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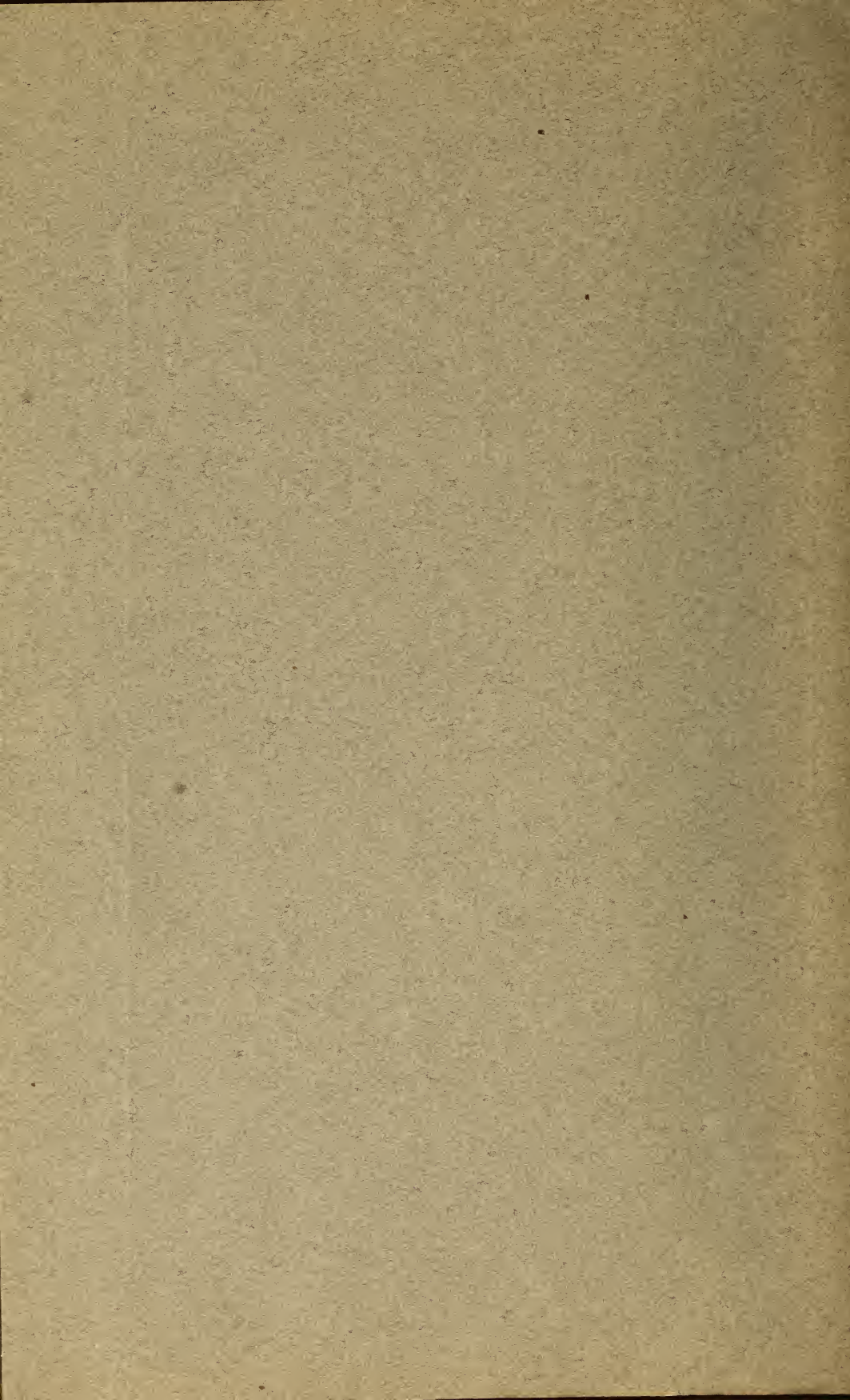
SUMMARY OF REPORT
OF THE
FEDERAL TRADE COMMISSION
ON
SHOE AND LEATHER
COSTS AND PRICES

JUNE 10, 1921



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WASHINGTON
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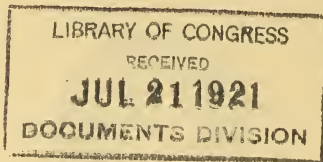
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FEDERAL TRADE COMMISSION.

HUSTON THOMPSON, *Chairman.*
NELSON B. GASKILL.
JOHN GARLAND POLLARD.
VICTOR MURDOCK.
JOHN F. NUGENT.
J. P. YODER, *Secretary.*



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LETTER OF SUBMITTAL.

