

# The Role of the Rack Jobber

## • JAMES J. SHEERAN

More and more non-food items are found in food outlets today. This means that the servicing and merchandising of non-foods is increasing in importance.

This article discusses the most powerful influence in the distribution of non-foods: the rack jobber. It examines his success, and points out some significant trends and opportunities in the rapidly changing area of non-foods marketing.

**A** RACK JOBBER is an independent business organization that services food retailers by performing the complete in-store merchandising requirements of non-food items. A rack jobber's service includes warehousing, distribution, pre-pricing, displaying, and inventorying.

### FUNCTIONS OF RACK JOBBERS

In some respects the rack jobber, either an individual or a company, is like a "consession." He does not own the physical property on which he sells his merchandise, but he does control the merchandising procedures followed there. He "borrows" space in food stores, and draws profit from selling his service (including product) to food accounts at slightly more than these accounts could otherwise buy the *product only* from a manufacturer.

The rack jobber provides in-store restocking, display, and merchandising at the point of sale on a regular basis. He sells on a guaranteed basis (not consignment). This means that slow-moving or unsalable merchandise is picked up for credit periodically, thereby assuring a full profit to

the retailer and preventing losses through markdowns for clearance and the accumulation of broken, outdated merchandise.

The rack jobber performs at least thirteen marketing services:<sup>1</sup>

1. Assumes full responsibility for purchasing, warehousing, and delivery.
2. Assures a constant supply of the newest type of competitively pre-priced merchandise.
3. Co-operates with manufacturers in developing packaging and point-of-sale materials which will effectively sell non-foods through supermarkets.
4. Sells and delivers in less than case-lot quantities in relation to how each item sells.
5. Provides regular weekly (or semi-weekly) in-store restocking and display services.
6. Furnishes display services on special non-food promotions at the point of sale.
7. Develops tie-in promotions with food products that increase the sales of both food and non-food items.
8. Eliminates investments in warehouse and store back-up stocks.
9. Gives the supermarket operator a substantially greater profit (31 per cent) than the average profit on foods (19.5 per cent).
10. Picks up slow-moving and unsalable

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<sup>1</sup> "Advantages of Service Distributor to the Supermarket Operator," *Information Bulletin* of the American Rack Merchandisers Institute, 1960, p. 1.

merchandise for credit or replacement.

11. Introduces new market-tested items in a merchandise rotation program.
12. Takes the risk out of handling seasonal merchandise.
13. Works to develop new and profitable non-food lines or departments for the supermarket.

There are over 800 rack jobbers in the United States. Most of them work on a local basis (one city), but several of the larger ones cover as many as five states.

From a central warehouse they serve a web of accounts, sometimes numbering as high as 1,500 stores. They compete for customers in the same area.

Not all rack jobbers carry a complete non-food line. Some specialize in health and beauty aids, carrying only one or two secondary lines such as electrical goods and hardware, whereas others may deal exclusively in housewares and soft goods. The economics and competitive activity of a territory dictate what lines a rack jobber will handle.

The average rack jobber may have a sales force consisting of a sales manager and an assistant, several sales supervisors, and a number of sales servicemen or routemen.

The sales manager normally has the responsibility of opening new accounts. He is on the alert for new business, whether new independent stores or new branches of a chain. If he deals with chain stores, he must get approval from the chain headquarters to deal with their branch stores. He is primarily concerned with selling the *concept* of rack merchandising to food outlets.

The particular products involved may be handled by the individual sales serviceman who is assigned to the account. Frequently the sales manager does not know exactly what items a store carries; but the sales supervisor who oversees the sales servicemen makes sure that the account is properly stocked and serviced. In addition, the supervisor indoctrinates, trains, and works with the servicemen to make sure of their continued efficiency.

The sales serviceman is the "backbone" of the rack-jobbing organization. He makes contacts with food operators on a weekly or semi-weekly basis and fully services the account. He operates out of a "vanette" or "walk-in" truck and is responsible for the complete servicing of the accounts he handles. The average number of calls for a serviceman may be eight to ten per day. His average daily sales volume varies between \$600 to \$800; and he has forty to seventy accounts that he covers exclusively.

