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COMMERCIAL MANAGEMENT

COMMERCIAL MANAGEMENT

A HANDBOOK OF
MODERN BUSINESS PRACTICE

BY

CUNLIFFE L. BOLLING



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PREFACE

I HAVE written COMMERCIAL MANAGEMENT to meet the need for a handbook of modern business practice which would serve as a vade-mecum for those who are engaged in the management of business and as a textbook for those who aspire to Management.

It is only within the past few years that Management has been recognized as a separate factor in business, distinct from Capital and from Labour, and it may be claimed that this book is the first of its kind to be published.

I have dealt broadly with those matters of routine with which the commercial manager would, of necessity, be fully conversant and with those questions in which the manager's actions would be governed by the peculiar circumstances of his business.

On the other hand, I have selected for particular attention those problems which are common to most businesses and which are liable to cause perplexity.

It is obvious that the practices advocated or forms illustrated in this book are not suitable for every class of business; the reader must judge for himself whether or not a suggestion will meet his case. I have endeavoured to avoid dogmatizing and to present alternatives wherever possible.

My aim has been to describe the business world as it is, and not as it should be, and to make the examples practical and feasible. In this connection, and in view of the fact that I have been associated, in various ways, with so many trading concerns, I think it necessary to state that the names mentioned in the book are entirely fictitious, and that none of the examples or illustrations represents an actual transaction or a record of an existing business.

CUNLIFFE L. BOLLING.

"HOLYROOD,"
BRIXTON HILL, LONDON.
July, 1925.

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COMMERCIAL MANAGEMENT

CHAPTER I

MANAGEMENT

MANAGEMENT stands between capital and labour. It is responsible to capital for the proper use of the funds invested in commercial enterprise, and it is responsible to labour for the proper direction of the workers' skill and energy. These responsibilities do not clash with one another. When a business is well managed, both the proprietors and the workers benefit by the fact that the money of the former and the efforts of the latter are not wasted.

The Responsibilities of Management.

On the other hand, when management fails to carry out its obligations, capital and labour both suffer—although they often do not realize where the fault lies, and in consequence blame one another for their misfortune. Most of the disputes arising between capital and labour are the outcome of bad management.

In the case of a big public company there is a group of thousands of shareholders on the one side, and a group of thousands of workers on the other. The shareholders are represented by the board of directors, and the workers are represented by their departmental managers.

With many successful businesses the board of directors only comes into contact with the departmental managers through one man—the managing director—who represents labour to the directors and capital to the departmental managers.

Every business must have one supreme chief. A business without a head man is like a ship without a rudder.

There are occasions when immediate action is called for, when the business is affected by a sudden crisis and there is no time for board meetings, committee meetings or consulting outside authorities. On these occasions the business must be in the hands of a man with sufficient authority

Necessity for Leadership.

to use the whole of its resources, if necessary, in meeting the emergency.

The chief may be the sole proprietor of a business, the senior member of a partnership or the managing director of a company, but for the purpose of this chapter he will be called the general manager.

It is obvious that the welfare of a business is dependent upon the business acumen of the general manager, but the fact is not generally appreciated that the character and behaviour of the staff reflect the character and behaviour of the general manager.

The Staff Reflects the Character of the General Manager.

The man who has control of a business creates an atmosphere which attracts his own type.

The mean manager will attract a mean type of worker—the man who will work for a low salary and console himself with the knowledge that he is not doing his best for his employer.

The manager whose character is shady will attract a shady type of worker—the man who does not care what class of enterprise he is associated with, so long as he has a chance to practise his own wiles, for or against the interests of his employer.

It is a case of birds of a feather flocking together.

A business of any size should be divided into departments, each section of the organization which conducts distinctive routine operations being formed into a department under the control of a manager.

Organization by Departments.

If the organization can be divided into three or four departments of manageable size, the departmental managers will act, under the chairmanship of the general manager, as the management committee.

If the number of departments is greater than this, they should be arranged in three or four groups, each group being controlled by a group manager. The management committee will then consist of the general manager and the group managers.

Four members are quite enough for the management committee; in any case there should not be more than about six. The smaller the committee the more powerful and quick to action it is. In a large committee there are always a number of members who are content to follow the lead of the more assertive element. Such members are

Size of the Management Committee.

of no assistance to the general manager, with whom the responsibility for the final decisions rests.

The trouble with most corporations and public bodies is that the executive committees are too large. The man with the most followers on the committee can predominate, though he may have little executive ability.

If, in a business house with a large number of departments, the management committee were extended to include every departmental manager, the same state of affairs would prevail. Should the number of sales departments exceed the other departments, the general manager would be importuned to adopt the policies of the sales force and, unless he were able to combat this, the control of the business would pass into the hands of the spokesman of the sales force.

When departments are grouped together in the way suggested above, great care must be taken to see that the division is natural and that each group is, in a way, self-contained.

Groups must be Self-Contained.

A ridiculous position would arise if a department which came under the control of one member of the management committee was in any way subsidiary to a department controlled by another member.

If difficulty is experienced in arranging the departments in groups, it means that something is wrong with the constitution of the departments themselves. It may be that one department is doing work which could be more efficiently handled by another department, or that several departments are carrying out between them a number of operations which merit the attention of a separate department.

The Three Natural Groups of a Business Organization.

The scope of this book is larger than that of any single business house, and the work of what might be considered as twenty-one distinct departments is described in the following chapters. Yet these twenty-one departments can be divided into three natural groups, as follows—

Sales Group.	*Works Group.*	*Office Group.*
Wholesale Dept. II	Progress Dept. X	Purchase Dept. XVII
Advertising Dept. IV	Advisory Dept. X	Import Dept. XVIII
Mail Order Dept. V	Stores Dept. XII	Order Dept. XIX
Retail Dept. VI	Inspection Dept. XII	Sales Ledger Dept. XX
Hire Purchase Dept. VII	Forwarding Dept. XII	Cashier's Dept. XXI
Export Dept. VIII	Costing Dept. XIV	Accounts Dept. XXII
Consignment Dept. IX	Service Dept. XV	Secretarial Dept. XXIII

The roman numerals indicate the chapters in which the work of the departments is described.

In order to illustrate the powers of the various managers and the work of the committees, it may be considered that the above table represents the organization of an actual business.

The administration staff will then number twenty-five, i.e. the general manager, sales manager, works manager, and office manager, forming the management committee, and the managers of the twenty-one departments.

The departmental managers will direct all the routine operations of their departments, and will be expected to relieve the group managers of all responsibility in connection with these.

Group Management and Methods of Control.

If any situation arises which calls for an alteration in the working of the department or affects another department, the departmental manager must apply to his group manager for instructions, or for sanction to put into practice any proposal emanating from the department.

When the matters brought to the attention of the group manager do not affect the working of another group in any way, he will be in a position to deal with them personally. For example, if an argument arose between the sales ledger department and the order department, over the granting of further credit to a customer whose account was overdue, the office manager would decide the action to be taken. He would, of course, wish to hear both sides of the question before coming to a decision, and with a matter of general interest he might like to hear the opinions of the other departmental managers in his group.

It is a common practice for a group manager to hold regular conferences with all his departmental managers, at which points affecting the work of the group are discussed.

When a question referred to a group manager is of considerable importance, or affects the working of a department which is not under his control, he must bring the matter before the management committee.

For example, if an argument arose between the sales ledger department and the wholesale department over the granting of credit to a customer, neither the office manager nor the sales manager would be competent to decide the action to be taken.

Both group managers would have to state their cases before the management committee, and abide by the decision of the general manager.

It will be understood that in a business of any size controversies between departments are bound to arise, and there must be some quick and decisive method of settling them. Sometimes every group in the business becomes involved in the dispute. For example, the sales force may wish to offer a new line which the works will not manufacture, and the office will not obtain from outside sources.

Controversies Between Departments.

A controversy of this kind might continue for years in a business that was not properly organized, but would soon be disposed of by a capable general manager after discussion at a committee meeting at which all parties were represented.

When the general manager is the senior member of a partnership, or the managing director of a company, he, in his turn, will wish to relieve himself of the sole responsibility for important decisions, by consulting his partners or co-directors, as the case may be.

Policy of the General Manager.

He would certainly be well advised to consult his associates in regard to any scheme for extending the scope of the business, or entering into any unusual transaction.

Because a man is invested with the sole control of a business, it does not follow that it is to his advantage to keep his partners or co-directors in ignorance of his actions. His authority will be sustained by the fact that his associates know what he is doing.

So far, the manager has been considered merely as a unit of an organization and a representative of his employers. He must now be considered as an individual and an employee.

Before a man can be placed in charge of a section of a business, his employers must be satisfied that his natural gifts and experience equip him to deal with the work of that particular section.

Qualities Required of a Manager.

A manager need not be able to do the work of every man under him or know precisely how the work is done, but he must be able to judge the work of every man under him and know how to *use* that work.

The sales manager may not be able to design an advertisement, but he must be able to criticize the work of his designers and use

their work to the fullest advantage in his sales campaign. The works manager may not be able to go into the workshop and make an article, but he must be able to examine a finished article and, when necessary, praise or reproach the workman who has produced it. The office manager may not be able to prepare a balance sheet, but he must be able to understand one and to use the figures prepared by his accountants, in arranging the finances of the business.