FEDERAL TRADE COMMISSION,
Washington, June 10, 1921.

To the Speaker of the House of Representatives:

SIR: Submitted herewith is a report on the increased prices of shoes in 1919 in response to a resolution of the House.

The resolution directed an inquiry into the cost prices and selling prices of shoe manufacturers and retailers for the years 1918 and 1919 and the cause of and necessity for the increase in prices. A proper analysis of the conditions required an inquiry into the leather industry also.

During 1919 prices of shoes, leather, and hides increased more than in any year of the war period, 1914-1918. In 1920 a correspondingly rapid decline in prices of hides seems to have been accompanied by a somewhat less rapid and less extensive decline in leather prices and by a still smaller decline in retail prices of shoes. It should be noted that the present report as directed by the resolution covers principally the years 1918 and 1919, when prices were increasing, and that very different conditions existed in 1920, when prices were declining.

SUPPLY AND DEMAND.

While average imports of hides and skins in the fiscal years 1913 and 1914, prior to the war, were 566,633,688 pounds, imports for the fiscal year 1918 were only 432,615,693 pounds and for the fiscal year 1919 only 448,141,726 pounds. Since the greater part of the hides and skins tanned in the United States comes from foreign countries, these declines in imports in 1918 and 1919 represented an important decrease in available supply. At the same time there was an increased demand for hides and skins in 1919 in anticipation of large foreign and domestic orders for leather and shoes. Goatskins and calfskins in particular were accumulated in large quantities by tanners. Between February 28 and August 31, 1919, tanners' stocks of goatskins increased from 3,497,039 pieces to 19,636,459 pieces, while calf and kip stocks increased from 1,112,366 pieces on March 31 to 2,505,396 on December 31, 1919. In spite of these increases in raw stocks tanners increased their leather production in 1919 only very slightly and not enough to offset increased leather exports, leaving a domestic supply inadequate to increases in domestic demand. Similarly, the supply of shoes in 1919 was inadequate to increases in domestic demand because of the fact that increases in production were slight and barely equaled increases in exports. That there

was not only an unusually strong domestic demand for shoes in 1919, but also a marked shift in demand to the higher quality grades in spite of the great increase in price, is indicated in reports from the shoe trade.

COSTS.

Another important factor in the increase in prices was a general increase in costs of production. Wages, supplies, and general expenses increased at every stage of production and distribution. The most important factor, however, was the increase in cost of materials, namely, hides and skins for the tanning industry and leather for the shoe industry. In the tanning industry typical costs of sole leather production increased 5.7 per cent, from an average of 44.2 cents a pound in 1918 to 46.7 in 1919; of upper leathers 32 per cent, from 35.7 cents a square foot in 1918 to 47.1 cents in 1919; and of kid leathers 20 per cent, from 33.4 cents a square foot in 1918 to 40.1 cents in 1919. In the shoe manufacturing industry average increases in typical costs per pair in the fall of 1919 over the spring of 1918 ranged between 18 per cent and 72 per cent for men's shoes, between 19 per cent and 45 per cent for women's shoes, and between 7 per cent and 55 per cent for other shoes. In the wholesaling and retailing of shoes, while there were little or no increases in the percentages of operating expenses to cost price per pair of shoes sold, there were notable increases in cost prices to the dealer resulting from the increased selling prices of manufacturers.

PRICES.

With the short supply, increases in costs, and extremely active demand, there occurred a rapid advance in prices during 1919. Average prices of packer cattle hides on quotations in trade papers increased over 100 per cent, from 25 cents a pound in February to 52 cents in August; average price of calfskins increased 82 per cent, from \$5.38 a skin in February to \$9.81 in August; and average prices of goatskins increased 70 per cent, from 90 cents a pound in February to \$1.53 in December. During the rise in hide prices leather prices were quick to reflect the increases, indicating that tanners were selling on a replacement basis. Prices of sole leather based on trade-paper quotations and tanners' reports increased 24 per cent, from 54 cents a pound in February to 67 cents in August; upper leather prices increased 105 per cent, from 41 cents a square foot in February to 84 cents in August; calf leather 95 per cent, from 56 cents a square foot in February to \$1.09 in August; and kid leather 108 per cent, from 72 cents in February to \$1.50 in September. While the peak in hide and leather prices came generally in the summer and fall of 1919, prices of shoes continued to increase until the spring of 1920. Average retail prices of a group of shoes selected as typical from those reported by retailers were \$7.88 in 1918, \$9.88 in 1919, and \$12.75 in the spring of 1920, representing an increase of 25 per cent in 1919 over 1918 and of 29 per cent in 1920 over 1919.

