CHAPTER 10

Merchants Go to Market

November 2009

Mary A. O'Sullivan
The Wharton School
University of Pennsylvania

1. INTRODUCTION

The period from the late nineteenth century through the beginning of the Depression was one of dramatic change in America's retail industry. In 1885, mass retailers – department stores, mail order firms, and chains -- were of limited importance as a share of retail sales but, by 1930, they had emerged as the most powerful players in a sector that itself had grown much larger. Traditional retailers persisted, of course, even if they accounted for a decreasing share of the retail industry, but they too made important changes in how they did business, partly in reaction to competition from mass retailers, but also in response to broader changes in their environment. Overall, this was a period of great change in American retailing even if there is debate about the economic benefits of some of the developments that occurred.

Retailers were rather late arrivals on the nation's securities markets, making an appearance only in 1901 when department stores issued securities to the public for the first time. The early issuers were department stores in pursuit of consolidation and recapitalisation. However, in the mid-teens, major financial problems at some of the leading players soured the markets' appetite for department store securities. Other mass retailers issued securities, in some cases to raise growth finance and in others for recapitalisation and consolidation. Overall, however, securities issues played a rather limited role in the development of the U.S. retail industry through the end of the First World War.

There was an increase in issuance activity after the war. Mail order firms turned to the securities markets, as well as other sources of external finance, as they struggled to fund their bloated inventories during the post-war crisis. A few chains also issued securities with the largest issues undertaken to facilitate ambitious strategies of external growth. Department stores, in contrast, were almost inactive on the securities markets.

It was really in the period from 1922 to 1930, and especially from 1925 to 1929, that large numbers of retail companies came to the securities markets. This time department stores led the charge, accounting for the majority of proceeds raised in securities issues by retail companies. These issues served a variety of purposes but recapitalization and consolidation were by far the most important motivations. Chain stores were also active issuers in the 1920s, dominating in terms of the numbers of retail securities issues. For them, securities issuance was largely about funding external growth. And, finally, some of the mail order firms returned to the securities markets in the second half of the 1920s, largely in pursuit of aggressive strategies to diversify into the business of running stores.

In assessing the role that securities markets played in the development of the retail industry, I found that capital formation was of limited importance in aggregate terms. On the face of it, this is not that surprising given the low level of capital intensity of retail enterprises. However, as I show, there were important instances in which retail companies, especially mail order firms but also department and chain stores, issued securities to fund the formation of fixed and working capital. I show that these instances can be explained in terms of circumstances that were particular to specific firms or periods. Consolidation was a much more important motivation for the securities issues of retail companies, especially for department and chain stores, and to an unprecedented extent in the 1920s. And, finally, securities issues were undertaken to facilitate the recapitalisation of existing retail assets and businesses with the 1920s once again witnessing a major increase in these types of transactions. Overall, if one had to draw one general conclusion for the retail industry, it would be that securities issues were motivated by changes in the control and ownership of existing assets to a much greater extent than by the formation of new assets.

2. THE DEVELOPMENT OF THE US RETAIL INDUSTRY, 1885-1930

The distribution sector was already of substantial importance in America in 1880, accounting for 6.7 per cent of the country's labour force, and its share expanded further to 12.9 per cent by 1930.[1] By then, 271 people worked in distribution per 1,000 employed in production, compared with only 95 in 1880, with about three quarters of them working in the retail sector[2]. The distribution sector's productivity grew during the period but it failed to keep pace with the vanguard of the U.S. industrial economy.[3] However, aggregate measures conceal as much as they reveal about a heterogeneous sector in which old and new ways of doing business co-existed.[4]

Traditional retailers, including independent grocery stores, country general stores, and dry goods stores, dominated the US retail industry in the 1880s and they continued to account for a large, if diminished, share of retail sales by 1930.[5] Yet, even for these traditional players, important technological changes, such as the development of refrigeration and electric lighting, led to important improvements in the services they offered customers. However, it was the emergence of new players and, in particular,

---

[1] Harold Barger, 1955, *Distribution's Place in the American Economy since 1869*, Princeton University Press, p. 6.
[2] Retailing represented 76 per cent of total distribution employment in 1929 and, according to Barger's estimates, a similar share throughout the entire period (Barger, 1955, p. 8).
[3] Output per man hour in distribution increased from 92 in 1879 to 150 in 1929 compared with an increase from 36 to 364 in the manufacturing sector over the same period (Barger, 1955, p. 38).
[4] Harold Barger admits as much in his book (Barger, 1955, p.28).
[5] Barger, 1955, p. 149?

mass retailers -- department stores, mail order houses, and chain stores – which had the most dramatic impact on the U.S. retail sector. Although the origins of mass retailers in the United States can be traced to the years just before or after the Civil War, they were of limited importance as a share of retail sales even by 1889. By 1930, however, they had gone from nowhere to a combined share of somewhere between 23 and 38 per cent of retail sales in the US.[6]

Mass retailers came in three waves with department stores as the pioneers. They developed largely in the years after the Civil War although, in some cases, the enterprises that founded these stores were established earlier. The earliest department stores were found in the country's leading cities but they spread across the country as it urbanised.[7] Initially, they were one-store, or two-store, companies but, even then, the largest of them represented America's largest retail organisations at the time and, in some cases, the largest retail companies in the world.

Table 1 Largest Retail Enterprises in the United States by Sales, 1900-1930

Retail Company	**1915**	**1920**	**1925**	**1930**
Department Stores				
Macy's	n.d.	35.8	56.4	98.7
Marshall Field & Co.		<60		150.7
Associated Dry Goods		81.8	n.d.	n.d.
May Department Stores	n.d.	68.3	89.9	112.7
Gimbel Brothers		66.1	102.1	124.6
National Department Stores		44.4	74.4	83.5
Hahn Department Stores		n.a.	n.a.	112.3
Federated Department Stores		n.a.	n.a.	117.0
Mail Order Houses				
Sears, Roebuck	106.2	245.4	243.8	390.4
Montgomery, Ward	49.3	101.7	170.6	249.1
National Bellas Hess	n.a.	n.a.	46.7	33.8
National Cloak & Suit	17.4	47.7	n.a.	n.a.
Chain Stores				
A&P	44.4	235.3	440.0	1,065.8
Jones Tea	n.a.	20.5		
American Stores	n.a.	103.1	108.9	142.8
Woolworth	76.0	140.9	239.0	303.0
J. C. Penney	4.8	20.5	68.6	209.7
S. S. Kresge	20.9	51.2	106.1	150.5
McCrory	5.6	14.2	29.6	43.2
S. H. Kress	12.4	29.0	46.0	69.3
United Cigar Stores	31.0	78.9	85.1	91.9
Schulte Retail Stores	n.a.	n.d.	35	28.5
United Drug	33.4*	68.4	78.1	n.d.

Source: Moody's, Manual of Investments, various years; Lebhar, 1963, p. 17, p. 21, p. 33, p. 110 ; for A&P, Bullock, 1933b; various newspaper sources.
n.d. not disclosed
* 1916

[6] Barger, 1955, p. 149.
[7] Chandler, 1977, pp. 226-7; Raff, 2006, p. 4-706.

However, they were soon surpassed by a second type of mass retailer, the mail order house. In contrast to the department stores, mail order firms served the rural market. They sent their catalogues through the mail, offering customers a huge range of products, and delivered their orders by train. They emerged in the 1870s and, as Dan Raff put it: “rode the back of the U.S. Post Office and expanding rail service to bring something like the selection of a department store to people who lived far from any urban center”.[8] The largest of them were Sears, Roebuck & Company and Montgomery, Ward & Company, founded in 1886 and 1872 respectively.

They too were overtaken by chain stores which represented a third type of mass retailer. Chains competed by offering low prices made possible by their buying power and centralised procurement.[9] The origins of chains in America are usually traced to 1859 when the tea shop that eventually fostered a giant grocery chain, the Great Atlantic & Pacific Tea Company, was established on Vesey Street in New York City.[10] Other pioneering chains were established in the late 19th century but chains were still relatively small companies by the turn of the century. It was during the period from 1900 to 1930 that chains really flourished, increasing in number but also growing in scale, to rank alongside department stores and mail order firms as the largest retail companies in the United States.[11]

Alfred Chandler, America’s leading business historian, expressed great confidence in the efficiency of the new mass retailers, arguing that “they were able to reduce their prices below those of the smaller retailer who bought from the wholesaler and were still able to generate higher profits than the wholesalers”. As a result, he claimed, the rise of mass retailing “increased the productivity and reduced the costs of the distribution of consumer goods in the United States” although he admitted there were no detailed productivity measures to prove it.[12] However, other observers proved more sceptical, raising concerns about whether America’s largest retailers grew too large or spent too much advertising their wares and outfitting their stores. One author spoke of “elephantiasis” among department stores[13] and other studies, including the influential Harvard studies of retailing from the 1920s, raised questions about the efficiency of the growing scale and scope of American department stores.[14] Yet, wherever one comes down on the implications of the considerable changes that took place in American

[8] Raff, 2006, p. 4-707.
[9] Raff, 2006, p. 4-707.
[10] Lebhar, 1959, p. 25.
[11] Lebhar, 1963, p. 24. The Federal Trade Commission estimated that there were only 25 chains operating 226 stores by 1900; by 1930 there were 1,478 chains operating 69,534 stores (FTC, 1932, p. 6). Data slightly different from Historical Statistics – check why.
[12] Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, 1977, p. 237.
[13] Frank Thomson Hypps, 1937, “The Department Store: A Problem of Elephantiasis,” *Annals of the American Academy of Political and Social Science*, vol. 193, pp. 70-87.
[14] McNair, Malcolm P. and Eleanor G. May, 1963, *The American Department Store 1920-1960. A Performance Analysis Based on the Harvard Reports*, Harvard Bureau of Business Research Bulletin No. 166. For a modern analysis, see Scott, P. and Walker, T. 2009, "Sales and Advertising Rivalry in interwar US Department Stores", working paper, Henley School of Management, University of Reading,

retailing from the late 19th century to the eve of the Depression, there is no denying the scale of the transformation that occurred.

The rise of mass retailers also had a dramatic effect on the number of large corporate enterprises operating in the distribution sector. In the 1880s, as Navin and Sears pointed out, business in the distribution sector "was being conducted almost exclusively by partnerships and on a small scale". Only two of the country's distributive enterprises – "the two great dry goods wholesalers in New York and Chicago: H. B. Claflin & Company and Marshall Field & Company" – could be considered large enterprises and both of them continued to operate as partnerships.[15] A. T. Stewart, which had expanded to become one of the nation's largest dry goods wholesalers and retailers after the Civil War, with sales of $40 to $50 million, had been liquidated in 1882.[16] By 1920, as Table 1 shows, there were more than ten retailing giants in America with sales of $50 million or higher and they were all corporations. By 1930 the giants had grown much larger and, even measured in terms of total assets, which downplays their relative importance, seven retail companies ranked among the 100 largest industrial companies in America.[17] As we shall see, it was largely the giants of American retailing that dominated securities issuance through the teens. However, in the 1920s, the securities of medium-sized, and even small, retail companies also showed up in growing numbers on the country's trading markets.

3. SECURITIES ISSUES BY THE U.S. RETAIL INDUSTRY

Notwithstanding the longevity of the retail sector, the securities of retail enterprises were rather late arrivals on the US securities markets. The stocks of some distributive enterprises began trading on the nation's securities markets towards the end of the 19th century. In 1890 the large wholesaling company, H. B. Claflin & Co., was converted to a corporation and issued preferred stock to facilitate the settlement of the founder's estate by his son, John Claflin.[18] All classes of this company's stock were listed on the NYSE from 1891.[19] However, as late as 1900, the securities of retail enterprises were nowhere to be found on the nation's organised exchanges.

[15] Navin and Sears, 1955, p. 110. Large enterprises were defined as having sales of $5 to $10 million, medium enterprises had sales of $2 to $5 million, and small enterprises had sales of less than $2 million. Navin and Sears also referred to companies with sales of more than $10 million as very large but there were none of these in the distribution sector in the 1880s (Navin and Sears, 1955, p. 109).

[16] Harry Resseguie, "The Decline and Fall of the Commercial Empire of A. T. Stewart," *Business History Review*, vol. 36, no. 3, pp. 255-286.

[17] They were Sears, Roebuck ($251.8m; #30), Montgomery Ward ($187.6m; #50); F. W. Woolworth ($165.4m; #59); Marshall Field ($137.3m; #69), United Cigar Stores ($114.4m; #87); S. S. Kresge ($109.5m; #93); United Drug ($102m; #98). In 1919, three distributive enterprises showed up on the list (Sears, Roebuck ($154.8; #31); Montgomery Ward ($70.7m; #88); F. W. Woolworth ($94.1m; #66)) and, in 1909, only Sears, Roebuck did ($53.3m; #45) (Norman R. Collins and Lee E. Preston, "The Size Structure of the Largest Industrial Firms, 1909-1958," *American Economic Review*, vol. 51, no. 5, pp. 986-1011.

[18] Navin and Sears, 1955, p. 123; *Bankers Magazine*, August 1890, p. 95.

[19] *Financial Review*, 1896, p. 103.

As Table 2 shows, this picture began to change slowly in the early 1900s and then more rapidly in the teens, especially after the war. Yet, even as late as 1921 one commentator noted that the "[d]evelopment of large scale retailing is a highlight of twentieth century business. While the stock in at least one of these companies has already reached the investment class, possibilities in the field have yet hardly been seen. Substantial expansion consequently is prophesied during the next decade".[20]

Table 2 Retail Stocks Traded on the Leading U.S. Securities Exchanges

Trading Market	**1905**	**1910**	**1915**	**1920**	**1925**	**1930**
NYSE	2	3	8	18	30	64
New York Curb	n.a.	1*	9	10	12	89
	c. 2	4	17	28	42	153
Regional Exchanges						
Boston	0	0	0	3	7	2
Philadelphia	0	0	0	3	3	7
Chicago	0	1	2	7	6	29
	0	1	2	13	16	38
Regional-NY Overlaps		1	2	9	9	21
Grand Total	**c. 2**	**4**	**17**	**32**	**49**	**172**

Source: author's analysis based on Manual of Statistics, Financial Review, Bank & Quotation Section

There was some expansion in the number of retail stocks, especially on the NYSE, in the early 1920s but other markets showed little change. However, in the second half of the 1920s there was a really dramatic growth in the number of retail stocks on U.S. trading markets. The NYSE gained from this development but the expansion was even more impressive on other trading markets. Overall, the number of retail stocks traded on the country's leading organized exchanges more than tripled to 172 between 1925 and 1930 and an estimated 80 additional retail stocks traded on the country's over-the-counter market by then.

As Table 3 shows, an active market in retail bonds took even longer to develop in America. As late as 1920 only a handful of these securities traded on the U.S. securities markets and they all belonged to mail order companies. In the ensuing decade there was an expansion in the number of retail bonds on the leading securities exchanges to 21 by 1930. By then, an additional 18 retail bonds were traded on the country's over-the-counter market.[21] Nevertheless, publicly-traded bonds continued to lag far behind stocks in their importance for the retail sector.

Table 3 Retail Bonds Traded on the U.S. Securities Markets

Trading Market	**1920**	**1925**	**1930**
NYSE	0	4	7
New York Curb	4	4	12
	4	8	19
Regional Exchanges			

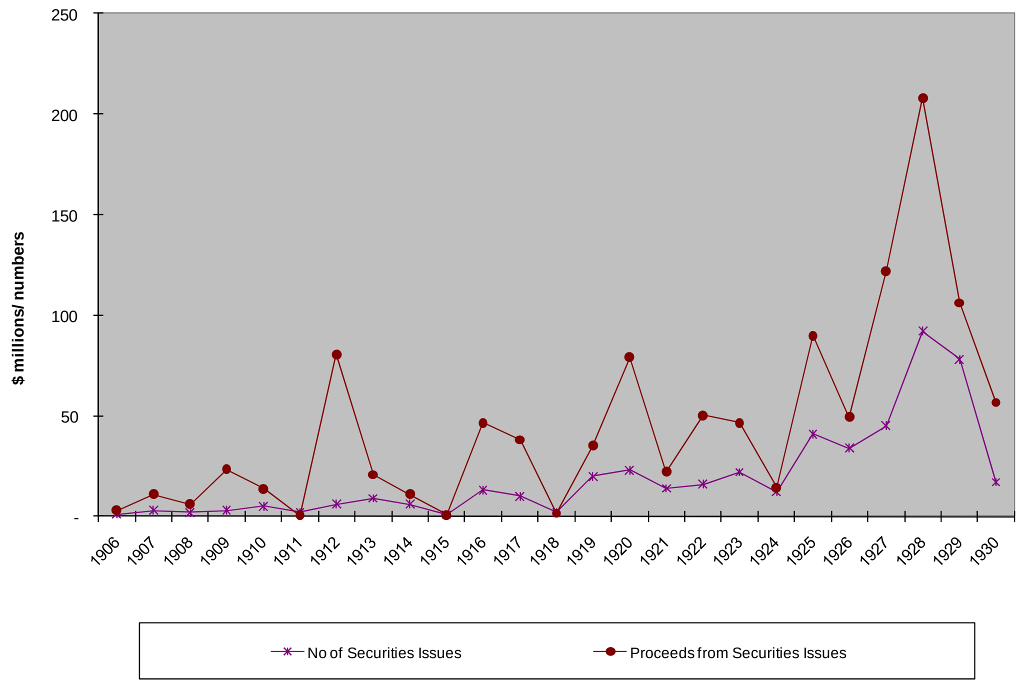
[20] "Large Retailing Companies have Better Position", *WSJ*, July 21, 1921, p. 6.
[21] *Bank & Quotation Record*.

Boston	0	0	0
Philadelphia	0	0	1
Chicago	0	0	2
	0	0	3
Regional-NY Overlaps	0	0	2
Grand Total	**4**	**8**	**21**

Source: author's analysis based on Manual of Statistics, Financial Review, Bank & Quotation Section

These trends in the number of retail stocks and bonds on the nation's leading trading markets reflected developments in securities issues by retail companies. As Figure 1 shows, the number of securities issues by retail enterprises was relatively low until after World War I with fewer than 10 retail companies issuing securities in most years.[22] There was a clear increase in the rate of issuance in the period from 1919 to 1924 but the most dramatic change came in the late 1920s when somewhere between 30 and 90 retail issues were completed each year. The proceeds raised in these issues also soared to unprecedented levels. Of the $1.1 billion raised in securities issues by retail companies from 1906 to 1930, 56 per cent was raised from 1925 to 1930; 64 per cent of the total of 477 retail issues were also completed during these years.

Figure 1 Number of Securities Issues for Cash by Retail Companies



Source: author's analysis based on data from Journal of Commerce and Moody's Manual of Investments, various years.

[22] Except for 1916 when there were 13 issues.

Consistent with the patterns shown in Tables 2 and 3, most of the securities that retail companies issued at this time were stocks. Preferred stock was particularly important prior to the 1920s, especially cumulative preferred stock. Retail companies issued very little tradable debt during this period. However, there was a burst of public issues of medium-term notes after the war as well as some bond issues, usually to fund the purchase of land or the construction of buildings.[23]

4. CHARACTERISTICS & STRATEGIES OF RETAIL ISSUERS

4.1. The Early Retail Issuers

The department stores which were the retail company pioneers on America's securities markets issued securities primarily to facilitate consolidation and recapitalisation. However, in the mid-teens, some of the major players experienced serious financial difficulties which made the markets sceptical of the merits of department store securities. Mail order and chain store firms also issued securities at this time, in some cases to fund capital formation but, in the most significant transactions, for recapitalisation and consolidation. Yet, overall, securities issues played a rather limited role in the development of the U.S. retail industry through the end of World War I.

