

APPENDIX B.

CASH-ORDER TRADING.

PREAMBLE.—This evidence was submitted on behalf of the New Zealand Federation of Drapers, Clothiers, and Boot-retailers, and represents the opinion of the majority of its members. The federation has branches in the following towns: Auckland, Hamilton, Tauranga, Thames, New Plymouth, Wanganui, Marton, Palmerston North, Feilding, Napier, Gisborne, Masterton, Wellington, Nelson, Westport, Christchurch, Blenheim, Ashburton, Timaru, Waimate, Oamaru, Dunedin, and Invercargill. The Auckland Branch, however, which is affiliated to the federation, does not wholly subscribe to the views which will be expressed, and desires that an opportunity be given for its members to be heard on the subject in Auckland.

Cash-order trading is a vexed question with traders, and strenuously opposed by the vast majority. Many of them who have adopted the system have done so under competitive compulsion, and would gladly discontinue it if their competitors would do likewise.

The system is in opposition to sound business principles, as it is not legitimate trading. It is quite as unfair as the trading-stamp system, which the Government made illegal many years ago. By the system the public are duped in that they are misled into the belief that they are buying the goods at the lowest cash prices, whereas the system adds considerably to the selling-prices and materially increases the cost of living. The system encourages overbuying and debt, and is opposed to cash buying and thrift. The system is denounced by all economists and the majority of those who have inquired into or have had experience of its working. It is bringing into existence a class of middlemen who make large profits at the expense of the legitimate traders and the general public. It is a clever scheme for enriching the originator at the expense of established businesses without calling for any service in exchange.

The title "cash-order trading" is a misnomer and misleading. It beguiles people into thinking that they are receiving a benefit by cash trading, but in reality it is not cash trading at all but is merely a disguised credit system. "Coupon trading" would be a more appropriate term and less likely to mislead the public. The system is a social evil. We are gratified that the Government is examining it, and we believe the examination will afford convincing proof that it is against the interests of the public. It is a money-lending system, and the rates of interest charged by the cash-order traders are in keeping with the high rates of the regular money-lender.

The ramifications of the system are spreading throughout the towns of New Zealand at a somewhat alarming rate, and if anything is to be done it should be done now, before it gets a stranglehold on New Zealand trade, as it has done in parts of Australia, Britain, and America.

How Cash-order Trading affects Profits and Prices.—The following illustrations, which are based on facts, show how the system of cash-order trading affects the profits of the traders and puts an extra cost on to the general public. In New Zealand the discounts allowed to the cash-order companies by the traders vary from 12½ per cent. to 15 per cent. No. 1 illustration is based on 12½ per cent. and No. 2 on 15 per cent. :—

Example No. 1 (soft-goods trade) :—						£
Total turnover	..	..	..	..	..	100,000
Ordinary trade	..	..	..	..	..	60,000
Cash-order trade	..	..	..	..	..	40,000
£60,000 at 30 per cent. on return	..	..	..	..	..	18,000
£40,000 at 17½ per cent. (discount 12½ per cent.)	..	..	..	..	..	7,000
Total profit	..	..	..	..	..	£25,000

The average profit on gross return will thus be seen to be 25 per cent., or 5 per cent. below the usual rate.

Example No. 2 (soft-goods trade) :—						£
Total turnover	..	..	..	..	..	100,000
Ordinary trade	..	..	..	..	..	50,000
Cash-order trade	..	..	..	..	..	50,000
£50,000 at 30 per cent. on return	..	..	..	..	..	15,000
£50,000 at 15 per cent. (discount 15 per cent.)	..	..	..	..	..	7,500
Total profit	..	..	..	..	..	£22,500

The average profit on the gross return will thus be seen to be 22½ per cent., or 7½ per cent. below the usual rate.

In the soft-goods trade, with its heavy expenses—i.e., rents, rates, taxes, wages, advertising, &c.—a gross profit of 30 per cent. is necessary, and this percentage is aimed at by nearly all the soft-goods businesses of the Dominion. In some of the businesses that deal in credit and have well-paid staffs it costs from 22½ per cent. to 27½ per cent. to sell the goods; in a few instances it has cost more, with the result that some unfortunate concerns have had to go out of business. In proof of the contention that the trade cannot afford to pay for cash-order trading without passing on the cost to the customers we have the fact that many of our branches during the last two years have lost members of long standing through their failure in business. Further, the number of assistants has been considerably reduced, as shown by our subscriptions, which are based on the number of sales-hands employed. Our returns show a reduction of 584 sales-hands for 1928 as compared with 1927.