PROFITS.

Incident to the high prices prevailing in 1918 and 1919 were large profits earned by tanners, shoe manufacturers, wholesalers, and retailers. Earnings of 89 tanners of shoe leather, whose production

in 1918 was about 65 per cent of total production as reported to the Commission, were 13.1 per cent on investment (as represented by capital stock and surplus and borrowed money) in 1918, and 29.8 per cent in 1919. Of these tanners the earnings of 22 companies tanning kid leathers, with production in 1918 about 70 per cent of the total reported kid leather production, were greatest, averaging 26.8 per cent on investment in 1918 and 81 per cent in 1919. Earnings of 341 shoe manufacturers, with output in 1919 representing about 62 per cent of the total output shown in the census of 1919, were 16.2 per cent on investment in 1918 and 29.8 per cent in 1919. These large increases in earnings of tanners and shoe manufacturers were due primarily to the fact that their selling prices increased out of all proportion to the increases in their costs per unit of production, with a resultant enhancement of their margins of profit per unit. Earnings of 32 typical shoe wholesalers and jobbers averaged about 22 per cent on investment in 1918 and about 31 per cent in 1919; earnings of 46 typical shoe retailers averaged about 25 per cent in 1918 and about 32 per cent in 1919. These earnings, like those of tanners and shoe manufacturers, resulted from wide margins of profit taken on each shoe sold. The increased earnings in 1919 were due to the fact that selling prices increased by greater amounts and percentages than did costs.

EFFECT OF THE "BUYERS' STRIKE" IN 1920.

While the Commission has not undertaken a study of costs and profits in the year 1920 on the basis of an examination of books of account, the indications are that tanners generally incurred losses in 1920, and that shoe manufacturers generally either incurred losses or made only small profits. This resulted from the rapid price declines in this year and the consequent heavy depreciation of inventory values. These declines seem to have been brought about principally by an abrupt and widespread decrease in domestic demand for shoes in the spring of 1920 attributable to the continued advance in shoe prices. At the same time there was a falling off in export demand for shoes and leather, due to shipping difficulties and unfavorable rates of exchange. The first effect of this slackened demand was a widespread cancellation by retailers of orders placed with shoe manufacturers and the selling of shoes at reduced prices through clearance sales conducted by retailers, wholesalers, and manufacturers in the early summer. With the exception of these sales, however, the reduction in retail prices of shoes during the remainder of 1920 was slight as compared with the marked declines in leather prices and the even heavier declines in prices of hides and skins. Tanners and shoe manufacturers responded to the situation by partial and, in some cases, total suspension of production.

CONCLUSIONS.

The high prices of shoes in 1918 and the great increase in those prices in 1919 appear to have been the result of abnormal conditions of supply and demand arising from the war, which were both economic and psychological. Incident to these conditions were large margins of profit taken by tanners, shoe manufacturers, wholesalers

and jobbers, and retailers. The advance in prices was finally terminated by the so-called "buyers' strike" in the spring of 1920. The failure of leather prices and shoe prices to decline as extensively as did hide prices after the "buyers' strike" may be attributed (1) to the fact that other costs had not declined as much as had raw material costs, and (2) to an apparent tendency to base selling prices on actual rather than replacement costs—a policy inconsistent with that applied in 1919 while prices were advancing. In any event, even though tanners and shoe manufacturers earned smaller profits or sustained actual losses in 1920, due to changed conditions—which are not dealt with in this report, because the inquiry was closed with the end of 1919—the present prices of hides and skins and the conditions existent in these phases of the industry justify an expectation of still further declines in the quoted prices of leather and of shoes.

Respectfully,

HUSTON THOMPSON, *Chairman.*
NELSON B. GASKILL,
JOHN GARLAND POLLARD.
VICTOR MURDOCK.
JOHN F. NUGENT.

SUMMARY OF REPORT ON SHOE AND LEATHER COSTS AND PRICES.

Inquiry into the increased prices of shoes was undertaken pursuant to House Resolution 217, Sixty-sixth Congress, first session. This resolution reads as follows:

Resolved, That the Federal Trade Commission is hereby directed to inquire into the increase in the price of shoes, to ascertain the cause and necessity for the increase; to ascertain the manufacturers' cost price and selling price and the retailers' cost price and selling price for the years 1918 and 1919, and to report to the House at the earliest convenient date the result of the investigation.

SCOPE OF THE REPORT.