4.1.1. The Department Stores

Retail enterprises were introduced to the investing public in 1901 when the Associated Merchants' Company was listed on the NYSE. Known as the "Dry Goods Trust",[24] the Associated Merchants' Company was headed by John Claflin[25] and backed by J. P. Morgan who was represented on the board.[26] The new company was created through the consolidation of controlling stakes in the H. B. Claflin company,[27] which formed the wholesale part of the business, and two leading dry goods businesses[28] which made up its retail business. John Claflin stated that he and his associates planned to acquire "various dry goods businesses or interests in dry goods businesses in the City of New York and in several of the other large cities of the United States".[29]

[23] For the observation that chain stores as a group were more or less free from debt ("Chain Store Stocks as a Medium of Investment," *Barron's*, March 16, 1931, p. 3. See also "Holders of Chain Store Securities Gain," *Barron's*, November 24, 1930, p. 14 for data by company for 1925, 1929, 1930.
[24] John Moody, 1904. *The Truth About the Trusts: A Description and Analysis of the American Trust Movement*, New York, Moody Publishing Company, p. 238.
[25] Chandler (1977, p. 337) said "That merger, Associated Merchants, resulted from the attempts of the heirs of H. B. Claflin, a pioneering mass marketer, to dispose of their holdings." He cites Navin and Sears, p. 123 as his source but they refer only to the 1890 incorporation of H. B. Claflin and make no direct mention of Associated Merchants in their article. Certainly, Chandler's description is misleading for the latter company given John Claflin's central role in its formation and development.
[26] By Thomas Cochran.
[27] The stock of the H. B. Claflin Co. continued to trade on the NYSE (*WSJ*, June 15, 1911, p. 6).
[28] The Adams Dry Goods Company and James McCreery Company.
[29] "Associated Merchants' Company Organized," *NYT*, April 10, 1901, p. 2.

The new concern had an authorised share capital of $20 million with half of that representing preferred cumulative 5 per cent stock[30] and the remainder made up of second preferred and common stock. The latter was issued in exchange for some of the stock of the constituent concerns but, to avoid the criticisms that attended the formation of other "trusts", Claflin promised that the first preferred stock would be sold only for cash and would not be used to purchase goodwill or other intangible assets.[31] At its formation, the company issued $3 million of this preferred stock to pay some of the consideration for the Claflin purchase and all classes of the company's stock were listed on the NYSE from 1902. In 1905 it issued a further $2.2 million of preferred stock to pay for additional acquisitions.[32]

When Associated Merchants was formed, one commentator described it as auguring a trend towards the modernization of the retail industry in the United States. However, some contemporaries expressed scepticism about the consolidation's prospects with one prominent New York retailer arguing that "[t]he dry goods trade is not like the steel trade or other industries, largely dependent upon the patent rights in which there is a monopoly. Anybody who is able to buy a stock of goods may become a competitor of the established firms".[33] Whatever the reason, the dry goods trust remained the only effort to bring about consolidation of the retail industry for some years but, based on the limited information available, it seems to have done reasonably well.[34]

In 1909 a majority of the stock of Associated Merchants' Company was taken over by a new company, United Dry Goods.[35] Since the latter was formed with John Claflin as its president, and the backing of J. P. Morgan, the transaction represented a restructuring of Claflin's assets rather than a fundamental change in control. United Dry Goods offered $10 million of its common stock in exchange for just over half the outstanding

[30] This stock was convertible, at the option of the holder, into second preferred or common stock.
[31] $3 million is the cash paid for Claflin. Also paid $5m in second preferred and $5m in common stock. Stock outstanding in Jan 31, 1904 1st pf 4.9m; 2nd pfd 5.1m; common 5.0. is this correct reference?
[32] "Associated Merchants' New Stock," *WSJ*, October 23, 1905, p. 5; Moody's, 1914, Public Utility, p. 660. This issue brought its outstanding capital stock to $17.2 million, compared with $15 million at the time of its formation. In an article on April 3, 1906, the WSJ reported on a plan to issue second preferred stock, up an amount of $5 million, for cash "to pay for the purchase of new properties, negotiations for which are now pending". However, an analysis of the company's balance sheet suggests that this issue never occurred (Moody's, 1914, p. 660).
[33] "Associated Merchants and Retail Dealers," *NYT*, April 11, 1901, p. 3.
[34] In Associated Merchants' first ten years of operation, as Moody's noted, "[i]ts average net profits from year to year have not increased radically, but the surplus which was reported has been high enough to justify a strong investment position for the first and second preferred stock issues... The common stock, which is now receiving dividends at the rate of 9% per annum, is naturally more speculative, but in view of the general stability of this business it would seem as though the permanence of substantial dividends is assured" (Moody's, 1914, Public Utility, p. 660). The newspapers were more effusive with the *NYT* speaking of it as "a great financial combination success" ("$51,000,000 New York Dry Goods Combine," *NYT*, May 22, 1909, p. 1; see also "United Dry Goods on Exchange Marks Start of Organization," *WSJ*, June 5, 1909, p. 8).
[35] By then, the company controlled C. G. Gunther's Sons of New York; O'Neill-Adams Co. of **New York?**; Hahne & Co. of Newark; McCreery & Co. of Pittsburg; J. N. Adam & Co. of Buffalo; Stewart & Co. of Baltimore, Powers Mercantile Co. of Minneapolis; the W. Hengerer Co. of Buffalo; the Stewart Dry Goods Co. of Louisville as well as "large houses" in Nashville, Augusta, Montgomery, Cincinnati, Toledo, Grand Rapids, Denver, Butte, and Tacoma, and the three original companies from which it was formed (*NYT*, May 22, 1909, p. 1; May 25, 1909, p. 2).

capital stock of the Associated Merchants' Company.[36] In addition, the company sold $10 million 7 per cent cumulative preferred stock at $110 a share in an issue underwritten by J. P. Morgan.[37] It used the proceeds to acquire most of the capital stock of four of the stores that Associated Merchants' Company had owned[38] but it also reserved a relatively small amount of $1.35 million in cash for working capital.[39]

The increase in the preferred dividend rate compared with Associated Merchants' initial issue suggests more difficult financial conditions for retail securities in the aftermath of the nation's economic crisis. However, by then, contemporary attitudes to consolidation among department stores seem to have grown more favourable. The *Wall Street Journal* described "scores of retail establishments throughout the country" as observing United Dry Goods "with keen interest" and reported that "in many instances there is a strong desire to join forces with the combination". "It is expected," the newspaper continued, "that this is only a beginning of a far-reaching control of retail dry goods houses in the most important commercial centers of the country".[40]

In fact, United Dry Goods' only important acquisition was its purchase of a controlling stake in Lord & Taylor in 1910.[41] That deal was made possible by the death of that company's president, Edward P. Hatch, in 1909, and the subsequent sale of his holdings.[42] To fund the acquisition, United Dry Goods increased its outstanding capital stock by 15 per cent and sold it in a rights issue which raised $3.3 million with J. P. Morgan agreeing to buy any stock at par that was not taken up by stockholders.[43]

The United Dry Goods Company attracted imitators.[44] Siegel Stores Corporation was created a few weeks later to consolidate the various department stores in which Henry Siegel had important interests.[45] The business of these three stores was estimated to amount to $35 million a year and Siegel declared that "the object of this incorporation

---

36 United Dry Goods initially held $8,650,000 of Associated Merchants' $17,250,000 capital stock (*NYT*, May 26, 1909, p. 5) but that amount increased over time as the latter's shareholders took advantage of the opportunity to convert their shares into shares of United Dry Goods. The company's preferred stock also increased as, by the terms of incorporation, the company allotted some of them to employees at par value ("Dry Goods Giant Reports Prosperity," *NYT*, March 6, 1910, p. 4).
37 "United Dry Goods Stock All Sold," *WSJ*, June 2, 1909, p. 7
38 Hahne Co. of Newark; William Hengerer Co. of Buffalo; Powers Mercantile Co. of Minneapolis; Stewart Dry Goods Co. of Louisville ("New Dry Goods Giant a Merger of Allies," *NYT*, May 26, 1909, p. 5).
39 "United Dry Goods Companies," *WSJ*, May 26, 1909, p. 7; "New Dry Goods Giant a Merger of Allies," *NYT*, May 26, 1909, p. 5.
40 "United Dry Goods Cos.," *WSJ*, July 30, 1909, p. 6.
41 Lord &Taylor's preferred stock was traded on the over-the-counter market as early as 1905 (Bank & Quotation Record, January x, 1906). This must have been in connection with the following plan: "In that year [1904] he [Hatch] incorporated the business as a stock company, becoming its president. He introduced a plan by which certain executives and employees could become stockholders by the payment of an initial amount, the balance to be made up from accruing dividends on the stock held in their names. At least this is the only reference the book contains to a stock issue at this time (*History of Lord & Taylor*, pp. 35-6).
42 Lord & Taylor, *The History of Lord & Taylor*, written for the Lord & Taylor Centennial, February 1926 to February 1927, p. 43.
43 "United Dry Goods – Lord & Taylor," *WSJ*, July 1, 1910, p. 2; *WSJ*, August 4, 1910.
44 "Dry Goods Combinations", *WSJ*, June 23, 1909, p. 6.
45 Specifically of Siegel, Cooper & Co. of Chicago, the Simpson Crawford Co. and the Fourteenth Street Store of New York City (*NYT*, June 17, 1909, p. 1).

was to obtain economies and profits from the joint operation and management of the three stores. In particular economy would be attained in the purchasing and accounting department".[46] The company issued stock in exchange for securities of the acquired companies but none of them were sold to the public and the stock was not listed or traded.[47]

In June 1910, the May Department Stores Company was established, reportedly also inspired by the example of the United Dry Goods Company. It consolidated three department stores that were controlled by David May[48] and his associates and it was backed by Goldman, Sachs and Lehman Brothers. These bankers underwrote issues of $15 million in common stock and $5 million in 7 per cent, cumulative preferred stock and Henry Goldman and Philip Lehman joined May's board of directors.[49] The stock was issued in exchange for the assets and goodwill of the constituent stores. In 1912 May Department Stores conducted a further issue of preferred stock to raise $3.25 million which was again underwritten by Goldman, Sachs and Lehman Brothers as well as Kleinwort Sons & Co. of London. The proceeds were intended, along with cash from the company's retained surplus, to fund the acquisition of another department store business.[50] The company acquired a few other retail businesses but it did not conduct any further stock issues, instead paying for them out of retained earnings.[51]

Although the *Wall Street Journal* speculated "whether these concerns are to be the forerunners of several chains of retail establishments of their kind",[52] there is no evidence of the formation of other major department store consolidations at this time. And, besides securities issues to facilitate consolidation, there were little activity by department stores on the nation's securities markets at this time. An important exception was John Wanamaker, whose Philadelphia store ranked among the leading department stores in the country.[53]

In the early 1900s the pressure of growing competition in the department store business convinced John Wanamaker to make major investments in rebuilding both of his stores.[54] His plans for the Philadelphia store were particularly grandiose, resulting in

---

[46] *NYT*, June 17, 1909, p. 1; see also "Dry Goods Combinations," *WSJ*, June 23, 1909, p. 6.
[47] Reportedly, application was to be made to have the stock listed on the NYSE. Check on this. "$10,275,000 Capital for Siegel Stores," *NYT*, June 17, 1909, p. 1?.
[48] The Shoenberg Mercantile Co. of St Louis, Mo.; the May Shoe and Clothing Co. of Denver, Colorado; the May Co. of Cleveland as well as the May Real Estate and Investment Co. of St Louis which held title to the real estate occupied by the St Louis store (Moody's, *Public Utility Manual*, 1914, p. 737).
[49] "Department Stores Combine", *NYT*, June 5, 1910, p. 19; Moody's, *Public Utility Manual*, 1914, p. 737.
[50] Boggs and Buhl of Pittsburgh (*Chronicle*, v. 96, March 22, 1913, p. 862; "May Department Stores to Vote on Capital Increase," *WSJ*, June 8, 1912, p. 5).
[51] Need *Chronicle*, vol. 97, 1913, p. 241.
[52] Add citation.
[53] Wanamaker opened a store in New York City in 1896 but it never enjoyed the success of his Philadelphia store. The Wanamaker stores surpassed Bon Marché in Paris as the leading department stores in the world in 1898. Although they were subsequently overtaken in importance by Marshall Field of Chicago, they remained significant.
[54] As Ershkowitz noted: "[a]t about the time Wanamaker responded to the rebuilding craze, many of his contemporaries, including Marshall Field's in Chicago, Macy's in New York, and Filene's in Boston also reconstructed their stores using one of the new architectural firms for their designs (Ershkowitz, 1999, pp. 137-8)."

the creation of one of the most famous landmark buildings in the city. However, difficulties in financing the rebuilding project, which Wanamaker had hoped to fund without recourse to external funds, brought him to the brink of financial disaster. The situation was aggravated by the onset of the nation's economic crisis in 1907 and, by early 1908, the completion of the Philadelphia store was in jeopardy.[55] Finally, in the autumn of 1908, Wanamaker succeeded in completing an issue of 5-year, 5 per cent bonds to raise $6 million, of which, the *Chronicle* reported, "[about $3,500,000 will be required to pay off obligations outstanding and the remaining $2,500,000 will be used in the erection of the last section of the store".[56] That Wanamaker could issue bonds to meet his financial needs surely reflected the quality of the collateral he was offering and, to an even greater extent, the fact that the bonds were the personal obligation of John Wanamaker.[57] In 1913 Wanamaker completed another bond issue, this time of 10-year, 5 per cent, bonds to raise $10 million, and used the proceeds to replace the 1908 bond issue and to pay off accumulated bank indebtedness of an additional $4 million. Once again the bonds were secured by a personal mortgage of John Wanamaker on the Philadelphia store.[58]

The only other leading department store to appear in the securities markets at this time was Stern Brothers of New York City which sold $3 million in 7 per cent cumulative preferred stock in 1910.[59] The issue was underwritten by Lehman Brothers and Goldman, Sachs of New York and Kleinwort Sons & Co. of London and both Lehman and Sachs became members of the company's board of directors.[60] The issue facilitated a transfer of ownership from Isaac Stern[61] to Louis Stern, his brother and a co-founder of the business four decades earlier.[62] Stern Bros returned to the securities markets in early 1914 under less favourable conditions to refinance its outstanding debt with an issue of $2.5 million in 5-year 6 per cent notes which was underwritten again by Goldman, Sachs and Lehman Brothers.[63] The department store had moved locations in

---

[55] Ershkowitz, 1999, p. 147.

[56] The bonds were reportedly "subscribed for at par by a coterie of financial men in the city of New York" and they were backed by a mortgage given by John Wanamaker, as the owner of the Philadelphia building, to the Land Title and Trust Co. of Philadelphia as trustee (*Chronicle*, Vol. 89, October 9, 1909, p. 925; *NYT*, September 10, 1908, p. 1; Ershkowitz, 1999, pp. 147-8).

[57] These bonds did not trade on the Philadelphia or New York exchanges or, apparently, in the over-the-counter market.

[58] *Chronicle*, v. 96, February 15, 1913, p. 495.

[59] There were also a couple of issues by smaller department stores, Rosenbaum Company and Halle Brothers, in 1913 and 1914 respectively. The *Journal of Commerce* reported that Rosenbaum Co. raised $3 million in funds although the *Chronicle* suggests that the issue was a debt issue with the stock being increased to comply with PA law. The proceeds of whatever issue took place were used to build a "new structure" (*Chronicle*, vol. 99, August 15, 1914, p. 473). The issue by Halle Brothers, a Cleveland department store established in 1891 and still run by its founding family, raised $750,000 through the sale of 7% cumulative preferred stock. The proceeds were used to double the floor area of the store in Cleveland (*Chronicle*, Vol. XCVIII, March 21, 1916, p. 916).

[60] *Chronicle*, Vol. LXXXXI, p. 1635; *WSJ*, December 6, 1910, p. 3; Moody's, 1911.

[61] Need to confirm.

[62] Isaac Stern retired from the business in late 1910 and died a week later. Another brother, Bernard, who also co-founded the business had died twenty years earlier and a fourth brother, who had been admitted to the partnership later, had retired a year earlier (*NYT*, December 5, 1910, p. 1)..

[63] The proceeds were used "to retire all of the Corporation's short-term notes circulating in the public market" (*Chronicle*, Vol. XCVIII, February 7, 1914, p. 457; *Chronicle*, vol. 98, May 23, 1914, p. 1618).

September 1913[64] and, for a period, had been forced to pay rent on both its old and new properties. That additional cost, as well as "the financial requirements attendant on our greatly increased business", had led to a large increase in the company's short-term debt. The situation persuaded Stern Brothers not only to conduct new financing but also to temporarily suspend payment of its preferred dividend.[65]

The problems at Stern Brothers, followed later in 1914 by news of major difficulties at some of the dry goods combinations, led investors to look on department store securities with increasing disfavour.[66] For much the same reasons as Stern Bros., Lord & Taylor was also struggling to re-establish itself on a sound financial footing. It too had decided to move its store uptown in 1912 and had commissioned a new building whose architectural features and physical equipment "won the admiration and praise of expert and layman alike". Unfortunately, however, the cost of equipping the new store and of moving into it exceeded the company's estimates and outran its capital. [67] In early 1914 the shareholders of Lord & Taylor conducted a rights issue of $1 million in 2nd preferred, 8 per cent, cumulative stock; since United Dry Goods was by far the largest holder of the company's stock, it said it would acquire a large part of the issue and it offered its shareholders the opportunity to subscribe for this stock at par.

The management of Lord & Taylor said that "[w]e are confident that, with largely increased space and exceptional advantages of location in the new building it is about to occupy at 5th Ave. And 38th St., the increased earnings will abundantly justify this new issue".[68] That confidence was misplaced and in July 1914, to avert the company's failure, a group of New York bankers bought a $5 million issue of 6 per cent gold notes which were due in 6 months to a year.[69] Some of these bankers was appointed to oversee important aspects of the business as members of the noteholders' committee[70] and they installed Samuel Rayburn, an Arkansas banker, as the treasurer of Lord & Taylor and then promoted him to the presidency of the company.

By then even worse news about the future of the entire Claflin mercantile empire had eliminated any remaining confidence in department store securities. Apparently, declining profits in its wholesale business had induced the H. B Claflin Company to acquire controlling interests in stores that had been large buyers of its goods.[71] By the time of its receivership in mid-1914,[72] the company, or John Claflin himself, controlled

---

[64] Like Lord & Taylor, in a move uptown, although in Stern Brothers' case, from 23rd St to 42nd St between 5th and 6th Avenues (*Chronicle*, February 7, 1914, p. 457).
[65] *NYT*, May 25, 1914, p. 9
[66] *Barron's*, November 13, 1922, p. 5.
[67] *History of Lord & Taylor*, p. 49.
[68] *Chronicle*, vol. 98, January 31, 1914, p. 392.
[69] 1914 issues of 5m in notes and 1m stock. 1916 2.04m notes.
[70] Gates W. McGarrah of the Mechanics and Metals Bank, who became Chairman of the company; Stephen Baker, President of the Bank of the Manhattan Company; Howard C. Smith of Hatheway, Smith & Folds Co. (*History of Lord & Taylor, p. 51)*
[71] "New Conditions Hit Tefft-Weller Co.," *NYT*, April 23, 1910. p. 2.
[72] Signs of trouble had appeared as early as 1911 when the company had reduced its longstanding dividend rate from 8 per cent, which it had paid from April 1899 to April 1911, to 6 per cent ("H. B. Claflin Co. Dividend Cut Reduces

twenty seven stores. John Claflin explained that "[t]heir rapidly expanding business has occasioned large capital requirements, which we have not been able to meet. A receivership has, therefore, become necessary".[73] The Claflin failure sent shock waves through the financial community with an official of the National City Bank describing it as "the biggest mercantile disaster that this country has ever known".[74]

The proximate cause of the company's failure was the problem of refinancing a tranche of "Claflin paper" which had reached maturity. This paper had been issued by the "Claflin stores" in payment to H. B. Claflin for goods it supplied to them. The parent company then endorsed these notes and discounted them with the banks. The amount of "Claflin paper" outstanding had risen to more than $30 million and it was held by a large number of banks around the country. Several million dollars worth of the paper matured every week, generating a continuous need to refinance it. The *NYT* reported that "[m]eeting these maturities was made difficult because in recent weeks there had been a pronounced indisposition on the part of buyers to take more Claflin paper. The notes were highly regarded, but the amount outstanding was so great that the slackening demand for commercial paper made it impossible to replace $7,000,000 or more as it fell due". Reportedly, Claflin was offered temporary assistance to meet these obligations from New York bankers, like J. P. Morgan, with close associations with his businesses but only on condition that he could guarantee that their assistance would be temporary. Claflin decided that he could not give the bankers that assurance and receivership became the only option.