The rack jobber services as high as 90 per cent of all supermarkets carrying *certain* non-food items. In *all* non-food categories, he represents the source of supply for about two-thirds of all supermarkets. For health and beauty aids (by far the biggest non-food item in a food store) about 52 per cent of food stores are serviced by rack jobbers, while the remaining stores buy direct from manufacturers or other wholesalers. Where space is at a premium, the rack jobber has been successful in securing about 15 per cent of food store floor space for the display and sale of his non-food merchandise.

#### VIGOROUS NON-FOODS GROWTH

Since World War II, there has been a steady increase in the sales of non-food items. Today these products represent 5.2 per cent of total store sales, and there is every evidence that they will continue to grow. In 1950, sales of all non-foods were \$0.2 billion. In 1958, food stores sold \$1.8 billion, an increase of *800 per cent*.

During the same period, the sales of regular food items increased only 81 per cent, from \$27 billion to \$49 billion. Thus, the rate of gain in supermarkets of non-foods over foods is almost ten times greater.

Exactly what are non-foods? Originally they took the form of toiletries and cosmetics (today called health and beauty aids) and housewares; but increasing demand and high-powered salesmanship added a number of other product categories to this list. Stationery, magazines, and toys soon followed, with phonograph records

and soft goods later entering the picture. Presently these items form the basis for the non-food department.

There are a number of other items in food stores of a non-food nature, such as soaps, detergents, paper products, waxes and polishes, that are *not* distributed by rack jobbers. For the most part these are bought directly from the manufacturers or food wholesalers, and have always been considered food-store items. They had distribution in grocery outlets long before the advent of the rack jobber, and are not included in the figures relating to non-foods in this study.

Most important of the rack-serviced non-food items are health and beauty aids. This category contributes 2.3 per cent of total store sales, ranking above cookies and crackers, and soaps and detergents. Because of its high profit margin (average 32.5 per cent) and its relatively high turnover rate, its dollar profit per floor foot is \$6.62 weekly as compared to an all-grocery item average of \$2.88.

Housewares with 0.9 per cent of store sales and magazines with 0.6 per cent are the next most important categories. But soft goods with 0.5 per cent of store sales are pointed out as the real "comers" in non-foods. They have the least distribution of any of the seven basic items, but are growing at a much faster rate. The other products—toys (0.4 per cent store sales), records (0.3 per cent), and stationery (0.2 per cent) round out the non-food category.

#### PROFITABILITY OF NON-FOODS

These seven non-food items represent more total store sales than cigarettes and tobacco, all frozen foods, and all canned vegetables.

The performance of each of these items on a comparative basis—as to (1) percentage of total store sales, (2) margin of profit on sales, and (3) linear floor feet given to the item is shown in Table 1.

Although the figures in Table 1 reflect a substantial amount of strength for non-foods, their greatest strength lies in their *profitability*. Note that non-foods account for 5.2 per cent of total store sales; but

because of their wide margins and turnover, they earn 8.3 per cent of all store *gross profits*.

If translated into sales and profit by space occupied, non-foods would compare with foods as follows:

#### Sales and Gross Profits (by space occupied)<sup>3</sup>

	Groceries	Non-foods
Weekly sales per floor foot	\$15.88	\$11.38
Weekly gross profit per floor foot	\$ 2.88	\$ 3.52

Space is an all important food store consideration, as is profit. The typical supermarket has 544 linear floor feet of gondolas and fixtures for display of merchandise; and 83 feet of this is given to non-foods. The weekly gross profit of non-foods tops that of food items by about 22 per cent.

Even more impressive than the figures on gross profit is the *net profit* for non-foods. Against the average 31 per cent margin of profit that a typical food operator realizes on non-foods, very little is charged off to selling expense. The rack jobber takes care of ordering, shelf stocking, and displaying, and guarantees the sale. He thus eliminates store expenses for mark-downs and "throw outs." In effect, most of the food operator's costs of handling are borne by the rack jobber, and a store's cost of selling is lowered due to self-service.

As a result, the normal operating expense for non-foods is only about 11 per cent (including advertising, depreciation, insurance, interest, utilities, rent, trading stamps, labor and supervision, and taxes) leaving a *net profit* on sales of 20 per cent. Net profit for total food store operations average around 3 per cent.

#### USE OF RACK JOBBERS BY SIZE OF CHAIN

All sizes of supermarkets use the services of rack jobbers. There is some support for the theory that relatively small supermarket chains (four to ten stores) use the rack jobber more consistently than larger chains.