Inasmuch as no conclusions regarding the cause of and necessity for increases in shoe prices could well be reached without an examination also of conditions under which the principal raw materials were produced, the present inquiry has included (1) the price trends of hides, leather, and shoes from 1913 to 1921, with particular reference to prices in the years 1918 and 1919; (2) production, consumption, and stocks of hides, leather, and shoes in 1918 and 1919; (3) costs and profits per unit of production and with respect to total business of tanners, shoe manufacturers, shoe wholesalers and jobbers, and shoe retailers during 1918 and 1919; and (4) general conditions in the hide, leather, and shoe industries.

Most of the information upon which the costs and profits in this report are based has been obtained through schedules sent to 262 tanners of shoe leather, 1,085 shoe manufacturers, and 133 shoe dealers (wholesale and retail). In addition, however, the books of 26 shoe manufacturers have been examined by accountants of the Commission for data on the production costs of 259 types or grades of shoes, while data on production and stocks of leather have been obtained through additional schedules sent to 531 tanners. Other data, including information in regard to general conditions, have been obtained through interviews and from published sources.

HIDE PRICES.

Immediately upon the relinquishment of Government control of hide prices in January, 1919, prices of hides, leather, and shoes began an upward movement more rapid and extensive than any which had taken place during the war period, 1914-1918, culminating for hides and leather in the late summer and fall of 1919 and for shoes in the spring of 1920. In the period February to August, 1919, average prices of packer cattle hides based on quotations in trade journals increased 105 per cent, from 25.42 cents per pound in February to 52.09 cents in August; prices of country hides increased 118 per cent,

from 19.77 cents to 43.18 cents; and of calfskins 82 per cent, from \$5.38 per skin to \$9.81 per skin. Average prices of goatskins did not reach their peak until December, 1919, at which time they had increased 70 per cent above the February average from \$0.90 per pound to \$1.53 per pound. That these increases were in most instances greater than any which had occurred during the war period is shown by the fact that average prices of packer cattle hides were 41 per cent above the 1913 average in January, 1919, and 192 per cent above in August, 1919; prices of calfskins were 113 per cent above the 1913 average in January and 342 per cent above in August, 1919; and prices of goatskins were 106 per cent above the 1913 average in January and 258 per cent above in December, 1919.

LEATHER PRICES.

Increases in prices of leather were coincident with and, in the case of goat leather, anticipated the increases in hide prices. In the period from February to August, 1919, average prices of sole leathers, based on trade-paper quotations and tanners' reports, increased 24 per cent, from 54 cents a pound in February to 67 cents in August; prices of side upper leathers 105 per cent, from 41 cents a square foot in February to 84 cents in August; and prices of calf leathers 95 per cent, from 56 cents a square foot to \$1.09. Glazed-kid prices, as reported by a prominent tanner of the better grades, did not reach their peak until September, 1919, at which time they had increased 108 per cent, from 72 cents a square foot in February to \$1.50 in September. That these increases were in several instances larger than the total increases during the war period is shown by the fact that average prices of side upper leathers were 64 per cent above the 1913 average in January, 1919, and 236 per cent above in August; prices of calf leathers were 124 per cent above the 1913 average in January, 1919, and 336 per cent above in August; prices of glazed kid were 85 per cent above the 1913 average in January, 1919, and 285 per cent above in September. The smallest increase was that of sole-leather prices, which were 72 per cent above the 1913 average in January, 1919, and 109 per cent above in August.

SHOE PRICES.

Although the peak of price advances for hides and leathers came in the late summer or fall of 1919, average prices of shoes continued to advance until the spring of 1920. In the period 1914-1919 manufacturers' average prices for a group of shoes selected as typical increased 106 per cent, from \$2.71 in 1914 to \$5.58 in 1919, and by the spring of 1920 were \$8.68, an increase of 220.3 per cent over the 1914 average. Retail prices on other selected shoes, as reported by retailers, increased 119.3 per cent, from \$4.50 in 1914 to \$9.88 in 1919, and by the spring of 1920 were \$12.75, an increase of 183.3 per cent over the 1914 average.

During the first half of 1919, when prices of hides, leather, and shoes were all advancing, leather prices reflected increases in hide prices almost instantly, and in the case of glazed kid even advanced ahead of the raw-stock price. But when prices of hides and leather

began to decline in the fall of 1919, leather prices declined more slowly than did hide and skin prices. Neither hide prices nor leather prices declined very extensively, however, until the break in shoe prices in the spring of 1920. Thereafter hide prices declined rapidly until by the end of 1920 they were below the 1913 average; leather prices showed important declines also, though these were considerably less rapid and extensive than those of hide prices. Retail shoe prices lagged in the downward movement owing (it is alleged) to the unwillingness or inability of retailers to take their inventory losses and clear their shelves.

