

AARON SAPIRO EXPLAINS MARKETING PLAN TO SOLVE KENTUCKY'S TOBACCO PROBLEM

The low prices offered for Kentucky Burley tobacco when it was placed upon the block at the opening of the current season impelled Judge Robert Bingham, president and publisher of The Courier-Journal and The Louisville Times, to attempt to form a co-operative marketing association among the growers.

He knew from various sources that such growers' movements had been successful elsewhere in stabilizing marketing and price conditions. He had learned from a friend, Mr. Bernard M. Baruch, former chairman of the War Industries Board, that this great financial genius had patriotically been interesting himself in ameliorating the condition following low prices to the cotton growers of Mr. Baruch's native State of South Carolina. So Judge Bingham asked Mr. Baruch if he would discuss tobacco growers' organization with a selected committee, and Mr. Baruch quickly consented.

The committee that went to New York to see Mr. Baruch was composed of Mr. John W. Newman of Versailles, Dr. Samuel H. Halley of Lexington, and Mr. Ralph M. Barker of Carrollton. Judge Bingham was represented by Mr. Arthur Krock, editor of The Louisville Times. At that meeting the good offices of Mr. Baruch were definitely obtained and close study was applied to the situation.

Later Judge Bingham had several conferences with Mr. Baruch and confirmed his judgment to bring to Kentucky for a conference with tobacco men Mr. Aaron Sapiro of California. Mr. Sapiro has been the guiding genius of the great farm commodity marketing associations of the Pacific slope which have transformed that land into a horn of plenty out of which stable and excellent profits come to the producers of prunes, wheat, oranges, beans and eggs. Judge Bingham brought Mr. Sapiro to Kentucky to outline these co-operative plans to a selected committee of men, all of them interested in the production of tobacco all of them growers and some of them bankers and warehousemen as well. The committee met with Judge Bingham and Mr. Sapiro at The Seelbach in Louisville for two days, March 25 and 26.

When Mr. Sapiro had outlined the California plans, had practically applied them to the Burley tobacco growing condition and had answered all the questions addressed to him, the meeting enthusiastically and unanimously declared for the feasibility of his plan and authorized Judge Bingham, as chairman of a Committee on Organization, to name such a committee and to proceed with the movement. Judge Bingham named W. E. Simms of Woodford, James C. Stone of Fayette, Ralph M. Barker of Carroll and John T. Collins of Bourbon to serve with himself as the nucleus of the committee to be increased later.

In this section today there is published substantially in full the address made by Mr. Sapiro which persuaded a representative clear-headed group of Kentucky tobacco men that there is a way to stabilize the price and marketing of Burley tobacco. It is a brilliant and masterly presentation of the general subject of commodity marketing by the greatest expert in that line in the world. It is as valuable a document as this newspaper has ever had the privilege of publishing.

Very soon organization of the various Burley counties is to begin as the basis of such an association as Mr. Sapiro has outlined below; and, when that has been achieved, contracts will be published and distributed and signatures will be solicited.

When and if at least seventy-five per cent of the Burley tobacco acreage has signed, the greatest rehabilitation movement in the history of this State will begin.

THE STORY OF RAISINS.

MR. SAPIRO—I am going to take the liberty of telling you first the complete story of how one of these products was organized. I am going to take raisins, because raisins are quite similar to tobacco in some particulars. Then I will generalize from that and tell you how big the whole movement is in California. Then I will take the principles and show you what is practically universal in all these associations. Then I will make an application of those principles to your tobacco situation and see if between us we can arrive at some possible solution for your tobacco difficulties.

Remember, in all of this I am not so much concerned with any one particular crisis as I am with the entire system of marketing. It just so happens that the tobacco industry has passed a crisis in this year. It is remarkable that it has not been facing that kind of crisis almost every year. This particular crisis is simply dramatizes the need for a better system.

As to the history of the raisin industry of California I will try to show you the problems they have and just how they solve them, and I am going to point out to you certain errors they made and how they are getting around these errors.

