Âge de l’aluminium*, ed. Ivan Grinberg and Florence Hachez-Leroy (Paris, 1997).

²¹ Lefeuvre, “Les lumières de la crise.”

²² Acquisition of several buildings to increase the floor area of the main store on boulevard Haussmann in Paris, 1931 general shareholders’ meeting, records GL. From 1934 to 1938, the assets of Galeries Lafayette decreased by 42%, mainly as a result of stock exchange prices and the fall in inventory. See evolution of the assets in attached data.

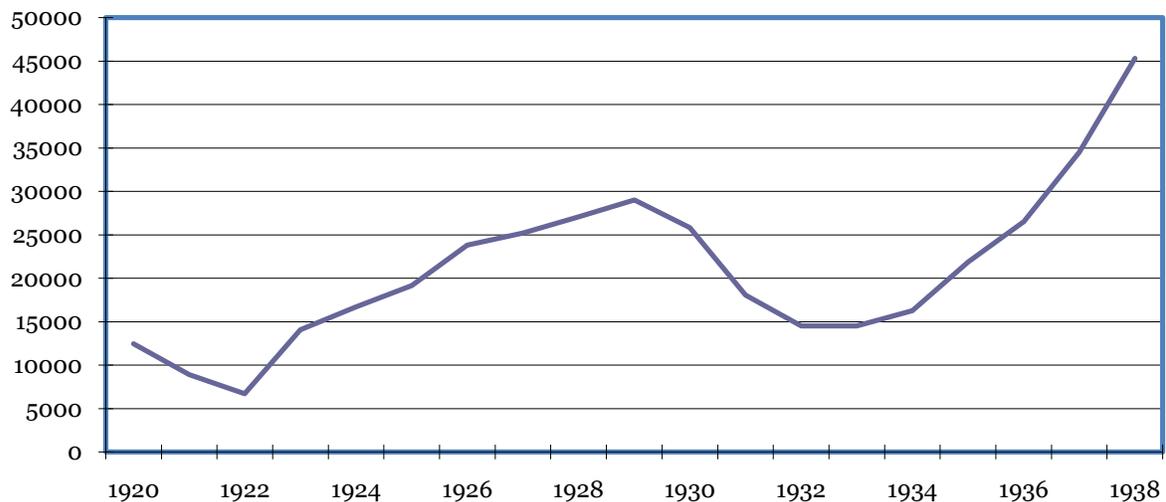
²³ Hachez, *L’Aluminium Français*.

mid-1920s (up to 16 percent of total sales), however, the share of automotive-related sales decreased in L'Aluminium Français' turnover as early as 1928, stabilizing at around 6 percent in 1933.²⁴

The aluminum industry relied on other customers for its growth, particularly through metal used in electrical cables, in the context of the massive electrification efforts in rural areas. Defence industries, especially from 1934, and also aeronautical industries became the leading customer for the industry in the 1930s (aeronautical clients represented 20 percent of aluminum and alloys sales in 1930), prevailing over automotive clients. Even during the worst phase of the recession in 1932, the Société du Duralumin (an alloy manufacturing subsidiary of Pechiney) complained that it was not able to serve all orders because of its limited capacity.²⁵

As a consequence of the penetration of light metals as a substitute for copper, thanks to much less volatile prices, and for iron, with equivalent strengths and a fraction of the weight, Pechiney steadily increased its output between 1922 and 1938, except for a drop in 1931-1933 (see Fig. 1).²⁶ The company was also working very closely during the same period

Figure 1
French Production of Aluminum, 1920-1938
(metric tons)



Source: AF/DE, M. Dupin, Archives Pechiney, 00-1-20026.

²⁴ Le marché de l'aluminium, service statistique de L'Aluminium Français. Archives Pechiney, 502/I-8-51274.

²⁵ "Lutte contre les difficultés économiques," 29 June 1932, p. 5, Archives Pechiney, 001-10-20529.

²⁶ See Wallace, *Market Control in the Aluminum Industry*.

with some of its major shareholders and clients, the manufacturers of non-ferrous metals. That closeness helped Pechiney to switch from a cost-driven strategy (high volume+low margins in the automotive market) to a differentiation strategy (high volume+high value-added products and markets in alloys and the aeronautical industry). This strategy, initiated in the mid-1920s, was pursued in the late 1920s and the 1930s and served the company well when the mass consumption markets collapsed after 1931. Pechiney continued its deliveries to specialized customers ready to pay higher prices for specific products in short supply such as aluminum alloys. The oligopolistic form of the international aluminum industry also allowed Pechiney and L'Aluminium Français, its commercial arm, to defend metal prices, which "only" fell by 50 percent between 1929 and 1935, compared to 70 percent for other metals.²⁷

During the interwar period, Pechiney was not only active in metallurgy; it was a diversified group of companies active in chemicals, mining, and energy. As did many other heavy industries, the group thrived in the mid-1920s on the development of durable industrial goods and new applications for chemicals. Pechiney was, for example, very active in trichloroethylene to follow up the growth in the production of Bakelite.