PRODUCTION AND STOCKS OF HIDES.

Since about one-half of the cattle hides and calfskins and nearly all the goatskins tanned in the United States come from foreign countries, the domestic hide and skin supply depends largely upon imports. In the period from January to September, 1919 (during which prices of hides and of leather made their greatest advances), total imports of hides and skins increased 265 per cent, from 29,254,864 pounds in January to 106,731,885 pounds in September, 1919. However, since total hide and skin imports for the fiscal year 1919 and also for the fiscal year 1918 were over 100,000,000 pounds less than the average imports in the fiscal years 1913 and 1914, and since the domestic demand was in all likelihood larger in 1919 than in 1914, it is safe to assume that there was an actual shortage of hides and skins at the beginning of 1919, and that the increase in imports between January and September, like the increase in prices, was in large measure a result of this shortage. The situation was undoubtedly aggravated by speculative purchases of hides and skins in anticipation of large foreign and domestic orders for shoes and leather in 1919. Purchases of goatskins and calfskins by tanners during 1919 resulted in an increase of 462 per cent in their stocks of goatskins from February 28, 1919, to August 31, 1919, and of 125 per cent in their stocks of calfskins from March 31, 1919, to December 31, 1919. These increases would seem too large to represent merely replenishment of stocks depleted during the war. Nor can they be explained on the grounds that they were incident to an increased production of leather, for the increase in leather production shown for 1919 was very slight as compared with this increase in raw stocks.

LEATHER PRODUCTION.

Production of calf and kip leathers by companies reporting to the Commission was 121,325,488 square feet in 1917, 116,613,246 in 1918, and 155,489,632 in 1919. Production of kid and goat leathers was 246,468,203 square feet in 1917, 210,289,887 in 1918, and 253,134,038 in 1919. Total shoe-leather production (including sole-leather production reduced from pounds to feet by an estimated conversion ratio) for the 319 companies reporting to the Commission was 1,345,713,521 square feet in 1917, 1,138,062,002 square feet in 1918, and 1,507,531,135 square feet in 1919.

As long as hide prices were advancing, i. e., during a large part of 1919, and leather was being sold on the replacement basis of these advancing hide prices, this policy of the tanners of accumulating

hide stocks was evidently a profitable one. Their large purchases of hides and skins tended to force prices upward, while the delay involved in making the raw stock into leather enabled them to sell most of the leather sold in 1919 on a basis of much higher hide and skin prices. In addition, the increases in leather production in 1919 were more than offset by increases in leather exports, with the result that there was a shortage of leather and a consequent further enhancement of leather prices. During 1919 exports of calf and kip leathers increased 33,879,501 square feet, while production increased 38,876,386 square feet, leaving only a very slight balance to meet the increase in domestic demand. In the case of goat and kid leathers exports increased 80,042,959 square feet, while production increased only 42,844,151 square feet.

Whether or no tanners could have increased their production more than they did, it is apparent that their policy of purchasing additional raw stocks without a corresponding increase of leather production accentuated the advance in price of hides, leather, and shoes in 1919. That they would have had no difficulty in marketing more leather if they had produced it is shown by the fact that their stocks of shoe leather were declining in 1919. Total calf and kip leather stocks of 276 tanners reporting to the Commission declined from 24,461,025 square feet on December 31, 1918, to 12,963,352 square feet on August 31, 1919. Total stocks of kid and goat leathers declined from 27,368,462 square feet on December 31, 1918, to 8,515,410 square feet on July 31, 1919. To a lesser extent stocks of sole, side upper, and sheep and lamb leathers declined also during the first six months of 1919.

SHOE PRODUCTION.

Total shoe production in 1919 indicated by a preliminary census statement was 329,528,900 pairs, as against 292,666,500 in 1914. Shoe production, as reported to the Commission by 559 companies, increased in 1919 over 1918, but this was accompanied by an almost equal increase in exports. Shoe production of these companies in 1917 was 259,910,660 pairs; in 1918, 250,743,832 pairs; and in 1919, 259,361,411 pairs. Shoe exports totaled 14,843,208 pairs in 1917, 13,197,020 pairs in 1918, and 21,354,537 pairs in 1919. Thus, while exports increased 8,157,517 pairs from 1918 to 1919, production increased 8,617,579 pairs.