A man may know how to do the work of every employee in his department and may even have occupied each position in turn, and yet be ineligible for the post of manager. There are many good workers who find it impossible to use the services of one personal assistant.

Men Useless for Management.

The class of manager required will depend upon the nature of the work as well as upon the size of the business.

A small sales force selling expensive machinery would need a more capable manager than a larger sales force selling an article in general demand. A small works carrying out general engineering contracts would need a more capable manager than a larger works manufacturing a regular trading line. A small office dealing with foreign business would need a more capable manager than a larger office dealing exclusively with the home market.

Managers and Their Capabilities.

In the same way, a new business, or a business which is extending, needs a more capable manager than one which has been established for some time.

The manager of a well-known firm might be quite unable to direct the pioneering work which must be done by a new firm struggling for position.

An employer will naturally wish to train his managers within his own organization, so that when a vacancy occurs he can promote the man who has most claim to the position, rather than bring in an outsider.

Training Managers Within the Business.

At the same time he must reserve the right to obtain a manager from outside when he is satisfied that no existing employee is qualified to fill the post.

It is always advisable for each manager to have an understudy, who can carry on the managerial work during the absence of the manager on holiday or through illness.

When the manager is absent, the understudy should be encouraged to do as much of the manager's work as he can, and careful note should be taken of the way in which he acquits himself of the task.

Understudies.

If the position of departmental manager becomes vacant and the department has always been efficient, even when the manager was absent, the understudy should certainly be given a trial as manager.

On the other hand, if the department has been a source of trouble, the vacancy gives an opportunity to bring in fresh ideas, by engaging an outsider who has the necessary qualifications.

Introducing New Blood into the Management.

When a man is brought into a business to manage a department which has been inefficient, he will usually seek to make rapid and radical changes in the routine, and possibly in the personnel of the department. There is always a danger that the new-comer will make these changes before he fully understands the work of the department and the value of each individual employee's services. Unless there is some serious fault to be remedied, it is a good policy to restrain a new manager from making any changes for several weeks after his appointment. He will thus be forced to make himself conversant with the existing routine and staff before putting his own plans into operation.

In engaging a manager from outside there will often be no alternative but to take a man from a competitor.

There is no harm in this, provided that the man is young and versatile, and that the new position is a decided improvement upon the one which he held with the competitor.

The Manager Who Comes from a Competitor.

It is, however, a dangerous practice to bring into a business a man who has long been identified with a competitor, and has consequently become a " dyed in the wool " servitor. Such a man may leave the competitor's employ because of some petty quarrel, or be enticed away by an increased remuneration, but he cannot completely shake off his allegiance.

Furthermore, if there is any *esprit de corps* in the organization which he enters, he will meet with a certain amount of mistrust among his new colleagues, and his superiors may consider it advisable to keep vital information from him. This mistrust will

make it exceedingly difficult for the man to adapt himself to his new environment, and it will be a long time before he can take his proper place in the organization.

It is often a very difficult matter to decide to what extent the managers should be told of the trading results.

The office manager and certain of his departmental managers, who are responsible for the finances and records of the business, will, of course, be familiar with the figures.

How Much Should Managers be Told of the Trading Results?

The question is whether the sales and works managers and the managers of their departments should be entrusted with any information, beyond that which is made public.

Generally speaking, the members of the management committee should be given all the information they wish to have regarding the income, expenditure, profit or loss of the business as a whole, or of any department, and the departmental managers should be given all the information they wish to have regarding the earnings or operating cost of their own departments.

In other words, the chief executives should be taken fully into the confidence of the proprietors, and the minor executives should be given sufficient information to enable them to follow the progress of the section of the business for which they are responsible.

Frequent changes in the administrative staff have a very bad effect upon the organization of a business. It is customary to guard against this by calling upon all managers who have passed the probationary stage to enter into an agreement to serve for a minimum period of at least a year.

Managers' Agreements.

In the case of a general manager or group manager the minimum period is usually from three to five years, and the agreement continues in force after that period until cancelled by three months' notice from either side.

In the case of a departmental manager or minor executive the minimum period is usually one year, and the agreement continues in force until cancelled by one month's notice.

The common form of manager's agreement requires him to give his exclusive services and whole time to the business, and to disclose any interest in another business which he may have, or may acquire during the period of his employment.

He also undertakes to keep secret the affairs of his employer, to record his actions in a business-like manner, and to surrender to his employer at the end of the period of service all papers relating to his employer's business.

With limited companies a manager is often asked to obtain a number of shares in the company, and to hold these as a qualification during the whole period of his engagement.

Share Holding as a Qualification.

It is, of course, a good thing for the manager to have a financial interest in the business, but at the same time a man who cannot afford to invest money should not be penalized on that account.

The agreement usually states that the employer may terminate the engagement at any time if the manager fails to carry out his part of the agreement, becomes a bankrupt, commits any felony or misdemeanour, or is prevented from carrying out his duties by a long illness.

It is not advisable to define the manager's position very closely in the wording of the agreement, otherwise he may be able to resist any change in his duties, responsibilities, or title. To leave room for modification the position should be described by a vague phrase, such as, " a member of the administrative staff " or " an officer of the company."

In addition to a fixed salary the manager will usually be given a share of the profits made by the business, either in the form of a commission upon the profit or the turnover, or of a bonus upon all business transacted, or profits earned, over and above a predetermined quota.

Incentives: The Manager's Bonus or Commission.

It is always best to give a manager a definite incentive, so that he knows just what he is called upon to attempt, and what he himself will gain if he is successful.

Therefore it is generally considered better to give a bonus upon all new business or increased profit than a commission upon the total turnover or profit.

For example, it may be considered that a business is expected to make a profit of at least £10,000 per annum, and the general manager is paid a salary of £1,000 per annum.

His agreement might stipulate that if he increases the profit his salary will be increased in proportion. If the profits were increased by 10 per cent his salary would be increased by 10 per cent, or,

in other words, if the profit amounted to £11,000 his salary would be £1,100.

The manager's agreement must, of course, be formal and precise, and must provide for all contingencies.

At the same time, the employer cannot always keep his manager to the letter of the agreement. He must be ready to remove any restriction which may become objectionable to the manager, and will find it advisable to adopt the most generous interpretation of the wording of the agreement, giving the manager a little more than he is entitled to, rather than occasion the slightest discontent.

The Employer's Interpretation of the Agreement.

The object in this is to make the manager forget that he is an employee, and consider himself at all times as a representative of his employer.

CHAPTER II

SALES ORGANIZATION

THERE are two important questions to be answered before a trader of any kind can open a sales campaign—first, "Who is to be the customer?" and second, "How is the customer to be approached?"

The first question is one of policy and the second one of method.

In deciding upon the class of customer to whom service is to be offered, choice must be made between the consumer or user, the retailer, the wholesaler, and the agent. This choice will be influenced by the value of the orders which each class may be expected to place, in relation to the selling and administration expenses of the producer.

The Choice of Customer.

It will be understood that under modern business conditions every trader has a substantial selling and administrative cost attaching to each order, and this cost does not vary in proportion to the value of the order. The expense of executing an order for one hundred pounds' worth of paper may be exactly the same as that of an order for one pound's worth, except for the handling of the actual paper. The same number and description of advice notes, invoices, and other commercial forms may have to be prepared, the same amount of book-keeping may be necessary, and the same amount of attention of the executives may be called for. Every trader has a minimum figure at which orders are profitable, all orders below this minimum being executed at a direct loss.

As an instance of this, a trader whose average gross profit was 10 per cent of the selling price, and
an order was 5s.—quite a
could not afford to execu
by this sacrifice he hope

This heavy overhead
for the existence of so
trades goods must pass
the consumer or user.

Many newspapers ha

in the distribution of produce as an evil, and a reason for the high cost of living. It will be found upon investigation, however, that these statements are unjust and untrue. The middleman plays an important rôle in commerce, and his operations represent the most economical method of carrying the goods from the manufacturer to the consumer.

Important Rôle of the Middleman.

The distribution of a particular kind of jam may be taken as an example. Bloggs are the manufacturers, and their jams are stocked by 500 wholesalers and 10,000 retailers. It may be considered that Bloggs's overhead charges necessitate orders being at least £3 in value.

If Bloggs were called upon to supply one jar of jam to a consumer they would, of course, make a heavy loss on the transaction, so that there can be no question of selling directly to the general public.

In all probability the vast majority of the retailers who stock Bloggs's jam buy from the wholesalers in quantities worth considerably less than £3 at a time, so that Bloggs could not serve them directly. Therefore, Bloggs could not market their produce without the assistance of the wholesalers.