The failure led to the reorganisation of H. B. Claflin Company which was orchestrated by a number of leading New York bankers including James S. Alexander, President of the National Bank of Commerce, New York, Gates W. McGarrah, President of the Mechanics and Metals National Bank, and Albert Wiggin, President of the Chase National Bank of New York City.[75] The Claflin failure also resulted in the financial restructuring of Associated Merchants and United Dry Goods which were compromised by the failure. They depended on substantial dividends from H. B. Claflin – an amount of 20 per cent of net income for Associated Merchants and 36 per cent for United Dry Goods -- and they

Disbursements $76,582," *WSJ*, April 7, 1911, p. 7). Initially, reports minimised the potential impact on United Dry Goods and Associated Merchants' Company (see, for example, "United Dry Goods," *WSJ*, April 7, 1911, p. 5) but both companies' stock prices began to decline [CHECK].

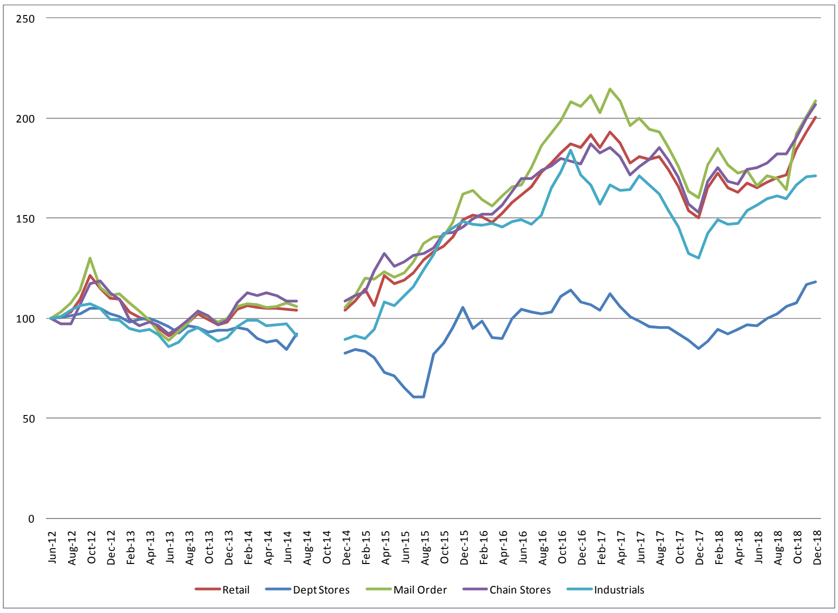
[73] *Chronicle*, vol. 98, June 27, 1914, p. 1996; H. B. Claflin Co. Fail Liabilities $34,000,000," *WSJ*, June 26, 1914, p. 1.

[74] Add citation

[75] The company was reorganised to continue the part of its original wholesale business that was still profitable (for the plan of reorganisation of H. B. Claflin Co., prepared by the noteholders' committee, chaired by James S. Alexander, President of the National Bank of Commerce. A new company, the Mercantile Stores Corporation, was formed which owned all of the stock of the new Claflin company, as well as the assets and business of the more than 20 stores still owned by its predecessor. The notes of this new company were issued to compensate the holders of the "Claflin notes" for the majority of their claims and the new company was to be operated under the direction of a board of trustees, "who will hold as collateral for the notes of the 23 retail stores the capital stock of the respective stores against which the notes are outstanding" (*Chronicle*, v. 99, September 26, 1914, p. 897; v. 99, October 3, 1914, pp. 967-8, pp. 971-2; October 31, 1914, p. 1302; "Plan to Pay Claflin Debts," *NYT*, September 28, 1914, p. 16.

also owed it a total of almost $1 million.[76] A new corporation, the Associated Dry Goods Company, was formed in early 1916 to consolidate the holdings of both companies, issuing its stock in exchange for that of the entire stock of United Dry Goods Co., and the part of the stock of Associated Merchants' Company which was in public hands.[77] Some of the bankers involved in the reorganization of Claflin were also involved with Lord & Taylor[78] and they were instrumental in putting Samuel Rayburn, its freshly-appointed president, in charge of its new parent company, Associated Dry Goods.[79]

Figure 2 Cowles Commission Common Stock Indices for the U.S. Retail Trade, June 1912 – December 1918



These financial setbacks had a negative effect on investors' attitudes to department store securities. Indeed, Ershkowitz claimed that "[a]fter Claflin's bankruptcy, lenders refused to lend money to retailers at any price".[80] However, as Figure 2 shows, the problem was really confined to department store stocks which registered a 40 per cent drop from the beginning of 1914 to the middle of 1915. Even when they recovered, department store stocks traded at P/E ratios of about 4 times which were much lower

[76] "How Claflin Failure Affects Other Companies," *WSJ*, June 29, 1914, p. 7; *Chronicle*, vol. 98, May 9, 1914, p. 1462; vol. 99, July 4, 1914, p. 51; vol. 98, June 27, 1914, p. 1998. O'Neill-Adams, which owned two large department stores in New York was closed according by agreement between the receivers of H. B. Claflin and the officers of Associated Merchants. It had been unprofitable for years and owed money to Claflin (*Chronicle*, vol. 99, October 24, 1914, p. 1218).

[77] Moody's, Public Utility Manual, 1916, p. 1862; "Good Outlook for Associated Dry Goods," *WSJ*, January 14, 1916, p. 7. The stock of the Associated Merchants' Company held by the United Dry Goods Co. was cancelled.

[78] McGarrah, for example, headed Lord & Taylor's noteholders' committee.

[79] Gates McGarrah was also appointed to the board (Moody's, Public Utility Manual, 1916, p. 1862).

[80] Ershkowitz, 1999, pp. 168-9.

than for the rest of the retail trade.[81] It is little surprise, therefore, that securities issues by department store were few and far between at this time; there was one by Brooks Brothers and another by Best & Co. in 1917 and only a few issues after the war.[82] In general, as *Barron's* put it, "the interest of bankers and investors has been turned in other directions"[83] and price-earnings ratios for department store securities remained low into the 1920s.

4.1.2. The Mail Order Firms

Mail order firms turned to the securities markets for the first time when Sears, Roebuck completed its initial public offering in 1906. The company's origins dated back to 1886 when Richard Sears started the R. W. Sears Watch Co. in Minneapolis but it was only the following year that he moved the company to Chicago and hired Alvah C. Roebuck. The company's name was changed to Sears, Roebuck & Co. in 1893 and it was reorganised as a corporation in 1895 when Roebuck retired from the business and new partners, Julius Rosenwald and his brother-in-law, Aaron Nusbaum, joined the firm, bringing additional money into the business. At the end of 1904, the company's capital was increased again from $150,000 to $5,000,000 when Sears and Rosenwald, as well as the company's secretary, Albert Loeb, invested more money.[84]

In 1905 the company began work on a giant, new, mail-order plant. Until then, it had used warehousing space where it could find it in Chicago but its new plant would centralise its operations.[85] The project cost about $5 million to complete and, Emmet and Jeuck argued, the financial strain of building it, as well as the funding needs of the rapidly-expanding business, "seriously depleted available working capital" and "the need for additional capital became urgent".[86] Henry Goldman was a childhood friend of Julius Rosenwald and his firm, Goldman, Sachs, handled commercial paper for the company. Sears and Rosenwald initially asked the bank for a loan of $5 million but Goldman instead suggested "that they make their business a public company and issue preferred stock, based on the net assets of the company and common stock, based on good-will and future prospects of the business".[87] In September 1906, Sears, Roebuck issued $9 million in 7 per cent cumulative preferred stock which was sold at 97½[88] to raise gross proceeds of about $8.8 million. Goldman, Sachs and Lehman Brothers organised a syndicate to underwrite the issue, taking $500,000 as a cash payment and

---

[81] P/E ratios for department stores were 3.6 in 1916, 3.3 in 1917, 4.0 in 1918, 3.7 in 1919 and 4.5 in 1920 compared with 8.0, 8.3, 7.5, 7.4, and 15.1 respectively for the retail trade (Cowles)
[82] In 1919 stock was issued by three department stores -- City of Paris Dry Goods, Franklin Simon & Co. and Schuster Co. – to raise $0.5 million, $0.5 million, and $0.3 million respectively.
[83] *Barron's*, November 13, 1922, p. 5.
[84] Emmet and Jeuck, 1950, pp. 47-50.
[85] M. R. Werner, *Julius Rosenwald: The Life of a Practical Humanitarian*, New York and London, Harper & Brother, 1939, p. 69.
[86] Emmet and Jeuck, 1950, p. 54 – they seem to impute this from the low net working capital figure at the end of 1905 -- $694,738.
[87] Werner, *Julius Rosenwald*, p. 74.
[88] *Chronicle*, vol. 83, September 15, 1906, p. 629.

$5 million in common stock in remuneration, with Henry Goldman and Philip Lehman both being elected as directors of the company.[89]

Werner claimed that "[a]s a result of this stock flotation the company received plenty of fresh capital with which to finance its building operations and repay its loans at banks".[90] However, in the next sentence he noted that "Rosenwald and Sears each received $4,500,000 in cash for their previous stock holdings" which is suspiciously close to half the proceeds of the IPO. Sure enough there was no change in the outstanding preferred stock from July 1, 1906, when the new company issued its first balance sheet, through its initial public offering to June 30, 1907, suggesting that the initial public offering was indeed a secondary offering. What did increase, however, was an item called "due to officials of the company for loans by them" which rose by $2.2 million. A reasonable implication is that Rosenwald, and perhaps Sears, invested some of the proceeds of their stock sales as loans to the company which, together with the surplus profit that year of $3.2 million, allowed the company to reduce its bills payable from $5.7 million to $1.1 million.[91] Thus the IPO allowed the company to raise growth finance even if it was channelled to it by way of its major stockholders.

Montgomery, Ward was the oldest mail order firm in the United States, having been established in 1872 by A. Montgomery Ward and his brother-in-law, George R. Thorne, but it ranked second in the country in size. In mid-1906 reports circulated that it was planning "the largest commercial building in the world with a floor space of fifty acres".[92] The cost of purchasing the land and constructing a building on it was estimated at $2 million. To fund its expansion, the company issued 5 per cent serial debenture bonds, as part of an issue of $2 million which was due in yearly amounts of $200,000 from 1907 to 1916. The bonds were offered by the Merchants' Loan & Trust Company of Chicago.[93] However, they do not seem to have traded either on an exchange or in the over-the-counter market.

Montgomery, Ward also completed an initial public offering but not until 1913 when it sold 7 per cent cumulative preferred stock to raise $5 million. The issue was underwritten by Lee, Higginson & Co. and Kissel, Kinnicutt & Co. in the United States and Robert Fleming & Co. in England, with half of it being sold in each country, and the preferred stock was listed on the NYSE. As for Sears, Roebuck, there is some ambiguity about what this offering entailed. The *Wall Street Journal* reported that the company used the proceeds to retire its outstanding indebtedness and to finance a new plant to

[89] Emmet and Jeuck, 1950, pp. 56.
[90] Werner, 1939, p. 75. Emmet and Jeuck, in their magisterial tome on Sears, Roebuck, said something similar based on Werner as their primary source.
[91] *Chronicle*, vol. 84, May 25, 1907, p. 1246. The balance sheets are dated June 30, 1906 for the old company and July 1, 1906 for the new company. See also Sears, Roebuck, Balance Sheet and Profit and Loss Account to June 30, 1907.
[92] *WSJ*, June 18, 1906, p. 7.
[93] *Chronicle*, v. 83, July 21, 1906, p. 159. This article refers only to the offering of $500,000 of these bonds but it states clearly that the offering was part of an issue of $2 million.

service its Eastern business.[94] However, a comparison of the balance sheet before and after the offering shows no change in the outstanding preferred stock of $5 million which suggests that the issue was a secondary one[95] by A. Montgomery Ward and the Thorne family who owned the company.[96] Ward died at the end of 1913[97] but the Thornes remained as active managers and they dominated the company's board with none of the underwriters represented there.[98]

The following year, National Cloak and Suit, reportedly the third largest mail order company in the US at the time, also conducted a stock issue to fund its rapid growth. The company was founded in New York in 1888 but its business subsequently expanded throughout the United States. It was incorporated in 1914 and Goldman, Sachs and Lehman Brothers of New York, as well as Kleinwort Sons & Co. of London, underwrote an issue of $5 million of 7 per cent cumulative preferred stock which was more than five times over-subscribed. The stock raised $2.5 million in cash for the company "of which $1,000,000 is to be used for working capital and $1,500,000 for the construction of two buildings adjoining the present plant at Seventh avenue and Twenty-fifth street, New York. When these are completed the business of the company will be centralized and a number of branch plants will be eliminated".[99]

Although the securities markets favoured the mail order firms from the beginning, rewarding them with large increases in their stock prices, there was only one further stock issue by a mail order firm at this time. It was undertaken to facilitate a consolidation and recapitalisation of the Hartman businesses.[100] The Hartman Corporation was incorporated in 1916 to acquire the Hartman Furniture and Carpet Company and its affiliated companies. The business was established in 1888 and initially ran retail stores that sold furniture, carpets, and other household goods. However, it opened a mail order department in 1907 and by 1916 it accounted for the largest share of the business. The company issued $12 million in common stock all of which was offered in exchange for the assets and business of the acquired companies.[101]

---

[94] "Part of the proceeds of the new preferred will be used to open a plant in New York to cater to the Atlantic States' trade. Some $2,000,000 has been set aside for this purpose. Another branch will be established on the Pacific Coast (Remarkable Prosperity of the Montgomery Ward & Co, *WSJ*, Feb 17, 1913, p. 6).

[95] *Chronicle*, vol. 96, May 31, 1913, p. 1559.

[96] To add to the ambiguity, the *Chronicle* reports the purpose of the issue of $5m as "Purchase of M. W & Co (Illinois Co.)" in v. 98, January 17, 1914, p. 198.

[97] "A. Montgomery Ward Dies," *New York Times*, December 8, 1913, p. 11.

[98] *Chronicle*, vol. 96, February 22, 1913, p. 557; William C., Charles AH., George A., James W., and Robert J. Thorne all sat on the company's board. There was one banker on the board -- Chas. D. Norton, the Vice-President of the First National Bank – as well as John R. Morron, the President of Atlas Portland Cement – but these directors ...

[99] *WSJ*, May 6, 1914, p. 2; May 9, 1914. The company was incorporated with a capitalization of $15 million, compared with the previous figure of $1 million, with most of this amount being issued to the proprietors of the business (*Chronicle*, vol. 96, February 22, 1913, p. 557). *Chronicle* reports purpose of issue of $5m as "Purchase of M. W & Co (Illinois Co.)" in v. 98, January 17, 1914, p. 198.

[100] There were a number of other subsequent issues by wholesale mail order houses prior to World War I. Butler Brothers conducted a series of issues and Goldman, Sachs and Lehman Bros underwrote an issue for American Wholesale Corp in 1919 (*WSJ*, July 15, 1919, p. 3).

[101] *NYT*, December 21, 1915, p. 15; *WSJ*, December 21, 1915, p. 7. The *Chronicle* was somewhat ambiguous on this point. It stated the following: "Hartman Corporation – *Stock Offered* – Hallgarten & Co. have placed privately at 75%, 40,000 shares of fully paid and non-assessable stock of this new corporation which is to be incorporated in Virginia

4.1.3. The Chain Stores

The first chain store to make an appearance on the nation's securities markets was Woolworth which made its debut there in 1912.[102] The company was established in 1879 and incorporated in February 1905. Frank Woolworth, its founder, showed little interest in issuing stock to the public until the consolidation of his stores with those of his former and current partners induced him to list the merged company's stock on the NYSE.[103] The deal doubled the size of the Woolworth chain, bringing almost 600 stores with sales of nearly $60 million under one management, making it the largest chain store enterprise, and one of the largest retail enterprises, in the United States.[104]

The merger was designed to improve efficiency through greater purchasing economies but especially to facilitate managerial succession.[105] In the company's offering circular, Woolworth emphasised that "[t]he management of the new company will include those gentlemen in whose hands the acquired businesses have achieved success in the past". However, he went on to say that, in his judgement, "the organization of the company has been so perfected as to render the conduct and further development of the business independent of the individuality of any one person".[106]

The Woolworth company was capitalised at $65 million and most of its stock was issued in exchange for the assets of the businesses it acquired. The company raised no new money in the process but, to create a public market for its securities, existing stockholders agreed to sell some of their holdings.[107] In February 1912 they sold $6 million 7 per cent, cumulative preferred stock and $7 million common stock.[108] The issue was underwritten by Goldman, Sachs and Lehman Brothers of New York, and Kleinwort,

---

with an authorized capital stock of $12,000,000, to acquire the entire capital stocks of the Hartman Furniture & Carpet Co. and its affiliated cos. The subscription closed Thursday, the offering having been largely oversubscribed" (Vol. 101, December 25, 1915, p. 2147).

[102] There is a report of an offering of 6 per cent cumulative preferred stock in 1902 by Kroger Grocery & Bakery Company, which changed its name from Great Western Tea Co. in that year. The issue was underwritten by W. E. Hutton & Co. and Claude Ashbrook and the stock was offered at 110 a share which would have generated proceeds of $440,000 ("Kroger Grocery Company," *NYT*, April 11, 1902, p. 1). However, there was no entry for the company in the *Chronicle* for that year or any further information available from the *NYT* or the *WSJ*. Nor was Kroger's stock included in "General Quotations of Bonds and Stocks" in the Bank & Quotation Section of the *Chronicle* for 1905 which provided quotations for "all the more important securities listed on any Stock Exchange in the United States; also for leading unlisted and inactive securities (see Chapter 1 for more information on this source) (*Chronicle*, vol. 82, January 6, 1906, p. 35ff).

[103] Apparently, the company was incorporated to facilitate its perpetuation. At the time, Frank Woolworth was apparently confident that he could have sold stock to the public at that time but he opted instead to retain it in friendly hands (Winkler, 1970, pp. 144-145).

[104] Phillips, 1935, p. 228; "A Merger of all Woolworth Stores", *NYT*, November 4, 1911, p. 3; Raucher, 1991, p. 133; second only to Sears, Roebuck – see Figure.

[105] Referring to the founders, Winkler noted in *Five and Dime* "[t]hough none of them liked to admit it, they were advancing in years… Among the five, there were singularly few male heirs who would be expected to carry on (Winkler, 1940, p. 173)." See also Phillips, 1935.

[106] F. W. Woolworth Co., *Woolworth's First 75 Years*, 1954, p. 23.

[107] Add sources.

[108] F. W. Woolworth Co., *Woolworth's First 75 Years*, 1954, p. 25; *Chronicle*, vol. LXXXXIV, p. 567; Ibid., p. 1319; "A Merger of all Woolworth Stores", *NYT*, November 4, 1911, p. 3; p. 25.

Sons & Co. of London and Henry Goldman and Philip Lehman joined the company's board.