While the increase in shoe exports in 1919 was large enough to offset the increase in shoe production in that year, it fell far short of the anticipated volume of exports which apparently had been responsible in a large measure for accumulations of hides and speculation in leather. Although exports of shoes in 1919 were over 100 per cent larger than those in 1913, they were only slightly larger than the 1916 exports, and were not, apparently, of sufficient volume to represent the demand that forced prices of hides, leather, and shoes to unprecedented levels during 1919.

COSTS AND PROFITS—TANNERS.

Returns from 89 tanners of shoe leathers, with production in 1918 averaging about 65 per cent of total production, as reported to the Commission, indicate average earnings (before deduction of interest

or of income and excess profits taxes) of 13.1 per cent on total investment (capital stock, surplus, and borrowed capital) in 1918 and 29.8 per cent in 1919. Earnings of 32 companies tanning sole leathers averaged 9.7 per cent on investment in 1918 and 18.9 per cent in 1919; earnings of 35 companies tanning upper leathers averaged 13 per cent in 1918 and 23.8 per cent in 1919; while by far the largest earnings were those of 22 companies tanning kid leathers, which averaged 26.8 per cent on investment in 1918 and 81 per cent in 1919.

The increases in the rates of earnings in 1919 over 1918 resulted from the fact that selling prices increased more than costs. For sole leathers the average total cost per pound increased 5.7 per cent, from 44.2 cents in 1918 to 46.7 cents in 1919, while the average selling price increased 9.4 per cent, from 50.1 cents in 1918 to 54.8 cents in 1919, with the result that the average percentage of profit to cost of product sold increased from 13.3 per cent in 1918 to 17.3 per cent in 1919. For upper leathers (calf, kip, horse, and cattle) the average total cost per square foot increased 31.9 per cent, from 35.7 cents in 1918 to 47.1 cents in 1919, while the average selling price increased 34.1 per cent, from 41.9 cents in 1918 to 56.2 cents in 1919, with the result that the average percentage of profit to cost of product sold increased from 17.4 per cent in 1918 to 19.1 per cent in 1919. For kid leathers the average total cost per square foot increased 20 per cent, from 33.4 cents in 1918 to 40.1 cents in 1919, while the average selling price increased 38 per cent, from 40 cents in 1918 to 55.2 cents in 1919, with the result that the average percentage of profit to cost of product sold increased from 19.8 per cent in 1918 to 37.7 per cent in 1919. The fact that margins of profit per square foot on kid leathers were larger in 1918 and increased more in 1919 than those on any other leathers explains the very large rates of return on investment earned by tanners of kid leathers. The high selling prices which made these earnings possible were influenced in part, no doubt, by the policy of tanners in accumulating large stocks of goatskins in 1919 without appreciably increasing their output of goat leathers.

SHOE MANUFACTURERS.

Earnings (before deduction of interest or of income and excess-profits taxes) of 341 shoe manufacturers, with output in 1919 representing about 62 per cent of the total output shown in the census of 1919, averaged 16.2 per cent on investment (capital stock, surplus, and borrowings) in 1918 and 29.8 per cent in 1919. The increase in rate in 1919 resulted from the fact that selling prices increased more than did costs. Because of the diversity in grades, types, and prices of the shoes studied an estimated average cost and selling price for all shoes per pair is not practicable. However, individual returns have been grouped on a basis of cost prices in 1918, and the averages taken for these groups indicate that for typical men's shoes the average cost per pair increased between 18 per cent and 72 per cent in the fall of 1919 over the spring of 1918, while the average selling prices increased between 22 per cent and 79 per cent, with the result that average margins of profit increased between 50 per cent and 189 per cent; for women's shoes average increases in costs ranged between 19 per cent and 45 per cent and in selling prices between 3 per cent

and 50 per cent, with the result that average margins of profit increased between 45 per cent and 192 per cent; for other shoes average increases in costs were between 7 per cent and 55 per cent and in selling prices between 11 per cent and 61 per cent, with the result that average margins of profit increased between 45 per cent and 501 per cent.

Typifying these increases, the average cost per pair of 11 types of men's shoes was \$4.28 in the spring of 1918 and \$5.40 in the fall of 1919; in the same period the average selling price of these shoes increased from \$4.64 to \$6.07, which meant that the average profit per pair increased 86 per cent, from 36 cents to 67 cents. Similarly, the average cost per pair of 9 types of women's shoes was \$4.30 in the spring of 1918 and \$5.48 in the fall of 1919, while in the same period the average selling price increased from \$4.65 to \$6.18, with the result that the average margin of profit increased 100 per cent, from 35 cents to 70 cents. Another indication that selling prices increased more than costs is the fact that total sales of the 341 companies increased from 107.3 per cent of total cost of product sold in 1918 to 112.7 per cent in 1919.

