

## Periodization and business history: challenging the social construction of “Crisis” to understand business strategies

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### Abstract

*In this paper we aim to demonstrate that economic and business historians' tendency to use severe economic turbulence as periodization turning points does not always fit with corporate change periodization. In fact, our paper shows that the economic downturn of the early 1930s did not impact all companies' long-term strategies the same way and that it somehow fostered management innovations or helped to reinforce nascent ones. To illustrate our point we have chosen to look at some companies who have despite the Great Depression of the early 1930s develop new administrative methods and marketing innovations. This was done not only in defensive modes but moreover to prepare for better times. Not all innovations or strategic options were linked to the context used as a pretext for change. Some strategic initiatives were already planned before and continued after the Depression. Our examples are taken from French companies, but the phenomenon was not limited to that country. Research has shown that in the US and some European countries, similar cases could be found.<sup>1</sup>*

### Introduction

In an opinion piece Daniel Yergin has underlined that narratives that would be crafted about the 2008 financial crisis in the future will serve as explanations for the crisis.<sup>2</sup> Events indeed generate narratives and as such participate in the history of business in society.<sup>3</sup> Though belonging to the past the concept of crisis, is intrinsic to our present. As the 1929 economic crisis has been repeatedly used as a reference to understand or evaluate more recent economic events (1974, 1987, 2008 to name a few) it is established as a central figure of the current rhetoric. Consequently it has had an impact on historians as on every other section of society.<sup>4</sup> Most take for granted that during the Great Slump companies suffered great difficulties and may have stopped to develop projects or innovations. However, “*There are still a great many differences between what historians, business people and economists view as important, and how they address questions about the development of commercial institutions.*”<sup>5</sup>

We do not dispute the fact that major economic crisis have an obvious impact on businesses, in respect to their influence on consumption, markets, prices and ultimately the generation

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<sup>1</sup> Tom Nicholas (2009) “Innovation lessons from the 1930s » *McKinsey Quarterly*, Issue 1, p82-84 for the USA. German examples could be found in Laurent Commaille (ed.) (2009) *Entreprises et crises économiques au 20ème siècle*, Metz and Wilfried Feldenkirchen (1987) « Big Business in Interwar Germany: Organizational Innovation at Vereinigte Stahlwerke, IG Farben, and Siemens », *Business History Review*, vol. 61, No. 3, pp. 417-451. A Dutch exemplary case is F. Kees Boersma (2004) « The Organization of Industrial Research as a Network Activity: Agricultural Research at Philips in the 1930s », *Business History Review*, vol. 78, no. 2 pp. 255-272.

<sup>2</sup> Daniel Yergin (2009) “A crisis in search of a narrative”, *Financial Times*, October 20<sup>th</sup>.

<sup>3</sup> Per Hansen (2006) “Networks, Narratives, and New Markets: The Rise and Decline of Danish Modern Furniture Design, 1930-1970”, *Business History Review*, vol. 80, nr. 3, s. 449-483

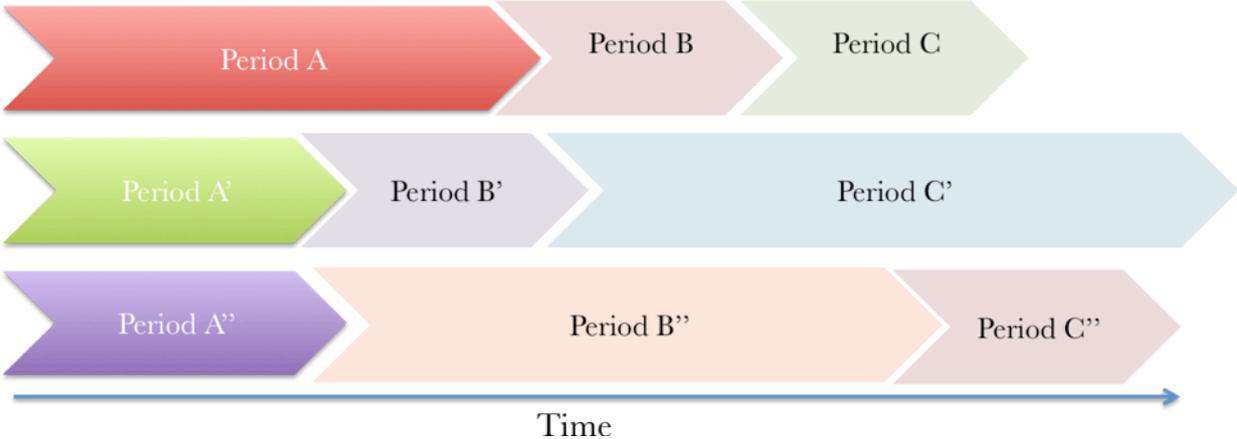
<sup>4</sup> Vivi Perraki (1991) “Un aspect méconnu de la perception de la crise boursière : la presse parisienne du 24 octobre au 14 novembre 1929”, *Le Mouvement social*, 154, p. 157-172.

<sup>5</sup> C. Kobrak, P. Hansen, and C. Kopper (2004) "Business, Political Risk and Historians in the Twentieth Century." in Kobrak, Christopher and Per H. Hansen, *European Business, Dictatorship and Political Risk: 1920-1945*, Berghahn Books: New York, pp. 3-21.

and allocation of resources by firms. However, from a shareholder and strategic management perspective<sup>6</sup>, economic cycles might not be the only relevant framework to explain the decision-making process and the cycle of managerial innovations. In this paper we question the synchronisation between the chronology of economic history and the chronology of business history from the focal point of the firm, its managers and leaders. We posit that to study and understand the strategy of the firm, business historians need to use a set of periodization scales with junctures relevant to the research question.

The analysis of a phenomenon calls for a reflexion on the periodization. It seems crucial rather than borrowing existing sequences designed for understanding macro-economics trends or the social history of a country, to pick a set of relevant sequences. As with Russian dolls of multiple size encased in each others but eventually providing the same object at different scales, business history could be written in using multiple periodization sequences alternatively or in parallel. The most relevant Russian doll is the chosen focus. To understand corporate or managerial decision level, we can use the company or the industry time junctures. For understanding market driven phenomenon, we may use another “Russian doll” reflecting the societal change, such as consumerism, or more business oriented transformations such as the changing distribution channels.

Figure 1: The multiple periodization toolbox



To choose between this “Russian dolls” or periods, and when we plan to borrow existing periodization systems, we also need to understand what they mean. This is the case for the period called “the Great Depression” or “the 1929 crisis”.<sup>7</sup>

**The concept and historiography of “crisis”**

The construct of “crisis” has evolved greatly since the word’s first inceptions in philosophy and politics. With Karl Marx and Friedrich Engels, “crisis” switched from a purely political to an economic term. Along the 19<sup>th</sup> and 20<sup>th</sup> centuries, the name, according to Reinhart Kosseleck,

<sup>6</sup> Even if this terminology is somehow anachronistic relating to the 1930s.  
<sup>7</sup> The latter is the most common reference in French historiography. See per instance Pierre-Cyrille Hautcoeur (2009) *La crise de 1929*, Paris, 128 p.

becomes a catchword with little technical or precise meaning.<sup>8</sup> Public perceptions of economic crisis have also evolved very differently over time. Economic crisis brought despair and poverty and at the same time - in a Darwinian view – had also been considered as “chronic process of selection” and “transitional phases in the path to progress”. Although a little bit forgotten in the 21<sup>st</sup> century, there was in it for Marxists the promise of a revolution to come.<sup>9</sup>

Historians have used “crisis” as a key concept to “characterize epochs or structures”.<sup>10</sup> Since the late 19<sup>th</sup> century crisis are literally understood as “decisive” moments in history when choices are made or not by society. It is important to notice that the “decisiveness” in the evaluation of the impact or span of the event or process is also - to some extent - a function of the actor’s perceptions.<sup>11</sup> In other words, how did the concept of crisis establish itself (or not) in the cognitive maps of the actors of the 1930s is an important question. They were indeed not equipped with any proper historical landmark (as the 1929 crisis for us when we evaluate the crisis of 2008 by comparison per instance).

Due to its impact on the 20<sup>th</sup> century the Great Depression has inspired thousands of books and articles. Economists and historians have been at work since the early 1930s to understand this critical juncture.