Since the First World War Pechiney had developed an important production capacity in electro-metallurgy. The company had as a consequence launched an ambitious program of investments in order to be self-sufficient in terms of electricity generation.²⁸ This was done, as in many other French groups of the period, through the creation of myriad subsidiaries.²⁹ From 1924 to 1933, at least, Pechiney conducted a very aggressive strategy of external growth using subsidiaries to enter new activities and new geographical markets and to finance the construction of dams to produce electricity (see Fig. 2).

The financial health of Pechiney during the Depression was not bad, given that the company was able to pursue some of its investments despite three years of reduced production. Dramatic productivity gains were made during the Depression. As an illustration, the chemical division in 1935 realized 98 percent of its 1930 output, with 60 percent of the employees and 55 percent of the total salaries in constant money.³⁰ It is important to note, however, that the debt load of the group was located primarily with its subsidiaries and that, at the time, there was no way to consolidate the accounts of the various components of the group.

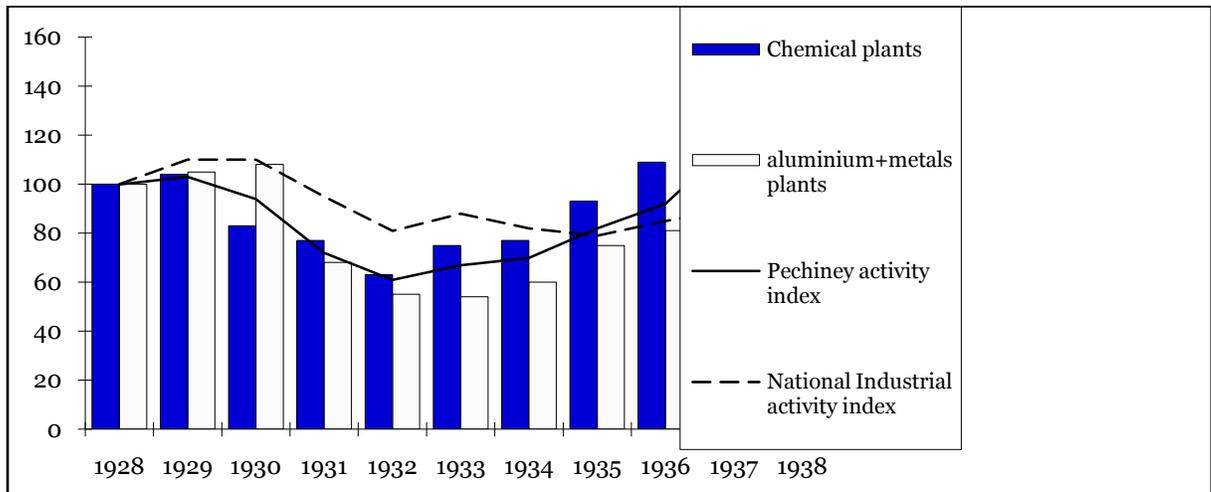
²⁷ Lefevre, "Les lumières de la crise," 39.

²⁸ Maurice Lévy-Leboyer and Henri Morsel, *Histoire de l'électricité en France, tome deuxième: 1919-1946* (Paris, 1994), 748.

²⁹ Didier Bensadon, "La fièvre des filiales chez AFC (1921-1939)," *Revue Française de gestion* 188-189 (2008): 201-18.

³⁰ From "Mesures d'économie et de rationalisation," Oct. 1935, Archives Pechiney, 001-10-20589.

Figure 2. Evolution of Pechiney Activity Index Compared to the National Industrial Production Index
(100=1928)



Source: author's calculations based on Archives Pechiney.