On the face of it, the fact that the Woolworth Company raised no new money in its initial public offering is surprising. It faced large capital requirements at this time, given the funding needed to construct Woolworth's eponymous building in New York City, which was commissioned in 1910 to serve as the company headquarters. It was the tallest building in the world when it opened in April 1913 at a construction cost of more than $13 million. According to Winkler, Frank Woolworth wanted to raise some of these funds in the company's initial public offering but Henry Goldman refused:

> Goldman believed the building, however profitable, would be merely an excrescence on the Woolworth business and disturbing to investors. Woolworth contended it would be not only a sound investment of corporate funds but would advertise the company "for nothing". Goldman opposed, Woolworth insisted, but the banker won.[109]

Instead, construction of the Woolworth building was funded as an independent venture and it rented space to the Woolworth Company like any other tenant. Frank Woolworth provided $5 million of the total building cost himself with the rest of the money being raised in Europe most of it in France.[110]

Goldman's attitude suggests that he still saw the market for retail securities in the United States, a market which he knew very well, as a conservative one.[111] Nevertheless, another variety chain, S. S. Kresge, issued securities for the first time in May 1912 even though it was much smaller and younger than Woolworth. Kresge was formed in 1897 and by the end of 1911 it had 64 stores and sales of $7.9 million.[112] Until that time S. S. Kresge had expanded at the rate of about 4 stores a year by reinvesting its earnings. In its initial public offering it sold 7 per cent cumulative preferred stock to raise nearly $2 million in an issue underwritten by Hallgarten & Co. and George H. Burr & Co.[113] The injection of new money allowed it to accelerate its rate of growth, with the number of new store openings increasing to 19 per year between 1912 and 1915.[114]

---

[109] Winkler, 1970, p. 189.
[110] "Obtains $8,000,000 for Big Skyscraper", *NYT*, August 2, 1911, p. 1.
[111] The "watering" of Woolworth stock – the consolidated companies' tangible assets amounted to only $15 million which meant that goodwill was capitalised at $50 million – had already raised concerns. For example, in its entry for the company in 1914, Moody's noted that while the company's preferred stock was in "a fairly strong position", "[t]here is nothing... back of the common stock except good will and possible growth in earning power". As a result, even though it was paying a 6 per cent dividend, "it must be regarded as decidedly speculative, and before a high rating can be given for the issue the company must add very greatly to its surplus" (Moody's, Public Utility Manual, 1914, p. 804).
[112] S. S. Kresge, *Annual Report*, 1912, pp. 1-2.
[113] *Chronicle*, Vol. LXXXXIV, May 11, 1912, p. 1319; "S. S. Kresge Co." *WSJ*, May 9, 1912, p. 2.
[114] *WSJ*, December 4, 1915, p. 2. NEED 1911 DATA! The company's fixed assets increased by $1.4 million between 1912 and 1914 and inventories rose by $1 million during the same period (S. S. Kresge Company, Annual Report, various years.

George H. Burr represented the bankers on the company's board and the stock was traded on the Curb.[115]

The variety chain stocks took some time to get established. Only a few months after their issue, the *New York Times* ran an article on "Crumbling Stocks" about a group of "newer industrials" that included Woolworth and Kresge. It pointed out that "[t]he aggregate loss in market value of these shares since they were placed on the Stock Exchange has been nothing short of enormous".[116] That may have been an exaggeration but chain store stocks were rather flat until the end of 1914. From then, as Figure 2 shows, they attracted growing interest as investors began to see them as "a class of industrials which are prospering in war times without the aid of war orders".[117] Woolworth and Kresge were soon joined on the securities markets by S. H. Kress[118] and J. G. McCrory[119], respectively the third and fourth largest variety store chains in the country.[120]

There was a broadening of the market for chain store stocks as the country's leading grocery chains made their debuts on the nation's securities markets. Their issues were designed to facilitate a transfer of ownership from their founders, as in the case of Acme Tea in 1916,[121] or their consolidation with other players as occurred when Acme

---

[115] S. S. Kresge Co. was re-incorporated in late 1915 and in early 1916 it issued additional preferred stock apparently to redeem its outstanding preferred issue (*Chronicle*, vol. 102, March 4, 1916, p. 883).

[116] Crumbling Stocks, *NYT*, March 23, 1913, p. XX8. Decline of more than 28 per cent in Kresge common; more than 32% for Woolworth common and over 7% in preferred.

[117] Chain Store Securities Profitable to Investors, *WSJ*, March 24, 1915; for a discussion of the effects of war-time thrift on the variety store chains, see "Chain Store Companies Report Record Business," *WSJ*, September 23, 1918, p. 2.

[118] In 1916 S. H. Kress & Co. – which was established in 1896 and had sales of $12.4 million in 1915 -- incorporated and completed an initial public offering. Like the other variety chains, it sold cumulative 7 per cent preferred stock in an issue, underwritten by Heidelbach, Ickelheimer & Co. with Goldman, Sachs and Co. and Lehman Bros., all of New York, which raised $4 million (*Chronicle*, vol. 102, May 27, 1916, p. 1990; Ibid., June 24, 1916, p. 2345; vol. 103, July 1, 1916, p. 64; "Prospering through Stable Management", *Barron's*, October 13, 1930, p. 24). H. R. Ickelheimer represented his firm on the Kress board of directors. No information could be found on the purpose of the issue although it may have been recapitalisation. The Chronicle simply noted that "[t]he present management will retain the ownership of a large amount of the preferred stock and a majority of the common stock of the new company and will continue as active managers and directors of the business" (*Chronicle*, vol. 103, July 1, 1916, p. 64).

[119] J. G. McCrory began in the five-and-ten-cent variety store business in 1882 and had built up a chain of more than 113 stores with sales of $5.6 million by the beginning of 1915 ("Five and Ten Stores Year of Prosperity", *WSJ*, Jan 15, 1916, p. 8). That year a new corporation, McCrory Stores Corporation, was formed to take over the business and assets of the old company. The company completed an issue of its 7 per cent cumulative preferred stock, underwritten by Hornblower and Weeks and Charles E. Merrill & Co., which raised proceeds of $1.25 million. An issue of 6 per cent serial bonds,[119] offered by S. W. Strauss & Co. of Chicago, generated a further $700,000 (*Chronicle*, Vol. 100, May 22, 1915, p. 1756; Ibid., Vol. 101, July 10, 1915, p. 135).[119] The *WSJ* noted that "prior to the recent financing, practically no outside money[119] had gone into the concern and the growth of the system had been accomplished almost entirely from the reinvestment of accumulated profits". It went on to say that the money obtained from the financing would ensure that "the company will be supplied with working capital substantially in excess of present requirements and will be better prepared to push into new fields" and, specifically, that the new money would permit "cash payment for merchandise" (*WSJ*, May 7, 1915, p. 2).

[120] The *Wall Street Journal* highlighted the recent arrival of the variety chains on the nation's securities markets: "While the chain store business, which has since been copied in many other lines of business, found its inception in the five and ten-cent stores, it is only recently that securities of the latter companies have become factors of interest to the financial district" (*WSJ*, October 30, 1915, p. 5).

[121] Acme Tea, a Philadelphia chain of grocery stores, raised $6.25 million in 1916 through the sale of $2.75 million of 7 per cent cumulative preferred and $3.5 million in common stock. Two Philadelphia bankers, Chandler & Co. and Cassatt & Co., underwrote the issue, along with the New York firm of Merrill, Lynch & Co., and both of the

Tea merged with four other Philadelphia grocery stores[122] to create American Stores.[123] The bankers who underwrote these issues were represented on the boards of the new companies,[124] and their stocks were listed on the NYSE. Great Atlantic & Pacific Tea, the largest grocery store chain in the United States, also turned to the securities markets at this time. Until then it had financed its expansion entirely out of earnings but, in 1916 and 1917, it conducted two issues of 5-year, 6 per cent convertible notes to raise $3 million and $2 million respectively. The primary motivation for these issues was to provide funds to accelerate the company's "Economy Store" expansion programme which was launched in 1913 and involved the rapid opening of large numbers of small stores across the country.[125]

Besides the variety and grocery chains, there were two other major chain store companies in America at this time and they also showed up on the securities markets.[126] One of them, United Cigar Stores, had expanded rapidly from its establishment in 1901 to become a chain of nearly 1,200 tobacco and cigar stores only ten years later, making it the largest chain in America in terms of number of stores.[127] Founded by George J. Whelan and his brother, the company was closely tied to the Tobacco Trust which funded its early expansion[128] and controlled two thirds of its stock, with the Whelan brothers holding a substantial share of the remainder.[129] In 1911, when American Tobacco distributed its stock in the company to its shareholders, to comply with the federal government's dissolution order, the Whelans bought up majority control of the company's common stock.[130] The remainder of the stock began trading on the New York curb market that year.[131]

Philadelphia banks were represented on the company's board ("Acme Tea Pfd. Stock Purchased by Syndicate," *WSJ*, May 22, 1916, p. 8; Moody's, *Manual of Industrials*, 1917, p. 1277). The transaction completed a financial reorganization of the company, following the death of the founder, Thomas P. Hunter, allowing Hunter's three former partners to fund the purchase of the Hunter stock ("Reorganize Acme Tea Co.", *NYT*, May 21, 1916, p. E5).

[122] The Childs Grocery Co., Robinson & Crawford, Bell & Co., George M. Dunlop Co. ("Grocery Stores Merge", *NYT*, March 28, 1917, p. 15).

[123] The consolidated company had 1,285 stores and a gross annual business of $46 million As a point of comparison, the Great Atlantic and Pacific Tea Company, the largest grocery chain in America at that time, ran 3,100 stores and generated sales of $76 million in 1916 (Bullock, 1933b, p. 68). A somewhat smaller grocery consolidation was undertaken around the same time by banking firm, Merrill, Lynch, to merge Grand Union, along with the Anchor Pottery Co. and the Globe Grocery Stores Co., into Jones Brothers. The consolidation which had about $11 million in annual sales and ran 256 stores.

[124] Charles Counselman on American Stores' board and Charles Merrill on Jones Bros.' board

[125] Bullock, 1933b, p. 67-8; "Great Atlantic and Pacific Tea," *WSJ*, June 2, 1916, p. 7; *Chronicle*, vol. 102, June 17, 1916, p. 2257; Vol. 104, April 28, 1917, p. 1706.

[126] There were also two issues around this time by small chain store companies: Schulte (D. A.), a tobacco chain, issued $1.125 million in stock in November 1916 and Owl Drug sold $0.8 million in notes in April 1917.

[127] "United Cigar Stores as a Money Making Enterprise," *WSJ*, May 8, 1911, p. 6.

[128] Difficulty for George J. Whelan in raising money for a retail chain of stores in 1901. "Through great effort he disposed of $60,000 of preferred stock and with each share gave away a share of common" (*WSJ*, August 20, 1929, p. 1). Story of the Admirals and James B. Duke in *NYT*, August 25, 1929, p. N4.

[129] The company had 90,000 common shares outstanding at the time. American Tobacco owned 60,000 of them. George J. Whelan held 7,440 and his brother, C. A. Whelan, owned another 3,660, giving them a combined stock ownership of 12.3 per cent. The other large holders of the company's stock were reported to be J. Kennedy, Jr. (900 shares); Louis Biel (1,200 shares); Edward Wise (400 shares); Elliott Averett (200 shares); C. R. Sherlock (400 shares); H. P. Goldschmidt & Co. (400 shares) ("Corporation of United Cigar Stores Closely Held," *WSJ*, May 20, 1911, p. 8).

[130] "Cigar Stores Co. Under New Control," *NYT*, April 19, 1912, p. 20.

[131] *Financial Review*, 1916, p. 194.

The company was reorganized in 1912 and, in the process, it conducted an issue of $4.5 million 7 per cent cumulative preferred stock which was sold to existing stockholders.[132] Most of the proceeds of the issue were used to retire $3.6 million in outstanding bonds, which were held in American Tobacco's treasury, and the accumulated interest thereon. The remainder of the monies was to "be used for the further development of the business of the company"[133] but, as one observer noted, "[l]ittle need has the company for capital, considering that it sells for cash".[134] No bankers were involved since the issue was not underwritten; instead George Whelan and his associates offered to take up any rights that were not exercised. The company's common and preferred stock traded on the Curb until 1915 when they were both listed on the NYSE**.** The company issued no further securities until after the war.[135]

George Whelan was a man of wide business interests and among his other ventures was a drug chain called Riker-Hegeman which he acquired in 1913[136] and sold to the United Drug Company in February 1916**.** The United Drug Company was founded by Louis K. Liggett in Boston in 1903 to distribute its own goods under the Rexall brand and to run stores of its own. Until the merger, the company had secured any outside capital it ha raised from its Rexall agents.[137] The company's stock was not traded on the nation's securities markets since its liquidity was restricted by the fact that it had to be offered to the company before a stockholder could sell it.[138] The restriction was dropped when the company re-incorporated to merge with Riker-Hegeman and its stock was listed on the NYSE.[139] The deal was consummated in February 1916 through the issue of preferred and common shares by United Drug which were offered in exchange for the total capital of Riker-Hegeman.[140] Since United Drug's capital stock amounted to nearly $10 million at that time, the acquisition more than doubled the size of its capital base.[141] Shortly afterwards in July 1916 the United Drug Company issued sold an additional $2.5

---

[132] At the same time the company issued a 200 per cent stock dividend, thus increasing its common stock from $9 million to $27 million, but without raising any new money in the process ("United Cigar Stores 'Melon' About Ready for Distribution", *WSJ*, July 24, 1912, p. 1).
[133] "New Cigar Stores to Issue $35,000,000," *NYT*, July 25, 1912, p. 11.
[134] Dow-Jones Bulletin, May 20th, 1912, reproduced in *Journal of Commerce*, Monday, July 1, 1912, p. 3.
[135] The *Journal of Commerce* reports an issue of $372,000 of United Cigar Stores' stock in May 1917 but this must have been a secondary sale since the company's capital stock did not change between 1912 and 1918 (Moody's, *Industrial Manual*, 1919, p. 449). No further information on this issue could be found.
[136] At that time it ran 93 stores and had sales of $15 million (*Chronicle*, vol. 97, November 22, 1913, p. 1508; November 29, 1913, p. 1589; December 6, 1913, p. 1667).
[137] Liggett was sufficiently persuasive in advancing the merits of a drug chain to convince forty drug store owners to advance him $4,000 each and to became stockholders in the company he formed with the aggregate capital they supplied of $160,000 ("Introducing Mr. Louis K. Liggett", *Barron's*, September 18, 1922, p. 11). In 1912, when the company sought new money, it turned to its agents again, offering them the right to subscribe to $2.4 million of additional stock (United Drug Co., *WSJ*, December 21, 1912, p. 5). By then, the United Drug Company had about 5,000 agents, who distributed its Rexall goods throughout the country, and it also ran 45 retail drug stores of its own, generating total sales from its manufacturing and retail business of about $10 million (United Drug Company, *WSJ*, July 31, 1912, p. 8).
[138] "Riker-Hegeman Doing Well Enough Alone," *WSJ*, January 26, 1916, p. 3.
[139] *Chronicle*, vol. 102, February 12, 1916, p. 1167; April 1, 1916, p. 1255.
[140] *Chronicle*, vol. 102, February 12, 1916, p. 1167.
[141] Moody's, *Public Utility Manual*, 1915, p. 1483; 1916, p. 1770.

million of preferred stock in an issue underwritten by a banking syndicate comprising F. W. Moseley & Co., Kissel, Kinnicutt & Co., and Dominick and Dominick. The proceeds were used to provide funds for the formation of new assets, predominantly fixed assets, especially new buildings and a power plant for the manufacturing business.[142]

4.2. Retail Issuers in the Post-war Boom & Bust

By the end of World War I, securities markets still played a limited role in the American retail industry. That changed in the post-war years and nowhere more dramatically than for the mail order firms. As we saw in the previous chapter, the rapid post-war expansion and subsequent sharp and deflationary downturn generated an inventory crisis for many industrial companies. In the retail industry, the mail order firms were seriously affected by the crisis and they survived it only by raising large amounts of external funds.

Montgomery Ward's inventory levels created strain as early as 1918 with inventory as a percentage of sales rising to 35.6 per cent of sales, more than double what it had been in 1915 and 1916, creating the need for an increase of $10 million in the company's investment in working capital. Given that the company's total assets amounted to $33.7 million at the end of 1917, this represented a major expansion in its capital base.[143] The challenges of funding such an increase let to the company's takeover and reorganisation by the United Retail Stores in 1919. The latter had been recently formed by George Whelan and his associates and its most important asset was the United Cigar Stores Co. Montgomery Ward issued common stock to raise a huge amount of $30 million in cash from the United Retail Stores Corporation, thus providing "abundant new working capital" for the company.[144] United Retail Stores subsequently turned around and sold off a large proportion of the 510,000 shares it had acquired in Montgomery Ward in a successful public offering at the end of 1919.[145]

There was much talk at the time of Montgomery Ward, flush with new money, taking on Sears, Roebuck for leadership of the mail order industry but, it turned out, Montgomery Ward was not yet out of the woods. Its inventories remained high and eventually required a large write-down as the company sold off merchandise at much lower prices than it had acquired it. The company generated a large operating deficit in 1920 and, as part of a major change in management in early 1921, it brought in Theodore Merseles, formerly a vice president with National Cloak and Suit, to turn the company around.[146]

Montgomery Ward's problems persisted into 1921 when it recorded a sharp decrease in sales, compared with 1920, and another large net loss in part because of further

142 *Chronicle*, vol. 103, July 29, 1916, p. 417.
143 Montgomery Ward, *Annual Report*, various years.
144 *NYT*, November 1, 1919, p. 5; *WSJ*, Feb 11, 1921, p. 11.
145 *WSJ*, December 10, 1919.
146 *NYT*, January 5, 1921, p. ?

inventory write-downs.[147] It managed to ride out the financial strain by depleting what remained of the new capital injected in 1919 and by passing its preferred, as well as its common, dividend. In early 1922, the *Wall Street Journal* summed up the company's recent years in a headline that said "Montgomery Ward's losses absorbed new capital".[148] However, by then, the prospects for the company's future looked brighter with a clear improvement in the company's affairs.