In the French case, several works had also been devoted to “*la crise de 1929*” (the Great Depression).<sup>12</sup> Economic historians have looked at the causes of the Depression, its effects and long-term consequences. Business historians, because they are more inclined to case studies and monographs at firm or industry levels have not yet come with a grand synthesis on the impact of 1929 in France.

Compared to economic history or macro-economics, business history appears to generate limited or fractioned insights. This is looked at as a weakness for many social scientists and also fellow historians. However, we want to make a case for cases with that paper. With our two cases chosen in retail and industry, we intend to understand the inner working of organisations in time of crisis. Cases, when they provide counter-examples to macro-economic phenomenon, elsewhere measured by statistical methods, are very valuable sources for the social sciences.<sup>13</sup>

We also tackle the perception of the actors regarding the situation surrounding them, exclusive of sector specificities. We have eventually chosen to look at hard and soft innovations, invisible technologies and long-term projects that started before the Great Depression and lasted.

## **Perceptions**

To the risk of anachronism, some scholars analyse the past as if the generation they write about was conscious or supposed to act as if it was aware of living through a specific historical phenomenon. Most people knew for sure by 1931-32 in France that they were in a country

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<sup>8</sup> Reinhart Koselleck (2006) « Crisis » *Journal of the History of Ideas*, 67 :2, p. 397 {translated from “Krise” in *Geschichtliche Grundbegriffe: Historisches Lexicon zurpolitisch-sozialenSprache in Deutschland* , eds. Otto Brunner, Werner Konze, and ReinhartKoselleck (8 volumes, Stuttgart, 1972–97), 3: 617–5}.

<sup>9</sup> Id. p. 393.

<sup>10</sup> Ibid. p. 399.

<sup>11</sup> Laurent Commaille (ed.) (2009) *Entreprises et crises économiques au 20ème siècle*, Metz, p. 4.

<sup>12</sup> For the most recent French synthesis, see Pierre-Cyrille Hautcoeur (2009) *La crise de 1929*.

<sup>13</sup> Kathleen M. Eisenhardt (1989) “Building Theories from Case Study Research” *The Academy of Management Review*, Vol. 14, No. 4, pp. 532-550.

facing an economic downturn, but none knew for how long and for which exact causes – still a hotly debated issue 75 years later.<sup>14</sup> Contrary to Alfred Sauvy's affirmation that France appeared as an "happy island"<sup>15</sup>, ignorant of the dark clouds to come, an analysis of the press in late 1929 shows that the French public was aware of the extent of the stock market collapse.<sup>16</sup>

However, many industrialists had - what appears to us 80 years later - a disproportionately optimistic perception of the economic situation at least until 1931. Yet, before looking at the actual initiatives taking place, this is first through their expressions that historians access to the strategists' intents of the period. We agree with Hendry when he states "*the principal manifestation of strategic decisions, however these may be conceived, is always through discourse. Decisions are observed, in so far as they can be observed at all, not as moments of individual or organizational commitment but as elements of discourse: explicitly as statements of record or through reference to such statements (whether written or oral), and implicitly through statements of intent or instructions to act.*"<sup>17</sup>

During Galeries Lafayette annual shareholders' meeting, which took place on the 23rd November 1929, the managers announced the beginning of an important extension of the Parisian shop and declared "*c'est donc en toute sécurité qu'il nous est permis d'envisager l'avenir*" (we can {very} safely look forward to the future<sup>18</sup>). One year on, steelmakers "Les Forges et Acières du Nord et de l'Est" while taking stock of the general economic crisis were evaluating positively their own situation.<sup>19</sup>

On the other hand, Louis Marlio, Pechiney's vice-chairman in September 1927 declared that in front of a "persistent crisis" the development of new production capacity might be delayed.<sup>20</sup> The first mention of "crisis" during the Great Depression in AFC-Pechiney's executive committee minutes dates from February 1930. In a pretty formal manner the two executive vice-presidents make clear that they want to fight against a mentality of liberal spending that seemed to have pervaded the company during the "prosperity years". They declare that as of "now", appropriation will be approved only when evidence would be given of a demonstrated improvement or savings.<sup>21</sup> These examples show that few years before and after 1929, "crisis" is used in a different meaning depending on the perception of the environment. The concept is also instrumentalized to achieve managerial objectives and install new procedures and cultural change.

In his analysis of the early perception (or lack of) of the Depression in traditional industries, Laurent Commaille posits that there are indeed two separate level of analysis.<sup>22</sup> On the one hand there is a large production of discourse generated outside the firm, in the press, by academia and politicians. On the other hand, there is the perception at company level of the

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<sup>14</sup> Pierre Cyrille Hautcoeur (2009) *La crise de 1929*, op.cit., p. 6.

<sup>15</sup> Alfred Sauvy (1984) *Histoire économique de la France entre les deux guerres*, Economica, p. 163.

<sup>16</sup> Viki Perraki, op. cit.

<sup>17</sup> John Hendry (2000), « Strategic decision-making, discourse, and strategy as social practice », *Journal of Management Studies*, 37(7), p. 964.

<sup>18</sup> Our translation.

<sup>19</sup> Laurent Commaille (2009) "La tête dans le sable – perception de la crise économique au début des années 30 dans les entreprises des secteurs traditionnels en France", in L. Commaille (ed.) (2009) *Entreprises et crises économiques*, op.cit. p. 74.

<sup>20</sup> Pechiney, executive committee minutes, September 26, 1927. Archives Pechiney.

<sup>21</sup> Ibid.

<sup>22</sup> Id. p. 61.

firm's own situation based on proprietary information, industry sources and past exposure to economic downturns. One should in addition consider the specificities of corporate cultures.<sup>23</sup>

It looks very relevant to our question of the perception of the crisis by industrialist and their subsequent reaction. Indeed, if we follow a foucauldian perspective, we agree that: "power is the struggle over the right to interpret and assign meanings to things".<sup>24</sup>

Corporate culture is embedded in managerial practice discourse and representations. Most industry leaders and top managers of the early 1930s in France were sharing the belief that stock market variations were not of great concern. Several factors could explain this. Many companies were controlled through cross-participation and family ownership was still dominant in several sectors. As a result and due to a perception that they were protected, many large companies did not take stock market information as a signal determining a state of crisis calling for immediate action.<sup>25</sup>

Business historians are supposedly well equipped to analyse the perception of the firms through minutes of meetings and internal correspondence. They shall be able to generalize their findings into a specific periodization effort, focused at internal decision-making processes at firm level.

### **The issue of periodization**

Without ignoring the efforts of philosophers since the 19<sup>th</sup> century, many social scientists have been researching and publishing since at least three decades on the challenge of periodization.<sup>26</sup> They have reflected on the symbolic, irrational and rational as well as ideological dimension of the periods traditionally offered to students and scholars alike.<sup>27</sup>

As far as economic and business history is concerned, economic historians have debated early about the construction of the boundaries of the period concepts they have produced.<sup>28</sup> Business historians have been less busy at reflecting on the issue of periodization. As a consequence they have rightly been accused of a lack of concern for theory an/or self reflection of their methodology. "*Business history proper remains resolutely empiricist and atheoretical in the sense that its conceptualizations and claims are relatively unexamined and it lacks an ostentatiously theoretical language.*"<sup>29</sup>

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<sup>23</sup> There has been a growing interest about culture amongst business historians: Kenneth Lipartito (2008) "Business culture" in Geoffrey Jones and Jonathan Zeitlin, *The Oxford handbook of business history*, Oxford University Press, pp. 603-628. Jeff Fear (2003) "Thinking historically about organizational learning" in Meinolf Dierkes et Al. (eds), *Handbook of organizational learning and knowledge*, Oxford, pp. 162-191.

<sup>24</sup> Kenneth Lipartito (2008), op. cit.. p. 611.

<sup>25</sup> Laurent Commaille (2009), "La tête...", op. cit. p. 67.

<sup>26</sup> Leonard Orr (2005) "Modernism and the Issue of Periodization", *GLCWeb: Comparative Literature and Culture* 7.1, <http://docs.lib.purdue.edu/clcweb/vol7/iss1/3>. Jean Rohou (2002) "La périodisation : une reconstruction révélatrice et explicatrice", *Revue d'histoire littéraire de la France*, Vol. 102, pp.707-732.