Technological and Managerial Innovations before and during the Depression

The relative decline in aluminum prices started as early as 1929, prior to the worst of the Depression in France. This was a clear signal of difficulties to come for Pechiney. The first measures were to reduce the labor force.³¹ However, a year later, given the extent of the difficulties that were foreseen, Pechiney's executives Jacques Level and Louis Marlio decided upon a large-scale redefinition of production capacity. The company took the opportunity to close down obsolete facilities and those considered too small to be efficient. These decisions also dramatically reduced the logistical costs related to the transportation of goods and materials among several plants poorly connected between Alpine valleys.³² In 1933 the company created a centralized logistics service to optimize flows between units.

Following a tradition established in the 1880s to develop new processes within production plants, Pechiney had from at least 1924 tested new generations of electrolysis cells in several of its plants in a pilot

³¹ Réduction des frais généraux et politique des salaires, 24 Oct. 1931, Archives Pechiney, 001-10-20529.

³² Transportation costs amounted to nearly 10% of the turnover before 1930.

program.³³ These new technologies were applied to the largest and newest plants that remained open during the Depression. As a consequence, when production restarted at a strong pace in 1934-1935, the company was equipped with much more efficient technologies. It was able to do so also because the development budgets related to process improvement were never cut during the crisis. Engineers at L'Argentière and Rioupéroux, two smelters located in the French Alps, achieved major technological leaps in 1930-1934 that led to considerable cost reductions.³⁴

Shutting down several plants to follow the decrease in aluminum sales, Pechiney laid off hundreds of workers. Nevertheless, instructions were given whenever possible to retain the most skilled males and all foremen in order to restart production without losing expertise when times improved. Contrary to most companies, Pechiney maintained salaries for its remaining workers at a relatively stable level.³⁵

Technological prowess was combined with changes in administrative methods. The invisible technology of management had also been a concern for Pechiney since the early 1920s, in the context of the post-merger integration of acquired companies.³⁶ This trend continued right before and during the difficulties of the early 1930s. The company established "anti-crisis measures" by extending pilot experiments conducted with the help of American consultant Wallace Clark in 1929 (prior to the Depression) at L'Argentière aluminum plant near Briançon in the southern French Alps. Clark's system of production cost controls and inventory management, as well as a preventive maintenance system, were extended between 1930 and 1934 to all electro-metallurgy plants.³⁷ Results were spectacular and led to very important savings in inventory costs. A central purchasing department was established, and the combination of these new practices with a specific benchmark effort with competitors provided Pechiney with a clear lead after 1934, when production resumed at a pre-1929 rhythm. This gave Pechiney a long-term comparative advantage in developing a positive attitude among engineers toward management innovation. The

³³ Paul Morel, ed., *Histoire technique de la production d'aluminium* (Paris, 1991), and Muriel Le Roux, *L'entreprise et la recherche: Un siècle de recherche industrielle à Pechiney* (Paris, 1998).

³⁴ Le Roux, *L'entreprise et la recherche*, 84.

³⁵ Réduction des frais généraux et politique des salaires, 24 octobre 1931, Archives Pechiney, 001-10-20529.

³⁶ Ludovic Cailluet, "Accounting and accountants as essential elements in the development of central administration during the interwar period: management ideology and technology at Alais, Froges et Camargue (AFC-Pechiney)," *Accounting, Business and Finance History* 7 (Nov. 1997): 295-314.

³⁷ "Contribution à l'étude d'une doctrine relative à l'organisation des ateliers d'entretien," Sept. 1933, p. 15, and "Méthodes d'organisation W. Clarck," 28 Dec. 1934, p. 12, Archives Pechiney, 00-10-10018 and 10019.

young modernists who led the effort were promoted to the Parisian headquarters or to broader operational responsibilities.³⁸

Galleries Lafayette: Rationalization and Innovation

Business historians generally emphasize the innovative role of the nineteenth-century department store, sometimes including a dramatic image of marketing “modernity.” However, after World War I, retail seems to stand in contrast to industry on the key subjects of modernization and scientific management. In 1921, for the first time, the Taylor Society recommended the extension of scientific management to “sales engineering” in the United States. In 1935, the International Chamber of Commerce (ICC) congress in Paris pointed out the responsibility of archaic retailing structures in the economic crisis.³⁹ The importance of distribution costs in the retail price was cited to explain the fall in consumption. The reduction of production costs had not been followed by a corresponding reduction in retailing costs, which on the contrary increased. From 1930 to 1936, there was a 25 percent drop in wholesale prices and a 20 percent drop in retail prices.⁴⁰ The turnover of Galleries Lafayette started decreasing in August 1930 (see Fig. 3).⁴¹ In current French francs, the fall was even deeper than the decline in the retail price index. Nevertheless, thanks to the gap between wholesale and retail prices, one year later, in 1931, the gross margin increased by one percent.⁴²

In the international discussion about distribution’s responsibility in the crisis, France was specially criticized because of the very high market share of small retailers: 92.65 percent in 1906 and still 88.77 percent in 1936. In this context, department stores were expected to play the essential role in modernizing retail in France. The interwar period is the beginning of a new epoch for department stores in which they experimented with important changes in their business model. The founding concept of low margins and high turnover hardly fit with the increasing range of goods on offer and the new services for customers.