The Growers' Problem. First, all the raisins in the United States are produced in one district. That district is in California. It almost corresponds to your Burley problem. The San Joaquin Valley is centered in the town known as Fresno. Along in the eighties and nineties they discovered they could grow very good raisins in that district. The only other raisins we Americans come in contact with are some from Spain and Greece, and then, of course, some small currants? But the California raisins were supposed to be as good if not better than any other raisins in the world as they develop them there in that Fresno district.

ated up to the point where they could consume the average crop. If they ate 20,000 tons of raisins a year they were doing well. And the crop was beginning to edge over 20,000 tons a year.

Technical Conditions. Raisins grow like regular grapes, on vines. Then they are dried in the sun and get rather dirty, so they have to be sterilized and processed, and then some of them are seeded and others are pitted in clusters. Others are raised as seedless raisins, and they of course are picked and packed likewise.

But there was another factor that must intervene before raisins could go from the vineyard to the wholesaler or broker who bought them. There were ten buyers in California in 1900 and during the period after that, who handled raisins. There were five big ones, always called the "High Five," and five little ones called the "Low Five." If you didn't sell your raisins to the High Five or the Low Five or one of their representatives you could use the raisins on the farm and feed them to the hogs. The ten buyers were the only possible outlets for the raisins of California. Of course these firms were more or less intimate, there were so few people involved. They lived primarily between Fresno and San Francisco. They were familiar with the bankers and commercial elements and in touch with one another.

It is much easier to get even a legal sympathy between ten men than it is between forty or fifty or going beyond that, into the thousands. And that proved, as I will later indicate to you when I tell you of the old buyer system of California.

So the growers kept on producing raisins because they had the vines and the ground, and the vines simply would produce, and they had to produce in order to try to make some money out of their investment and their labors.

About the year 1900 the growers weren't simply making enough money out of raisins even to pay the cost of production. So, under the leadership of a man named Kearney they started to come together. They didn't have much vision, they didn't quite know how to do it. They didn't know the exact system. They knew that somewhere in Europe the growers had gotten together. They knew that in the southern part of the State the growers were trying to get together but had not yet struck the right system. They started little packing houses, trying to organize the industry on a localized basis. That blew up. They formed some arrangement with the High Five, and that blew up. Then they arranged to deliver the stuff for packing to the High Five and sell some of it on commission or basis. That blew up.

gages. You will find more mortgages on vineyards in one year between 1900 and 1911 than in the ten years between 1911 and 1921. Any one year greater than the aggregate total of the ten years!

The real story behind it was this: Somehow or other no two buyers representing competing firms rarely went to one grower during any one season. You might get a Guggenheim buyer one year and a Rosenberg buyer the next year. But you would not usually get both a Guggenheim buyer and a Rosenberg buyer in any one season. The same thing, I suppose, has been practiced on growers all over the country at appropriate times.

The Buyers' System. The buyers would come out in February or, say, early in March; and in February or March no buyer on earth can tell what is going to happen to the raisin crops. But they would go around talking to the growers, gossiping with them, calling on them to make connections. They would run up and down the State. Like Satan in the Book of Job they were going up and down the land discovering crops, and they always knew from all signs there was going to be a tremendous crop in California. They would simply pass the word to the grower. They would say, "We are going to have a huge crop, possibly 60,000 tons, and you know, of course, the United States won't eat 60,000 tons." They would leave that kind word with the grower. Then, perhaps, they would come back in two weeks, visiting the different districts and saying, "We have been through all the districts and all the signs point to a 60,000-ton crop this year. Half the growers are going to feed their raisins to the hogs. There is no market." Then they would always suggest, "If you don't believe me you had better go in town and talk to the bankers, talk to your neighbors, and see what they say."

Of course the fellow trudged in town the next day to talk to the banker, who had no independent source of knowledge. The banker would have exactly the same data. The High Five and the Low Five peddled it. The banker would mean to be friendly but, not knowing any better, he would always tell the same story. The motive always was to create the impression of a huge crop.

Effect on the Growers. By the end of March they would always have the growers around the district fairly well scared, and the growers would begin to think what they should do with their crops. Each fellow would have in his mind a picture of the other man who did actually feed his raisins to the hogs in some other year; he would also have a picture of the mortgage he had on his vineyard; he would also have a picture of the fact that a little money—even a loss—is better than no money at all.