<sup>3</sup> Same reference as footnote 2, p. 1.

TABLE 1  
PERFORMANCE OF NON-FOOD ITEMS IN FOOD STORES<sup>2</sup>

<i>All Non-Foods</i>	
A. 5.2% of total store sales—\$943 weekly non-food sales	
B. 31.0% margin on sales—\$292 gross profit on sales	
C. 83 linear floor feet—\$1,046 items in all departments	
1. <i>Health and beauty aids</i>	
A. 2.3% of total store sales	4. <i>Soft goods</i>
\$408 weekly dept. sales	A. 0.53% of total store sales
B. 32.5% margin on sales	\$99 weekly dept. sales
\$133 gross profit on sales	B. 31.9% margin on sales
C. 20.1 linear floor feet	\$32 gross profit on sales
381 items per dept.	C. 9.8 linear floor feet
	76 items per dept.
2. <i>Housewares</i>	
A. 0.92% of total store sales	5. <i>Records</i>
\$158 weekly dept. sales	A. 0.30% of total sales
B. 33.0% margin on sales	\$64 weekly dept. sales
\$52 gross profit on sales	B. 28.4% margin on sales
C. 10.5 linear floor feet	\$18 weekly margin
167 items per dept.	C. 5.3 linear floor feet
	94 items (titles) per dept.
3. <i>Magazines</i>	
A. 0.58% total store sales	6. <i>Toys</i>
\$110 weekly dept. sales	A. 0.35% of total sales
B. 26.0% margin on sales	\$63 weekly dept. sales
\$28.60 gross profit on sales	B. 33.2% margin on sales
C. 12.3 linear floor feet	\$21 weekly margin
188 items per dept.	C. 96 linear floor feet
	93 items per dept.
7. <i>Stationery</i>	
A. 0.23% of total sales	
\$41 weekly dept. sales	
B. 41.0% margin on sales	
\$16.80 weekly margin	
C. 6.3 linear floor feet	
47 items per dept.	

<sup>2</sup> "Non-foods Are Big Business," *Progressive Grocer*, Special Report, 1959, pp. 3-7.

Figure 1 shows that smaller chains rely in almost 85 per cent of cases on the outside servicing of the rack jobber. As a chain gets big and more "accomplished," it often tries to fulfill its own non-food requirements by buying direct from the manufacturer. As the chain gets bigger (over 100 stores), it tends to increase the use of outside servicing, and at this point in a chain's development, some 50 per cent of non-food items are supplied by an outside source—either a rack jobber or a wholesaler.

It would seem that small supermarket chains use outside servicing because of their inexperience, whereas middle-sized chains (26-99 stores) attempt to act independently and to consolidate non-food merchandising into their own operation. The

large chains, tend more toward the use of outside servicing.

#### NEW RACK-JOBBER FEATURES

Two developments are evident in rack-jobbing today.

One is the establishment of *permanent personnel* (on the rack jobber's payroll) in the non-foods section of *very big* food stores. These people are assigned to their section to act as stocking and display men, and also as retail clerks. They are on hand to maintain their section in the store and to help the consumer buy the right products. This is much like the demonstrator concept of selling in department stores.

Another development is that of the *specialist soft-goods salesman* within the framework of non-foods. Some rack jobbers