WHOLESALE AND JOBBERS.

Returns from 32 typical shoe wholesalers and jobbers indicate earnings (before deduction of interest or of income and excess profits taxes) of about 22 per cent on investment (capital stock, surplus, and borrowings) in 1918 and about 31 per cent in 1919. These earnings resulted from selling prices which gave wide gross margins over cost price on each shoe. The increase in earnings in 1919 was due to the fact that selling prices increased by larger amounts and percentages than did cost prices, while there was little or no increase in the percentage of operating expense to cost price per shoe. In the spring of 1918 average gross margins of selling price over cost price for the various groups of men's shoes studied ranged from 16.4 per cent of cost price to 24.3 per cent; for women's shoes from 13.1 per cent to 37.9 per cent; and for other shoes from 16.1 per cent to 26.1 per cent. In the fall of 1919 average gross margins for the groups of men's shoes ranged from 19.3 per cent of cost price to 23.6 per cent; for women's shoes from 11.4 per cent to 24.2 per cent; and for other shoes from 13.6 per cent to 29.4 per cent. In general the gross margins on the shoes studied seem to have averaged about 20 per cent of cost price during the period. That selling prices increased more than did cost prices is indicated by the fact that total sales of the 32 companies reporting increased from 119.5 per cent of total cost of merchandise sold in 1918 to 122.4 per cent in 1919. At the same time total operating expenses increased only very slightly, from 13.3 per cent of cost of merchandise sold in 1918 to 13.5 per cent in 1919, with the result that the average percentage of profit earned on each shoe was larger in 1919 than in 1918.

RETAILERS.

Earnings (before deduction of interest or of income and excess profits taxes) of 46 typical shoe retailers amounted to about 25 per cent of total investment (capital stock, surplus, and borrowings)

in 1918 and about 32 per cent in 1919. These earnings, like those of wholesalers and jobbers, resulted from selling prices which gave large gross margins over cost price on each shoe sold. The increase in rate of return on investment in 1919 was due principally to the fact that the increase in selling prices was greater both in amount and in percentage than the increase in cost prices, while there was little or no increase in the percentage of operating expense to cost price per shoe. Average gross margins of selling price over cost price in the spring of 1918 for the various groups under which men's shoes were studied ranged from 37.7 per cent of cost price to 58.2 per cent; for women's shoes the averages ranged from 23.6 per cent of cost to 60 per cent; and for other shoes from 32.4 per cent to 64 per cent. In the fall of 1919 average gross margins for men's shoes ranged from 34.4 per cent of cost price to 59.6 per cent; for women's shoes from 37.9 per cent to 56.8 per cent; and for other shoes from 35.9 per cent to 53.5 per cent. In general, retailers' gross margins seem to have averaged about 45 per cent or 50 per cent of cost price for the period studied. That selling prices increased more than did cost prices is indicated by the fact that total sales for the 46 companies represented 145.5 per cent of total cost of merchandise sold in 1918 and 148.2 per cent in 1919. At the same time the percentage of operating expense to cost of merchandise sold increased only very slightly, from 36.5 per cent in 1918 to 36.9 per cent in 1919, with the result that the percentage of profit earned on each shoe sold was larger in 1919 than in 1918.

In general it would seem that profits at each stage of shoe production and distribution were large in 1918 and increased in 1919. The size of and increase in these profits is attributable to the fact that supply and demand conditions resulted in selling prices for leather and shoes which gave large and increasing margins of profit over cost on each shoe sold. The excess of demand over supply which resulted in these selling prices came in part from economic conditions arising out of the war and in part (it would seem) from the post-war psychology of the consumer, who was apparently determined to buy relatively better qualities than before and to believe that these qualities could only be had at very greatly increased prices.

COLLAPSE OF MARKET IN 1920.

Although no detailed study of costs and profits in 1920 has been made, all the indications are that the sudden break in prices of hides, leather, and shoes which occurred in the spring of the year and the uninterrupted decline in prices thereafter resulted in large inventory losses to many tanners and shoe manufacturers. The break in the market seems to have been brought about principally by an abrupt and widespread slackening of demand attributable to the continued advance in shoe prices. Another factor was the decline in export demand for shoes and leather due to shipping difficulties and unfavorable rates of exchange. The immediate effect of the slackened demand was a general cancellation by retailers of orders placed with shoe manufacturers and a rush to clear out existing stocks by means of clearance sales conducted by retailers, wholesalers, and manufacturers in the early summer. Thereafter tanners and manufac-

turers seem to have responded to the situation by partial or even total suspension of production and by writing off inventory losses on finished stock.