<sup>27</sup> Jason Scott Smith (1998) "The Strange History of the Decade: Modernity, Nostalgia, and the Perils of Periodization", *Journal of Social History*, Vol. 32, No. 2, pp. 263-285

<sup>28</sup> Herbert Heaton (1955), "Criteria of Periodization in Economic History", *The Journal of Economic History*, Vol. 15, No. 3, pp. 267-272.

<sup>29</sup> Michael Rowlinson and Agnès Delahaye (2009) "The cultural turn in business history", *Entreprises et histoire*, 55, p. 101.

A notable exception is to be found in a methodology book targeted at organisational studies researchers rather than at historians. Relating to his research in the Cadbury archives, Michaël Rowlinson, an organisational theorist using business history, has detailed his personal journey into the definition of junctures relevant to his research question. He has interestingly underlined in this paper the existing period concept alternatives for historians working the same archival material.<sup>30</sup>

As Thomas Carlyle wrote in his essay “On History” in 1830: “*Our clock strikes when there is a change from hour to hour; but no hammer in the horologe of time peals through the universe when there is a change from Era to Era. Men understand not what is among their hands; as calmness is the characteristic of strength, so the weightiest causes may be most silent.*”<sup>31</sup>

Despite this early warning, there is a general agreement on periodization for most historians: political, social, economic and business alike. As craftsmen they indeed need to divide time to be able to perform their trade. This is the focal point and the contradiction all historians have to face. As Marc Bloch noted: “*real time is in essence a continuum and at the same time perpetual change*”.<sup>32</sup> Asbjørn Aarseth provides us with a more pragmatic view emphasizing on the hermeneutic function of periodization providing in the “*dynamic sphere of the present, the changing picture of the past, and not in the past as bygone totality*”.<sup>33</sup> For Aarseth, periodization is « *an acceptable shared delusionary vision of the past, a consensus kept for its use-value* ». <sup>34</sup> For most historians, periodization remains a very useful tool for teaching and a very standart element of their practice. “*At present, we tend to regard periods as necessary because... one cannot write history (...) without periodizing it. Moreover, we require the concept of a unified period in order to deny it, and thus make apparent the particularity, local difference, heterogeneity, fluctuation, discontinuity, and strife that are now preferred categories for understanding any moment of the past*”.<sup>35</sup>

Antoine Prost has urged historians to reflect upon the metaphor of the butcher used by Plato in *Phaedrus*.<sup>36</sup> The Greek philosopher designates the procedure of dividing into (or according to) forms or kinds comparing it to the work of a butcher who has to cut up each thing “along its natural joints”.<sup>37</sup> He warns that one has to be careful not to break any part into pieces “like a bad butcher might do”. Being a bad butcher consists in dividing across “natural” boundaries. The problem is of course for historians that there are very little real, mind-independent boundaries (the “joints”).

The 20<sup>th</sup> century is organised in most of our textbooks and articles according to the conventional divide including the two world wars and the pre- and post-1929 period. There

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<sup>30</sup> Michael Rowlinson “Historical analysis of company documents” in Catherine Cassell, Gillian Symon (2004) *Essential guide to qualitative methods in organizational research* Essential guide to qualitative methods in organizational research, Sage, pp. 301-310.

<sup>31</sup> Cited by Lawrence L. Besserman (1996) *The challenge of periodization: old paradigms and new perspectives*, London, p. xi.

<sup>32</sup> Marc Bloch (1992) *The historian's craft*, Manchester, p. 24.

<sup>33</sup> Asbjørn Aarseth (1990) "Literary Periods and the Hermeneutics of History." In Mario Valdès (ed.) *Toward a Theory of Comparative Literature*, New York: Peter Lang, p. 232.

<sup>34</sup> Leonard Orr (2005) "Modernism and the Issue of Periodization", op. cit. p. 5.

<sup>35</sup> David Perkins quoted by Leonard Orr (2005), op. cit.

<sup>36</sup> Quoted by Jean Leduc (1999), *Les historiens et le temps*, Seuil, p. 91.

<sup>37</sup> Division *is kat'eide (into forms) according to the articulations (kat' arthra)*. Lesley Brown (2010), “Definition and Division in Plato’s Sophist” in C. David, *Definition in Greek Philosophy* edited by, Oxford University Press, pp.151-171.

could be more sophistication for sure in specialised works<sup>38</sup>, but for sake of common language, we tend to agree on such divisions. Nevertheless, how relevant is it regarding the inner working and analysis of company decision making over the 1920s and the 1930s? This is what we intend to analyse in the following cases.

### **Cases for innovation in managerial practices**

The scientific management movement as a platform for modernization of industry gives an interesting platform for analyzing the fate of innovation in a period of economic crisis. In a seminal book Aimée Moutet considers that there were two waves of rationalisation in the French enterprises.<sup>39</sup> In a first period - roughly the 1920s - several engineers enthusiastically joined the Taylorian movement and tried to apply its principles in plants and offices. After 1930, Moutet explains that industrialists changed their view on scientific management and adopted “*une rationalisation de crise*”, or a crisis-specific effort towards scientific management inclusive of aggressive cost-cutting policies. This certainly needs to be integrated in a larger wave of innovations that took place in French companies during the interwar period and where the rationalization movement used the crisis context to push forward already nascent initiatives.

### **Differences**

As to understand long-term strategy within changing economic conditions, we have decided to look at an industrial company and a family-owned retail group both stock-listed in the aforementioned period.

Pechiney (*Compagnie des produits chimiques et électrométallurgiques d'Alais, Frogès et Camargue* or AFC-Pechiney) founded in 1855 is active in the 1920-1930s in chemicals and electrometallurgy. It is a vertically integrated group with mining interests, salt marsh and other related assets making it a diversified enterprise. The company is also an electrical energy producer with interests in dams, stations and power transportation serving mostly its industrial plants but also external clients. Publicly listed at the Paris stock exchange since 1921 AFC-Pechiney was born of a merger of the main French aluminium industrialists.<sup>40</sup> The stockholders of the company originally represented founding families and related interests. However, they were diluted with the growth of the company along the first years of the 20th century. In the late 1920s, a few industrial groups were represented in the board of directors. After the merger of 1921, they effectively had chosen the new executive team, however, there was no dominant shareholder able to impose their choices to the salaried managers forming the executive team.<sup>41</sup> The non-ferrous metals industry was largely organised through various cartels at international and

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<sup>38</sup> E.g.: the periodization in four phases of the Depression in France proposed by Daniel Lefeuvre (1996) « Les lumières de la crise. Les entreprises françaises dans la dépression des années 1930 », *Vingtième Siècle. Revue d'histoire*, 52, pp. 31-40

<sup>39</sup> Aimée Moutet (1997) *Les logiques de l'entreprise : la rationalisation dans l'industrie française de l'entre-deux-guerres*, Paris: Presses de l'EHESS. 495 p.

<sup>40</sup> See Ludovic Caillaud (1997) "Accounting and accountants as essential elements in the development of central administration during the interwar period: management ideology and technology at Alais, Frogès et Camargue (AFCPechiney)", *Accounting, Business and Finance History*, vol. 7, no. 3, pp. 295-314.

<sup>41</sup> Ludovic Caillaud (2002) "Hiérarchies managériales chez Pechiney (1880-1960) : Chandler en pays alpin ?," in H. Joly et al. (eds.) *Des barrages, de usines et des hommes*, Grenoble. pp.135-156

national levels. Competition in the aluminium, and to a lesser extent, in the chemical industries was thus partly “domesticated” at least until after the Second World War.<sup>42</sup>

The other case we have chosen, Galeries Lafayette, had developed since its incorporation in 1893 from department stores to an integrated textile and retail group. The company was formed by two cousins, Théophile Bader and Alphonse Kahn whose Jewish families had emigrated from Alsace, a French territory annexed by Germany after the Franco-Prussian war of 1870. Bader and Kahn start in business with a novelty shop near the Opéra in Paris. Aux Galeries Lafayette is the last major department store founded in Paris. When the store opens for business on a very small sales area, well-established competitors such as Le Bon Marché or their next-door neighbour Le Printemps had been set up 30 to 40 years before. In 1899, they transform their partnership into a limited liability company and raise money to expand their businesses into full-scale department stores before to go public. Between 1899 and 1914 the group’s annual turnover increases 22-fold.<sup>43</sup>

As in the case of the aluminium industry, department stores use cartels to limit the adverse effects of competition. Despite their apparent fierce rivalry in Paris around the Opéra area, Galeries Lafayette and adversary Le Printemps agree at least since 1941 upon not opening a new outlet where one of the company had already an existing department store.