Montgomery, Ward's larger counterpart, Sears, Roebuck, also ended up in a serious financial situation as the result of the post-war crisis. Historically, Sears, Roebuck had operated with lower inventory levels than Montgomery Ward but, like its competitor, it experienced a marked increase in its inventories towards the end of World War I; they reached 26 per cent of sales in 1918 compared with about 14 per cent prior to the war.[149] In 1919, the company's inventories declined but when, in the face of huge pent-up demand, it proved unable to meet customer orders, the company's executives became concerned.[150] They quickly took action to ensure this did not happen again: "[t]o reduce omissions and to capitalize upon what appeared to be a steadily rising market, many departments doubled, trebled, and even quadrupled their orders to manufacturers".[151]

By the middle of 1920 inventories had soared from only $43 million at the end of 1919 to nearly $100 million which created a major financing challenge for the company. The financial situation was complicated by the slowdown in sales that began in the middle of the year. The company initiated price reductions to try to move its merchandise but it was clear that the company would have to seek outside funds to fund the huge expansion in its working capital. In October 1920 Goldman, Sachs led a syndicate that included Lehman Brothers and some Chicago banks to underwrite an issue of three-year notes that raised $50 million.[152]

Even that huge injection of funds proved insufficient. Inventories rose still further, reaching the unprecedented level of 43 per cent of sales by the end of 1920. The company passed the dividend on its common stock in February 1921 in an attempt to conserve its cash. However, by the summer of 1921, Emmet and Jeuck noted that "the company's position had become extremely hazardous. While the dollar value of inventories was lower by June 30, 1921, than at the end of 1920, the $80,453,265 figure was nearly equal to the net sales of $80,925,226 for the same period".[153] By the end of the year, Sears, Roebuck risked violating a provision of the trust agreement that governed the flotation of its notes: "[s]tripped of all verbiage, that portion of the

[147] *NYT*, February 4, 1922, p. 17.
[148] *WSJ*, February 11, 1922, p. 6. In recognition of that sorry state of affairs, the company wrote down its capital stock, despite objections from some shareholders.
[149] Emmet & Jeuck, 1950, p. 296.
[150] Emmet & Jeuck, 1950, p. 198.
[151] Emmet & Jeuck, 1950, p. 201.
[152] Emmet & Jeuck, 1950, p. 201.
[153] Emmet & Jeuck, 1950, p. 203.

agreement meant simply that, if the company failed to maintain the required proportion of quick assets, the banking houses would assume control of the company. Some means had to be found to improve the company's cash position. Time was short and very much of the essence".[154]

The company was spared the fate of banker control only by the reluctant agreement of Julius Rosenwald to pledge about $20 million of his personal fortune to save the company.[155] The president was widely praised for his "generous" act. What sealed the deal, however, was the argument that it would be a sound investment for the Rosenwald family which reportedly still owned 40 per cent of the company's stock.[156]

National Cloak and Suit also encountered funding problems during the postwar crisis but they were not as severe as those of the two leading mail order companies. Inventories became inflated -- rising from a mere 7.5 per cent of sales in 1914 to more than 20 per cent in 1918 and 1919 – which, even it was not as dramatic as for the mail order giants, represented an increase of almost $8 million in working capital requirements over the period. National Cloak and Suit was more successful than its two larger counterparts in bringing its inventories under control; by the end of 1920 they were down to 16.8 per cent of sales.[157] Nevertheless, National Cloak and Suit needed to raise external funds to fund its bloated inventories. In August 1920 it issued $5 million 10-year 8 per cent convertible sinking fund gold notes which were underwritten by Lehman Brothers and Goldman, Sachs.[158] It also sold its building in New York City to the Carnleigh Realty Corporation, and leased it back, to raise a further $2.45 million.[159] Finally, it passed its common dividend beginning in October 1920 to conserve its cash resources.

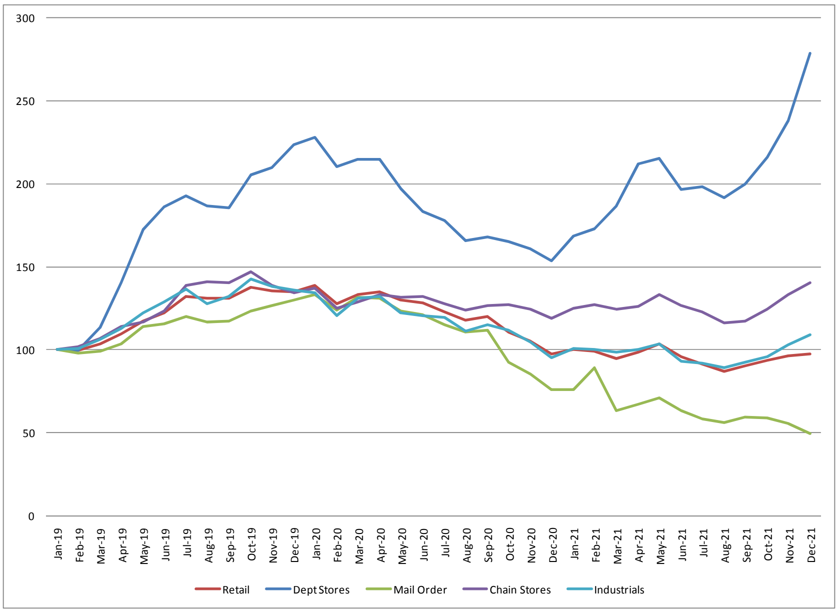
The company recovered more quickly than Montgomery, Ward and Sears, Roebuck with the *Wall Street Journal* noting that "National Cloak and Suit has made the most conspicuous recovery of any of the mail order companies from the bad times of 1920 and 1921".[160] To consolidate its return to financial health, the company issued 7 per cent, cumulative preferred stock in early 1923, in a deal underwritten by Goldman, Sachs, Lehman Brothers and Chase Securities Corporation to raise $4 million in funds. The proceeds, together with some internal cash, allowed it to pay off its outstanding 10-year notes and thus replace substantial interest payments with somewhat lower, and less rigid, dividend commitments.[161]

---

[154] Emmet & Jeuck, 1950, p. 209.
[155] Rosenwald purchased some of the company's real estate for $16 million, paying $4 million immediately in cash and Liberty bonds, and offering a trust deed for the remainder. Rosenwald also made a gift to the company of 50,000 shares of its common stock with a par value of $5 million and a market value of $3 million with an option to repurchase them for cash at par within three years (*NYT*, December 29, 1921).
[156] Emmet & Jeuck, 1950, pp. 211-212. Confirm source.
[157] Moody's, 1921.
[158] *WSJ*, August 11, 1920, p. 10.
[159] *WSJ*, December 19, 1921, p. 6.
[160] *WSJ*, December 23, 1922, p. 9.
[161] *NYT*, February 23, 1923, p. 20.

The examples of these three leading mail order companies reveal a clear pattern in the purposes behind their securities issues. The experience of the Hartman Corporation, another important mail order firm, was similar.[162] These leaders of the industry survived only through their reliance on large injections of funds, mostly from the securities markets, to get them through the crisis although, as Figure 3 shows, their stock prices experienced a marked decline as a result. And these firms were the lucky ones since, as Paul Nystrom observed: "[m]ost mail order businesses suffered severe reverses not only in sales volume but profits as well during the business depression of 1920 and 1921. Many passed out of existence."[163]

Figure 3 Cowles Commission Common Stock Indices for the U.S. Retail Trade, January 1919 – December 1921



In contrast to the mail order firms, other major retail enterprises did not find themselves in positions where they were forced to issue securities to survive the post-war bust. In part, this was because they experienced a less dramatic decline in sales than the mail order firms in the post-war recession.[164] However, as I emphasised above, the mail order firms were already showing signs of bloated inventories even before their sales declined. Other retailers, in contrast, were more successful than the mail order companies at keeping control over their inventories. Some of them issued securities to fund increased inventories in the post-war years, while others turned to banks for the

162 It raised $2.4 million in an issue of common stock in May 1922. The issue was underwritten by Hallgarten & Co and Ames, Emerich & Co. (*NYT*, May 25, 1922, p. 29).
163 Quoted in Emmet & Jeuck, 1950, p. 205. Check footnote 20 for page number and then look at Nystrom.
164 Department store sales also fell in 1921, compared with 1920, but the decline was only 7 per cent compared with 30 per cent for mail order firms. And chain stores actually registered an expansion in 1921 compared with 1920 with **sales increasing by x per cent** [confirm -- Moody's, *Manual of Industrials*, 1924, p. lviii; 1926, p. xlvi – see also Historical Statistics].

same purpose,[165] but their problems did not amount to the fundamental crises of the mail order firms.

The differences in the effects of the post-war crisis on different categories of mass retailers had a major effect on the valuation of their stocks. The drastic reversal in the fortunes of the mail order firms prompted a sharp decline of 63 per cent in their stock prices from their peak in January 1920 to their trough in December 1921. They did not regain their former levels until December 1924. Department stores also experienced a sharp decline in their stock prices but it was smaller and much shorter lived than for mail order firms.[166] The valuations assigned to department store stocks were somewhat higher in the early post-war years than they had been before the end of the war[167] but they were far behind the rest of the industrial sector. The prices of chain store stocks were least affected by the post-war crisis[168] but, although they were valued more highly than department store stocks, they also proved less attractive to investors than the average industrial stock.

Whether as a result of their relatively low valuations, or for other reasons, department stores conducted were few securities issues in the immediate post-war years. Chain stores did undertake some issuance activity from 1919 and 1921 but the most important of them, including some giant stock issues, were undertaken by companies in pursuit of rather particular strategic objectives. Particularly striking in this regard was the issuance activity of United Drug and United Cigar Stores to executive ambitious plans for external growth.

4.3 Retail Securities Issues in the 1920s

Retail securities issues declined in 1921 but, as the economy improved, the number of securities issues by retail companies and their proceeds picked up. There was a sharp interruption of that trend in 1924 but momentum was regained in 1925 and sustained through 1929 with larger numbers of retail companies than ever before issuing securities to raise unprecedented amounts of money. Some of the retail issues were undertaken by the leaders among the department stores, mail order firms, and chain stores although some retail giants stayed out of the securities markets altogether. There were also a large number of issues undertaken by smaller retail companies, which

---

[165] Speaking of Woolworth, the WSJ noted that "Several million dollars were borrowed from banks a few years ago to finance inventories during reduced public buying but this was liquidated (*WSJ*, Feb 23, 1923, p. 9)." No record of such a loan can be found in the company's balance sheet from 1915 to 1921 but it is possible that it was taken out and paid off within a financial year.

[166] their stock prices fell by 34 per cent between January 1920 and September 1920 and surpassed their earlier peak by November 1921.

[167] Price-earnings ratios of between 3.7 and 4.5 times compared with 3.6 in 1916 and 3.3 in 1917.

[168] They fell by only 20 per cent between October 1919 and September 1921, although they did not regain their earlier levels until early 1922 (Cowles Commission, x, p. x).

gained access to the nation's securities markets for the first time.[169] As Figure 4 suggests, retail companies became stars of the market, racking up price-earnings ratios of more than 20 times by the late 1920s.

4.3.1 Department Store Issues in the 1920s

Department stores came to the securities markets in force in the 1920s, accounting for almost 60 per cent of the cash proceeds of retail securities issues between 1922 and 1930.[170] There were a few small issues in late 1920 and 1921 but signs that something really significant was afoot became apparent only in 1922 with a burst of large issues by well-known department stores. The financial magazine, *Barron's*, heralded their arrival on the market[171] noting that: "[i]nterest in department store securities is greater than for the last five years, as their possibilities become more apparent". Crucial to this change in attitude, it said, was the "[a]ttractiveness and stable earning power of department-store securities under conservative management and strong banking supervision" that had been revealed in the post-war crisis.[172] The reference was to Associated Dry Goods, which was indeed under bankers' control, but other department stores had weathered the post-war years in good shape and, as Figure 4 shows, their stock prices reflected investors' growing interest in them.[173]

The issues undertaken by department stores in the 1920s were conducted for a variety of purposes. A $6 million stock issue by Macy's and a $3.5 million bond offering by Saks in 1922 represented one type of transaction with both companies using the proceeds to construct huge additions to their existing stores. Other large department stores, such as Abraham & Straus, Strawbridge and Clothier of Philadelphia, and Bamberger of Newark issued securities later in the 1920s to raise funds for large building projects and Marshall Field conducted an enormous issue in 1930 to compensate the treasury for large building, and other, investments it had made. Smaller stores, especially department stores that were leaders in cities beyond the largest East Coast cities, also issued securities to finance new or extended buildings**.** However, in total, only about 15 transactions out of an aggregate 128 issues by department stores from 1922 to 1930 were used to fund the formation of fixed capital.

Figure 4 Cowles Commission Common Stock Indices for the U.S. Retail Trade, January 1922 – December 1930

---

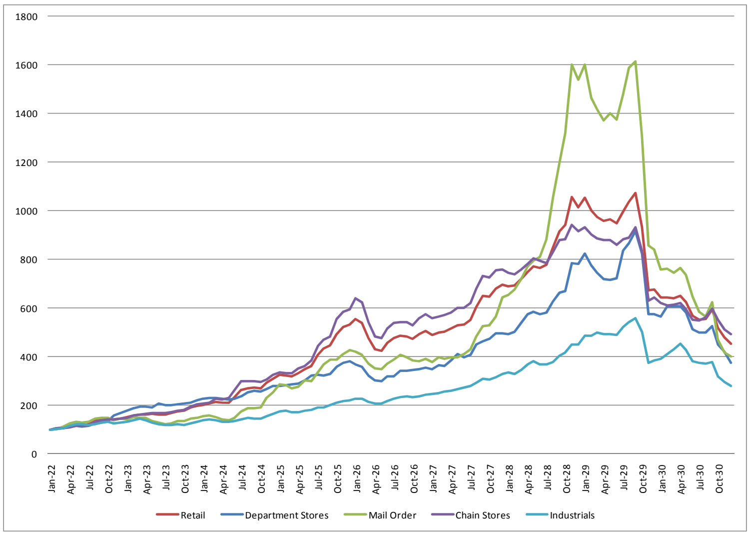
[169] $1 million described as cutoff point by Criscuolo in 1925. From 1925 to 1930 there were 108 issues of less than $1 million (versus 170 of higher than that amount) with 15 in 1925, 16 in 1926, 14 in 1927, 29 in 1928, 29 in 1929 and 5 in 1930.

[170] In contrast, they represented only 36 per cent of the number of cash issues by retail companies.

[171] In fact, there were two earlier issues by department stores in 1920 when Oppenheim, Collins and City of Paris Dry Goods issued securities to raise x and y respectively but these issues were of fairly minor importance.

[172] *Barron's*, November 13, 1922, p. 5.

[173] *Barron's* referred explicitly to the fact that "in 1920, after heavy inventory write-off, Associated Dry Goods earned common dividend in full, and last year more than twice, in spite of talk of buyers' strike (*Barron's*, November 13, 1922, p. 5)." Indeed, Gimbel Brothers, in announcing its issue in 1922, made explicit reference to its efficiency in managing its inventories as a reason for investors to put money in its securities (*NYT*, August 9, 1922, p. 30).



More significant among securities issues by department stores in the 1920s were the large number of recapitalisation transactions undertaken to transfer financial claims over existing department store businesses or assets. In some cases, this involved the issuance of one class of stock for another or to retire outstanding debt.[174] In many cases, however, these transactions facilitated the liquidation of stakes held by the families or estates of the founders of these stores. These recapitalisation issues accounted for a majority of the number and proceeds of securities issues undertaken by department stores in the period from 1922 to 1930.

An early and important example of such a transaction was the initial public offering undertaken by Gimbel Brothers, Inc. in April 1922. The company was formed through a merger of Gimbel Bros. of New York and Gimbel Bros. of Philadelphia which controlled the three Gimbel Bros stores in New York, Philadelphia and Milwaukee. Together they generated annual sales of $66.8 million in the financial year ended January 31, 1922, making the newly-formed company one of the largest department-store enterprises in America at the time. It also proposed to integrate a fourth store in New York to be housed in the property recently vacated by Saks & Co., on which Gimbel Bros had acquired the lease. In 1922 Goldman, Sachs and Lehman Bros. offered $12 million 7 per cent cumulative preferred stock in the new company and Harry Sachs and Robert Lehman assumed seats on the company's board of directors.[175]

A similar pattern is evident in the other recapitalisation issues by department stores that took place in the 1920s. Bankers underwrote stock offerings that allowed founders and their families to liquidate some of their claims and, typically, they placed their representatives on the companies' boards. In some cases, these securities issues, in

[174] Emporium; Schuster; Macy's 1926; Ross Stores; Boston Store of Chicago; Scruggs; Stern 1928; Kaufmann Department Stores Securities Corp.; Goldblatt.

[175] *WSJ*, August 7, 1922, p. 7. All of the preferred stock was already outstanding in January 1922, prior to the issue, which means that it must have been a secondary offering (*Chronicle*, vol. 116, Mrch 23, 1922, p. 1418).

facilitating a change in ownership, also signalled the departure of the founding family from the business and a transformation in the control of the department store business.[176] However, in other instances, the founding family liquidated only part of its holdings, retained a large ownership stake in the business, and in important cases, continued to exercise executive control.

Gimbel Brothers was a good example. The family maintained a large stake in the company even after the 1922 issue; as late as 1934, the Gimbel family still held a "substantial minority" of the company's stock.[177] As the company's president, Isaac Gimbel, noted at the time of the IPO: "[t]he Gimbel business has been managed for three generations by one family and will continue to be so"; indeed it was not until 1973 that an outsider to the family was appointed president of the company.[178] Isaac Gimbel also pointed out that "[t]he board of directors of the new company will be composed entirely of the Gimbel family, in addition to two members of the firms offering the stock".[179]

The tendency for founding families to liquidate some or all of their stakes facilitated an important trend towards consolidation among department stores and a burst of securities issues to fund mergers and acquisitions. As I explained above, chains had been tried before in this business but they had achieved mixed success. Even the companies that survived as chains, notably May Department Stores and Associated Dry Goods, placed limited emphasis on central buying and had not added to their stable of stores for years. However, from the early 1920s, the prospects for department store chains attracted renewed interest[180] and, as the 1920s unfolded, mergers and acquisitions became a third important motivation for securities issues by department stores. Overall, securities issues conducted for this purpose accounted for about one quarter of the total proceeds raised by department store issues.

Gimbel Bros was an early mover as a consolidator. In 1922 it already ran three Gimbel Brothers stores and had plans for a fourth one. In 1923 it announced the acquisition of Saks & Co. by offering stock with a value of $7.8 million as consideration[181] and, in the process, increasing its outstanding capital by nearly 30 per cent.[182] The transaction created the largest department store business in the United States at the time with total annual sales of almost $88 million.[183] Gimbel Brothers claimed that "the magnitude of

---

[176] This happened, for example, in the cases of Leader Mercantile, Stern Bros., The Fair, Joske and Bullock's.
[177] Raymond Goldsmith and Parmelees, *The Distribution of Ownership in the 200 Largest Non-Financial Corporations*, 1940, pp. 105-111.
[178] "President Named by Gimbel," *NYT*, January 23, 1973, p. 49.
[179] *Chronicle*, vol. 115, August 12, 1922, p. 765.
[180] For a discussion of the enthusiasm for department store consolidation in the 1920s, in the financial and retail communities, see William Leach, 1994, pp. 283-4.
[181] along with a promissory note of $300,000.
[182] *NYT*, April 27, 1923, p. 9; Moody's, 1924, p. 2023.
[183] It surpassed all of the other leading contenders such as Associated Dry Goods (sales of $73 million), Marshall, Field of Chicago (retail sales of about $60 million although total sales of $183 million), and May Department Stores (sales of $62 million) (*WSJ*, April 26, 1923, p. 11).

the new organization will result in notable economies, both in buying and in selling, so that distribution will be made in a most effective and economical manner".[184] However, the company's five stores were to be conducted under separate management even if the Saks family withdrew from the management of Saks & Co. in 1926.[185] In 1925 Gimbel Brothers concluded another important acquisition, taking over Kaufman and Baer Co., one of the leading stores in Pittsburgh, by exchanging its stock for that of its target.[186] The purchase increased its sales by a further $16 million.[187] Other similar transactions, in which established department store businesses led the charge to acquire other players, took place in the 1920s.[188] Like Gimbels, these consolidators issued large quantities of securities, either for cash or directly in exchange for securities, to acquire their targets.

In addition to acquisitions by the famous players among American department stores, there were a few efforts to use securities issues to build up a chain of department stores from scratch. Particularly bold was the case of the Kresge Department Stores which was founded in 1923 by S. S. Kresge, an outsider to the department store business, who hoped to leverage what he had learned in building a successful variety chain in the improvement of department stores: "I have long been of the opinion that the same principles of merchandising and the efficient distribution of goods perfected by the five and ten cent store chains can be applied with unusual success to the department store field".[189] Kresge was to be the active head of the company and he brought with him some associates from his variety chain business. Moreover, he had the powerful financial backing of Charles E. Merrill, who had handled Kresge's previous financing and assumed the same responsibility for the new company as well as a seat on its board.