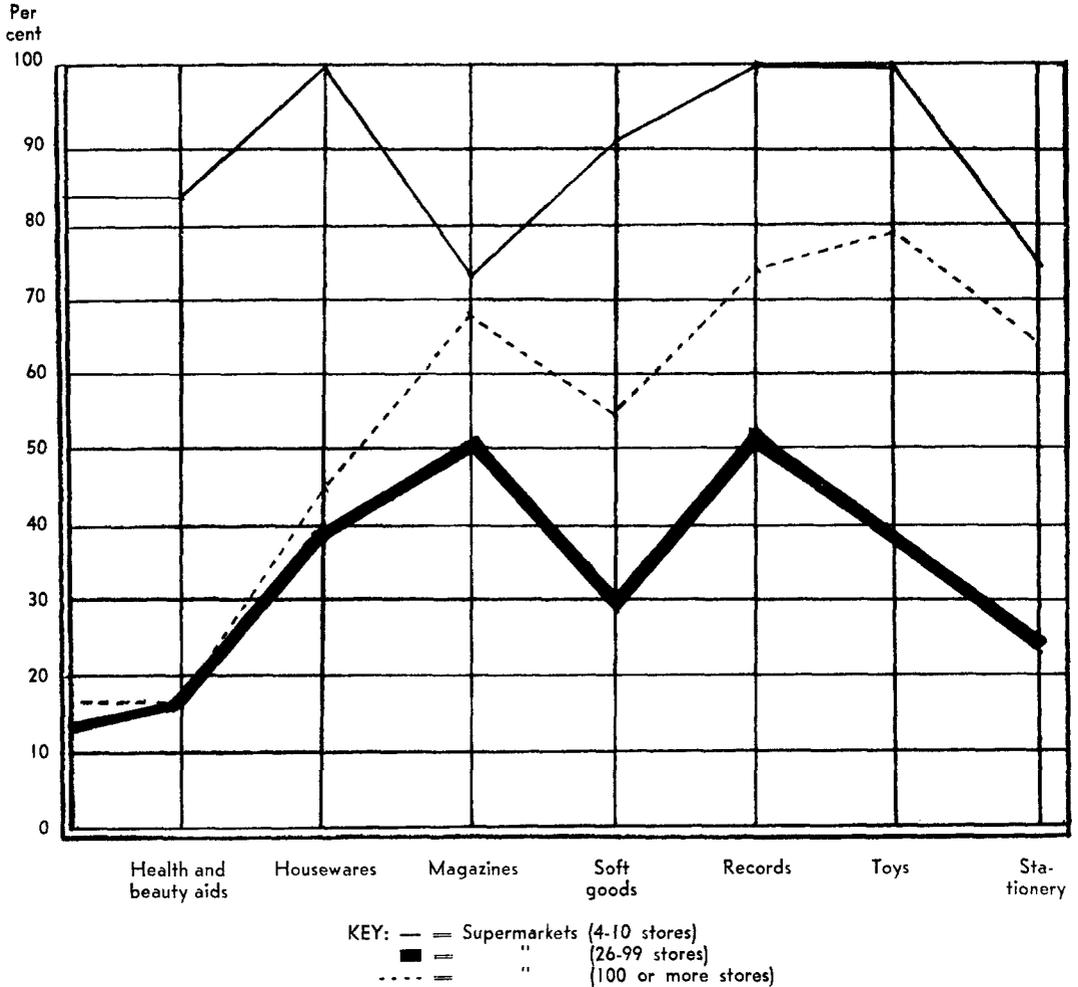


FIGURE 1. Outside servicing by rack jobbers and wholesalers of non-food lines.<sup>4</sup>

are training men to merchandise soft goods exclusively. The number of manufacturers willing to be represented in the food stores is increasing and so are the lines, especially since manufacturers have been willing to sell their major brands (as well as their "off" brands) to food outlets.

Both of these developments have raised the quality of soft goods in food stores. Included in this long merchandise category are hosiery, socks, bras, sportswear, baby pants, crib sheets, briefs, hats, towels, pajamas, sweat shirts, T shirts, slippers, slacks, sweaters, skirts, and rainwear. With

the number of items growing longer and with a variety of styles and seasonal factors to be considered, *soft goods specialists* are needed.

The biggest factor in getting more business for a rack jobber is his service—how frequently he calls, how extensive his line, how well he merchandises. Free goods, premiums, and other standard inducements are used to a slight extent.

**PRICING**

Pricing is fairly inflexible, but does vary within each non-food product group. On an average, the rack jobber sells at 31 per cent off retail to his accounts. He buys at

<sup>4</sup> "The True Look of the Super Market Industry 1959," *Supermarket Merchandising*, Vol. 25 (May, 1960), p. 87.

close to 50 per cent off retail from his suppliers (manufacturers).

Discounts and pricing are as follows:

Item	Approximate percentage discount from retail price to rack jobber (from manufacturer)	Average percentage discount from retail price to food store (from rack jobber)
Stationery	55	41
Toys	50	33
Housewares	50	33
Health & Beauty Aids	45	33
Soft Goods	45	32
Records	50	28
Magazines	40	26

Note that the figures in the first column are *approximate*; quantity purchases and periodic manufacturer-oriented promotions may cause these figures to vary from 3 to 5 per cent. Also note that the figures in the second column reflect an *average* discount.