Galeries Lafayette opens department stores in the largest towns of France and integrates vertically with textile factories in the 1910s.<sup>44</sup> From the 1920s onwards, the son-in-laws of the two founders enter the group in managerial positions forming the second generation of the family leaders. They participate in the internationalisation of the activities with openings and alliances in Europe and North Africa.

If there are differences in size, nature of their business, especially in terms of capital intensity and ownership there are also similarities. Pechiney and Galeries Lafayette were in their respective sectors major players at national or international levels. Both companies and management teams were operating in an environment of limited shareholders pressure towards short-term profitability and high dividends. Management teams were very stable in both cases, nevertheless of different nature, as there was no familial dynasty in the case of Pechiney.

Despite being listed on the stock exchange, Galeries Lafayette was (and still is in 2010) to some extent a family controlled and managed company with in-laws involved in the executive teams. At Pechiney, the stability of the management was based on educational networks. Most of the executives were alumni from the École Polytechnique, an élite engineering school. On top of their training credentials, all but few had served in the public sector, and developed excellent government networks before joining the company.<sup>45</sup>

### **Long term strategizing vs. short-term anti-crisis policies?**

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<sup>42</sup> See Donald H. Wallace (1937) *Market Control in the Aluminum Industry*, Cambridge and Florence Hachez (1999) *L’Aluminium Français, l’invention d’un marché 1911-1983*, Paris.

<sup>43</sup> Florence Brachet Champsaur (2005) *Aux Galeries Lafayette, 1893-1919. Naissance d’un leader de la distribution dans le secteur de la mode*, Master’s dissertation thesis, EHESS.

<sup>44</sup> Anon. (1996) *Le siècle des Galeries Lafayette 1896-1996*, Les éditions stratégiques, p. 6.

<sup>45</sup> Florence Brachet Champsaur (2010) “Les dirigeants des Galeries Lafayette”, in Jean-Claude Daumas et al. (eds.) *Le dictionnaire du patronat français*, Paris, and Ludovic Cailluet “L’impact de la Première Guerre mondiale et le rôle de l’État dans l’organisation de la branche et des entreprises” in Ivan Grinberg and Florence Hachez-Leroy (eds.) (1997) *Industrialisation et sociétés en Europe occidentale de la fin du XIXe siècle à nos jours, l’Âge de l’aluminium*, Paris.

Pechiney and Galeries Lafayette did not confuse their long-term strategy with the concerns originating from the general economic situation. They both developed during the 1920s at fast pace, certainly benefitting from a generally positive economic context. They also took advantage of long term trends in society and the changing patterns of consumption. Both companies were part of new forms of production and distribution and technological advances.

Even the Depression with its very sharp decline in terms of macro-economic indicators was not a definite black hole for many French companies of the time. Daniel Lefevre has shown that the total assets of the largest French companies have increased during the Depression. While the GDP was decreasing by 16% between 1929 and 1938, the annual growth of the “wealth” of large companies measured using companies’ annual balance sheet (in constant Francs) reached almost 3%.<sup>46</sup> In Galeries Lafayette’s annual balance sheet, assets kept growing until August 1933. Despite the Depression and the fall in turnover since 1930, managers went on investing in real estate carrying out a growth in fixed assets.<sup>47</sup>

### **Pechiney: a science and innovation based company thriving on new technologies**

Pechiney, a major non-ferrous metal producer and manufacturer encouraged new application of light metals in electrical equipment (as a substitute to copper suffering from volatile prices), packaging (foil, cans), cycles, appliances, cooking utensils and decoration. The automotive industry believed to be a major future market for the aluminium industry was certainly a growing customer for Pechiney and L’Aluminium Français (a cartel serving as its sole distributor)<sup>48</sup> in the 1920s with the improvement of aluminium castings. While important in the mid 1920s (up to 16% of the total sales) however, the share of automotive related sales decreased in L’Aluminium Français’ turnover as early as 1928 to stabilize at around 6% in 1933.<sup>49</sup>

The aluminium industry relied on other customers for its growth, particularly through metal used in electrical cables, in a context of massive electrification efforts of rural areas. Defence industries, especially from 1934 and moreover aeronautical industries became the leading customer for the industry in the 1930s (aeronautical clients represented 20% of aluminium and alloys sales in 1930), prevailing over automotive clients.

Table 1: French production of aluminium (metric tons) 1920-1938<sup>50</sup>

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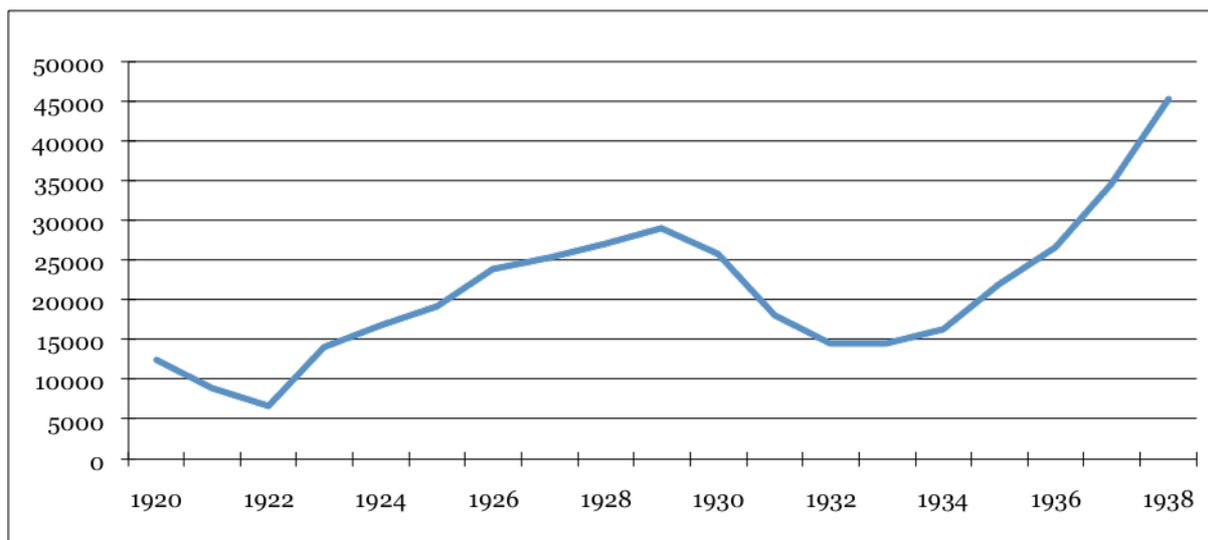
<sup>46</sup> Daniel Lefevre (1996) « Les lumières de la crise. » op. cit.

<sup>47</sup> Acquisition of several buildings to increase the floor area of the main store on boulevard Haussmann in Paris, 1931 general shareholders’ meeting, records GL. From 1934 to 1938, the assets of Galeries Lafayette decreased by 42% mainly due to the stock exchange prices and the fall in inventory. See evolution of the assets in attached data.

<sup>48</sup> Florence Hachez (1999), op. cit.

<sup>49</sup> Le marché de l’aluminium, service statistique de L’Aluminium Français. Archives Pechiney, 502/I-8-51274.

<sup>50</sup> AF/DE, M. Dupin. Archives Pechiney, 00-1-20026.



Even during the worst phase of the recession in 1932, the Société du Duralumin (a value-added alloy manufacturing subsidiary of Pechiney) complained that it was not able to serve all orders due to its limited capacity.<sup>51</sup>

As a consequence of the penetration of light metals as substitute for copper, thanks to much less volatile prices, and of iron, with equivalent strengths and fraction of the weight, Pechiney increased their output between 1922 and 1938 except for a drop in 1931-33.<sup>52</sup> The company was working also very closely during the same period with some of its major shareholders and clients, the manufacturer of non-ferrous metals. That closeness helped Pechiney to switch to its strategy from a cost-driven (high volume and low margins to the automotive market) to a differentiation strategy (high volume and high value added products and markets with alloys and the aeronautical industry). This strategy initiated in the mid-1920s was pursued in the late 1920s and the 1930s and served well the company when the mass consumption markets went dire after 1931.