There is no alternative method of distribution. If Bloggs wish to replace the wholesaler or retailer they must set up the same organizations as these traders and, within these organizations, adopt the same policies. They might form a subsidiary company to take the place of the wholesalers, but they could not confine the activities of this company to the sale of their own produce. The company would have to serve the retailers with their general requirements, which would include competitive jams, and therefore it could not carry out the policy of Bloggs to more than the extent of pushi-

er the opportunity arose—a service
would render if it were to his

in a wholesale trading
a return for the capital

ry company to pay its
wholesalers would not
mer to any appreciable

A trader must be careful to offer his goods only to customers who can buy in quantities which will be sufficient to meet the overhead charges. It is a sound business policy for a manufacturer to refer customers to wholesalers for service if their accounts are too small to be profitable.

A Sound Sales Policy.

In some cases a manufacturer will market an article which is too expensive to be stocked by wholesalers or retailers, and also accessories or spare parts for this article which are too small in value to be supplied directly to the user by the manufacturer's own organization. Motor-cars, typewriters, and many kinds of productive machinery are examples of this.

It is obvious that an organization which is set up to market a motor-car selling at £400 would have a very high overhead cost per order, and therefore could not profitably sell directly to the user small component parts worth 6d. or 1s. each.

Manufacturers of machinery who are compelled to sell component parts directly to the users, are often accused of profiteering on the sale of these parts, because they may charge 1s. for a bolt or screw which can be bought at any ironmonger's shop for 1d. As a matter of fact, such firms usually lose money on the sale of these small parts, and would recommend the user to obtain them from the ironmonger if it were not for the danger of impairing the efficiency of the machine by the introduction of unsuitable parts.

This difficulty is usually surmounted by the manufacturer's distributing his products through agents. The agent will purchase the machine itself " on sale or return," paying for it when he sells it, but will generally be expected to purchase a stock of accessories and component parts outright and against prompt cash. The agent may be allowed to carry out repair and maintenance work upon giving a guarantee that he will maintain an efficient service.

Distribution Through Agents.

The status of agents appointed under these conditions will vary considerably as between different trades. In some cases, with typewriters, for example, the manufacturer will appoint as many agents as possible, and will be prepared to open an account with any trader who is likely to purchase in sufficient quantities, and who can give satisfactory security for the machines to be supplied on sale or return.

Under these circumstances the manufacturer will usually conduct

an extensive advertising campaign, offering his machine to the general public without reference to the agents, opening retail shops in the large towns, and employing travellers to canvass likely prospects. The users will, however, be recommended to go to the local agents for their small supplies unless the manufacturer has a shop in the locality.

Exclusive Selling Rights.

On the other hand, the agent may have the sole right of selling the manufacturer's products in a specified territory, so that the manufacturer must refer inquiries for machines, as well as for small supplies, to the agent for attention. This is the policy usually adopted by motor-car manufacturers. In selling machinery which calls for repair and maintenance service in addition to supplies of parts and accessories, it may be advisable or even essential to grant to certain customers or agents exclusive selling rights for their territories, but in marketing general produce it is usually unwise to enter into such an arrangement.

A retail trader will often endeavour to make his business distinctive by pressing his suppliers for the exclusive rights for his district.

It is, however, practically impossible for a merchant to govern the movements of his goods after they have left his hands, and if shopkeepers set out to obtain supplies of any particular line they will usually be able to do so.

A manufacturer who granted the exclusive selling rights of his lines to retailers would be debarred from serving wholesalers, since he could hardly dictate to the latter the way in which they might, and might not, dispose of the goods they purchased.

Retailers with more than one address would also be difficult to deal with, unless the whole of the country was divided among the agents, and each of these agents was called upon to guarantee to sell the goods within the limits of his territory.

For example, Smith & Co., of Portsmouth, are appointed sole agents in that town for " Union " hats. Brown & Co., of Portsmouth, who are in opposition, also have premises in Southampton. If Southampton were not a restricted area, or if Brown & Co. happened to be the agents for Southampton, it would be difficult to restrain them from buying " Union " hats in Southampton and sending them to their Portsmouth shop.

In the same way, if exclusive rights were given to a number of wholesalers, it would be very difficult to prevent their selling in one another's territory, and it might be no easy matter to discover which wholesaler was offending, as shopkeepers could easily have reasons of their own for not dealing with the exclusive agent for the district, and would resent criticism of their method of obtaining supplies.

Having decided upon the class of customer to be approached, the second question, the method of approach, must be dealt with. In other words, the producer must advertise his offer of service. He may do this by taking space in periodicals, renting sites for outdoor publicity, issuing sales literature, sending out travelling salesmen, or by displaying his goods in shops or showrooms or at exhibitions.

Method of Approaching the Customer.

The methods employed will depend upon the nature of the goods, the class of customer to be approached, and the influences which can be brought to bear upon the customer. In many cases the offer of service must be made not only directly to the customer, but indirectly through the customer's customers or through his employees.

The chocolate manufacturer, setting out to serve the wholesale confectioner, will make his offer to the wholesaler by taking space in trade journals, by issuing circulars, catalogues, and price lists, by sending out travellers, and by displaying his goods in showrooms, and at trade exhibitions. He will also create a market for his produce by advertising in the general press, by outdoor publicity, and by displays at exhibitions open to the public.

The manufacturer of productive machinery will make his offer directly to the user through the technical press, postal publicity, showrooms, and trade exhibitions, and will use the same mediums for educating the operatives in the industry he is serving to the use of the machinery.

He will send representatives to interview persons likely to purchase his products, and either establish schools for the education of the operatives or co-operate with technical schools.

The various factors of the sales campaign must be made to concur, and the offer of service must be consistent throughout the campaign.

It will not do for a demand to be created for an article by general

advertising before that article has been offered to the wholesalers and retailers, or for terms to be offered at a trade exhibition which are more favourable to the customer than those offered by the travellers.

In view of this the whole campaign should be controlled by one responsible executive, or sales manager, with sufficient authority to make quick decisions, when necessary, upon any matter connected with the selling side of the business.

The Sales Manager's Duties and Responsibilities.

On the other hand, the sales manager's responsibility should be confined to the selling side. It is not wise to place in this position an executive who has important duties to perform in connection with the manufacturing or financial sides of the business, as such an executive would not be able to act as a pivot to the sales campaign at all times, or to concentrate upon the questions which are bound to arise. When salesmen are employed this matter is particularly important, as they should be able to consult their chief at any time, and their progress should be under constant observation.

In the same way the sales manager should not have a group of customers of his own to look after, or be expected to work a territory.

A sales manager will often place himself under a severe handicap by undertaking to give his personal attention to a number of important customers. The result of such an undertaking is that these customers will not deal with subordinates, and even trivial matters in connection with their affairs must have the attention of the sales manager.

Certainly the sales manager can call upon the customers when some question of importance is being discussed, but he will be wise to do so accompanied by the representative for the territory, so that this representative can carry on the discussion when the more important points have been decided.

The arrangement of the salesmen's territories will be one of the most important duties of the sales manager. It is essential that the territories be well defined, so that there can be no doubt as to the salesman responsible for the handling of a particular prospect, but the territories should be arranged in such a way that they can be varied at any time to meet changes in personnel or policy.

Arranging Sales Territories.

With many firms the method of promoting salesmen is to transfer

them to a more important territory. This means that in two territories the customers are called upon to deal with a new representative,—a dangerous practice, because customers are apt to resent having to explain their requirements to a stranger when they have become used to dealing with a man who is intimate with their business.

Apart from this, it takes a considerable amount of time for a traveller to learn the relative importance of the customers in a territory, and the best methods of getting from place to place.

Promotion of Salesmen.

It is, therefore, a more practical method of promoting a salesman to increase the size of his territory, giving him an assistant if necessary, so that he has an opportunity of increasing his sales, and at the same time is able to look after the interests of his old customers. For example, if a traveller who had been responsible for the counties of Staffordshire, Shropshire, and Cheshire left the employ of his company, and it was advisable to promote the traveller responsible for North Wales, it might be better to give this traveller the county of Cheshire as additional territory, and give a new traveller Staffordshire and Shropshire, than to transfer the old traveller to Staffordshire, Shropshire, and Cheshire and give the new traveller North Wales.

There are many advantages attaching to the practice of giving salesmen assistants, and in particular to giving these assistants to the most successful salesmen. Not only does the assistant act as an understudy, taking the senior's place during his absence on holidays or through illness, but he frees the senior salesmen from the routine calls and enables him to concentrate on the more important customers. A firm must train its salesmen in the field, and it is a bad policy to give the juniors unimportant territories to work on their own. It would be far better for a firm to have both a junior and a senior salesman working together in East Anglia, than to have a senior working in Essex and Suffolk and a junior in Norfolk.

The Training of Salesmen.

The training of the salesmen is one of the most difficult problems which the sales manager has to solve. A junior will often be taken right through the organization and made thoroughly conversant with the goods to be sold and the selling policy, and will show exceptional ability in dealing with customers visiting the showrooms or exhibitions at

which he is tested, but when he is given a territory to work he will fail dismally.

The usual reason for this is that he is unable either to gain an interview with the man he wishes to see, or to make the best of his opportunity when he does obtain a hearing. The customers he has met at the showrooms and exhibitions were interested in the goods offered, and the junior salesman was backed by a display of the goods and was in close touch with the organization. The position is very different when he is called upon to interest prospective customers in the goods, and to represent the goods and organization to the prospect with only the assistance of samples and literature. The salesman's first task is to introduce himself to his prospects, and if he fails to do this he cannot hope to introduce the lines he is endeavouring to sell.