Drapery long remained the core business of most stores. The so-called novelty stores gathered under one roof all the goods for women’s apparel and accessories (fabrics, ribbons, laces, hats, umbrellas, corsets, hosiery,

³⁸Ludovic Cailluet, “Pratique et diffusion des méthodes modernes d’organisation et de contrôle de gestion: Le parcours exemplaire de Jean Benoit chez Pechiney de 1925 à 1962,” in *Les grands auteurs en contrôle de gestion*, ed. H. Bouquin (Paris, 2005), 284-300.

³⁹ On this subject see Laurence Badel, *Un milieu libéral et européen: Le grand commerce français, 1925-1948* (Paris, 1999), 217-30.

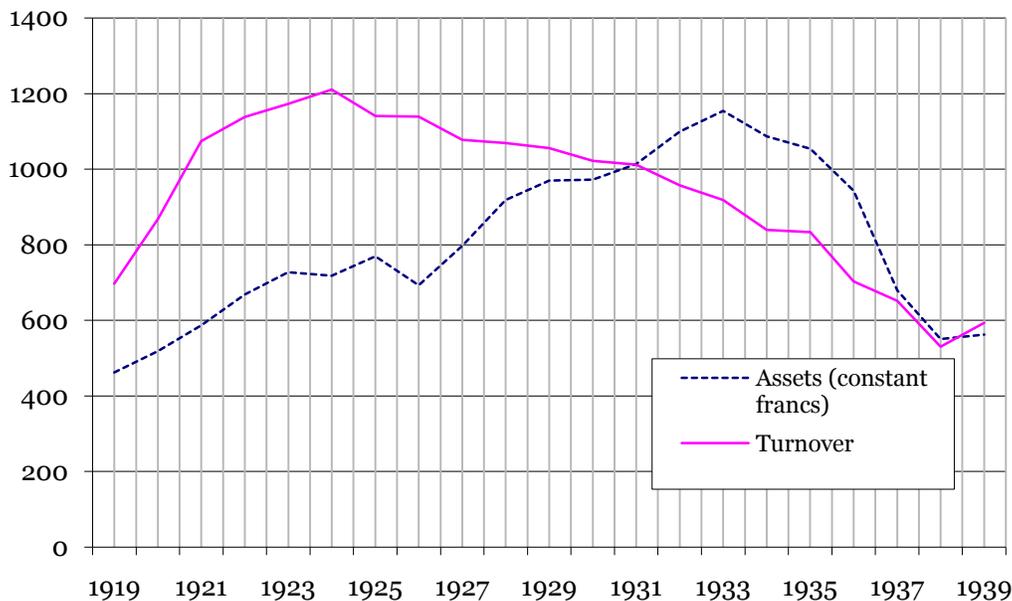
⁴⁰ Alfred Sauvy, *Histoire économique de la France entre les deux guerres*, 3 vols. (Paris, 1965), 3: 351 and 356.

⁴¹ Board Meeting report, 28 Jan. 1931, records GL. From 1931 to 1938, the turnover of Galleries Lafayette decreased by 48% in constant French francs.

⁴² Board Meeting report, 10 June 1931, records GL.

dresses, and so forth). But while those shops had become larger, department stores introduced a wider variety of products. Besides the traditional apparel, accessories, and textile departments, new merchandise lines appeared such as home furnishings, carpets, stationery, jewelry, bedding, and photography. At Galeries Lafayette, the number of departments increased from 86 in 1906 to 93 in 1908, and to 108 in 1913 after major extensions of the building on boulevard Haussmann.⁴³ In 1932, the main Galeries Lafayette store in Paris had 172 departments.

Figure 3
Assets and Turnover of Galeries Lafayette, 1919-1939
(in million Francs [constant])



Because of the tendency toward increased competition among department stores, the emphasis began to shift from prices to services.⁴⁴ Added to the growth in the department stores' expenses for advertising and sales promotions, the cost of services increased total overhead. In a context of intensive competition, the stores largely focused on sales promotions, with a detrimental effect on the margin.