Pechiney continued its deliveries to specialized customers ready to pay higher prices for specific products in short supply such as aluminium alloys. The oligopolistic form of the international aluminium industry allowed also Pechiney and L'Aluminium Français its commercial arm to defend metal prices that “only” fell by 50% between 1929 and 1935 compared to 70% for other metals.<sup>53</sup>

During the interwar, Pechiney was not only active in metallurgy. It was a diversified group of companies active in chemicals, mining and energy. As many other heavy industries, the group thrived in the mid 1920s on the development of durable industrial goods and new application of chemicals. Pechiney was per instance very active in trichloroethylene to follow up the growth of the production of *Bakelite*.

Pechiney had developed since the First World War an important production capacity in electro-metallurgy. The company had as a consequence launched an ambitious programme of

<sup>51</sup> "Lutte contre les difficultés économiques", 29 June 1932, 5 p. Archives Pechiney, 001-10-20529.

<sup>52</sup> See Wallace (1937) op.cit.

<sup>53</sup> D. Lefevre, op. cit. p. 39.

investments in order to be self-sufficient in terms of electricity generation.<sup>54</sup> This was done as in many other French groups of the period through the creation of a myriad of subsidiaries.<sup>55</sup> From 1924 to 1933 at least, Pechiney conducted a very aggressive strategy of external growth using subsidiaries to enter new activities and new geographical markets and to finance the construction of dams to produce electricity.

Table 2: Evolution of Pechiney activity index compared to the national industrial production index (100=1928)<sup>56</sup>



The financial health of Pechiney during the Depression was not bad given that the company was able to pursue some of its investments despite three years of reduced production. Dramatic productivity gains were made during the period. As an illustration, the chemical division in 1935 realized 98% of its 1930 output with 60% of the headcount and 55% of the total salaries in constant money.<sup>57</sup>

It is important however to note that the load of many debts of the group was mostly located with its subsidiaries and that at the time, there was no way to consolidate the accounts of the various components of the group.

### **Technological and managerial innovations before and during the Depression**

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<sup>54</sup> Maurice Lévy-Leboyer & Henri Morsel (1994) *Histoire de l'électricité en France, tome deuxième 1919-1946*, Paris, p. 748.

<sup>55</sup> Didier Bensadon (2008), "La fièvre des filiales chez AFC (1921-1939)", *Revue Française de gestion*, 188-189, pp. 201-218.

<sup>56</sup> Source: author's calculations based on Archives Pechiney

<sup>57</sup> From "Mesures d'économie et de rationalisation", October 1935. Archives Pechiney, 001-10-20589.

The relative decline in aluminium prices started as early as 1929, prior to the worst of the Depression in France. This was a clear signal of difficulties to come for Pechiney. The first measures were to cut down headcount.<sup>58</sup> However, a year later, given the extent of the difficulties that were foreseen, Pechiney's executives Jacques Level and Louis Marlio decided upon a large scale redefinition of the production capacity. The company took the opportunity to close down obsolete facilities and those considered too small to be efficient. These decisions reduced also dramatically the logistical costs affected to transportations of goods and materials between several plants poorly connected between Alpine valleys<sup>59</sup>. In 1933 the company created a centralised logistics service to optimize flows between units.

Following a tradition established since the 1880s to develop new processes within production plants, Pechiney had since at least 1924 tested new generations of electrolysis cells in several of its plants on a pilot scale.<sup>60</sup> These new technologies were applied to the largest and newest plants that remained open during the Depression. As a consequence, when production restarted at a strong pace in 1934-35, the company was equipped with much more efficient technologies. It did so also because the development budgets related to process improvement were never cut during the crisis. Engineers at L'Argentière and Rioupérourx, two smelters located in the French Alps achieved major technological leaps in 1930-34. These led to considerable cost reductions.<sup>61</sup>

Shutting down several plants to follow the decrease of aluminium sales, Pechiney laid off hundreds of workers. Nevertheless, instructions were given whenever possible to retain the most skilled males and all foremen in order to restart production without losing expertise when the times would be better. As for salaries, contrary to most companies, Pechiney maintained them for its remaining workers to a relatively stable level.<sup>62</sup>

Technological prowess was also combined with changes in administrative methods. The invisible technology of management had also been a concern for Pechiney since the early 1920s in a context of post-merger integration of acquired companies.<sup>63</sup> This trend continued right before and during the difficulties of the early 1930s. The company established "anti-crisis measures" by extending again pilot experiments conducted with the help of American consultant Wallace Clark in 1929 (prior to the Depression) at L'Argentière aluminium plant near Briançon in the southern French Alps. Clark's system of production cost control and inventory management, as well as its preventive maintenance system were extended between 1930 and 1934 to all electrometallurgy plants.<sup>64</sup>

Results were spectacular and led to very important savings in inventory costs. A central purchasing department was established and the combination of these new practices with a

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<sup>58</sup> Réduction des frais généraux et politique des salaires, 24 octobre 1931. Archives Pechiney, 001-10-20529

<sup>59</sup> Transportation costs amounted to nearly 10% of the turnover before 1930.

<sup>60</sup> Paul Morel (ed.) (1991) *Histoire technique de la production d'aluminium*, PUG and Muriel Le Roux (1998) *L'entreprise et la recherche, Un siècle de recherche industrielle à Pechiney*, Éditions Rive droite.

<sup>61</sup> *Ibid.* p. 84.

<sup>62</sup> Réduction des frais généraux et politique des salaires, 24 octobre 1931. Archives Pechiney, 001-10-20529

<sup>63</sup> Ludovic Cailluet (1997) "Accounting and accountants as essential elements in the development of central administration during the interwar period: management ideology and technology at Alais, Froges et Camargue (AFC-Pechiney)", *Accounting, Business and Finance History*, 7:3, pp. 295-314.

<sup>64</sup> "Contribution à l'étude d'une doctrine relative à l'organisation des ateliers d'entretien", septembre 1933, 15 p. and "Méthodes d'organisation W. Clark", 28 décembre 1934, 12 p. Archives Pechiney, 00-10-10018 et 10019.

specific benchmark effort with competitors provided Pechiney with a clear lead after 1934 when production resumed at a pre-1929 rhythm. This gave Pechiney a long-term comparative advantage in developing a positive attitude among engineers toward management innovation. The young modernists who led the effort were promoted to the Parisian headquarter or to broader operational responsibilities.<sup>65</sup>

### **Galleries Lafayette: rationalization and innovation**

Business historians generally emphasize on the innovative role of the nineteenth-century department stores, including sometimes a dramatic image of marketing “modernity”. However, after WW1, on the key subject of modernization and scientific management, retail seems to be opposed to industry. In 1921, for the first time, the Taylor Society recommended in the US the extension of scientific management to “sales engineering”. In 1935, the International Chamber of Commerce (ICC) congress in Paris pointed out the responsibility of archaic retailing structures in the economic crisis.<sup>66</sup> The importance of distribution cost in the retail price was to explain the fall in consumption. The reduction of the production costs had not been followed by a corresponding reduction in retailing costs, which on the contrary increased. From 1930 to 1936, there was a 25% drop in wholesale prices and a 20% drop in retail prices<sup>67</sup>. The turnover of Galleries Lafayette started decreasing from August 1930<sup>68</sup>. In current French francs, the fall was even deeper than the evolution of the retail price index. Nevertheless, thanks to this gap between wholesale and retail prices, one year later, in 1931, the gross margin increased by 1%.<sup>69</sup>

Table 3: Assets and turnover of Galleries Lafayette (1919-1939) in million Francs (constant)