The growers would begin to get worried. About the beginning of April these buyers would come around with sheets of regular contracts. The buyer knows the grower. He would say, "Now, Bill, we are buying raisins. We are going to buy a certain number and when we reach that amount the books close; we don't take another penny, because we can't sell any more. We don't want to get stuck." Bill, I bet, and look up the records of the foreclosures and count the foreclosures of

Expert Who Proposed Plan



AARON SAPIRO OF CALIFORNIA, WHO HAS OUTLINED PLAN FOR MARKETING KENTUCKY TOBACCO.

The answer would be, "Our price this year is 1 cent a pound." It will interest you to know that raisins sold for as low as half a cent a pound during that period, from 1900 to 1911. The grower probably would say, "I can't produce raisins at that. The university people told us it costs somewhere between 2 and 3 cents to produce raisins, depending on whether we have cheap land or land more expensive. If I sell my raisins at 1 cent I lose money every time I raise a ton." The buyer would say, "Rosenberg is buying at a cent a pound. We have to sell against them, we can't offer more than those fellows are getting raisins for. You had better sell at 1 cent a pound than to feed the crop to the hogs." It is the same situation you have in Kentucky today, the very thing.

Then the buyer would say, as the grower still hesitated, "I will tell you what to do. You think this over and I will come back next week, and you talk it over with your wife and your next door neighbor and see what to do. I don't want to urge you if you think it isn't right."

Then they would go and talk to the wives. The wives would simply realize the children needed clothes, they would need something to eat, they would need to go to school. The wives most likely would vote to sell the stuff at some price rather than get stuck. They all had the picture before them of having the raisins fed to the hogs.

The buyer would come back in a week and go to Bill. He would say, "Are you ready to sell? I have a contract here ready for you." Bill would say, "I hate to sign it, I don't think it is square." The buyer would say something like this—it was done in Fresno, it was done in the whole district. "I will tell you

me your word of honor you won't say a word about this to your next door neighbor, for it will get me in Dutch if you do. I will give you a price of 1 1/4 cents if you will sign right now." Bill would break a leg to get his name on that contract at 1 1/4 cents a pound, because he would think he was getting a little more than his neighbor. Bill would sign that contract and take his loss and be relatively happy on it because he was putting something over on John Smith who lived next door. Probably the same stunt would be pulled on John Smith. He would like to sign at 1 1/4 cents a pound because he thought he was putting it over on Bill his neighbor. That used to be the great stunt of the buyer. They all worked on the same psychology—that the grower never cared about a fair price, all he cared about was that his price was relatively better than his neighbor's. Of course the grower got the worst of it under that condition.

Gathering the Spoils. May, June and July would come on and the raisins started to mellow. September would come and when the raisins were actually picked it would turn out that probably there was a crop of only 25,000 or 30,000 tons, and the raisins would then be sold to the broker at perhaps 6 or 7 or 8 cents a pound, and the brokers or the packers would make a huge fortune on the raisins and the growers would inevitably go backwards.

They experienced that thing year after year. They used to say that every crop of raisins in California made at least five new millionaires. I think that was a slight exaggeration—but it helped to build up a few millions in San Francisco and a couple in Fresno, but not among the growers.

The Counter Movement. That went on until 1911. In 1911 some of these wise growers got together to figure out how many more years they had to "lose." They estimated the investment when they originally started, figured out how it had become impossible to pay off mortgages, in fact how the mortgages was usually increased. A couple who were most desperate said, "We will tell you what to do. Let's go into town and talk to the merchants and bankers and big fellows there and get advice from them. If we are going to get cleaned out let us save what we can and move to some other section and go in a decent line of business." They went to town—they had acquired experience—one went to a real estate firm and offered to sell his ranch. They said, "Where are you located?" He told them. They said, "How much do you think it is worth per acre?" He said, "Well, I think it is worth at least \$100 an acre." "How much will it cost to pull out your vines?" He said, "\$15 to \$20 an acre." They said, "Your land is worth \$80 an acre, that is all we will offer." They told him the land was worth more with the vines out than with the vines in. That was 1911, in Fresno. It taught them a little lesson.

They talked it over with the bankers and told the bankers they were going to throw up their hands, they couldn't pay their mortgages. They told the position they were in financially. These things were discussed.