In August 1923, Kresge Department Stores completed a major issue of common and 7 per cent cumulative preferred stock, to raise $15 million in cash which was used to finance the purchase of the chain's first store, the L. S. Plaut store of Newark, New Jersey, and to provide additional working capital for its operation.[190] The company made other purchases,[191] and issued more stock to pay for them, but it ran into considerable opposition in bringing Kresge's plans to fruition. In 1925, it purchased a substantial interest in The Fair,[192] one of Chicago's leading department stores, but then

---

[184] *NYT*, April 25, 1923, p. 1.
[185] "Saks Family to Quit the Gimbel Stores," *New York Times*, March 31, 1926, p. 25.
[186] "Gimbels Purchase Pittsburgh Store," *NYT*, December 3, 1925, p. 28; "Gimbel Bros. Calls a Special Meeting," *Wall Street Journal*, December 21, 1925, p. 1.
[187] Moody's, Industrial Manual, 1931, p. 1351.
[188] *Chronicle*, vol. 116, p. 945. Scruggs 1924; Jordan Marsh 1925; Hudson 1927; most spectacularly Macy's and Bamberger. Marshall Field? May too and Hamberger.
[189] "Kresge to start a $25,000,000 chain," *NYT*, August 1, 1923, p. 25.
[190] "Offer Finance Plan for Kresge Stores," *NYT*, August 14, 1923, p. 23.
[191] In 1924 the company paid about $4 million to acquire the Palais Royal which was one of the leading department stores in Washington D. C. ("Kresge Adds Link to Chain of Stores," *NYT*, March 13, 1924, p. 21).
[192] Early in 1925, Kresge Department Stores bought a substantial interest in The Fair in Chicago, with Merrill, Lynch and Hornblower & Weeks, from the heirs of the company's founder, E. J. Lehmann, for an undisclosed cash payment ("Old Chicago Store Sold," *NYT*, February 22, 1925, p. 2). The transaction seems to have been funded by the sale of common stock which increased from $1 million to $5.4 million between January 1925 and 1926 ("Kresge Department

encountered significant hostility when it sought to secure control by offering Kresge Department Stores stock in exchange for additional shares of The Fair. One stockholder, who had been instrumental in selling the store for the founding Lehmann family, wrote a letter to other stockholders declaring his intention not to exchange his stock. He described the offer as "an unfair and unattractive proposal": "Mr. Kresge gives no figures as to assets or liabilities, or earnings of the Kresge Department Stores, Inc., in either of his letters with which to substantiate his offer. He makes no comparison of the worth, history or earning capacity of the Kresge Department Stores, Inc. with The Fair".[193] Kresge never succeeded in acquiring majority control of this company or in integrating it with the rest of the organisation to achieve the economies which Kresge envisaged.[194] Later the same year, Kresge bought a large share of Stern Brothers[195] and became a member of the company's board but again he failed to achieve majority control and in that case he sold his stake a few months later.[196] Overall, the company fell far short of delivering on Kresge's plans and it failed even to make its initial acquisition work. [197]

B. F. Schlesinger, in contrast to Kresge, had considerable executive experience in the department store business[198] when he founded his eponymous company in 1925. He focussed his energies on the Pacific Coast and, from the beginning, his intention was to build a "chain department store" which he described as "the latest and most advanced method of merchandising, as it makes possible greater and more simplified buying power and results in economy of operation as well as in executive and buying salaries".[199] B. F. Schlesinger & Sons, Inc. sold preferred and common stock on four

---

Stores' Earnings Decrease, *WSJ*, March 25, 1926, p. 8). The interest was estimated at 25 per cent of the common stock (*Chronicle*, vol. 121, November 21, 1925, p. 2526).

[193] *Chronicle*, vol. 121, November 21, 1925, p. 2526.

[194] An article in 1927 from the Chicago bureau of the *WSJ*, although it noted that Kresge was chairman of the board and had large holdings in the store's stock, stated very clearly that "The Fair is not owned by Kresge Department Stores or operated as a unit of it, but is managed entirely by its own officers in Chicago" ("The Fair," *WSJ*, August 9, 1927, p. 7).

[195] Hornblower and Weeks was involved since it, along with Ladenburg, Thalmann & Co., had arranged the purchase of the company from the Stern family ("Kresge to Control Stern Brothers," *NYT*, May 3, 1925, p. 30).

[196] It was reported to be clear that Mr. Mundheim, the new president of Stern Bros., did not agree with Kresge's plans. Kresge himself said that "in view of the fact that I never invest any substantial amount of capital in enterprises unless I can have the full direction of the business policy of the concern, I disposed of my holdings" (*Chronicle*, vol. 121, August 8, 1925, p. 720). In the summer of 1925, Kresge announced that he was no longer interested in the company as a stockholder or director ("Kresge to Proceed in Chain Store Plan", *NYT*, July 31, 1925, p. 22).

[197] Profits declined and then turned to deficits and, in 1927, the company announced that it would pass its preferred dividend. A year later, Sebastian S. Kresge offered to buy out the company's preferred stockholders at $75 per share. He attributed its problems to difficulties at the Newark store and explained his offer in light of the fact that "[t]he management of the Newark store advised me that it will undoubtedly be several years before the profits will be sufficient to justify, in good business practice, resumption of dividends on the preferred stock" ("Kresge offers $75 for Store Preferred," *NYT*, September 18, 1928, p. 44). The company's problems persisted, notwithstanding Kresge's replacement as head of the company in 1929, and Kresge intervened once again in 1931 to try to solve the company's problems, this time by buying it out of the Newark store ("Kresge would buy chain's losing shop, *NYT*, October 20, 1931, p. 45).

[198] 17 years of experience as the General Management of the Emporium, the leading department store in San Francisco, and a year as Vice President and General Management at May Department Stores.

[199] *Chronicle*, vol. 120, March 28, 1925, p. 1597.

occasions in 1925 and 1926 to acquire controlling interests in four department stores.[200] The company's stock issues were underwritten by George H. Burr, Conrad & Broom, Inc of San Francisco and Barnaby Conrad, the president of that company, served on the company's board and reportedly played an important role in its deal making.[201] Schlesinger's acquisitions propelled the company from nowhere to generate annual sales of about $20 million by the late 1920s although profits proved more elusive even before the Depression hit.[202]

The third, and ultimately most dramatic, route to department store consolidation was through mergers of several companies which evoked the industrial consolidations of the turn of the century. Mooted as possibilities as early as 1921,[203] the first of these consolidations occurred only in 1923 with the creation of National Department Stores. It brought together five long-established department stores in Cleveland, Pittsburgh, Wheeling and St Louis,[204] with combined sales of $33 million. The merger grew out of a group called the Affiliated Retail Stores, which had been constituted in January 1920 to conduct research. Reportedly "joint purchasing overshadowed the research work, and plans for a merger took shape".[205] Blair & Co. headed a syndicate that offered $5 million of the company's 7% cumulative preferred stock to the public.[206]

Later in 1923, National Department Stores acquired the Frank and Seder group which operated five department stores, issuing stock to pay for it[207] and, in the process, bringing its total number of stores to ten operating in six different cities.[208] The company offered its own stock as consideration for the deal, for a total par value of $9.3 million, thus increasing its outstanding capital stock by a further 70 per cent.[209] As a result, as the *Wall Street Journal* reported, it became one of the largest department store companies in the country with combined sales of about $68 million.[210] The company continued to expand, using the securities markets to fund its acquisitions, and

[200] Two at its formation, Rhodes Bros. in Washington State later in 1925 and in 1926 a majority stake in the City of Paris Dry Goods Co. of San Francisco.
[201] The City of Paris deal was described as "the outcome of negotiations in which Barnaby Conrad, president of George H. Burr, Conrad & Broom, Herbert Fleischacker, and Mortimer Fleischacker played an important part as advisers to both Mr Verdier of Paris company and the Schlesinger interests. Schlesinger buys City of Paris Store, Los Angeles Times, May 26, 1926, p. 12. Also Frank Tupper and William Humphrey of SF – who are they? Others are Schlesingers or from target companies.
[202] Moody's, 1930, p. 2004.
[203] Leach, 1994, pp. 283-4.
[204] Bailey Co. of Cleveland (established in 1899); Rosenbaum Co. of Pittsburgh (1868); B. Nugent & Bros. Dry Goods Co., St Louis (1847); George E. Stifel Co. of Wheeling (1879); George R. Taylor Co. of Wheeling (1847) (NYT, April 27, 1923, p. 9; WSJ, Feb 3, 1923, p. 8).
[205] *NYT*, February 2, 1923, p. 18.
[206] The company pottered along ... In 1929 acquired substantially all of pref and common stocks of the company which respectively owned all voting shares of Levy Bros Dry Goods Co, Houston Texas, Harris-Hahlo Co of Houston Tex, Wolff and Marx of San Antonio, Tex; Bry-Block Mercantile Co, Memphis Tenn, J. M. High Co of Atlanta Ga. National system them comprised about 20 dept stores and branches largely in East, Middle-West and South (Moody's, 1930, p. 745). Nothing on this from NYT, etc.
[207] $3 million in 1st preferred stock, $2 million in 2nd preferred stock and 200,000 shares of common stock (*Chronicle*, vol. 120, May 1925, p. 198).
[208] *Chronicle*, vol. 120, January 24, 1925, p. 461; *WSJ*, December 29, 1923, p. 7.
[209] Moody's, 1924, pp. 2217-9; *WSJ*, November 14, 1923, p. 6.
[210] *WSJ*, Nov 14, 1923, p. 6.

by 1925 it ran 15 stores.[211] Notwithstanding the purchasing economies that reportedly resulted "from the combined buying power of the entire chain",[212] hints of growing financial pressure appeared as early as October 1925 when the company sold common shares in a rights offering that raised about $2 million. The funds were intended "to provide working capital and reduce bank loans incurred by the purchase of a new store and the completion of additions to other stores".[213]

Nothing as ambitious as National Department Stores was attempted for a few years[214] but that changed in 1928 and 1929. The Interstate Department Stores led the way in early 1928 merging 22 companies which operated a total of 23 department stores in a large number of states with combined 1927 sales of $18 million.[215] The company's executive team was dominated by the Federman family of the Federman Company of Akron, Ohio, a constituent of the chain, and Federman family members also featured prominently on the board of directors. They were joined there by Paul Mazur and Herbert Lehman, representing Lehman Brothers which underwrote Interstate's offering of $3.25 million 7 per cent cumulative preferred stock and 200,000 shares of no par common stock in February 1928. The company continued to expand through acquisition and by mid-1929 it operated 31 department stores and recorded sales of nearly $26 million for the calendar year.[216]

Interstate was soon overshadowed by the bigger and bolder consolidations of Hahn Department Stores in 1928 and Federated Department Stores in 1929, both of which also boasted the financial backing of Lehman Brothers. In 1928, Lew Hahn resigned as president of the National Retail Dry Goods Association to head Hahn Department Stores which was formed to centralise the ownership and coordination of a number of long-established department stores. It merged twenty two companies, of which the best known was Jordan Marsh of Boston, with combined sales of $110 million. However, the plan for the company, "as projected by Mr. Hahn and the Wall Street bankers interested in the plan" was to build "the largest organization of retail department stores in the world operating under central ownership and comparing in annual turnover with the largest units in such other major industries as the railroads and public utilities".[217]

---

[211] In 1924 it acquired the Atkinson stores in Minneapolis & St. Paul, Goldberg's in Trenton, and Kauffman's in Richmond. It increased its capital stock and its bonded debt by $2.3 million to fund these transactions. In January 1925 it sold $1.7 million first preferred stock [cumulative 7%?] in an issue underwritten by Blair & Co. Later that year, it completed its first acquisition in the Pacific region, when it took over Lipman, Wolfe & Co which ran a long-established department store in Portland, Oregon (*Chronicle*, vol. 117, p. 2118, 2220; ibid., vol. 120, January 31, 1925, p. 592; Moody's, 1925, p. 1192).

[212] *Los Angeles Times*, April 11, 1925, p. 15; *NYT*, May 13, 1925, p. 32; Natl25g is an article quoting new merchandising mgr of co about advs of group buying.

[213] The article went on to point to inventory control as part of the problem: "the trouble is partly a low rate of turnover, since inventories are larger in proportion to the sales volume than inventories of other large department store chains. Sales volume is 5.3 times inventory compared with a turnover of 6 times for other large systems" (*WSJ*, April 1, 1926, p. 5; *WSJ*, October 17, 1925, p. 1).

[214] The only similar type of consolidation formed before 1928 was American Department Stores which was established in 1926. However, it was a merger on a much smaller scale, bringing together department stores with

[215] Moody's, 1930, p. 1214; 1931, p. 519. Interstate Department Stores, March 27, 1928, p. 39

[216] Moody's, 1930, p. 1214.

[217] "22 Big Stores Merge; Nation-Wide Chain," *NYT*, December 11, 1928, p. 16.

Hahn argued that: "[l]arge-scale operations [in retailing] are necessary in order to obtain the full advantages of great buying power, as well as the types of organization which will permit of modern research work, intensive specialization and close contact with the buying market".[218] He noted the importance of the chain store as inspiration for department store consolidation arguing that despite some differences many of the same lessons could be applied.[219] However, he resisted the label of a chain on the grounds that the new company had no plans to standardize the identities of the acquired stores. These stores were chosen because they were well run and the intention was to retain their management. Hahn Department Stores, he said, was "primarily a supervisory and coordinating organization" which would provide specific advantages to these stores: "uniform accounting methods, a stronger merchandising organization, a central buying headquarters and styling service available to all member stores and to all manufacturers, closer coordination and supervision, and, therefore, better management" . The "real opportunity" of the company, he said, "lies in the fact that here, for the first time, is an organization capable of maintaining constant and consistent management of the department store".[220]

To facilitate the company's plans for consolidation, Hahn Department Stores conducted two giant stock issues in December 1928 – offering $22.7 million of 6 ½ per cent cumulative, convertible preferred stock and a further $17.3 million of common stock – and used the proceeds to acquire its initial twenty two stores. By the end of 1930 it had absorbed seven additional stores which it paid for, in part, through the issue of additional preferred stock. The company's stock issues were underwritten by Lehman Brothers and Prince & Whitely and the bankers were represented on the company's board by Harold Lehman and Paul Mazur.[221]

Another giant consolidation, Federated Department Stores, was organised in 1929. Although it initially brought together only three companies under common ownership – Wm. Filene's Sons Co., Abraham & Straus, Inc., and F. & R. Lazarus – they were among the most prominent department store enterprises in the country. During the 1920s all of them had completed securities issues which were underwritten by Lehman Brothers. The bank was represented on all of their boards and so it was hardly surprising that Lehman Brothers also had seats on the board of Federated Department Stores even though no public issue of its securities took place. Instead, the common stock of the holding company was issued in exchange for the common stocks of the constituent companies and its listing was approved by the NYSE in December 1929.[222] In January 1930 another famous name in American retailing, Bloomingdale Brothers, joined the federation bringing its combined sales, for the year ended January 1930, to $117 million.

[218] *NYT*, December 11, 1928.
[219] *NYT*, May 12, 1928.
[220] "Hahn Outlines Management Policies," *Sales Management*, June 22, 1929, pp. 602-3.
[221] Lehman Brothers Collection, Harvard Business School Baker Library, Hahn Department Stores, Inc.; Moody's, 1929, Industrial Manual, p. 1993.
[222] "Listings Approved by Stock Exchange," *NYT*, December 19, 1929, p. 38.

Bloomingdale had also conducted a stock offering earlier in the 1920s which was underwritten by Lehman Brothers and Goldman, Sachs and Arthur Lehman sat on the company's board.[223]

4.3.2 Chain Store Issues in the 1920s

Chain stores also issued securities in large numbers in the 1920s especially in the second half of the 1920s. The trend largely reflected a growing reliance on mergers and acquisitions by chains and their use of the securities markets to facilitate these transactions. As the Federal Trade Commission showed in its report on the growth and development of chain stores, mergers and acquisition activity was highly concentrated by line of business.[224] And, within lines of business, certain companies were extremely active acquirers while others exhibited a limited reliance on external growth.[225] We find these same patterns reflected in issuance activity.

The vast majority of mergers and acquisitions undertaken by chain stores took place among grocery and grocery and meat chains. These chains experienced a dramatic expansion throughout the 1920s but there was a marked increase in their reliance on external growth in the second half of the decade.[226] Relatedly, the grocery chains conducted hardly any securities issues during the first half of the 1920s[227] but, from 1925 to 1929, there was a burst of securities issues with most of them designed to facilitate mergers and acquisitions.

Particularly spectacular was Safeway's use of acquisitions, powered by securities issues, to become the third largest grocery chain in the United States by the end of the decade. Safeway Stores Inc. was founded in 1914 by Sam Seelig and it operated a grocery chain of nearly 300 stores in Los Angeles and its vicinity by 1925 when, with the withdrawal of Seelig, it name was changed.[228] At that stage it had sales of less than $15 million but it was still reported to be the largest retail grocery business west of Chicago.[229]

The following year the company merged with the Skaggs companies, which had been founded in Idaho by M. B. Skaggs, and had expanded in other Western states and in Northern California.[230] The combination created a company with more than 900 store units (including meat markets and grocery stores) and over $50 million in sales.

---

[223] Moody's, 1926, p. 1319. Who is Julius Bellman, Herman Weiss and G. W. Davison, A. W. Popper, Ralph Wolf.
[224] Federal Trade Commission, 1932. *Chain Stores: Growth and Development of Chain Stores*, Washington, D. C., United States Government Printing Office.
[225] Ibid., p. 18.
[226] The number of stores operated by the six leading chains rose from 7,723 in 1920 to 21,838 in 1925 and then to 30,453 by 1930 (Lebhar, 1963, p. 56). OVERALL. ("Chain Store Stocks as a Medium of Investment," *Barron's*, March 16, 1931, p. 3).
[227] Rite Grocery Stores issued $100,000 in stock in September 1921; Peekay Auto Grocers sold $250,000 stock in September 1922; Oneida Creameries issued $400,000 stock in April 1923.
[228] *Los Angeles Times*, March 15, 1925, p. B8.
[229] *Los Angeles Times*, July 19, 1925, p. B11.
[230] It also acquired the H. G. Chaffee Co., which also operated in Southern California, and added a further 85 stores to its chain.