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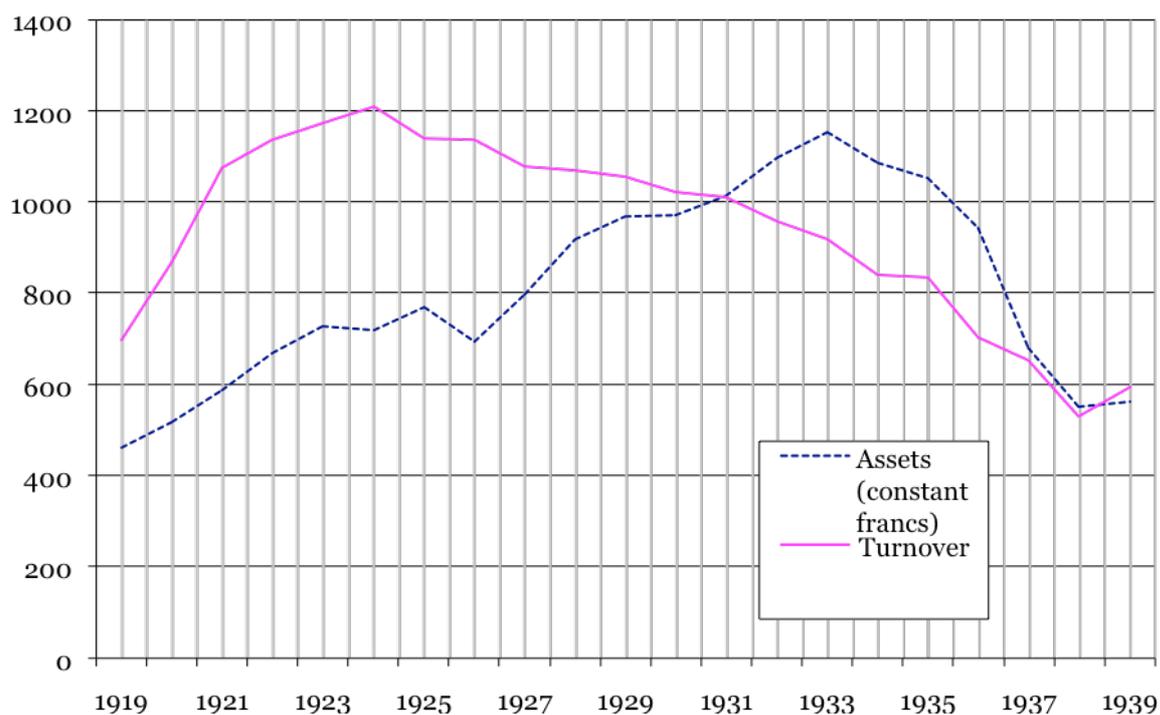
<sup>65</sup> Ludovic Cailluet (2005) “Pratique et diffusion des méthodes modernes d’organisation et de contrôle de gestion. Le parcours exemplaire de Jean Benoit chez Pechiney de 1925 à 1962” in H. Bouquin *Les grands auteurs en contrôle de gestion*, Paris, pp. 284-300.

<sup>66</sup> On this subject see Laurence Badel (1999), *Un milieu libéral et européen. Le grand commerce français 1925-1948*, Paris, pp. 217-230.

<sup>67</sup> Alfred Sauvy (1965) *Histoire économique de la France entre les deux guerres*, vol. 3, Paris, p. 351 and 356.

<sup>68</sup> Board Meeting report, 28th January 1931, records GL. From 1931 to 1938, the turnover of Galleries Lafayette decreased by 48% in constant French francs. See table 3.

<sup>69</sup> Board Meeting report, 10th June 1931, records GL.



In the international discussion about distribution responsibility in the crisis, France was specially criticized because of the very high market share of small retailers: 92.65% in 1906 and still 88.77% in 1936.

In this context, department stores were supposed to play the essential role in modernizing retail in France. The interwar period is the beginning of a new epoch for department stores experimenting important changes in their business model. The founding concept of low-margin and high turnover hardly fit with the increasing range of goods on offer and the new services for customers.

Drapery long remained the core business of most stores. The so-called novelty stores gathered under one roof all the goods for women apparel and accessories (fabrics, ribbons, laces, hats, umbrellas, corsets, hosiery, dresses...). But while the shops had become larger, department stores introduced a wider variety of products. At Galeries Lafayette, the number of departments increases from 86 in 1906 to 93 in 1908, and 108 in 1913 after major extensions of the building on boulevard Haussmann. In 1932, Galeries Lafayette main store in Paris had 172 departments!<sup>70</sup>

Besides the traditional apparel, accessories and textile departments, new merchandise lines appeared such as home furnishing group, carpets, stationery, goldsmith, bedding, photography...

Because of the upward tendency on competition between department stores, the emphasis began to shift from prices to services.<sup>71</sup> Added up with the growth the department stores advertising and sales promotions expenses, services increased the total overheads. In a context of intensive competition, the stores largely used sales promotions with a detrimental effect on the margin.

The retailers are often seen as short term-oriented managers.

<sup>70</sup> Archives Galeries Lafayette.

<sup>71</sup> In the term of services, DS mainly focused on delivery facilities. In the early 1900s, Galeries Lafayette had a regular motor delivery service between Paris and Trouville for their customer on holidays according to Pierre Moride (1913) *Les maisons à succursales multiples en France et à l'étranger*, Paris, p.63.

“The world of department stores seems to be in many respects the world of ephemeral, and this has exercised an influence on the atmosphere of the department store and on the outlook of his top managers. There is perforce a natural tendency to be concerned with the immediate rather than with the more distant, and this is not a situation most suitable for executive selection and building”<sup>72</sup>.

However, the top executives of the European department stores were aware of their need to try out new ideas. In the case of Galeries Lafayette, Theophile Bader carefully selected his two son-in-laws to introduce a turn in the management of the firm. Raoul Meyer and Max Heilbronn were respectively graduates of business and engineering schools.

On the purpose of interchanging facts and ideas through meeting their peers, the department stores holders soon set up business associations. In France, Galeries Lafayette was in 1919 one of the eight founding members of the GEGM (*Groupement d'Etude des Grands Magasins*) which was supposed to act as a provider of information on economics, trade and tax system.<sup>73</sup>

In the modernization of French and European department stores, one cannot downplay the decisive role of international associations and foreign colleagues. After WW1, innovation is not coming anymore from Europe but from the United States<sup>74</sup>. Business studies trips began to multiply. Max Heilbronn, Theophile Bader's son in law, chose to visit America in 1926 during his honeymoon. In March 1929, both Raoul Meyer and Max Heilbronn, asked their US colleague, Edgar J. Kaufmann, to build an itinerary for a trip review of the most representative American department stores.

Back to an official mission in United States, Emile Bernheim, director of the Belgian department store *L'Innovation*, modernized its own store according to the American methods creating a research department, a training department as well a budgetary control system. But he is also convinced of the important role played by the *American Retail Research Association*, which has existed in US since 1927<sup>75</sup>, and he set up a European equivalent upon his return. The research organization (*Groupement d'études*) focused on the improvement of working methods in the department stores. Research started with Ragnar Sachs and Pierre Laguionie, respectively heads of the Nordiska Kompaniet and Le Printemps. Joined by the German Tietz, the Dutch De Bijenkorf, the Danish Magasin du Nord, the Italian Rinascente and the Spanish El Siglo, this first professional group transformed into the international association AIGM (*Association Internationale des Grands Magasins*) in 1931<sup>76</sup>. The head office was located in Paris at Le Printemps.

### **Scientific management at work**

Galeries Lafayette first introduced scientific organization in its production plant. The integration of an important manufacturing activity had been one of the key success factors of Galeries Lafayette, especially for garments, making it more reactive to the changes in fashion.

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<sup>72</sup> Henry Pasdermadjian, quoted in Donald K. Bekley (1955) “Identifying problems of human relations in retailing”, *The Journal of Marketing*, 20:1, July, pp 51-53.

<sup>73</sup> While its initial main concern was to fight through lobbying, the 1919 law, which introduced the 8 hours working day

<sup>74</sup> See Emmanuel Chadeau (1993) « Le commerce de détail: entreprises et 'révolutions commerciales' », *Entreprises et histoire*, 4, pp. 3-13.

<sup>75</sup> In the interwar period, the very formative practice of the critical store visits was imported from the US by European department stores associations, David Carson (1953) « Critical store visits », *Journal of marketing*, vol. 18, N°2, October, pp 134-137

<sup>76</sup> Laurence Badel, *op. cit.*, p. 211

In 1916, the firm created an industrial subsidiary, the SPC (*Société Parisienne de Confection*) to centralize the existing workshops. In 1921, the managers inaugurated in Paris a new building specially designed “to produce garments according to the American scientific industrial organization<sup>77</sup>”.

In a second step, the introduction of new organizational structures led to the creation of independent purchasing departments. Historically the department stores were founded on the innovative idea of gathering under one roof different items for a more efficient shopping experience. Until the interwar period department stores were organized as a federation of retailers, each department being both responsible for sale and purchases.