Retailers are often seen as short-term-oriented managers. In the words of one commentator:

⁴³ Archives Galeries Lafayette.

⁴⁴ In the term of services, DS mainly focused on delivery facilities. In the early 1900s, Galeries Lafayette had a regular motor delivery service between Paris and Trouville for their customers on holidays according to Pierre Moride, *Les maisons à succursales multiples en France et à l'étranger* (Paris, 1913), 63.

The world of department stores seems to be in many respects the world of ephemeral, and this has exercised an influence on the atmosphere of the department store and on the outlook of his top managers. There is perforce a natural tendency to be concerned with the immediate rather than with the more distant, and this is not a situation most suitable for executive selection and building.⁴⁵

However, the top executives of the European department stores were aware of their need to try out new ideas. In the case of Galeries Lafayette, Theophile Bader carefully selected his two sons-in-law to introduce a change in the management of the firm. Raoul Meyer and Max Heilbronn were, respectively, graduates of business and engineering schools.

For the purpose of interchanging facts and ideas through meetings with their peers, the department store holders soon set up business associations. In 1919, Galeries Lafayette was one of the eight founding members of the GEGM (Groupement d'Etude des Grands Magasins), which was designed to act as a source of information on economics, trade, and the tax system.⁴⁶

In the modernization of French and European department stores, one cannot downplay the decisive role of international associations and foreign colleagues. After the First World War, innovation came no longer from Europe, but from the United States.⁴⁷ Business studies trips began to multiply. Max Heilbronn, Theophile Bader's son-in-law, chose to visit America in 1926 during his honeymoon. In March 1929, both Raoul Meyer and Max Heilbronn asked their U.S. colleague Edgar J. Kaufmann to build an itinerary for a journey to review the most representative American department stores.

Back from an official mission to the United States, Emile Bernheim, director of the Belgian department store L'Innovation, modernized his own store according to the American methods, creating research and training departments as well as a budgetary control system. But he was also convinced of the important role played by the American Retail Research Association, which had existed in the United States since 1927, and he set up a European equivalent upon his return.⁴⁸ The research organization (Groupement d'études) focused on the improvement of working methods in the department stores. Research started with Ragnar Sachs and Pierre Laguionie, respectively heads of the Nordiska Kompaniet

⁴⁵ Henry Pasdermadjian, quoted in Donald K. Bekley, "Identifying problems of human relations in retailing," *Journal of Marketing* 20 (July 1955): 51-53.

⁴⁶ Its initial main concern was to fight, through lobbying, the 1919 law, which introduced the 8-hour working day.

⁴⁷ See Emmanuel Chadeau, "Le commerce de détail: entreprises et 'révolutions commerciales'," *Entreprises et histoire* 4 (1993): 3-13.

⁴⁸ In the interwar period, the formative practice of critical store visits was imported from the United States by European department store associations; see David Carson, "Critical store visits," *Journal of Marketing* 18 (Oct. 1953): 134-37.

and Le Printemps. Joined by the German Tietz, the Dutch De Bijenkorf, the Danish Magasin du Nord, the Italian Rinascente, and the Spanish El Siglo, this first professional group transformed into the international association AIGM (Association Internationale des Grands Magasins) in 1931.⁴⁹ The head office was located in Paris at Le Printemps.

Scientific management at work

Galleries Lafayette first introduced scientific organization in its production plant. The integration of an important manufacturing activity had been one of the key factors in Galleries Lafayette's success, especially for garments, making it more reactive to the changes in fashion. In 1916, the firm created an industrial subsidiary, the SPC (Société Parisienne de Confection) to centralize the existing workshops. In 1921, the managers inaugurated a new building in Paris specially designed "to produce garments according to the American scientific industrial organization."⁵⁰ In a second step, the introduction of new organizational structures led to the creation of independent purchasing departments. Historically, the department stores had been founded on the innovative idea of gathering under one roof a variety of items to provide a more efficient shopping experience. Until the interwar period, department stores were organized as a federation of retailers, each department being responsible for both sales and purchases.