The trouble is that he will rarely be given a second chance to make a good impression. If a buyer grants an interview to a new traveller, and that traveller is unable to present his selling argument in an attractive form, the buyer will hesitate to grant a second interview.

It is a common experience for a new salesman to send in hopeful reports of first calls, but for the reports of subsequent visits to the same offices to be " Buyer sent word nothing required," " Asked to call again," " Buyer too busy to grant interview," and similar evidences of failure.

There is no better training for a junior salesman than to send him round with a successful salesman, so that he can see the way in which the individual customers are approached and the varying arguments used, provided that the senior salesman is operating in his own territory, and the junior is being introduced to the actual customers he will have to deal with, at any rate for the time being.

The value of the tuition is greatly reduced if the senior salesman is sent out to a territory which is strange to him in order to help a new salesman, or if the junior is trained in a territory other than that in which he must operate.

Even the most experienced salesman is at a disadvantage when working a new territory. If he serves ten customers in a town in his own territory, he can call upon five new prospects in that town with confidence, knowing the local conditions of trade, and in all probability something of the new prospects' class of business,

but to call upon five new prospects in a strange territory is a very different matter. The traveller's morale must be adversely affected by " pioneering " during a whole journey without seeing one friendly customer.

The measure of success achieved by a salesman cannot be estimated until he has made four or five visits to the same prospects. On the occasions of the first few visits he may be assisted by the goodwill built up by his predecessor, or hindered by the fact of this predecessor's having been incompetent or disliked.

The sales manager will need to keep in close touch with his travellers, so that he can notify them of any developments which may necessitate a change in their programme.

Salesmen's Reports.

It is a good plan for each salesman to send in at the end of the week a forecast of his movements for the following week, with an address at which he can be found each day—this will usually be the hotel at which he intends to stay overnight. Firms which have occasion to write frequently to their travellers, will often make it a rule to send a sheet of paper with the words, " No letters to-day " to the traveller, if there is nothing else to be sent to him. This will enable the traveller to proceed in confidence, knowing that there is no fear of instructions having been delayed in the post.

Many firms require their travellers to make written reports upon all calls made. While there is a great deal to be said for this practice, it should not be carried too far, that is to say, the travellers should not be given too much clerical work to do.

In most cases the reports are intended to serve three purposes—

Firstly, they enable the traveller's operations to be supervised and help to build up a " customers' record," which will be of value to the firm in the event of the representative's being changed, or there being occasion to deal directly with the customer. This " customers' record " usually includes prospective customers.

Secondly, they enable the visits made to be checked off with the " customers' record," so that there is no fear of the traveller's accidentally or intentionally neglecting a customer or prospective customer.

Thirdly, they enable the head office to follow up the calls, if necessary, by sending out letters or literature.

If the reports are made upon a specially printed form, as is usually the case, this form should be prepared with the above three points in view.

In order to obtain the information required for the preparation of the "customers' record," the first report made upon each customer, or prospective customer, will have to give full details of the name and address of the firm called upon, the name of the buyer, a description of the premises, the class of business, the competitors' lines stocked, and the intervals at which the traveller proposes to make calls. If the traveller is successful in obtaining an order on his first visit, some of this information will be required by the department responsible for the granting of credit.

It is customary for the traveller to keep carbon copies of these first reports in a loose-leaf book, to be used in arranging his journeys. He will usually keep a separate book for each journey and carry this round with him. He will then be able to notify the head office, on subsequent reports, of any alteration which must be made in the "customers' record."

The subsequent reports need not give so much information and, therefore, need not be made upon the same type of form. If an order is received this will be sufficient evidence of the call's having been made; if the traveller does not obtain a satisfactory interview there is no need to make a separate report; a list can be sent in at the end of each journey of the calls which were not worthy of a separate report.

If the visit needs to be followed up by the head office in some way the report should state briefly the customer's attitude, the points of the argument put forward by the traveller, the way in which the traveller intends to follow up the interview, and the action which he considers it advisable for the head office to take.

To remind the traveller of the necessity for all this information being given, the body of the report form should be divided into sections, each section being headed with a note of the information required.

The specimen salesman's reports illustrated on pages 21 to 23 will show what is meant.

It will be noticed that in these examples the back of the report form is intended to be used for recording the additional information required, when the report is the first one made in respect of the

COMMERCIAL TRAVELLERS' REPORTS

COMMERCIAL VEHICLES (1926), LTD.

SALESMAN'S REPORT

Firm . *James Brown—Walsall* .

Name of person interviewed . *Above* ..

Status of person interviewed . .. . .

Date .. . *14th April, 1926* .. . .

If your first call on this firm, fill up back of form as well.

Buyer's attitude—

Interested delivery van—uses horse and cart—does not wish to sack driver, who knows rounds.

Salesman's argument—

Offered to send down instructor to train his driver.

Action contemplated by Salesman—

Calling again in a fortnight.

Suggested action by H O.—

Please confirm my offer.

For use at H O.

Offer confirmed
16/4/26 A. M. B.

J. B. Marsh,
Salesman.

COMMERCIAL TRAVELLERS' REPORTS

ANGLO-POLISH TOYS, LTD.

SALESMAN'S REPORT

Firm . . . . . *Marks & Smith—Stafford.* . . .

Person interviewed. Name . *John Smith* . . ..

Position *Junior Partner* .. ..

Date *28th October, 1925* . ...

If this is your first call on this firm, complete back of form as well.

Buyer's attitude—

Already bought for Christmas trade.

Afraid of overstocking.

Salesman's argument—

Novelty of our lines.

Our heavy advertising.

Action contemplated by Salesman—

Taking Mr. Smith to Birmingham Showrooms, 4th Nov., 1925.

Suggested action by H.O.—

Offer " Sale or Return " if possible.

Leave this space blank
Jones written to—
" Cannot offer Sale or Return."
30/10/25. L. P.

R. E. Jones,
Salesman.

BACK OF SALESMAN'S REPORT FORM

ANGLO-POLISH TOYS, LTD.

INFORMATION REQUIRED FOR CUSTOMERS' RECORD

Full Name and Description of Firm.....*Marks and Smith. Partnership*.....

Full Address.....*973 Park Road, Stafford*.....

Other Addresses.....*1298 Colmore Row, Birmingham*.....

Description of Premises.....*Large double-fronted shop, good position, main road*.....

Name and status of Buyer.....*John Smith—Junior Partner*.....

Class of Business.....*High-class Confectionery and Toys*.....

Competitors' lines stocked.....*Robinson's, Green's, and Henderson's*.....

Intervals at which Calls should be made.....*Monthly*.....

R. E. Jones,
Salesman.

Customers' Record Card Prepared.

M 819 3/11/25 E. B.

particular firm. Space is provided on both sides of the form for recording the action taken by the head office.

Report forms of this kind are well worth the time required for their preparation and examination, because they force the traveller to make plans for the future and to co-operate with the head office. They are easily followed by the head office and can be readily compared with previous reports of the same journey, which is certainly not the case when the traveller is left to compose his reports. If travellers are not asked for definite information, they are liable to send in irrelevant rigmaroles or verbatim snatches of conversation, which are apt to be ambiguous.

Ensuring the Traveller's Co-operation.

The travellers' remarks upon the attitude adopted by the buyers will often give valuable information as to the business methods and arguments of competitors. If a traveller loses a definite contract for which he has been working, he should be called upon to give, upon the report, his opinion as to the reason for the loss of the contract.

It would be very difficult for a traveller to "fake up" reports of this kind, as he must give the name of the individual interviewed and state exactly what progress he made.

With the ordinary type of report, such expressions as "Hope to get order next month," "Good prospect," and "Doing well, and should become customers soon," might encourage the head office to send a special letter thanking the firm for granting an interview when, as a matter of fact, the traveller may have failed to see anyone more important than the office boy.

The cost of maintaining a salesman in the field is very high in proportion to the number of productive calls which he is able to make, so that his routine visits to each customer should be made at the longest intervals which can safely be arranged. The traveller's task should be that of introducing new customers and increasing existing business, not merely the taking of orders which are more or less regular.

In order to assist this the customers should be encouraged to deal directly with the head office, especially in ordering goods or paying accounts, so that they do not require the constant attendance of the traveller, and he is free to devote more of his time to prospects. The practice of making the travellers primarily responsible for the

collection of accounts is calculated to take up too much of the time they spend with the customers, and to hamper them with too much clerical work.

In the same way the sales department at the head office should keep in close touch with the customer, and should not expect the traveller to make special journeys in order to deal with questions which can be answered in correspondence, although it is necessary for the traveller to be advised of any action by the head office which will affect him in his relations with a customer.

Under these circumstances the " customers' record " at the head office, which is built up from the travellers' reports, forms one of the most valuable returns for the investment in salesmen's salaries and expenses, and should be prepared and maintained in a way that will enable the best use to be made of it. It is customary to keep this record in a form of card index with a separate card for each customer or prospective customer. The records of customers and of prospective customers can be kept separately, if this is considered necessary, or distinction can be given to the former by marking the cards with a note of all orders received.