Finally some of the bankers—particularly one named Mannheim, who has since died—made it possible to form this organization. They said "You fellows down here don't want to lose heart. Get a lot of growers together and we'll see if we can't work something up. The orange growers have gotten on their feet since 1905. You men ought to be able to do something. Get the growers together and talk this over."

Early Conferences. So, at the suggestion of some of the bankers and merchants, they started in and called some more conferences and some meetings around Fresno and these other towns to figure out what was wrong with the raisin growers and with Fresno. The merchants were pretty sore, for Fresno was one of the dearest towns you could imagine. Up to 1911 Fresno was always the joke town of California. It never progressed or advanced. The merchants were getting really sick and tired of it.

They started in to hold conferences to see if they could work out something with the raisin industry. These growers were not all little men—in fact, the men who came into these conferences were the biggest and the best of the growers, the men who, above all, could be expected to do something, but were absolutely helpless because the industry was breaking them. They didn't have packing house plants, they couldn't give the merchants any business.

The first great shock the growers received was at one of the conferences. Mannheim, the banker, got up and said he was tired of having them look on him as a Shylock. "You fellows," he said, "have only two or three conferences with me. You come in the bank and borrow money and take a mortgage. The next time you see me is when you come in next year to explain why you can't pay the interest on the mortgage. Then you come in the next year and explain the same thing, or ask for more money on your crop. I can't give it to you. Then we have another conference when I send for you to tell you that I have to foreclose. A lot of you fellows hate me, I don't want you to lose money. I am not your enemy, I am your friend. I don't want you to lose money. I don't want to take a foreclosure. I want you to make money, and then I want you to deposit the surplus. I want to lend to all the merchants in town and have them develop a big business. I want the town to be prosperous so I can make money. I tell you what I will do. If you fellows will get in and do something for yourselves and get out of the rut, and learn how to solve your own problem all the way through, I will put every penny of my personal resources and those of the bank behind you."

Something Starts. The growers could hardly believe it. One told me afterwards that he didn't know whether he was awake or just dreaming, that something might happen to him some day. He looked around and there was the old man still talking to him. So it really was true. Mr. Mannheim sat down. Then the biggest merchant there, how many

He said when he came to Fresno expected to have a big store, he had dreams of putting in a big stock of fine furniture and clothes and hardware utensils and things of that nature, and that when friends from San Francisco came down he would show them and show them a store as fine as any in the city. "But now," he said, "when friends come down I do take them to the store. All I can get is cheap things, overalls and broad and things like that. You fellows do make enough to buy decent things out the store. The only way I have made money is to buy mortgages and make money that way, but I don't want to make money off vineyards, I want to make money off my merchandise." He then announced that if the growers would get in and do something for themselves which would put in a better system of merchandising, he would put every penny he had behind them.

They began to feel better. They came the parallel of Judge Bingham. We happened to have in Fresno a mighty interesting paper, The Republic, by many regarded as the finest and cleanest paper in California. Chester Rowell was the editor, probably one of the brainiest men California has ever produced. Rowell and his group had decided to have fine paper but they weren't making enough money at the time because their circulation wasn't coming. The merchants weren't making money and couldn't advertise. The paper was not buying anything unless it absolutely had to. Rowell was interested in the growers and announced that he was ready to get behind them, not only with the paper but with every bit of cash that could scrape together.

Co-operation is Disclosed. When the growers got this dose of confidence from these various sources, they began to think for the first time. After a while these suggestions began to crystallize. Always centered on the same thing, as the growers decided to do everything in one big movement. They started in to organize a big co-operative association. They decided to organize with capital stock so they could move the blind alley and put in packing plants for themselves. Then they would take their stuff and try to reach the trade direct. They realized that every time they tried to do with the so-called High Five or Low Five, they had been mulcted and plied.

I want to say that the plan that finally adopted is not now recommended in its entirety. I will explain to you. It is not a plan that is recommended in California as far as the form is concerned, because the inside errors in form, though none economic. They made errors with the best lawyers in the world who have made at that time. They decided to organize a corporation with a million dollars capital to get the money from two sources. First, a lot of the bankers decided to follow Mr. Mannheim's lead, and put money into this thing. They knew they could get subscriptions from some of the merchants and the bankers, men first