In 1929, Galleries Lafayette set up a new branch, the SPAM (Société Parisienne d'Achat et de Manutention, for purchasing, logistics, and warehousing), an independent company directed by Gaston Lehmann. This new purchasing organization was to assume the activity of the wholesale buying offices already located in Paris, Lyon, Saint-Etienne, Elbeuf, Roubaix, and London.⁵¹ Galleries Lafayette had already concluded an agreement in 1919 with the Cordeliers store in Lyon to assist with buying activity for Galleries Lafayette in exchange for a 5 percent commission on the total amount of the order.⁵² The aim of this structure was above all to separate sales and purchasing and to give the buyers autonomy in their job. Under the integrated model of Galleries Lafayette, SPAM was to be the new partner of the SPC in the purchasing process for the stores. This was a real revolution in the organization of Galleries Lafayette; during the board meetings, the executive managers regularly called the department administrators to order, reminding them that sales heads should no longer meet the purchasing agents. The sales managers were also invited to provide SPAM with more effective and coherent information on the sell-through of their items.

⁴⁹ Badel, *Un milieu libéral et européen*, 211.

⁵⁰ "Les Annexes des Magasins des Galleries Lafayette," *L'Architecture* 25 (Sept. 1921): 41.

⁵¹ Archives GL.

⁵² AG du 29 Nov. 1919, archives GL.

The building of the independent buying offices is closely linked with the introduction of scientific methods of stock and account management. In 1931, Paul Planus, a well-known consulting engineer, started working for Galeries Lafayette.⁵³ He took the opportunity of the reorganization of the garage and its repair shop to introduce an inventory accounting system. He also set up a standards office to centralize information.⁵⁴ In 1932, through the reorganization of the warehouse, Planus extended inventory accounting to the whole department store in order to improve the buying system and reduce the amount of stock.⁵⁵

In 1932 Galeries Lafayette also set up a supplementary central purchasing organization called Société Centrale d'Achats (SCA). This organization was to deal mainly with independent suppliers. The first retailer who became an affiliated member of the SCA opened a store in Rouen in October 1932 under the NOMA brand.

The new Monoprix chain stores, 1932

The scientific management of purchasing operations played a decisive role in the development of a new retail concept in France from 1928 to 1929: the price-point chain stores. France was quite late in the introduction of such stores, mainly inspired by Woolworth's 5&10, and already developed in the United Kingdom by Marks & Spencer and in Germany in its most successful form by Ehape (Tietz) and Epa (Karstadt).⁵⁶

Nouvelles Galeries opened the first French price-point or variety store chain under the brand "Uniprix" in 1928. The establishment of the "Prisunic" chain by Le Printemps in 1931 was rapidly followed by "Monoprix" by Galeries Lafayette and eventually "Priminime" by Le Bon Marché in 1932.

This new form of large-scale retailing, catering to the working and middle classes, used price as its main appeal. The price ranges, generally limited to three, depended on limiting the goods on offer. In 1935, 4,500 items were available at Prisunic, compared to 90,000 at Le Printemps.⁵⁷ Goods were divided into twenty to thirty departments. The best sellers were basics such as artificial silk stockings, cotton shirts, eaus de toilette, household soaps, or pitchers. Price-point stores concentrated on basics

⁵³ Paul Planus set up an independent study in Paris in 1929 to help the firms reorganize according to Taylor's theories. In 1933, he spent eight days at the American department store Macy's, in order to provide recommendations to improve the supply management of Galeries Lafayette. See Moutet, *Les logiques de l'entreprise*, 211.

⁵⁴ *Réorganisation du garage des Galeries Lafayette* (Geneva, 1933), quoted in Moutet, *Les logiques de l'entreprise*.

⁵⁵ Les magasins de réserve des Galeries Lafayette, Centre de Préparation aux Affaires (CPA) (Paris, 1932).

⁵⁶ Badel, *Un milieu libéral et européen*, 71-89.

⁵⁷ "Les magasins à prix uniques," *Bulletin CPA*, 1 Jan. 1935, p.11.

and staple goods that could be mass produced. These chains were usually not producers, thus avoiding a higher tax.⁵⁸ The display of the products was rudimentary. They were put together into boxes by price instead of by range of product, a tactic that also disguised somewhat the lack of variety.

Products were not even labelled, and color codes were used to mark the price. The role of the lower-qualified sales staff was almost reduced to serving as cashiers. As a consequence, wages were 20 percent lower than in a department store. Services were nonexistent, as goods could not be home-delivered or returned.⁵⁹ Consumer credit was banned. While department stores took responsibility for increasing their advertising budgets, the price-point stores relied on their cheaper prices to spread their reputation. Because of their highly rationalized organization, the price-point chain stores managed to lower the cost of sales to 25 percent of the turnover, compared to an average 33 percent in a department store.