The Customers' Record.

A specimen " customers' record " card is illustrated on the next page. This particular card has been prepared from the salesman's report illustrated on pages 22–23, and it will be seen that the attention given to the customer by the traveller and the head office has been recorded, as well as the dates and value of the orders received.

The record cards can be arranged in various ways. The usual practice is to keep them in alphabetical order under the name of the customer, but in some cases the files are divided into sections corresponding with the various travellers' territories.

When the travellers' journeys are arranged by the head office it will be an advantage to affix to the cards metal tags, which will show the day upon which the next visit to the customer should be made.

The tags can be numbered from 1 to 31, and separate colours used for each month. With this system in operation, it will be possible to plan a journey for any week by taking out the cards bearing the tags which represent the days of that week, and arranging them to form a route.

CUSTOMERS' RECORD CARD

Name .... *Marks and Smith* . ..
Address.. .... *973 Park Road, STAFFORD* .
Premises ..... *Large d.-f. shop, good position, main road* ...
Class of Business .... . . *H.-C. Confectionery and Toys* . .
Other Addresses ....*1298 Colmore Row, Birmingham*

Salesman *R. E. Jones.* *M 819* . . ..
Interval for Calls ... *One Month* ....
Buyer . *John Smith—Junior Partner* ....
Competitors dealt with .. *Robinson, Green, Henderson* .....

Salesman's Actions			H. O. Actions			Orders			
						Date.		£	s.	d.
1925			*1925*			*1925*				
Oct.	*28*	*Jones called*	*Oct.*	*30*	*Letter to Jones refusing to grant "Sale or Return" terms*	*Nov.*	*9*	*31*	*10*	*6*
Nov.	*4*	*Jones took Smith to Birmingham Showrooms*	*Nov.*	*5*	*Letter to Marks & Smith agreeing to take back goods if less than 50% sold by 31st December, 1925*	,,	*27*	*19*	*7*	–
,,	*26*	*Jones called*	,,	*11*	*Special window display material sent to M. & S.*					

When the salesmen's reports have served the purpose of the customers' record, and all necessary action in connection with them has been taken, they should be filed away in the same order as the corresponding cards appear in the customers' record, so that they can easily be referred to.

In some cases stiff envelopes are used for the customers' record "cards" and the reports, with any other memoranda, are slipped inside.

The records kept by the sales department at the head office should include a diary in which brief particulars are entered of each day's outstanding events. For example, a record should be made of customers' or prospects' visits to the showrooms, special quotations, inquiries for goods which are not stocked, but which may be available at some time in the future, and of sales made which are of particular interest. This diary should be searched periodically in order to see whether further action can be taken in connection with any prospect which requires special treatment.

The Sales Diary.

The information given in this diary will, of course, also appear in the customer's record, if one is kept, but it will be understood that it is not easy to find information in the latter record if the name of the prospect concerned is not known.

As an instance of this, if a merchant obtained a supply of a new line, which had been called for by some of his customers at various times, it would be quicker to search the sales diary for the records of the customers' inquiries for the line than to go through the customers' record.

The sales diary will also be useful in preparing sales bulletins for issue to the travellers, if this is the practice of the office.

These bulletins serve a very useful purpose in keeping the men in the field in touch with the activities of the organization as a whole, so that the policy and practice of the sales campaign are uniform throughout all its factors. In actual practice these bulletins will be used to acquaint salesmen of alterations in prices, terms or discount arrangements, old stocks to be cleared, special offers which can be made to customers, forecasts of the advertising programme, and schemes for co-operation between the firm and its customers.

Sales Bulletins.

The salesmen should be encouraged to reply to these bulletins

if they have any opinion to express, or to draw attention to any point in connection with their duties, which they feel should be taken up by the head office.

The experiences of the travellers are very valuable to the sales manager, and defects in the sales campaign may be brought to light in this way. For example, the salesmen may find that in order to obtain quantity discounts, some of the customers are overstocking lines of a perishable nature, with the result that the reputation of the firm is suffering through stale or shop-soiled goods being sold to the public.

How Travellers' Experiences Help.

Many firms, employing a number of travellers, arrange for periodical sales conferences, at which the policy of the firm is expressed, and the representatives are asked to give an account of trading conditions in their territories.

Generally speaking, everything should be done to promote the free interchange of views between the various employees. The common practice of maintaining a veil of secrecy over the operations of the organization, or certain sections of it, can only have the effect of making the sales campaign desultory and irregular, and of weakening the organization as a whole.

CHAPTER III

SALESMEN

THE part which the salesman plays in the selling campaign has been described in the preceding chapter; it remains to consider his personal relations with his employer.

The employment of salesmen presents a number of problems, and not the least of these is the method of recruiting. There are roughly three classes which the sales manager can draw upon for his assistants: inside employees of the firm, competitors' salesmen, and customers' employees. The choice between these classes will depend to a large extent upon the nature of the business, and the extent to which the salesman is left to control his territory.

Selection of Salesmen.

In theory, the best man to send out into the field to make the firm's offer of service is the man who has been trained and tested inside the office or works, and has acquired a thorough knowledge of the goods offered and the methods of service, but in practice this choice is not always found to be the best.

A man's temperament has a great deal to do with his fitness for the work of a commercial traveller. The team worker, who is so valuable in the works or office, may be helpless when sent out by himself. Accustomed to being controlled, he is apt to be easily intimidated, and may have no business personality capable of impressing the customers and prospects he meets. His natural leaning towards routine and system may make it difficult for him to adapt himself to meet the different types of man he encounters in the field.

Temperament and Salesmanship.

On the other hand, the impulsive, independent type of man who is inclined to be troublesome in an office or works, because of his inconsistent and quarrelsome disposition, is likely to have far more influence upon the customers and prospects, as he is better able to accommodate himself to varying conditions, and develops naturally when left to work on his own initiative. Very often a man who is sent out on the road because he has been found difficult to manage in the office, makes an outstanding success as a salesman.

The work done by an inside man who is sent out as a salesman cannot always be estimated by the actual orders received.

Inside Men as Salesmen.

Frequently his knowledge of the goods, and of the firm he represents, will enable him to lay a foundation for future business, by interesting the customer in them, although he is unable to present his argument in a way that will bring an immediate response.

Sending out a new salesman is a form of investment, and this investment is assured of some return if the man has already proved to be a valuable employee. Even if he fails on the road and is brought back into the office, the experience he has gained will be of value to him and, incidentally, to his employers.

Many firms find recruits for their selling force among their customers' employees, the men who have to resell the goods after they have left the hands of the manufacturer.

In selling general produce, the man who has had to serve the consumers, if he has the initiative and manner essential to salesmanship, will be in a very good position to talk to the retailer. The knowledge which he has gained in the shop will enable him to consider things from a shopkeeper's standpoint, and to make a more personal appeal to his prospective customers. The best men of this class are those who have been in business for themselves at some time. The traveller who has been a retailer is able to gain the confidence of retailers. He knows what is behind the arguments put forward by his prospective customers, and can therefore adopt an advisory attitude in countering those arguments without fear of causing resentment.

Men who Know the Customer's Standpoint.

On the other hand, the man whose experience has been confined to manufacturing business, may never be able to appreciate the peculiar difficulties of retail business, no matter how long he may be on the road.

It is the experience of selling the goods to the consumer that is valuable to this class of recruit, not the knowledge of the goods themselves. In the case of productive machinery, the men who have to work the machines would be best acquainted with their uses and particular advantages, but it would rarely be possible to recruit salesmen from this class. For one thing, a man will often have had too much experience of the use of a particular

Weaknesses of the Operative Salesman.

machine in one works, and may be inclined to dogmatize and to fail to appreciate the wider uses of the machine. This type of man would be less capable of advising a prospective customer whose operations were outside his personal experience than would a man with a superficial knowledge of the general uses of the machine.

Then there is the fact that the temperament of such a man is usually that of the team worker. Away from his machine and his surroundings which he associates with it, he is apt to be like a fish out of water, hampered by the fact that he is unable to illustrate the points of his argument by a practical demonstration.

There is a theory that salesmanship is a natural gift that cannot be acquired, and in putting this theory into practice many firms will make no attempt to train salesmen, being content to recruit their staff from the forces of their competitors.

It may be a sound business practice to seek out a man who is doing good work for a competitor and offer him a better position, provided that the man has been working under conditions similar to those which he will encounter in his new position; otherwise the method is by no means infallible.

Attracting Good Men from a Competitor.

It might appear a good policy for a new firm to take a traveller from an old-established competitor, whose brands were household words, in the hope that the traveller would be able to bring over some of the customers he had served. The results, however, might be very unsatisfactory, because the new firm needs men with more selling ability than does the old firm, since they are without the advantages of an established reputation.

Many of the travellers employed by the well-known manufacturers of produce in general demand are mere "order takers," the goods being in sufficient demand to sell themselves. It is a significant fact that old-established firms often find it exceedingly difficult to market new lines successfully, if the importance of the innovation does not merit extensive advertising, for the simple reason that they do not employ real salesmen.