In 1929, Galeries Lafayette set up a new branch, the SPAM (purchasing, logistics and warehousing) an independent company directed by Gaston Lehmann. This new purchasing organization was to perform the activity of the wholesale buying offices already located in Paris, Lyon, Saint-Etienne, Elbeuf, Roubaix and London<sup>78</sup>. Galeries Lafayette had already concluded an agreement in 1919 with the Cordeliers’s store in Lyon to assist them with their buying activity in exchange of a 5% commission on the total amount of their order.<sup>79</sup> But the aim of this structure was above all to separate sale and purchasing and to give the buyers autonomy in their job. Due to the integrated model of Galeries Lafayette, SPAM was to be the new partner of SPC in the purchasing process for the stores. This was a real revolution in the organization of Galeries Lafayette and during the board meetings the executive managers regularly call the department administrators for order, reminding them that head of counters should *not* meet the purchasing agents anymore. The head of counters were also invited to provide more effectively SPAM with the information on the sell-through of their items.

The building of these independent buying offices is closely linked with the introduction of scientific methods of stock and account management. In 1931, Paul Planus, a well-known consulting-engineer started working for Galeries Lafayette.<sup>80</sup> He took the opportunity of the reorganization of the garage and its repair shop to introduce an inventory accounting. He also set a standards office to centralize information.<sup>81</sup> In 1932, through the reorganization of the warehouse, Paul Planus extended the inventory accounting to the whole department stores in order to improve the buying system and reduce the amount of stock.<sup>82</sup>

Galeries Lafayette also set up in 1932 a supplementary central purchasing organization called Société Centrale d’Achats (SCA). This organization was to deal mainly with the independent suppliers. The first retailer who became an affiliated member to the SCA opened a store in Rouen in October 1932 under the NOMA brand.

### **The new Monoprix chain stores (1932)**

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<sup>77</sup> "Les Annexes des Magasins des Galeries Lafayette", *L'Architecture*, 25 septembre 1921, p. 41.

<sup>78</sup> Archives GL.

<sup>79</sup> AG du 29 novembre 1919, archives GL.

<sup>80</sup> Paul Planus set up an independent study in Paris in 1929 to help the firms to be reorganized according to Taylor’s theories. In 1933, he spent eight days at the American department store Macy’s, as to write up recommendations to improve the supply management of Galeries Lafayette. See Aimée Moutet (1997) *Les logiques de l’entreprise*, Paris, p.211

<sup>81</sup> Réorganisation du garage des Galeries Lafayette, Genève, Institut d’OST, 1933, quoted in Aimée Moutet (1997) op. cit.

<sup>82</sup> Les magasins de réserve des Galeries Lafayette, Centre de Préparation aux Affaires (CPA), Paris, 1932.

The scientific management of the purchasing operations played a decisive role in the development of a new retail concept in France from 1928-1929: the price-point chain stores. France was quite late in the introduction of these, mainly inspired by Woolworth *five and ten*, and already developed in UK by Marks & Spencer and in Germany under its most successful form with Ehape (Tietz) and Epa (Karstadt).<sup>83</sup>

Nouvelles Galeries is the first French department store to establish a price-point or variety chain store under the brand “Uniprix” in 1928. The establishment of the “Prisunic” chain by Le Printemps in 1931 was rapidly followed by “Monoprix” by Galeries Lafayette and eventually “Priminime” by Le Bon Marché in 1932. However, The first prix unique “Cinq et dix” was founded in France as early as in 1927 by Mr and Mrs Audibert, back from a trip to United States.

This new form of large-scale retailing, catering for the working and middle classes, used price as a main appeal. The price-range, generally limited to three, would lean upon a narrowing of the offer. In 1935, 4 500 items were on offer at Prisunic compared to 90 000 at Le Printemps<sup>84</sup>. Goods were divided in 20 to 30 departments. The best sellers were basics such as artificial silk stocking, cotton shirt, eau de toilette, household soap or pitchers. Price-point stores concentrated on basics and staple goods that could be mass-produced. This chains were usually not producers as to avoid higher tax<sup>85</sup>. The display of the products was rudimentary. They were put together into boxes by price instead of range of product also to cover the lack of variety.

Products were not even labelled, and colour codes were used to mark the price. The role of the lower-qualified sale staff was almost reduced to cash. As a consequence, wages were 20% lower than in a department store. Services were nonexistent as goods could not be home-delivered nor returned.<sup>86</sup> Consumer credit was banned. While department stores took responsibility for increasing advertisement budget, the price-point stores relied upon their cheaper prices to spread out their reputation. Thanks to this highly rationalized organization, the price-point chain stores managed to lower the cost of sales to 25% of the turnover compared to an average 33% in a department store.

In 1937, a survey from the Federation of multiple shop retailers (FNECM) highlighted the accuracy of the statistics communicated by the price-point stores compared to specialty chain stores or even department stores. The three price-point store chains answering the survey were able to provide data on “sales volume and average output, consumption fluctuations in quantity and quality, purchase-elasticity in a context of price rising with a breakdown of products, consumer insights...”.<sup>87</sup>

In a 1933 conference, the grocery trade union had already pinpointed the modernity of the price-point stores management tools opposed to the backwardness of the local independent retailers unable to work out their cost prices.<sup>88</sup> According to their unfortunate competitors, the UPS managers were very good at finding in each range of products, the lower cost price item

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<sup>83</sup> Laurence Badel, *op. cit.*, pp 71-89

<sup>84</sup> « Les magasins à prix uniques », *Bulletin CPA*, 1<sup>er</sup> janvier 1935, p.11

<sup>85</sup> The production tax introduced in 1936 (6% of the cost price) rose to 8% in 1937 and penalize the manufacturer-retailers.

<sup>86</sup> In the same period, home-delivery service represented 4% of operating costs in department stores!

<sup>87</sup> Enquête sur la production, 1937, archives Fédération nationale des entreprises à commerces multiples.

<sup>88</sup> « Les magasins à prix uniques », 30<sup>ème</sup> congrès de la Fédération Française des syndicats de l'épicerie. Rouen 19-21 juin 1933, archives Chambre Syndicale des Magasins Populaires.

with a high selling out. Their knowledge of these business data was also a strong point negotiating with the suppliers.

Based on the chronology of the openings, we could say that the French concept of price-point store was not directly linked with the crisis. However the evolution of the economic background in Europe from 1931 certainly carried out the spreading out of these stores.

Galeries Lafayette, which was not the first entrant in this emerging retail concept, first considered the price-point chain stores as a new competitor. In March 1931, a “price-point” range of products was introduced at Galeries Lafayette. In a board meeting dated February 1932, the management insisted on the necessity to fight the competition of these retailers including by selling a range of price-point products in the department store. They took the opportunity of the sales period of summer 1932 to introduce more items and a special display<sup>89</sup>. But, to avoid mixing-up the department store with a price-point store, the administrators finally decided to use the words “rounding-off prices” (*prix arrondis*) with a price list of 10, 15 and 20 French francs. This happened before the opening of the first Monoprix store. With this new chain store, the managers of Galeries Lafayette rapidly understood the interest in entering this market segment with a separate store brand. In doing so, they turned the threat of this competition into a commercial success. These stores rapidly spread out and only 6 months after the opening of the first Monoprix, Théophile Bader was able to forecast for September 1933 a network of 27 stores with a total 625 million turnover<sup>90</sup>. However during a few more years, Galeries Lafayette tried to attract the customers looking for low price items. From 1932 to 1936, the corporate communication emphasized on the price with this catch phrase:

“Acheter aux Galeries Lafayette c’est faire des économies” / « Buying at Galeries Lafayette is saving up »

This product mix helped establishing synergy between Galeries Lafayette and Monoprix. As soon as four days after the opening of the first Monoprix in October 1932, the executive committee encouraged the head of departments at Galeries Lafayette to buy from the supplying office of the price-point stores set up next door, on the boulevard Haussmann<sup>91</sup>. More surprising, the Monoprix had also the possibility to resupply from Galeries Lafayette, directly in the Parisian store, and would be charged at cost.<sup>92</sup>

Those buying process demonstrate that Galeries Lafayette and Monoprix had similar basic items on offer in their respective store. Both shared the same central buying office: SCA. So doing, they joined their orders and due to the important quantities were in the strong position to deal with the manufacturers. In 1935, Max Heilbronn, who had taken advice from Simon Marks (of Marks & Spencer fame), had mass-produced 100 000 similar shirts and 500 000 aprons.<sup>93</sup> He applied himself to building long-term fair relationship with suppliers, as for instance with Pierre Levy, famous manager of the industrial knit firm Devanlay-Recoing.