In 1937, a survey by the Federation of Multiple-Shop Retailers (Fédération nationale des entreprises à commerces multiples, FNECM) highlighted the accuracy of the statistics communicated by the price-point stores compared to specialty chain stores or even department stores. The three price-point store chains answering the survey were able to provide data on “sales volume and average output, consumption fluctuations in quantity and quality, purchase-elasticity in a context of price increases with a breakdown of products, consumer insights . . .”⁶⁰

In a 1933 conference, the grocery trade union had already pinpointed the modernity of the price-point stores’ management tools in contrast to the backwardness of the local independent retailers, who were unable to work out their costs.⁶¹ According to their unfortunate competitors, the chain store managers were very good at finding the lower cost price items with high sales potential in each range of product. Their knowledge of such business data was also a strong point in negotiating with suppliers.

Based on the chronology of the openings, we could say that the French concept of price-point store was not directly linked to the economic crisis. However, the evolution of the economic background in Europe from 1931 certainly influenced the proliferation of these stores.

Galleries Lafayette, which was not the first entrant in this emerging retail concept, first considered the price-point chain stores as a new competitor. In March 1931, a “price-point” range of products was intro-

⁵⁸ The production tax introduced in 1936 (6% of the cost price) rose to 8% in 1937 and penalized manufacturer-retailers.

⁵⁹ In the same period, home delivery service represented 4% of operating costs in department stores.

⁶⁰ Enquête sur la production, 1937, archives Fédération nationale des entreprises à commerces multiples.

⁶¹ “Les magasins à prix uniques,” 30ème congrès de la Fédération Française des syndicats de l’épicerie, Rouen 19-21 June 1933, archives Chambre Syndicale des Magasins Populaires.

duced at Galeries Lafayette. In a board meeting in February 1932, the management insisted on the necessity of fighting the competition of these retailers, including by selling a range of price-point products in the department store. They took the opportunity of the sales period of summer 1932 to introduce more items and a special display.⁶² But, to avoid mixing up the department store with a price-point store, the administrators finally decided to use the phrase *prix arrondis* (“rounding-off prices”) with a price list of 10, 15, and 20 French francs. This happened before the opening of the first Monoprix store. With their new chain store, the managers of Galeries Lafayette rapidly understood the value of entering this market segment with a separate store brand. In doing so, they turned the threat of this competition into a commercial success. These stores rapidly spread out, and only six months after the opening of the first Monoprix, Théophile Bader was able to forecast a network of twenty-seven stores with a 625 million franc turnover for September 1933.⁶³ However, after a few more years, Galeries Lafayette itself tried to attract the customers looking for low-price items. From 1932 to 1936, corporate communications emphasized price with this catch phrase: “Acheter aux Galeries Lafayette c’est faire des économies” / “Buying at Galeries Lafayette is saving up.”

This product mix helped establish synergy between Galeries Lafayette and Monoprix. Only four days after the opening of the first Monoprix in October 1932, the executive committee encouraged the department heads at Galeries Lafayette to buy from the supplying office of the price-point stores set up next door, on the boulevard Haussmann.⁶⁴ More surprising, the Monoprix could also resupply from Galeries Lafayette, directly in the Parisian store, and was charged at cost.⁶⁵

These buying processes demonstrate that Galeries Lafayette and Monoprix had similar basic items on offer. Both shared the same central buying office, SCA. In so doing, they joined their orders and, because of the significant quantities, were in a strong position to deal with the manufacturers. In 1935 Max Heilbronn, who had taken advice from Simon Marks (of Marks & Spencer fame), had mass produced 100,000 similar shirts and 500,000 aprons.⁶⁶ He applied himself to building long-term good relationships with suppliers, as for instance with Pierre Levy, the famous manager of the industrial knitting firm Devanlay-Recoing.

Nevertheless, Galeries Lafayette was also catering to the upper classes.

⁶² Board meeting, report, 3 June 1932.

⁶³ Letter from Théophile Bader to M. Gunthert (CCF), 21 April 1933, Noma, archives GL.

⁶⁴ Board meeting, report, 28 Oct. 1932.

⁶⁵ Board meeting, report, 28 July 1933.

⁶⁶ “Les magasins populaires,” in *Paris-Couture-années trente* (Exhibition Catalogue, Musée de la Mode et du Costume), ed. Guillaume Garnier (Paris, 1987), 215.