Firms offering goods for the high class trade will find that a salesman who is accustomed to dealing in goods for the cheaper trade has to start all over again in educating himself to handle the

new type of customer, and the same is true of the traveller who moves from the high class trade to the cheap trade.

In any case, little reliance can be placed upon the traveller bringing over the customers of his old firm, especially if the two firms in question are in close competition. A man who has argued for a number of years that Henderson's soap is the best, cannot begin to run down their soap, because he leaves their employ, without losing prestige with his business acquaintances. The statement that he has found the new firm to be more progressive, or its products to be superior, is not likely to save him from the stigma of being a " turncoat."

In measuring the success which a representative of a rival house has achieved, consideration must be given to the organization which he has had behind him. Very often a salesman makes an outstanding success because he is able to use to the best advantage the opportunities which are presented by the system under which he works. He may be a hopeless failure if he is deprived of the benefits of that system.

Adopt a Definite Policy for Recruiting Salesmen.

The method of recruiting salesmen should be a definite policy. It is difficult to build up a sales organization if the men employed are of different classes or grades, and in consequence must be treated in different ways. Each of the three classes which have been considered would require a system of head office supervision and co-operation distinct from that required by the others. The salesman who has graduated from the inside staff will need educating to salesmanship and the practice of selling, while the experienced salesman brought in from outside will need introduction to the products of the firm and to its selling policy.

A sales manager would be at a serious disadvantage if he had to vary his campaign in certain territories to meet the capabilities of the men engaged there, or had to arrange special methods of following up certain salesmen's reports, because the status of these salesmen did not permit of their approaching the customers in the same way as the rest of the force would approach them.

The terms upon which the salesmen are engaged are of great importance, as the extent to which they feel secure in their positions has a decided bearing upon their efficiency.

Very few firms will ask their travellers to enter into agreements to serve for several years; yet this is the best way of ensuring a return on the investment in a traveller. A trader will naturally wish to know a good deal about a man's capabilities and character before he will engage him as a traveller for a number of years, but this knowledge can be obtained by his serving a period as a test. A common form of agreement provides for a salesman's serving a minimum of one year, and for his continuing his service after that period until three months' notice in writing is given on either side.

Travellers' Agreements: Advantages of Security.

The traveller working under an agreement of this kind is able to consider himself as part of the firm he represents, and to work steadily and methodically in the interests of that firm and of himself.

On the other hand, the traveller who is subject to a week or a month's notice is never able to consider himself as part and parcel of the firm he represents. The vicissitudes of the salesman's fortune are likely to cause periods of mental depression, and the man who is not too sure of his job is apt to work by fits and starts, relaxing his efforts when he meets men on the road who are doing better than he is, and endeavouring to regain his ground when he comes in conflict with his firm.

Frequent changes in personnel are fatal to a sales organization. A new salesman must be a " passenger " for a while, and a selling force will be weakened if the attention of the executives is constantly taken up with the training of salesmen. The sales departments of many firms operate as training grounds for salesmen, rather than selling forces. The recruits are taken from the office, from customers or from competitors in a haphazard fashion. These men are sent out on the road after receiving general instructions on the selling practice and policy of the firm, their engagements being subject to a week's or a month's notice.

Haphazard Methods and Their Results.

During the period of their instruction and for the first few weeks on the road, they are given every possible assistance and advice by the sales department at the head office.

This " nursing " cannot, however, be continued when the traveller has settled down to his regular rounds—in all probability

there are new recruits absorbing the attention of the sales department—and he finds himself left to his own devices until the time comes when results are looked for.

If the salesman has been successful there is the danger of his being enticed away by a firm offering a higher rate of remuneration, for firms with a high labour turnover usually pay a low rate of salary.

If he has been unsuccessful he will naturally be apprehensive of his position and will begin to look for another opening. With his attention divided between his firm's prospects and his personal prospects, he is liable to go from bad to worse until he either resigns or is dismissed.

This state of affairs is inevitable when the attention of the sales department is continually taken up by training new salesmen, so that in justice to the men already employed each new recruit should, after passing the necessary preliminary tests, be assured of a minimum period of employment which will permit of his tackling his territory steadily and surely, with the knowledge that he will be given sufficient time to make good.

Assure a Minimum Period of Employment.

A firm which engages its salesmen for a minimum period of one year might occasionally have to keep a man on the staff for several months after he proved to be inefficient, but this objection is more than overruled by the fact that there is no fear of good men being lost to the service through their not having been given a fair chance.

If it should be found necessary to dismiss a salesman, he should be given money in lieu of notice. Serious damage may be done by allowing a salesman who is working off his notice to air his grievances, real or imaginary, to the customers.

The method of remunerating salesmen is another important question of policy. The systems employed vary between the payment of a fixed salary and of a commission only on the sales made by the traveller. "Payment by results" appears to the average employer of labour as the ideal method of remuneration, but to the sales manager this method of paying his staff is far from attractive, for the simple reason that it makes the salesmen's income irregular, and has the same effect upon their mentality as the short notice arrangement—that of making them feel insecure in their positions.

Methods of Remuneration.

Every worker should be assured a living wage and the salesman, with his necessity for maintaining a good appearance and keeping in touch with topical events, certainly cannot be considered as an exception to this rule.

If the sales made as the result of each individual salesman's efforts can be correctly ascertained, it may be well worth while to give him an incentive to increased activity, in the shape of a commission in addition to a fair rate of pay, but if the salesmen are called upon to assist one another in any way, or if it is not advisable to credit them with all the sales emanating from their territories, the giving of commission may destroy the spirit of co-operation, and deprive the firm of the benefits resulting from efficient team work.

As an instance of this, the case may be taken of the salesmen working on salary and commission who is allotted a territory in which there is a large number of regular customers.

The Question of Commission.

In such a case, it is often considered advisable to stipulate that the traveller should only receive commission upon new business, his salary being considered as covering his service in connection with the regular customers. The result of this is that the traveller is tempted to give as little attention as possible to the regular customers, concentrating his efforts upon the new customers he is able to introduce, and avoiding the prospects which do not appear to him as likely to develop into customers in the immediate future.

This is no method of building up sound business, and both the traveller and his firm would suffer when the new customers had been fully developed and the old customers began to drop away.

From the firm's point of view there is also the danger that the salesman might, on leaving its service, be able to take away the business he had introduced.

If a commission must be offered in such a case it would be far better to give the salesman a substantial salary, with a small rate of commission upon the total sales made in his territory, or to fix a minimum figure of sales, equivalent to the average business emanating from the regular customers, which must be exceeded before any commission is payable.

The last method is not to be recommended, unless the commission

represents only an extra bonus to a traveller who is already sufficiently paid.

The trouble attendant upon fixing a sales quota for each traveller is that if one of them finds that it is impossible for him to keep up to his quota, all the incentive of the commission offer is lost.

Sales Quotas: How to Maintain Incentive.

For example, a traveller, in addition to his salary, is offered a commission on all sales in excess of £5,000 per annum. For the first six months of the year his sales amount to £2,000 only. If the business is a steady one, the traveller will in all probability give up hope of commission, and be inclined to take things easy until the beginning of the next commission year.

One way of guarding against this state of affairs is to make the periods taken as the basis of the commission monthly instead of annual, so that the unsuccessful traveller is given every encouragement to make good, and the successful traveller is given the benefit of frequent payments.

Precautions must be taken, however, against travellers' holding sales over from an unsuccessful month to the next month, in order to bolster up their sales for the second month in the hope of exceeding the quota. As an instance of this, a typewriter salesman has a quota of fifteen machines per month, and on the 29th of January has only sold five for that month.

Desirable Precautions.

If, on that day, he found a customer who was prepared to buy three typewriters, he might avoid actually taking the order until February, so that he had a chance of earning commission in that month, the order being insufficient to enable him to reach his quota in January.

The objection to this is not so much because of the commission which the salesman may earn, by holding over the order, as the danger of losing the order through the customer's changing his mind in the meantime.

To guard against this it would be necessary to watch the travellers' reports very closely, if their sales fluctuated considerably as between different months.

If necessary, the figure of sales used in calculating commission due at the end of any month could be the average of the three

months ending on that day. With this method in force, if a man's sales quota were £400 per month and his sales for January, February, and March were £460, £540, and £620 respectively, his commission for March would be paid on the basis of £140, this being the average of the three months, i.e. £540, less the quota.

Some firms pay commission on the total sales for the month, provided that the sales quota is attained, but this method is somewhat in the nature of a gamble and is liable to cause discontent. A salesman would certainly have cause for annoyance if he lost commission on several hundred pounds, through his sales for a month being one or two pounds short of his quota.

Responsibility for Bad Debts.

Many firms penalize their travellers for bad debts made in their territories, usually by deducting the amount of these losses from the sales figures taken into account in calculating commission. In a few cases, generally when the commission is paid as an addition to a good salary, the salesman is called upon to bear a substantial proportion of the bad debts, which may be as high as 50 per cent, provided that he has qualified for commission.

This practice is just and reasonable when the advice of the traveller is relied upon in granting credit, and he is in a position to watch his customers' business closely. It is, however, apt to lead to controversies, since there will often be differences of opinions as to whether a debt is absolutely valueless, and as to the period against which it must be offset.