CONCENTRATION OF INDUSTRY.

In the present inquiry no effort has been made to ascertain the extent, if any, to which competitive conditions and price trends have been affected by the predominance of the five large meat-packing companies (known as the "Big Five") in the hide industry, and also of these concerns together with two large independent leather companies—the Central Leather Co. and the American Hide & Leather Co.—in the leather industry. The importance of these companies, however, makes possible the exercise of a considerable measure of control over competition and prices. About 75 per cent of all the cattle, calves, and sheep killed by interstate slaughterers in the United States are killed by the "Big Five" packers. Data in the hands of the Commission indicate that in the period December 31, 1918, to March 31, 1920, between 64 per cent and 96 per cent of the total raw stocks of hides and skins in the hands of packers on the last day of each month were held by the "Big Five." Since prices of country hides are influenced principally by the price of packer hides, the control of the domestic hide market which the "Big Five" are in a position to exercise is apparent. These same concerns are also important factors in the production of hides in foreign countries from which hides are imported into the United States. In addition four of these packers are engaged through subsidiaries or affiliated companies in the tanning of leather, and in 1919 produced about 23 per cent of the total sole-leather production and about 7 per cent of other shoe-leather production. In the same year the two large independent tanners—the Central Leather Co. and the American Hide & Leather Co.—tanned about 32 per cent of the total sole-leather production and about 6 per cent of the total of other shoe leathers produced. One of these two independents is also influential in the country hide business.

SELLING METHODS.

Selling methods employed in the country hide business and also in the tanning business appear to be in some features prejudicial to the best interests of the business and of the public. The price differential in favor of packer hides over country hides is attributable in some measure to the number of dealers and brokers through whose hands the country hides must pass in going from the farmer to the tanner. Also the system of selling country hides in ungraded lots deprives the farmer of adequate incentive to the exercise of due care in the taking off of hides, and so taxes the careful farmer in favor of the careless one.

The present practice of many shoe manufacturers of buying leather for immediate delivery, and therefore at spot prices, forces the tanner to quote leather prices on the basis of the replacement cost for hides, which involves a speculative factor in his business. If the shoe manufacturer would place his order several months ahead of delivery date, the tanner could quote his leather prices on the actual hide market and avoid this speculative risk. Since the shoe manufacturer

markets his goods on the basis of orders booked in advance of production, he would assume no risk in purchasing his leather on the same plan.

It is expected that much of the uncertainty regarding leather supply and demand which gives rise to or enables speculation will be obviated by the recently enacted Kreider law directing a monthly Federal census of leather sales and of stocks of hides and leather on hand. This law became operative in June, 1920.

INFLUENCE OF STYLE ON PRICES.

In the shoe industry multiplicity of styles and of changes in styles appear to operate against the best interests of the manufacturer, distributor, and consumer alike. From the multiplicity of styles comes a burden of additional cost, which begins with the manufacturer and accumulates with each process until the consumer is reached. For the manufacturer there is an added cost for materials, labor, and overhead, with the additional factor of increased prices for the leather which a particular style brings into vogue. For the retailer there are further increases in cost due to uncertainty as regards the popularity or duration of the style. Because of this uncertainty the retailer is obliged to add to his selling price enough to cover himself against possible losses resulting from stocks of shoes left on hand when a style changes or proves unpopular. Often, too, the margin on staple shoes is also increased to cover possible losses on fancy shoes, with the result that the general public is taxed to the benefit of fashion buyers. In addition there is evidence that the style demand may be manipulated to the detriment of the public. During the "buyers' strike" in 1920 vigorous efforts were made by certain elements of the shoe industry to bring about changes in styles with the object of forcing the public to buy shoes by "legislating" current styles out of vogue.

Without discounting the genuine demand for styles on the part of the public and their contribution to the excellence of the American shoe to-day, it is felt that they are open to abuse and have added a serious burden of cost to the consumer. There are so many and such delicate economic balances involved in the question of style that any attempts at regulation would be futile and dangerous, but it would seem that the shoe trade would benefit as much as the consumer by action through the various trade organizations toward the expression of styles more through diversity of and variations in materials used than through multiplicity of patterns, lasts, or colors, thus eliminating the most expensive elements of style and at the same time obviating excessive demand for any one material.

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Syracuse, N. Y.
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