Although the company retained the Safeway name, M. B. Skaggs assumed operating control and the Skaggs family provided several other leading executives.[231] To facilitate the merger, Merrill, Lynch underwrote an issue of Safeway preferred stock, which it sold publicly and privately to raise more than $3 million in cash, and Charles Merrill became a member of the company's board.[232]

As *Barron's* put it, "a period of co-ordination followed, but 1928 saw the initiation of an expansion program of unusual proportions".[233] In that year alone, Safeway bought Sanitary Grocery Co., Inc. which operated a chain of 429 grocery stores and 67 meat markets in Washington, D. C., Bird Grocery Stores which ran 224 grocery stores and 210 meat markets in Missouri, Texas, Arkansas, and Kansas,[234] Piggly Wiggly Pacific Co. with a chain of 91 grocery stores and 84 meat markets in California, Eastern Stores Inc. which ran 67 grocery stores and 12 meat markets in Baltimore as well as a number of other smaller chains. A number of these deals were directly facilitated by Merrill, Lynch since the company served not only as Safeway's banker but acted in that capacity for Sanitary Grocery Co. and Bird Grocery Stores.[235] They were paid for in Safeway stock; as a result, the company's outstanding preferred and common stock increased by more than $17 million from a mere $4 million at the end of 1927.[236]

By the end of 1928, Safeway operated more than 2,000 stores and had sales of more than $100 million compared to 342 stores and sales of $13 million in 1925.[237] Its ambition to become "the first nation-wide chain of grocery stores" was clear.[238] In 1929 the company continued to expand, adding a further 640 stores, to bring its total number of stores in operation to 2,660 by the end of the year. Safeway added almost half of these new stores through the acquisition of other chains, paying for them largely through the issue of Safeway stock. Its most important purchase that year was of Piggly Wiggly Western Co. which operated 174 stores in and around Los Angeles.[239] Here again we see the hand of Merrill, Lynch which had purchased control of the target company a few months earlier.[240]

Safeway completed a number of other acquisitions in 1929 including the purchases of a couple of small Canadian chains in a move that was deemed to be "the first step in a broad expansion campaign that is expected to give the company a chain of 1,000

[231] *Los Angeles Times*, October 2, 1928, p. 12; Safeway Stores, Inc., *Annual Report*, 1926.
[232] *Chronicle*, vol. 122, June 5, 1926, pp. 3223-4.
[233] "An Expanding Grocery Chain, " *Barron's*, April 29, 1929, p. 19.
[234] All Piggly Wiggly stores although the company had no corporate relationship to Piggly Wiggly Corp (Bird Grocery Stores Financing, *WSJ*, October 22, 1927, p. 4).
[235] Merrill underwrote an issue for Sanitary Grocery in 1926 and one for Bird Grocery Stores in 1927. (Sanitary Grocery and Safeway Unite, *NYT*, Sept 27, 1928, p. 49).
[236] The $17 million increase excludes the surplus of $1.9 million for 1928 which was reported as part of common stock in Safeway Stores' balance sheet (Moody's Manual of Investments, 1929, p. 3075).
[237] Moody's Manual of Investments, 1926, p. 2514.
[238] "Grocery Chain Expands", *Los Angeles Times*, October 2, 1928, p. 12.
[239] and a further 14 units in Salt Lake City with the acquisition being paid for with Safeway stock ("Safeway's Assets not fully used," *WSJ*, March 1, 1929, p. 1)
[240] Piggly Wiggly Rumor Current, *LA Times*, November 10, 1928, p. 12.

locations in Canada within the next three years".[241] Its external growth slowed down the following year as "[i]t was thought prudent during 1930 to limit the expansion of the Company to the minimum".[242] However, in 1931 it made its biggest purchase of all, acquiring MacMarr Stores which operated 1,394 stores, through an exchange of stock that increased its capital stock by about one third. MacMarr Stores had been formed through a major consolidation of grocery chains in 1929 and had established itself as a frequent user of the securities markets in record time completing three stock issues in 1929 and another one in 1930. By then it was little surprise that Merrill, Lynch was the lead underwriter of these issues and was represented on the company's board as well.

Safeway's closest rival was the Kroger Grocery and Bakery Company and the second largest grocery chain in the United States. Although Kroger grew rapidly in the 1920s, it made little use of external growth or securities issues until late 1927. A shift in its behaviour was precipitated by a change in ownership when B. H. Kroger, the company's founder, sold his controlling interest in the company in late 1927. The immediate result was a major secondary offering of the company's stock on the market. None of the proceeds, an amount of $19.3 million, went into the company coffers but the issue did have implications for the Kroger Grocery and Bakery Company as Lehman Brothers, which underwrote the issue, assumed a seat on the company's board.[243]

Immediately rumours circulated that the company would merge with another major grocery chain.[244] In fact the company initiated a major spate of acquisitions over sixteen months of "galloping consumption" of smaller chains in 1928 and 1929. In 1928 the company bought 19 grocery chains, operating a total of 1,301 stores, compared with the 3,749 stores Kroger ran at the end of 1927. It paid a small amount of cash – less than half a million dollars – for these acquisitions, furnishing most of the consideration in its own stock.[245] It issued more than $22 million in common stock to complete these transactions which, given that the company had only $5.3 million in common stock outstanding at the end of 1927, represented an enormous increase in its capital base. In 1929 Kroger acquired 9 additional grocery chains operating 537 stores, issuing additional stock to pay for them.[246]

---

[241] *WSJ*, June 18, 1929, p. 11). No specific information was provided by the company as to how the consideration for these acquisitions was paid; however, some stock was probably issued in exchange for the stock of the target companies since the company's capital stock outstanding increased by about $8 million from $23 million to $31 million. Moreover, in 1930, Safeway conducted an issue of preferred stock to raise $2 million (j of c says $3m but could include warrants – were these issued for Merrill's benefit?) with the proceeds of this financing being used "to reimburse the treasury in part for capital expenditures during 1929" ("Safeway Sells Stock," WSJ, December 18, 1929, p. 3). Same article also says that "In the spring of 1929, employees bought nearly $3,000,000 of Safeway common stock from the company's treasury at $140 a share."

[242] Safeway Corporation, Annual Report, 1930, p. 1.

[243] It was filled by John M. Hancock, a partner at the bank [confirm].

[244] "Kroger Issue Coming," *WSJ*, December 7, 1927, p. 9.

[245] Charles Phillips, 1936, "A History of the Kroger Grocery & Baking Company," *National Marketing Review*, vol. 1, no. 3, pp. 206; "Kroger Expanding Fast," *Barron's*, September 24, 1928, p. 17.

[246] Phillips, 1936, p. 206. It issued 122,845 shares and used 34,166 shares to buy H. W. Bracy & Co., McCarty Wholesale Grocery Co., Inc, Milgrim Stores Inc., Piggly Wiggly Haynes, Inc., Richards Bros., Roanoke Grocery & Milling Co., and the remainder to pay a stock dividend ("Kroger Purchases New Properties," WSJ, December 27, 1929, p. 14).

Most of the other large players in the grocery business -- First National Stores, American Stores and National Tea -- also developed ambitious plans for external growth in the late 1920s. Bankers were represented on their boards with Lehman Brothers and especially Merrill, Lynch predominating. Although their plans were not always successfully executed, they clearly saw external growth and the securities issues that supported it as an important route to success.[247]

As the 1920s unfolded and, especially in 1928 and 1929, smaller grocery chains also made forays into the securities market. In some cases, including MacMarr, Daniel Reeves, Bird Grocery and Consumers Sanitary, Lehman Brothers or Merrill, Lynch were involved and the motivations for their securities issues mimicked those of the larger grocery chains. Other smaller chains used securities issues to fund acquisitions but without the involvement of the leading New York banks.[248] Finally, there a number of small grocery chains, about fifteen of them in total, which used the securities markets to raise funds for internal growth.

Overall, then, the dominant pattern among grocery chains was to use securities issues to fund external growth. The one major exception was Great Atlantic and Pacific Tea, which was America's leading grocery chain. It grew rapidly in the 1920s but without relying on external growth or the securities markets.[249] In 1925, when it reincorporated, the *Wall Street Journal* noted that "[b]y creation of the new company, there is afforded the first opportunity for ownership in 'A. & P.' common stock on the part of others than the 15 or so relatives of the founder, who have always closely held control of the company. Some preferred stock, it is understood, has been held by employees". However, the article quickly added that this was an opportunity reserved for those in the company's employ for five or more years.[250]

Drug chains also used large amounts of securities to facilitate their external growth in the 1920s. In fact, as the FTC report noted: "In the leading drug chains, the factor of acquisitions has played a more important part than in the leading chains in any other of the lines of business studied".[251] The leading drug chain was still led by Louis Liggett, initially through United Drug, which controlled not only the US stores but also the large Boots chain in the UK. In 1928 Liggett embarked on his most ambitious expansion yet, establishing Drug, Inc. through the merger of United Drug and Sterling Products. It bought up control of additional drug chains as well as other manufacturers of products which were sold through its drug stores. Only two years after its establishment, Drug, Inc.'s assets had grown to more than $100 million, a feat it accomplished largely by

[247] FTC, 1932, pp. 19-23.
[248] Mutual Stores, Shaffer Stores, Southern Stores, Southwestern Stores and then a few issues around consolidation of retail meat stores (Nathan Strauss and Strauss-Roth).
[249] "A Billion-Dollar Cash Business," *Barron's*, November 25, 1929, p. 112. It completed some acquisitions but it financed them from internal sources ("A. & P. calls preferred," *WSJ*, December 23, 1925, p. 12).
[250] "Great Atlantic and Pacific forms new company," *WSJ*, June 4, 1925, p. 7.
[251] FTC, 1932, p. 23.

issuing large amounts of stock in exchange for the securities of its targets; by 1930 it had outstanding capital stock of more than $200 million. The next largest drug chains by that time were Walgreen and People's Drug Stores which respectively ran 440 and 117 stores in 1930 compared with 23 and 8 in 1920.[252] Both companies used securities issues to fuel their growth.[253] There were also other drug chains which used the securities markets in this way but either were bought out by the larger players or collapsed prior to 1930.

In contrast to grocery and drug chains, variety chains accounted for a small proportion of all acquisitions undertaken by chains in the 1920s. The leading variety chains, Woolworth, Kresge, Kress and McCrory displayed little interest in growth through acquisition or in the securities issues that might fund it.[254] While there were a number of issues involving their stock in the late 1920s, they were secondary sales undertaken to allow founders and their heirs to cash out.[255] However, a few of the smaller variety chains – Mc Lellan, F&W Grand – Silver, and G. C. Murphy – were aggressive acquirers and they relied on securities issues to fund their purchases. In the process, they propelled themselves from a minor position to one of greater importance by the end of the decade.[256] There were also a number of variety chains which accomplished a similar feat by growing rapidly through internal expansion and they also fuelled that process with securities issues.[257]

4.3.3 Mail Order Issues in the 1920s

Both of the leading mail order firms took some time to recover from their post-war crises. Sears, Roebuck's financial condition improved in 1922 and 1923 but it was only in 1924 that the common dividend was restored. Montgomery, Ward was also back on track by 1922 with its bank loans paid off by the end of that year. By 1924 both companies were prospering once again and their stock prices had recovered. At Montgomery, Ward the Whelan interests sold out most of their stake leaving control of the company "with large New York banking interests" among which, J. P. Morgan was rumoured to be prominent.[258] The big story for its leading players was their diversification into the business of running retail stores and, to the extent that they issued securities in the late 1920s, it was in pursuit of that strategy.

---

[252] Lebhar, 1963, p. 55-56.
[253] Lebhar, 1963, p. 55-56.
[254] Together these three companies accounted for 82 per cent of the stores of the leading 10 variety store chains in 1920.
[255] For example, F. W. Woolworth's granddaughter sold some of her holdings of Woolworth stock to raise $10m (*LA Times*, Jan 10, 1926). In a much more significant transaction, McCrory cashed out in the wake of the tragic death of his son who he had hoped would take over the business.
[256] Together these three companies accounted for 18 per cent of the stores of the leading 10 variety store chains in 1930 compared with only 3 per cent in 1920. Over the course of the same period, the combined share of Woolworth, Kresge, and Kress declined to xxx.
[257] W. T. Grant is the best example.
[258] The bankers were rumoured to own "a majority of the 1,114,252 shares of common" (*WSJ*, January 5, 1924, p. 6).

By then Sears, Roebuck and Montgomery, Ward had some experience of face-to-face contact with the customer. In particular, their inventory crises had induced them to open exhibition rooms and sales outlets to move merchandise off their shelves. Nevertheless, executives at both companies were resistant to the idea of running stores on a large scale. An important exception was General R. E. Wood, who was appointed vice president and general merchandise manager at Montgomery, Ward in 1920. Wood emphasised some of the weaknesses of the chain stores noting, in particular, that "[m]any of these chains have not had the foresight to so group their stores as to work out a good system of warehouse distribution". He argued that Montgomery, Ward could "beat the chain stores at their own game"" "We have four splendid distributing points; we have an organized purchasing system; we have a wonderful name, if we chose to take advantage of it, and we ought to be able to build up our organization as good or better than the chain stores themselves and without harming our mail order business".[259] Wood failed to convince Merseles, Montgomery, Ward's president, of the merits of opening stores but, shortly after he moved to Sears, Roebuck in October 1924, he was charged with launching a new retail business there.

In 1925 Sears, Roebuck opened 8 stores, and generated sales of nearly $12 million which amounted to 4.5 per cent of its total revenues in that year. By 1930, it operated 351 stores which brought in $181 million in revenues slightly more than the sales generated by the mail order business.[260] Montgomery, Ward launched its retail expansion only in late 1926 but it moved very quickly once it did so.[261] Opening stores at a rapid rate, it surpassed Sears, Roebuck in terms of its numbers of stores by 1928, and by the end of 1930 it had 557 stores in operation. Although its retail sales lagged behind those of its competitor, reaching a total of $123.9 million in 1930, they still amounted to 45.5 per cent of the company's total revenues by 1930.[262]

For both companies, their retail expansion contributed to a tremendous increase in their size. By the end of 1930, Sears, Roebuck had accumulated total assets of $234 million, which represented a 63 per cent increase on its total assets at the end of 1924. Montgomery Ward's expansion was even more dramatic with its total assets growing by 175 per cent over the same period to reach $168 million by the end of 1930.[263] Emmet and Jeuck claimed that Sears, Roebuck funded its expansion entirely from internal funds; [264] this is not exactly correct, since the company racked up more than $30 million in bank loans by the end of 1929, but they proved temporary with the company already beginning to pay them down by 1930.[265] What is certainly true is that Sears, Roebuck did not turn to the securities market to fund its diversification. In contrast,

[259] Emmet & Jeuck, 1950, p. 340.
[260] Emmet and Jeuck, 1950, pp. 339-345.
[261] "Montgomery Ward to Open Branches," *NYT*, August 5, 1926, p. 26.
[262] Moody's, Industrial Manual, 1931. p. 2317.
[263] Annual Reports, both companies, 1924; Sears, Roebuck, 1930; Moody's, Industrial Manual, 1931, p. 2317.
[264] Emmet and Jeuck, 1950, pp. 656-9.
[265] *WSJ*, February 10, 1930, p. 2.

Montgomery, Ward relied heavily on the securities markets for this purpose, bringing about a massive increase in its capital stock in the process.

The company made an initial, indirect foray into the securities markets in early 1927 when it guaranteed a $5 million issue of 30-year, 5 per cent, bonds, underwritten by J. P. Morgan for its subsidiary, Montgomery Ward Properties. The corporation was formed in the summer of 1926 and the plan was for it to take over most of the real estate holdings of the parent company.[266] In this way, Montgomery, Ward hoped "to reimburse itself for large capital expenditures made in recent years for new plants and branches scattered throughout the country thereby releasing for use in merchandising considerable sums heretofore tied up in real estate".[267]

Then, in late 1928, the company made a much bigger splash on the securities markets when it announced a huge rights issue to raise nearly $40 million in new money. Some of the proceeds – an amount of $7.7 million – was earmarked for the redemption of the bonds of Montgomery Ward Properties – but the majority was to be used to fund the company's expansion. Monies were needed to pay for the cost of the company's new mail order plants with their inventories at Fort Worth, Denver and Albany. The balance of the remaining $32 million, the company said, "will undoubtedly be used mainly to provide additional working capital in form of merchandise for company's growing chain of retail department stores and of chain stores selling general merchandise". The emphasis on the working capital requirements of the retail expansion reflected Montgomery, Ward's policy of leasing the land and buildings for its stores.[268]

Given the size of the offering, the company's president, George B. Everitt, clearly felt the need to explain why external finance was required. In a letter to stockholders he said: "[m]uch of our expansion program has been financed out of the [sic] earnings. However, the growth of the company has been rapid and the prospects for expansion are large, therefore it is desirable at this time to make a revision in our common stock issues".[269] He went on to say that the new funds would be sufficient to finance the company's expansion program. However, only a few months later, in a statement to stockholders, Everitt drew attention to the fact that the company's capital requirements were still growing. He emphasised especially that its "inventories are much larger than a year ago" which he attributed, in part, to the rapid expansion of its retail programme. He also noted that "[i]n addition to store inventory requirements it was necessary to provide enlarged stocks for our new Fort Worth house, the new mail order plant at Denver which opens this month, and for an expected substantial increase in 1929 sales".[270]

---

[266] *WSJ*, January 29, 1927.
[267] "Montgomery Ward Year Disappointing," WSJ, January 29, 1927, p. 5.
[268] *NYT*, October 21, 1928.
[269] "Montgomery Ward to Give Huge Bonus," *NYT*, October 17, 1928, p. 40.
[270] "New Methods Aided Montgomery Ward," *WSJ*, January 26, 1929, p. 10.

In mid-1929, Montgomery Ward announced that it would conduct another enormous rights issue to raise a further $57 million. The proceeds were expected "to provide sufficient funds for the company's needs at least until the end of next year".[271] At the same time, Everitt announced that he would recommend an increase in the annual dividend payment on the common stock from $2.50 to $3.00.[272] However, it was clear by the beginning of 1930 that the company was in trouble; Everitt initially denied the problems but then confirmed them when the company passed its common dividend later in the year. With the company's total market value running at less than the proceeds generated from its securities issues of the late 1920s, the company seemed destined to repeat its experience of only a decade earlier.[273]

Both Sears, Roebuck and Montgomery, Ward, in their enthusiasm for diversification, contemplated external growth to achieve it. Both of them seriously considered merging with J. C. Penney in 1929, with the acquisition of seasoned personnel reportedly being the motivation for both mail order companies. Such a deal would have made a major difference to either company since Penney had total assets of about $80 million but no deal was ever concluded. Later the same year, Montgomery, Ward came close to concluding an acquisition of Hartman Corporation, the owner of a chain of furniture stores in Illinois and Wisconsin and a mail order organisation. *Barron's* pointed out: "[o]ne of the chief advantages to be derived by Montgomery Ward from acquisition of Hartman Corp.... will be the immediate strengthening of the mail-order house's retail organization through addition of personnel of considerable size, already experienced in retail operation. Ward's greatest problem in connection with its retail expansion program has been man-power".[274] The deal was supposed to be consummated through the issue of additional Montgomery, Ward stock. Since the target company's assets amounted to about $27 million, that would have meant another sizeable addition to the acquirer's outstanding capital stock. However, although it was approved by Hartman's board of directors, the acquisition came undone in the face of opposition from minority shareholders.[275] There were also rumours that the two leading mail order houses would merge with each other, and actual negotiations took place following their moves into retail stores, but they also came to nought.[276]

Instead, the mergers and acquisitions were left to other mail order companies. The sales of the number three player in the industry, National Cloak and Suit, had been in decline for some years and its profits experienced a sharp drop in 1926.[277] Early in 1927, it merged with Bellas, Hess & Co., another mail order firm, to form National Bellas Hess Company and the latter's management assumed control. The consolidation was

[271] "Ward Offering Brings $57,000,000," *WSJ*, June 25, 1929, p. 13.
[272] "Montgomery Ward's New Financing," *Barron's*, June 17, 1929, p. 14.
[273] *WSJ*, October 27, 1930, p. 5.
[274] "Profit Margins of Sears and Ward," *Barron's*, October 7, 1929, p. 12.
[275] "Hartman Directors Accept Ward Bid," *WSJ*, September 21, 1929, p. 1; "Hartman Merger Fails," *NYT*, November 26, 1929, p. 51; "Montgomery Ward Hartman," *WSJ*, November 9, 1929, p. 14.
[276] Emmet and Jeuck, 1950, p. 651.
[277] "National Cloak & Suit Earnings Drop Sharply," *WSJ*, February 4, 1927, p. 15.

concluded through an exchange of stock in a deal handled by Goldman, Sachs but no new financing was conducted.[278] In 1928 it acquired Charles William Stores, another mail order house, for cash.