Defects of the Commission System.

The possibility of controversies arising on various points in connection with the payment of commission is one of the chief grounds for objection to the commission being made a substantial part of the salesman's remuneration. There is also the fact that the commission system leads to the salesmen being judged by the gross value of the sales they make, which may not be the correct measure of their worth to the firm.

In many instances, if it were possible to find the exact profit upon the orders brought in by the various travellers, it would be found that the business obtained by the men whose gross sales' figures were the largest was least profitable to the firm.

The traveller working on commission would sooner sell a gross of articles at 5s. each than a gross of articles at 4s. each, although

it may be obvious to him that the cheaper article is far more profitable to his firm.

When the salesmen are to all intents and purposes paid according to results, they must be allowed greater freedom of operation than when they are paid a fixed salary, and this fact may not be to the ultimate advantage of the firm.

After all, the sales manager should be in sufficiently close touch with his travellers to estimate their service to the firm correctly, and their salaries and the terms of their engagements should vary in accordance with these estimates.

The inauguration of a commission or bonus scheme suggests that the travellers are not already doing their best for the firm, and the sales manager may be content to say, " If they slack now they will be losing money themselves."

Yet a sales manager has no right to keep on his force men who are not doing their best for the firm, or to relax his supervision because the salesmen are given some other incentive to increase their efforts.

The Best Incentive.

A salesman who feels that a close interest is being taken in his work, and that his efforts will be rewarded by a steady increase in his regular income, is given a greater stimulant to build up sound business for his firm than the man who is left to his own devices, with the knowledge that his income will continually fluctuate with his sales, and be affected by the element of " luck " to which most salesmen are prone to attribute their successes or failures.

A monthly letter from the sales manager, giving a friendly criticism of the traveller's work, will have a far greater influence upon the latter than a commission statement or a chart upon which he is shown his sales in relation to those of his colleagues.

Travellers' Expenses.

The nature and extent of the expenses which a traveller may charge to the firm are often the subject of controversy. It is very difficult to fix hard and fast rules in connection with this matter, and yet there is need for a definite arrangement to be made before the traveller is sent out on his first journey. Some travellers will increase their sales to an appreciable extent by judicious expenditure on entertaining customers, and in participating in the trade, social, sports, and educational events in their territory, while others will waste a

considerable amount of money without bringing any benefit to their employers.

The sales manager should take the responsibility for the expenditure of his men, and their requisitions should be submitted to him for approval. It is not wise to leave the passing of the travellers' expense accounts to an official on the financial side of the business, who may have little knowledge of the individual travellers or the work which they are doing.

The commercial traveller is called upon to spend the greater part of his time in travelling and in hotels, and he is entitled to a free choice in the matter of how he shall travel or where he shall live.

The salesmen should be allowed or even encouraged to use motor-cars, if they are called upon to cover an extensive territory. It is generally considered that by the use of a car a traveller can cover two or three times the extent of territory he could cover by using the railways.

The Use of Motor-cars.

Working the average territory calls for the use of branch and local railway systems upon which an indifferent service may be maintained. In this event, salesmen will find it very difficult to keep appointments, and will lose a great deal of time arranging visits according to the time-tables.

However carefully he does this, he will often have to pass over a customer, or cut short an interview at the risk of annoying a customer, in order to catch a train. The use of a car will enable the salesman to take customers to the showrooms easily, and to carry a larger range of samples.

The traveller's allowance for running the car can easily be arranged either at so much per week, per journey, or per mile. The difficult question is the initial outlay on the car. If the salesman uses his own car, the allowance for running expenses should include a sufficient provision for depreciation.

In many cases the salesman's employer must provide the car, but unless a chauffeur is provided with it, some arrangement is usually made for the car to ultimately become the property of the salesman. This may be done by the salesman's buying it from the firm on an instalment plan, or by his paying the running expenses himself on the understanding that when he has done this for a certain period the car will become his property.

The latter scheme is recommended as one which allows the

salesman to buy the car in a way that does not call for substantial payments at any time.

Some firms insist upon their salesmen stopping at a certain class of hotel, or even fix a hotel in each town. The effect of this is often to work a serious injustice upon the salesman whose income is modest, by forcing him to live on a scale which he cannot afford. The fact that the firm pays the actual hotel bill is not sufficient to compensate the salesman fully, because there are many expenses attendant upon living in a hotel, which the average firm would not allow their salesmen to charge.

Hotel Bills.

The practice of demanding hotel bills in respect of all living expenses charged, forces the salesman to have his meals in the hotels, and may seriously interfere with his programme. It is usually a better plan to allow the salesmen so much per day for living expenses when away from home, and leave them free to stay where they like, provided they notify the head office of their addresses for correspondence.

These questions of expense regulations and allowances are of especial importance when inside employees are promoted to the sales force. The firm is then under a moral obligation to see that the employee is at least as well off on the road as he was in the office.

It frequently happens that an inside employee takes up a sales territory with prospects of greater freedom and a better style of living, but is sadly disillusioned when he finds that he is tied by railway time-tables and hotel lists during the whole of the time he spends on his journeys, and that his living allowances do not meet the amount which he is compelled to spend.

The standing of a firm will frequently be judged by the appearance of the traveller, and there are trades in which a salesman must present a "prosperous" appearance before he can approach the customers. In such cases the salesman's firm must pay for the evidences of prosperity. Certainly a salesman who is worried over financial matters, or in controversy with his firm over expense allowances, cannot give his mind to the arduous work of selling. An argument with a salesman over a doubtful item of 10s. on an expense account may cost his firm hundreds of pounds' worth of business.

That "Prosperous" Appearance.

Many firms find it necessary to supplement their selling force

by the employment of agents who offer the merchandise of a number of firms and work on a commission basis.

Sales agents serve a useful purpose in taking care of territories which do not merit the attention of direct employees. In view of the fact that these agents are usually only paid for business which they actually introduce, their employment may make for a considerable saving in selling expense, and represent the most economical method of marketing a product which is only in occasional demand.

Sales Agents.

Great care must be exercised in appointing agents, in view of the fact that the principal is responsible for the acts of his agent, no matter how casual the appointment may be.

If an agent were authorized to dispose of goods, and he cut the price heavily in negotiating a sale, the principal would have to live up to the bargain with the customer, even if it meant selling the goods at a loss.

If the agent had been instructed to obtain a certain minimum selling price for the goods, and ignored this instruction, the principal would have a claim against the agent for the difference in price, but this would not affect the relation between the principal and the customer.

In view of this the reservations which it is necessary for the principal to make as regards prices, terms or any other points of selling policy and practice, should be embodied in a proper agreement, and care should be taken to see that the agent is of sufficient financial standing to cover his responsibility in respect of any business with which he is likely to be entrusted.

Two firms serving the same class of customers, but not in direct competition, can often enter into a reciprocal arrangement to act as agents for one another in alternate territories, and thereby effect considerable economies in their respective sales campaigns.

Agency Agreements.

For example, an English manufacturer of ink might enter into an arrangement to act as selling agent in England for a Scottish manufacturer of stationery; the Scottish manufacturer acting as selling agent in Scotland for the English manufacturer. Each of these houses would include the lines of the other in its advertising campaign, and their travellers would offer both ink and stationery to the customers they served.

A manufacturer will frequently enter into agency agreements of this kind, in order to vie with competitors who have a wider range of merchandise than his own, thus making it unnecessary for his customers to go to the competitors for supplies of any kind.

In ceding a territory to an agent a principal may be tempted to reserve the right to continue to deal directly with certain existing customers, whose business is considerable.

The object of this is, of course, to save the agent's commission on the business which is considered to be already assured, but the policy is often found to be " penny wise and pound foolish," because the work of attending to the customers isolated in this way may cost considerably more than the amount of the agent's commission, and there is always the possibility of the customers in question being neglected by the principal's sales department, when this department has accustomed itself to being relieved of the general responsibility for the territory ceded to the agent.

Very often the agent will be more than a salesman. He may undertake the advertising, the collection of accounts, and/or the service of the customers within his territory, in which case he will usually receive an expenses allowance in addition to his sales commission.

In entrusting these duties to the agent, the principal is relieving his own organization of a great deal of work, but he must take precautions to ensure his interests being fully protected. If he allows the agent to control the advertising within his territory, he is running a risk of alienating that territory. Should the goods advertised become associated with the agent in the minds of the consumers, the local goodwill of the manufacturer may become inseparable from the agent, and this would place the latter in a too dominant position.

Protecting the Principal's Interests.

If the agent undertakes the collection of accounts, and the service of the customers, he will be called upon to invoice the goods and to carry a stock. This stock will usually be " consigned " to the agent on sale or return, remaining the property of the principal until the agent disposes of it.

This class of agency is dealt with fully in the chapter on " Consignment Sales."

CHAPTER IV

ADVERTISING

THE word "advertising" suggests the taking of space in newspapers, magazines, and other periodicals, the hiring of hoardings and sites in public places, and the publication of catalogues, booklets, and folders. To the business house, however, these actions represent only one step in the advertising campaign; there are many important points to be decided before this stage is reached, and a number of arrangements to be made to follow up the actual advertisements.