Nevertheless, in the case of Galeries Lafayette, the store was also catering for the upper classes. In 1933, they published a luxury products catalogue. At the same time, the management of Galeries Lafayette decided that the utility goods should *not* be advertised neither in the catalogues nor in the layout of the shop.<sup>94</sup> It is true that the introduction of a

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<sup>89</sup> Board meeting, report, 3<sup>rd</sup> June 1932

<sup>90</sup> Lettre de Théophile Bader à M. Gunthert (CCF), 21 avril 1933, Noma, archives GL

<sup>91</sup> Board meeting, report, 28<sup>th</sup> October 1932

<sup>92</sup> Board meeting, report, 28<sup>th</sup> July 1933

<sup>93</sup> Guillaume Garnier (dir.) (1987) « Les magasins populaires », *Paris-Couture-années trente*, Musée de la Mode et du Costume, p.215

<sup>94</sup> Board meeting, report, 13<sup>th</sup> January 1933, records GL

range of low price items was made to the expense of quality at Galeries Lafayette. For instance, in 1930 a flagship fabric called “zenana” was made of silk, and sold at a price of 54.9 francs in a width of 1.10m. In 1933, the so-called “zenana” was sold at a price of 25.9 francs. The general price reduction engaged since 1932 was not the only reason for this reduction. In 1933 the fabric had become a mix of silk and wool and its width had reduced to 0.80m.

At the turn of 1935, the management of Galeries Lafayette understood that they had neglected the traditional department store clientele, the middle and higher income classes. In 1936, the managers decided that the forthcoming catalogue should be realized in a more luxurious style, and would present good taste items.<sup>95</sup> The word of quality made its come back in a new catch phrase:

« Aux Galeries Lafayette, l'économie par la qualité » / « At Galeries Lafayette, savings through quality »

In this repositioning strategy, the Monoprix chain store would be of a great utility. They allowed Galeries Lafayette to clarify its brand image but catering at the same time for the working class and the upper class.

In fact, most of the five-and-ten chain store in France during the 1930s were founded by department stores. For the latter this new retail concept was a way to adjust the market segmentation, these kind of stores being a more suitable answer to expand their network in the provinces. Their cheaper positioning targeted the working class customers who couldn't afford buying in the upgraded department stores. This market segmentation as a new practice helped department stores to build a more accurate customer target in a context of strong competition.

### **An upgraded positioning due to the strong competition between Parisian department stores.**

In that context, prices were not enough: new services (as deliveries), new departments, new improvements and extensions are offered to highly-desired customers. Advertising becomes more present and finally overhead expenditure increase reducing the operating margins.

So that the introduction of this new retail concept is an answer to the fall in purchasing power due to the crisis, but it is also a result of a long-term evolution of the department stores away from their first business model based on low prices combined with high volumes hence low margins "vendre beaucoup à petit bénéfice" (Aristide Boucicaut).

As French department stores began transforming into general stores, the narrowing of the offer and the careful restriction of the number of references sold in the price-point chain stores could be interpreted as back to basics: *le commerce de la nouveauté*, novelty trade. It is also a response to a new competition emerging during the 1920s with chain stores companies specialized in dress and footwear. This new form of large-scale retailing, catering for the popular and middle classes, used price as a main appeal. While traditional department stores, catering for the middle and higher income classes, used quality and services.

### **From Distribution innovation to administrative innovation**

In a 1933 conference, the grocery trade union already pinpointed the modernity of the price-point stores management tools opposed to the backwardness of the local independent retailers unable to work out their cost prices.<sup>96</sup> According to their unfortunate competitors, the price-

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<sup>95</sup> Board meeting, report, 17th January 1936, records GL

<sup>96</sup> « Les magasins à prix uniques », 30<sup>ème</sup> congrès de la Fédération Française des syndicats de l'épicerie. Rouen 19-21 juin 1933, archives Chambre Syndicale des Magasins Populaires.

point stores managers were very good at finding in each range of products, the lower cost price item with a high selling out. Their knowledge of these business data was also a strong

point in negotiating with the suppliers and purchase departments.

In 1937, a survey from the Federation of multiple shop retailers (FNECM) highlighted the accuracy of the statistics communicated by the price-point stores compared to specialty chain stores or even depart

ment stores. The three price-point store chains which answered the survey were able to provide data on “sales volume and average output, consumption fluctuations in quantity and quality, purchase-elasticity in a context of price rising with a breakdown of products, consumer insights...”.<sup>97</sup>

The combination of crisis and distribution innovation had led to an improvement of the management of these retail groups exactly as the anti-crisis measures at Pechiney had been an opportunity for modernists to impose their views on adopting new methods and new indicators. These innovations were not to remain only circumstantial but to last and developed in the 1940s and later.<sup>98</sup>

## **Conclusion**

Through the impact of the Great Depression of the early 1930s on both French companies, we points out the shortcoming of a history focusing on major downturns to understand organizational changes. Back to primary sources, the records of Pechiney and Galeries Lafayette highlights the lack of synchronisation between the chronology of economic history and the chronology of business history.

First, despite its major impact on businesses, crisis didn't interrupt innovation processes. It is well known that the necessity to respond to an economic upset can promote innovation. However, back to a critical analysis of the records of the firms, the examples of Pechiney and Galeries Lafayette show that the process of organizational changes was engaged before the Depression. The chronology of business history and a meticulous approach of the sequence of events, demonstrate that it would be misleading to introduce these innovations as an adaptation.

Yet, this process, which is not questioned by the economic downturn, takes a different meaning in the context of the Depression. It is striking in the case of the origins of “magasins à prix uniques” shifting from a need to modernize retail in the late-twenties to a defensive response to the crisis of consumption in the mid-thirties. This legitimation ex-post by the decision makers themselves, and the corporate discourse associated, could have influenced historians in their perception of how and why managers introduced organizational changes. Beyond this necessary use of the archives, we aimed to achieve a critical analysis of the gap between how it really happens and historical narratives built by contemporaries themselves.

This observation also raises the issue of the actor's perceptions of the crisis. In the debate on whether French public was aware of the economic downturn or isolated in what Alfred Sauvy referred to as an “happy island”, a careful study of the documents produced by both firms can provide a useful answer. Through minutes of meetings or internal correspondence we are able

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<sup>97</sup> Enquête sur la production, 1937, archives Fédération nationale des entreprises à commerces multiples.

<sup>98</sup> Ludovic Cailluet (2005) “Pratique et diffusion des méthodes modernes d'organisation et de contrôle de gestion », op. cit.

to establish for both firms a specific periodization, different from the sequence of events produced by the discourse generated outside the firms (press, politicians...). This critical reading is essential to explain the decision-making process.

There are certainly many limitations in our choice of Pechiney and Galeries Lafayette as cases. The first and most obvious is that both companies survived the Depression and last very long after (Galeries Lafayette is still in 2011 a privately owned independent company Pechiney was taken over by Canadian aluminium producer Alcan in 2003). Hundreds of corporations went bankrupt during the period and this led to a reinforcement of the market position of the strongest players in respective industries. Could we assume that both firms survived the Depression because they were not waiting for a breakdown or crisis to challenge their organization? On the early 1920s, the new generation of Galeries Lafayette managers carefully study the innovations set up in the United States and were active members of business associations pointing out the necessity to extend scientific management to retail. At Pechiney a new generation led by R. de Vitry CEO then chairman until the 1960s developed the French company into a real multinational giant.

These factors do not support however the uniqueness of these two firms. It has been shown that during the Great Depression, many firms amongst the largest fared relatively well in terms of assets value or even stock performance.<sup>99</sup> This is a story of victors and resilience. These companies were favoured by the existence of cartels and oligopolistic competition among other factors. Finally this is a history of long-term strategizing favoured by not-too-demanding shareholders and stable managers, continental style.

In looking at case studies business historians might not help much building generalizations however they question established models. In doing so, they also offer alternative periodization systems while participating in a history of decision-making. With this paper we have attempted to open the debate and encourage business historians to reflect on their professional practice.

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<sup>99</sup> Daniel Lefeuvre (1996) « Les lumières de la crise », op. cit. and Jacques Marseille (dir.) (1994) *Les performances des entreprises françaises*, Le Monde éditions.