National Bellas Hess soon developed an appetite for running stores of its own. It completed three retail acquisitions, of increasing scale, which it paid for in stock: Kinnear Stores with sales of just over $3 million, Leonard, Fitzpatrick & Mueller Stores with sales of $5 million and Interstate Department Stores with sales of $36 million. As a result of the Interstate acquisition, an additional member of Goldman, Sachs and Lehman Brothers joined the board of National Bellas Hess and a member of Goldman, Sachs joined the board of Interstate.[279] In 1929 National Bellas also bought a chain of seven stores for cash.[280] Yet, by early 1930, there were growing concerns about the company's performance with sales falling short of what was needed to move its inventories and its acquisitions already creating financial strain.[281]

5. UNDERSTANDING THE SECURITIES MARKETS' ROLE

5.1 Financing Capital Formation

To the extent that one believes the securities markets' most important role is in funding capital formation, the relatively low capital intensity of the retail industry would seem to imply a limited dependence on securities issues by retail enterprises. Certainly contemporaries emphasised the reliance on retained earnings by leading retail companies.[282] Business historians who have studied the industry have tended to echo this view with Alfred Chandler, for example, arguing that: "[b]ecause the mass retailers did not need to invest in large amounts of costly capital equipment, they continued to rely on the high-volume, internally generated cash flow to provide for most of their working and fixed capital".[283]

Chandler did not present any evidence in support of his argument, no doubt because of the lack of systematic data on the capital intensity of the retailing industry in the United States. Nevertheless, a simple comparison of assets as a percentage of sales in the early teens when several leading retailers completed initial public offerings confirms that they had relatively low levels of capital intensity compared with selected manufacturers. These patterns may help us to understand why, as a general rule, funding capital formation was of limited importance as a motivation for retailers to issue securities. However, they do not explain the occasions when some retail companies, including some of the industry leaders, turned to the securities markets to fund their capital

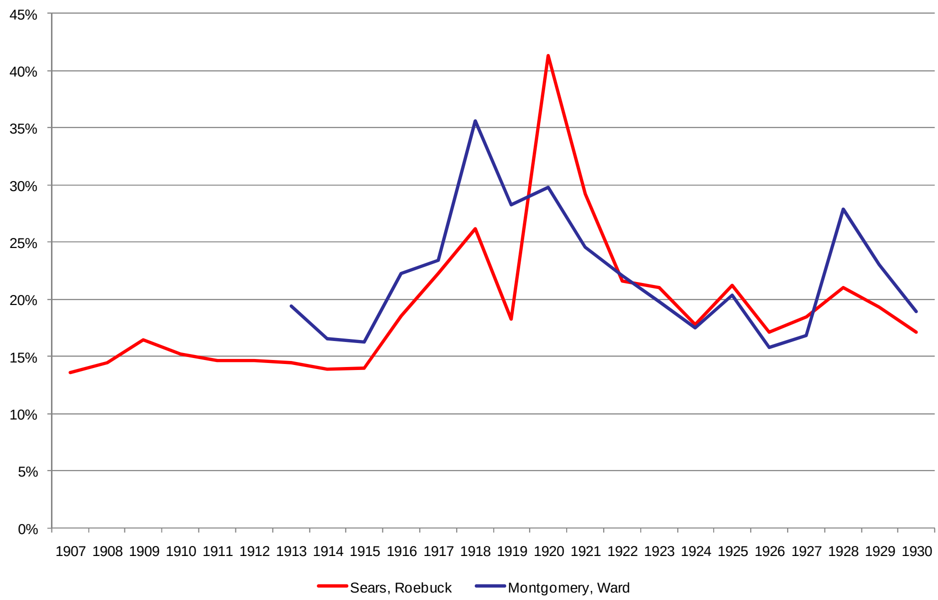
[278] "Cloak Concerns Merge," *NYT*, February 20, 1927, p. E14.
[279] "Merger Plans Told by Bellas Hess," *NYT*, June 16, 1929, p. N12.
[280] Formerly operated by Gilmer Stores and Harrison Department Stores.
[281] "National Bellas Hess Faces Problems," *WSJ*, March 5, 1930, p. 5.
[282] See, for example, Luigi Criscuolo, 1925, "Financing the Chain," *Chain Store Age*, June, pp. 13-16.
[283] Chandler, 1977, p. 470; see also Charles F. Phillips, 1935, "A History of the F. W. Woolworth Company," *Harvard Business Review*, 13: 2, p. 230 on F. W. Woolworth and Emmet and Jeuck, 1950, p. 656-9 on Sears, Roebuck.

needs. In this chapter, I have shown that there were circumstances under which retailers' fixed or working capital requirements generated large funding needs but, it appears, these circumstances were specific to particular firms and/ or periods rather than a reflection of structural characteristics of the retail industry.

The mail order firms illustrate the point very well. The initial motivation for the leading firms to issue securities was to fund investments in fixed assets, notably in the plants they were building to serve the national market. These investments weighed heavily on their balance sheets, driving their fixed capital intensity up by about 15 percent of sales over a short period of time. In the case of Sears, Roebuck, for example, its fixed assets as a percentage of sales rose from only 7 or 8 per cent at the turn of the century to 23 per cent at the time of its IPO in 1906. Subsequent to these investments being made, however, these companies' mail order businesses faced no further comparable increases in their fixed capital requirements.

However, mail order firms' unexpectedly high inventory levels in the post-war boom and bust created exceptional demands for working capital finance. As Figure 5 shows, inventory levels rose to unprecedented levels for the leading mail order firms with both of them facing an increase of more than 20 percentage points of sales in a short period of time. The rise in inventories reflected the rather unusual circumstances of the time and both companies managed to gain control over their working capital requirements by 1924.

Figure 5 Inventory as a Share of Sales



Source: Annual Reports

However, as Figure 5 shows, in the late 1920s Montgomery, Ward lost control of its inventory levels once again but this time for a different reason. The problem stemmed from its failure to manage its inventories during its expansion into the business of running stores. Again the problem proved temporary but, in combination with the rapidity of its expansion, it created sufficiently large capital requirements to induce the company to seek large amounts of outside funds. As *Barron's* pointed out at the time: "The company's need for outside finance related not just to rapidity of its retail expansion but also to relative weakness in inventory control".[284] In contrast, it said, "Sears, Roebuck accomplished the remarkable feat of financing its entire mail-order and retail expansion out of its own financing… Sear's success in keeping inventory within bounds must have helped considerably to obviate outside financing".[285] Although it is true that Sears, Roebuck did a better job of managing its inventories than Montgomery, Ward, its strategic decision to purchase rather than lease its retail stores drove its fixed capital requirements much higher than its competitor. It is this increase that explains Sears, Roebuck's need to resort to temporary bank loans in the late 1920s.

With regard to fixed capital requirements, department stores' major challenge was in funding the construction of major extensions to existing stores or entirely new retail premises. The first building 'frenzy' among American department stores dated from 1896 to 1912[286] and then, in the 1920s, American department stores entered another active phase of rebuilding.[287] For some department stores, these big lumpy building projects created unprecedented financial requirements -- for Macy's, for example, its huge extension in the early 1920s drove its fixed assets from 14.1 per cent of sales in January 1922 to 26.4 per cent in February 1923 – and drove them into the securities markets in search of funds. However, it was predominantly those stores that made a strategic choice to own rather than lease their buildings that faced such large financing requirements. Many, if not most, department stores leased rather than owned and even if extending or changing their premises involved outfitting costs, they were usually not high enough, except when furniture and fittings were exceptionally lavish, to create a need for external financing. However, moving stores could generate other costs, especially as we have seen in the case of Stern Brothers and Lord & Taylor, if old and new premises were stocked simultaneously or rents were paid on both buildings. In general, however, working capital requirements did not present the major headaches at department stores that they did at mail order firms.

The same can be said of the chain stores. Although, like the department stores, many of them experienced a rise in inventory levels during the post-war boom and bust, it did not threaten their survival. As the *Wall Street Journal* noted: "[i]n a retail merchandising operation, where rapidity of turnover of capital involved measures profits, this ability to handle increasing business on smaller amount of active capital, i.e. merchandising,

---

[284] *Barron's*, Jan 6, 1930, p. 21.
[285] *Barron's*, Jan 6, 1930, p. 21.
[286] Leach, 1993, p. 279.
[287] Leach, 1993, p. 279. Writing in 1930, the *Wall Street Journal* noted that "In the last few years practically every large store or chain of stores has engaged in an important program of rehabilitation either in building new and more adequate buildings, or in installing more effective merchandising policies, or both. All of this has been exceedingly expensive and while under way interfered with the normal procedure of business (*WSJ*, July 19, 1930, p. 1)."

represents the secret of chain stores' successful operations. Conversely, failure of two big mail order houses to contract inventories in time resulted in heavy losses when these goods had to be moved, regardless of price.[288]

As far as chains' fixed capital requirements are concerned, they tended to be relatively low given that chains tended to lease rather than buy their land and buildings. Woolworth's fixed assets hovered between 8 and 12 per cent of sales throughout the teens and the fixed investments in S. S. Kresge's stores were between 11 and 12 per cent of sales over the same period. Had Frank Woolworth successfully persuaded Henry Goldman to allow him to purchase the Woolworth building, the picture might have looked different – certainly the fixed capital intensity of the Woolworth business would have increased sharply from 8 per cent of sales in 1912 to 33 per cent – but that building was an unusually costly one. Kresge's head office in Detroit was much cheaper, given its location and relative modesty, and it only added about 3 per cent of sales in fixed capital to the numbers cited above.

There were signs of some change in chains' leasing policy in the 1920s with some of them displaying a greater tendency to buy the land and buildings for their stores. As one observer put it: "As city real estate is continually increasing in value many companies are not content to take long term leaseholds on desirable properties but have organized subsidiary companies which purchase locations and erect buildings... In such cases, the realty company will issue bonds or preferred stocks to pay for the real estate, the securities being guaranteed under the terms of the contract between the realty company and the chain store company".[289] Even so, most leading retail chains reached the end of the 1920s with more of their stores leased than owned.

In light of their relatively low levels of fixed and working capital intensity, the primary reason for chain stores to come to the securities market to raise funds for capital formation was because they chose to accelerate their pace of expansion. We see this very clearly in the case of Kresge's IPO and subsequent stock issue two years later. The same motivation was also evident in Great Atlantic and Pacific Tea's note issues in the teens and it was also behind J. C. Penney's decision to go public in 1920. It is revealing in this regard that Luigi Criscuolo, a banker at Merrill, Lynch & Co., argued that chains, having laid "the necessary groundwork" by going through a "schooling period" characterised by steady growth funded from retained earnings, "should finance its business in order to provide for a more rapid growth than it is possible to insure from the reinvestment of surplus earnings alone".[290]

---

[288] *Wall Street Journal*, May 13, 1922, p. 3.
[289] Luigi Criscuolo, 1925, "Financing the Chain," *Chain Store Age*, June, pp. 13-16.
[290] Luigi Criscuolo, 1925, "Financing the Chain," *Chain Store Age*, June, pp. 13-16.

5.2 Facilitating Consolidation

More important than funding capital formation as a motivation for retailers' securities issues was their participation in a process of consolidation. There were a number of early consolidation initiatives among department stores in the first decade of the 20th century but, overall, they were rather limited. One rationale for these efforts was the potential for purchasing economies even if it is unclear to what extent companies like May Department Stores and Associated Dry Goods actually instituted central buying at the time. For the Claflin companies, synergies with the wholesale business were also a motivating factor. These early consolidation efforts among department stores were probably inspired as much by developments beyond the retailing industry, notably in manufacturing, since the chain stores had yet to make a major impact on the retail industry. Some of the chains participated in their own process of consolidation in the teens largely to strengthen regional networks. However, the overall extent of consolidation in the retail industry, and its role as a motivation for securities issues, remained limited through the end of the teens.

That changed dramatically in the 1920s. A major wave of consolidation took place in the department store business during that decade and, this time, the chain stores were an important inspiration largely because of their capacity to charge lower prices on the strength of the purchasing economies they obtained through mass buying power. Department store men initially responded to the growing threat of chain stores by creating associations to promote group buying and other forms of cooperation but, from the early 1920s, some retailers began to call for more integrated responses. Edward Filene, of the eponymous Boston store, and Louis Kirstein who actually ran its business, were particularly important advocates of the importance and inevitability of full-blown department store consolidations. As William Leach noted, they were encouraged in the implementation of that vision by prominent financiers, especially Paul Mazur who had worked at Filene's and went on to become a partner in Lehman Brothers.[291]

In 1924 Filene published an article called "Mass Buying and Mass Selling, Too" in *The Nation's Business*[292] which argued that giant combinations of department stores would soon emerge which, by pooling their purchases, would be able to buy and sell more cheaply. In this way, he claimed, distribution would solve some of its problems in just the way that production had done with the development of mass production. His argument attracted huge attention; as the magazine's editors put it: "The comment caused by the Filene article has been wide and varied. Some have agreed; some have

[291] Leach, 1993, pp. 279-292. See Edward Filene, "Mass Buying and Mass Selling, Too ," *Nation's Business*, September 1924, pp. x-x; Paul Mazur, 1924, "Future Developments in Retailing," *Harvard Business Review*,

[292] Edward Filene, "Mass Buying and Mass Selling, Too ," *Nation's Business*, September 1924, pp. x-x; Mazur published a similar article around the same time (Paul Mazur, 1924, "Future Developments in Retailing," *Harvard Business Review*). It was also widely read and discussed (see Leach, 1993, pp. 288-292).

criticised. Advertising men have approved and have found fault. Manufacturers have said that Mr. Filene would bring them under the thumb of the retailer. Retailers have said that the writer was only seeing visions. But all were aroused". Of particular interest was the comment by Jesse Isidor Straus of R. H. Macy which suggested that the potential for standardisation to reduce the costs of distribution along the lines that Filene suggested would eventually run into limits "because we are not yet ready to be Robots." Lew Hahn, then President of the National Retail Dry Goods Association, also weighed in, to say that although he agreed with much of what Filene said, that "[i]f there is a weakness in Mr. Filene's article, it is that it is premised upon a well-nigh perfect type of management".[293]

By then there were already signs of consolidation among department stores being put into practice and by 1927, when Filene published his next article on the topic, there were more examples for him to list. Even so, he argued, "this movement into department-store chains amounts to only a beginning in the direction of standardized department-store chains" that he had predicted three years earlier. As yet, as he pointed out, "these systems are mostly so many separate stores under single ownership. Only when there is central buying and coordination of operations can they be said to be chain-store systems".[294] To a large extent, this was also true of Federated Department Stores, the consolidation that Filene's eventually joined in 1929.

Yet, whatever the reality of what consolidations of department stores achieved, as I have noted earlier in this chapter, they were typically justified in terms of the potential advantages of central purchasing and coordination. Of course, not everyone was convinced. Straus held to his sceptical view, notwithstanding Macy's inclusion on Filene's list of emergent chains. He said that he was willing to believe that "The department store will, perhaps, overlap the chain store to some extent" but he argued that "A department store cannot be standardized. It cannot be one of a series of merchandising machines. It must conform to the needs, requirements and general character of the community which it serves".[295] And, in 1928, *Barron's* noted that notwithstanding the fact that Lew Hahn's decision to form "a nation-wide chain on a grand scale" had lent great weight to the idea of department store chains, "Stubborn independents may nevertheless take comfort from the fact that not all department store chains have been conspicuous successes".[296]

There was also a consolidation movement in the chain store business in the 1920s, especially in the second half of the 1920s. As I noted earlier, it was concentrated among particular types of chains, especially those in the grocery and drugs business. It is surprisingly difficult to find systematic analyses that explain the concentration and timing of the consolidation movement among chain stores. Certainly the grocery stores

---

[293] "Filene's Idea, Will It Come, and When?" *Nation's Business*, November 1924, p. 34ff.
[294] Edward Filene, "Mass Retailing Here – And to Stay," *Nation's Business*, May 1927.
[295] Cited in Percival White, "The Department Store's Future," *Nation's Business*, April 1926, p. 87.
[296] Philip Carret, "Scrambled Retailing," *Barron's*, September 3, 1928, p. 3ff.

at the forefront of M&A activity were working hard to build national chains; even by the end of the 1920s, the geographical origins of companies like Safeway and Kroger were still in evidence in the distribution of their stores. Consolidation also seems to have been seen as an antidote to "excess" competition in retailing and it was seen as a particular concern in the grocery business but also among drug stores. It came not only from other chains but also from the large numbers of independents in these businesses; even grocery chains, notwithstanding their rapid growth, accounted for just over 40 per cent of the nation's business by 1928 compared with 71 per cent for variety chains, a business largely established by chains.[297]

5.3 Transferring Financial Claims

The final role that securities issues played in the development of the retail industry was the transferring of financial claims. There were a few early examples of securities issues designed to facilitate a transfer of ownership from insiders to outsiders such as the cases of Stern Brothers and Woolworth. There were other instances in which stock was issued in exchange for debt as was the case for United Cigar Stores. And there were more complex recapitalisations such as those involving the Claflin-related enterprises. However, in general, the scale of this type of activity was relatively limited prior to World War I.

A much more widespread movement towards the recapitalisation of existing retail businesses emerged in the 1920s. The liquidation of stakes of inside owners was a particularly prominent aspect of this development and department stores were especially prominent in that regard. The trend seems to have been driven in part by tax concerns but also by the growing valuations of department stores on the country's securities markets. As the *Wall Street Journal* put it "[o]n account of income and inheritance taxes there has been a tendency lately for families owning old established stores to offer them in the market realizing the greater advantages in having their interest in securities rather than in the property".[298] It was also driven to some extent by a changing of the guard within department store enterprises as founders died or their families decided not to continue operating the business. Such a tendency was also for some chain store enterprises such as Woolworth, McCrory and Kroger. Nevertheless, in important cases, sales of insider stock to the public took place even without a ceding of control by the families involved in the business.

Other forms of recapitalisation also took place in the 1920s. In the case of Marshall Field, for example, securities were issued in the mid-1920s to finance the purchase of the store's premises which had been, until then, owned by the estate of the founder. There were also a range of somewhat different transactions that were completed with similar intent, that is, to transfer control over the assets or business of a retail enterprise

---

[297] Philip Carret, "Scrambled Retailing," *Barron's*, September 3, 1928, p. 3ff.
[298] "Dry Goods Cash for Expansion," *Wall Street Journal*, March 22, 1924, p. 3.

into the hands of those who ran it. While there were a few transactions that involved the swapping of equity for debt, the limited use of debt financing in this industry served as a limit to the potential scope of this activity.

6. CONCLUSION

In this chapter, I have analysed the varied and changing role of securities markets in the development of the American retail industry. The story begins with the first retail issue in 1901 conducted to facilitate a consolidation of department stores. It ends in 1930 a year marked by another such consolidation but this time on a more ambitious scale. Consolidation was certainly an important motivation for the securities issues that department stores undertook but they only flirted with it early in the century and it lost any impetus it had in the wake of the crisis of the Claflin companies. It was only in the 1920s that we see a concerted movement in this direction again but this time consolidation was more widespread and more ambitious.

For chain stores which issued securities, especially those that did so during the most active period of securities issuance in the 1920s, the financing of external growth was also a crucial motivation. The leading issuers tended to be in businesses like the retailing of groceries and drugs where acquisitions were particularly important for corporate growth in the 1920s and especially the second half of the decade. And they tended to be companies which placed a particularly high strategic emphasis on external growth.

Notwithstanding the importance of consolidation as a motivation for the securities issues of retail companies, especially department and chain stores, these issues served other purposes too. Although as a general rule they were not very important for funding capital formation in this industry, the mail order firms represented an important, if not the only, exception in this regard. The leading mail order firms, in contrast, did raise important amounts of funds on the securities markets to fund the formation of new capital. Early in the 20th century, that capital was fixed capital and, in particular, the new and improved plants they built to serve larger and increasingly national markets. In the post-war crisis, however, the capital they needed was working capital, especially to fund the large inventories they had accumulated. And the largest issues of the late 1920s by mail order companies also served the purpose of funding working capital but this time the burgeoning inventory requirements associated with specific diversification strategies.

Finally, there were securities issues which were undertaken to facilitate the recapitalisation of existing retail assets and businesses. Particularly important in this regard were transactions in the 1920s which were designed to allow the existing owners of department stores -- the founders and their families -- to cash out some of their stakes. Indeed, it was these issues, as much as the consolidations, which brought the securities markets and investment bankers into America’s department stores although families often retained an important role too. And even if these transactions were most numerous for department stores, they also took place for chains and for mail order companies too. Overall, if one had to draw one conclusion for this industry, it would be that the primary motivations for securities issues were changes in the control and ownership of existing assets rather than the formation of new assets.