In 1933, they published a luxury products catalogue. At the same time, the management of Galeries Lafayette decided that the utility goods should not be advertised, either in the catalogues or in the layout of the store.⁶⁷ It is true that the introduction of a range of low-price items was made at the expense of quality at Galeries Lafayette. For instance, in 1930 a flagship fabric called “zenana” was made of silk, and sold at a price of 54.9 francs in a width of 1.10m. In 1933, the so-called zenana was sold at a price of 25.9 francs. The general price decline occurring since 1932 was not the only reason for this reduction; in 1933 the fabric had become a mix of silk and wool and its width had been reduced to 0.80m.

At the turn of 1935, the management of Galeries Lafayette understood that they had neglected the traditional department store clientele, the middle and higher income classes. In 1936, the managers decided that the forthcoming catalogue would be produced in a more luxurious style and would present items of good taste.⁶⁸ The sense of quality made its comeback in a new catch phrase: “Aux Galeries Lafayette, l'économie par la qualité” / “At Galeries Lafayette, savings through quality.”

In this repositioning strategy, the Monoprix chain stores were of great utility. They allowed Galeries Lafayette to clarify its brand image but to cater at the same time to both the working and the upper classes.

In fact, most of the “five-and-ten” chain stores in France during the 1930s were founded by department stores. This new retail concept offered a way to adjust to market segmentation and offered a more suitable vehicle for expanding the department stores' network in the provinces. Their cheaper positioning targeted the working-class customers who could not afford to buy in the upgraded department stores. This market segmentation was a new practice that helped department stores build a more accurate customer target in a context of strong competition.

A better position resulting from the strong competition among Parisian department stores

In that context, prices were not enough: new services (such as deliveries), new departments, and new improvements were offered to highly desired customers. More advertising was done, and overhead expenditures increased, reducing operating margins. The introduction of this new retail concept thus is an answer to the fall in purchasing power resulting from the crisis, but it is also a result of a long-term evolution of the department stores away from their first business model based on low prices, high volumes, and low margins—“vendre beaucoup à petit bénéfice,” in the words of Le Bon Marché founder Aristide Boucicaut.

As French department stores began transforming into general stores, the narrowing of the goods and the careful restriction of the number of references sold in the price-point chain stores could be interpreted as back

⁶⁷ Board meeting, report, 13 Jan. 1933, records GL.

⁶⁸ Board meeting, report, 17 Jan. 1936, records GL.

to basics: le commerce de la nouveauté, novelty trade. It is also a response to a new competition emerging during the 1920s from chain-store companies that specialized in dress and footwear. This new form of large-scale retailing, catering to the popular and middle classes, used price as the main appeal, whereas traditional department stores, catering to the middle and higher income classes, used quality and services.

From innovation in distribution to administrative innovation

At a 1933 conference, as described earlier, the grocery trade union had already pinpointed the modernity of the management tools of the price-point stores, in contrast to the backwardness of the local independent retailers unable to work out their cost prices.⁶⁹ In 1937, a survey from the FNECM highlighted the accuracy of the statistics communicated by the price-point stores compared to specialty chain stores or even department stores.⁷⁰ The combination of the economic crisis and innovations in distribution led to improvements in the management of the retail groups, exactly as the anti-crisis measures at Pechiney had provided an opportunity for modernists to impose their views on adopting new methods and new indicators. These innovations were not to remain only circumstantial but were to endure and be developed in the 1940s and later.⁷¹

Conclusion

There are certainly many limitations in our choices of Pechiney and Galeries Lafayette as cases. The first and most obvious is that both companies survived the Depression and endured for a very long time thereafter: until the present as an independent company for Galeries Lafayette; Pechiney was taken over by Canadian aluminum producer Alcan in 2003. Hundreds of corporations went bankrupt during the period, and this led to a reinforcement of the market position of the strongest players in their respective industries.

These factors do not, however, support the uniqueness of these two firms. It has been shown that during the Great Depression, many firms among the largest fared relatively well in terms of asset value.⁷² This is a story of victors and resilience. These companies were favoured by the existence of cartels and oligopolistic competition, among other factors. Finally, this is a history of long-term strategizing favored by not-too-demanding shareholders and stable managers in the continental style.

⁶⁹ “Les magasins à prix uniques,” 30ème congrès de la Fédération Française des syndicats de l'épicerie.

⁷⁰ Enquête sur la production, 1937.

⁷¹ Cailluet, “Pratique et diffusion des méthodes modernes d'organisation et de contrôle de gestion.”

⁷² Lefevre, “Les lumières de la crise.”

In looking at case studies, business historians do not help much in building generalizations; however, they participate in creating a history of decision-making. They also provide economic historians with examples that contradict—or more precisely, provide nuance—in the depiction of important episodes of the past.