The rack jobber gets roughly between 10 and 25 per cent of the retail selling price of an item as his profit. Considering his overhead (cost of warehousing, pricing, displaying, manpower, etc.), this is not a very high percentage of profit per item; but a rapid turnover and higher priced merchandise yield the rack jobber an adequate profit ratio.

In practically every case the food store could buy non-food merchandise *cheaper* on a *direct basis* from the manufacturer. For example, most manufacturers offer their direct accounts a 40 per cent off-retail discount for health and beauty aids. Obviously, buying from a rack jobber where a 33 per cent is offered yields less profit to a food store; but the fact that store personnel have to warehouse, handle, price and display the merchandise causes the 7 per cent difference to diminish considerably. In the final analysis, the 7 per cent added gross profit may translate into no additional profit over the 33 per cent that the rack jobber originally offered. This same profit problem exists for all categories of non-foods.

Most food accounts serviced by rack jobbers are billed within ten days after receipt of merchandise. They are billed at one price, which reflects the cost of the product and the cost of the rack jobber's service.

In the case of a shampoo that retails at \$1.00, the food store that buys through the rack jobber will pay about 67 cents (if bought direct, the price would be 60 cents), while the manufacturer sells the item to the rack jobber for about 55 cents. The price of 67 cents to the food store includes the cost of warehousing, handling, displaying, etc., that the rack jobber incurs—there is no extra cost to a food store for these services.

#### THE FUTURE OF THE RACK JOBBER

Rack-jobbing will grow; but the rack jobber will play a changing role in the future. The small independents that cannot get into the housewares and soft-goods business without a tremendous output of money and effort will be prime targets for the services of a rack jobber. Strong competition, however, from food chain buyers, voluntary co-ops, and food wholesalers will seek to diminish his service. As food outlets grow larger and more diversified, they will tend to handle non-food merchandising themselves and switch their buying to a direct basis.

The rack jobber reasons that the food store cannot operate at peak efficiency by handling its own non-foods, especially since the cost of warehousing and handling is very high and since only 5 per cent of total store volume is at stake. Because of the tremendous number of items included in non-foods, he also maintains that the burden of display and product upkeep is too great for a food operator.

But the chains argue otherwise. They claim to have had "concession" operations before, which were integrated successfully and from which they realized a profit. In addition, they feel that they want to have control over every department in their store to make their profit worthwhile.

As this battle of "who is going to distribute what" goes on, a continual shift of buying policies is evident. In the last

few years, such big chains as National, Kroger, Loblaw, and Safeway have tried *direct buying* of non-foods and then switched back to *rack jobbing*. Others have dropped rack servicing in favor of direct buying. Some food operations rely on rack jobbers for servicing only part of their non-food section and buy direct for the other part. But the rack-jobbing industry has steadily grown stronger.

Total sales of non-foods now exceed \$2 billion annually. Compare that figure with those of other outlets that are in the business of *distributing non-foods* exclusively:<sup>5</sup>

Annual volume of hardware stores is \$2.7 billion

Annual volume of furniture stores is \$4.9 billion

Annual volume of drug stores is \$5.5 billion

No doubt years to come will see the non-foods segment of the food industry surpass in sales one of these *complete retail industries*. Consumers are spending more and more of their money in food stores; and this means even more business growth for rack jobbers.

<sup>5</sup> "Non-foods Are Big Business," *Progressive Grocer*, address given by Donald B. Reynolds, Associate Editor, to the Premium Merchandising Club of New York, October 14, 1959.

## MARKETING MEMO

### Do You Want, Or Do You Need?

There is a school of thought popular among certain intellectuals that goes like this: advertising and selling are pretty nasty because they force people to buy things that they do not *need*. This is double nonsense. It is double nonsense because, in the first place, no advertising or selling of any kind has ever *forced* you to do anything you didn't want to do. You have a freedom of choice. True, advertising and selling encourage you to buy various products. And if you and I and a lot of other people quit buying, our economy would suffer. *But you are not forced to buy*—at least not by the influence of advertising and selling.

In the second place, to say that you buy things which you do not need is also nonsense, because the people who say this usually are confusing needs and wants. You and I buy things all the time—everybody you know does—which we do not *need*. What we are doing is buying things which we *want*.

—Steuart Henderson Britt, *The Spenders*, McGraw-Hill Book Co., Inc., 1960, p. 23.

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