The first step in the advertising campaign is to decide upon the goods to be offered. Very few business houses advertise the whole range of the lines of merchandise they have for sale, although the general public does not realize the extent to which concentration upon particular lines is practised by the advertisers. Nearly every article which has become a "household word," owing to extensive advertising, represents only one line out of a number offered by the advertiser.

Concentration Upon Special Lines.

Take as an example the confectionery trade. Each manufacturer has a wide range of trading lines, sometimes embracing several hundred different confections, but practically every manufacturer is known to the general public by one outstanding line which has been selected as the basis of his advertising campaign. The manufacturer's name may be connected in the minds of the public with a particular variety of chocolate, and yet the advertising campaign based upon this chocolate is instrumental in selling toffees, caramels, boiled sugar goods, cocoa, and a host of other trading lines.

These other lines are sold, not because the chocolate is advertised, but because the chocolate gives satisfaction to the purchaser, and encourages him to try the other productions of the same manufacturer. When the quality of the goods advertised has built up a goodwill which attaches to the name of the manufacturer, he is free to advertise any of his lines, and such advertising is assured

of success, provided of course that his name is prominently displayed and the lines are worthy of the advertising. No matter how well known a manufacturer may be, he cannot afford to advertise a line which is lacking in the qualities which have established his goodwill.

Therefore the selection of the trading line which will form the basis of the advertising campaign, and thus represent the business as a whole, is the most important step in advertising.

Selecting a Representative Product.

The line must be naturally distinctive and one that cannot be beaten by competitors, either in regard to price, quality, or appearance. It should be one that can be produced in larger quantities at a lower unit cost, that is to say, the increase in sales consequent upon the advertising should not call for an equal increase in the selling and administrative expenses.

Unless the increased production enables some economy in the overhead charges per unit to be effected, there will be nothing to offset the cost of advertising, and if this cost must all be recovered from the consumer the price of the article may be rendered prohibitive.

The cost of advertising must ultimately be borne by the consumer, although it may be offset by the producer's being able to pass on to the consumer some of the benefits he receives from the increased turnover.

It is obvious that if raw foodstuffs had to be extensively advertised, the cost to the consumer would be increased by the full amount expended upon advertising, as in such cases no appreciable reduction in the cost per unit could result from an increased turnover.

There is no doubt, however, that the consumer is fully compensated for the contribution which he makes to the amount expended upon advertising, because of the essential fact that an advertised article must be of good quality.

It is impossible to advertise successfully a rubbishy article, or to obtain elevenpence for an advertised article when the same quality article, not advertised, can be purchased for tenpence, the odd penny being necessary to cover the cost of advertising.

In the same way, if the regular price of an article, sold without advertising, is tenpence, it will be foolish to attempt to market

an advertised article of the same description at the same price, and reduce the quality to cover the cost of advertising. In all probability, if the inferior article were marketed at ninepence, it would still be a failure.

Cheapness is never a sound basis for an advertising campaign. The fact that Brown's marmalade can be purchased for a penny a pound less than anyone else's is no recommendation for Brown's jams, and the public bias against cheapness is in itself sufficient to counteract such advertising. No goodwill is built up by advertising when cheapness is the sole advantage claimed for the article, because a competitor can capture the market at any time if he is able to cut prices.

Building Up Goodwill.

To obtain a basis for advertising, a manufacturer may have to produce an entirely new line, or to alter an existing line, either in quality, size or appearance, in order to make it more distinctive, or attractive to a larger number of consumers. For instance, to make an article distinctive in relation to that offered by competitors, it may be advisable to improve the quality and use better packing and labels, so that the article appeals to a better class of consumer. On the other hand, the best market may be among the poorer classes, who will be catered for by reducing the size and using cheaper packing and labels, so that a small reduction in price is possible.

It may, of course, be necessary to withdraw one leading line from the advertising campaign and substitute another, in order to allow for a change in the public taste.

As an instance of this, before the War the majority of cigarette manufacturers concentrated their advertising upon the cheapest brands, which were usually sold in packets of five. After the War it was found that smokers were more particular, and the advertising campaign was concentrated upon larger and better quality cigarettes, sold in packets of ten or twenty. As a result of this, trade names which used to be synonyms for "cigarette" are rarely heard, although the particular brands are still quite extensively sold.

Changes in Public Taste.

All advertising tends to make the customer more discriminating, and advertisers should be quick to follow any change in the public taste, or better still to anticipate it.

A manufacturer equipped for versatile production will find it worth while to follow the popular " crazes " in outdoor or indoor amusements, advertising whatever lines he may have, which are in any way connected with the rage of the moment, or bringing out new lines to meet the demand. Many business men would scoff at a manufacturer who brought out a " Radio " chocolate or cigarette during a " wireless " craze, but the fact is that the class of people following these crazes is the one which has most money to spend, and if the manufacturer can gain an introduction to this class by the production of topical lines or topical advertising, he will be well rewarded.

Profits in Popular " Crazes."

When the goods to be advertised have been decided upon, the question of service must be considered. The reception which a newly-advertised article will receive can rarely be predicted, but the advertiser should see that he has ample stocks ready for immediate dispatch, and can produce further supplies in good time if success is achieved.

Service.

Some retailers make it a policy to advertise extensively particular articles when they have only a few samples in stock. Drapers are specially prone to use outstanding bargains as " bait " in this way. These people may consider such a policy a success, because the average person enticed into a shop by an advertisement of this description will make a purchase of some kind, but the disappointed customer cannot be expected again to be influenced by an advertisement emanating from the same shop. To pay for itself, advertising must bring regular custom, and this objective cannot be achieved unless the customers answering the advertisements are satisfied in every way.

There is another important point in connection with retail business. Advertisements will often draw people to a shop but not into it. If they find that the window displays are not in accordance with the advertising, they will often go elsewhere, so that the shop windows should be dressed with the lines that are being advertised. When there is keen competition in a neighbourhood a shop which does not advertise may capture business by making an outstanding display of lines which competitors are advertising. The advertiser may create a demand for an article, but he has still

A Point in Window Dressing.

to convince the people interested that he is best able to satisfy that demand.

When the manufacturer is the advertiser, and the goods are distributed through retailers, care must be taken to see that the retailers can easily obtain supplies. If the retailer is accustomed to order his supplies monthly from a traveller, the retailer must be notified, well in advance, of the fact that a line is about to be extensively advertised, otherwise he may not be able to cope with the demand, if the advertising is successful in his district.

Ensuring Supplies for Retailers.

It is a good plan to issue to the customers stamped addressed post cards, worded as an urgent order for the particular line which is to be advertised, so that they need only fill in the quantities they require.

A covering letter, pointing out the necessity for obtaining a stock of the line advertised, should be sent out with these post cards; for example—

"We are about to advertise extensively our

BOTTLED COMPOTE OF FRUIT

retailed at 1/3 per bottle, price to you 9/- per dozen. We anticipate that a heavy demand for this line will arise from the advertising. In the event of your experiencing this, please send an order upon the enclosed post card for the quantity you require.

Your order will be given special attention *provided that it arrives in good time.*"

A retailer advised in this way will feel that the manufacturer is looking after his interests, and the concluding sentence of the letter will encourage him to send in an order immediately the advertisements appear.

When everything is ready for the advertising campaign to be opened, the question will invariably arise, "Can we do the advertising or must we employ agents?" The answer will depend to a great extent upon the size of the projected campaign in relation to existing business, the talent available within the organization, the measure of success which has attended previous efforts, and the kind of agent under consideration.

The term "advertising agent" is somewhat ambiguous. It may be used to describe a broker of space in periodicals, outdoor publicity sites, etc., who will be mainly engaged in placing advertisements. On the other hand, the expression may cover a business adviser who could undertake the planning of the whole advertising campaign, the selection of the article, the preparation of the advertisements, the placing of these, and the organization of the following-up activities.

For and Against Advertising Agents.

The question of whether the first type of agent should be employed or not is unimportant, as his services are merely subservient to the campaign, and will only be employed if he can obtain some preferential treatment or economy in cost for his clients.

In placing the advertising campaign in the hands of the second type of agent, the advertiser will be entrusting the goodwill of his business to a stranger, and the greatest care must be taken to see that the right man is employed. Very often the employment of such an agent may be likened to taking a sick business to a commercial doctor, and, if this is the position, it is best to go to a man who is an acknowledged expert, and place the business entirely in his hands.

The Commercial Doctor.

The fact that the agent knows little of the business in question is no disadvantage in a case like this, for starting off with only the knowledge of what the public requires, he is better able to ascertain the weak spot in the business than the executives, who are obsessed with minor details of routine and whose vision is impaired by concentration upon internal affairs. He may call for the production of new lines which will help to gain a market for the old ones, for the abandonment of lines which clash with more important ones, or for alterations in sizes of packing, labels, or conditions of sale. If the executives of the business accept these suggestions, they must see that the alterations are carried out in the proper manner, and that the staff gives its whole-hearted support to the scheme.

It too often happens that the calling in of outside assistance is resented by some members of the staff, who may be in responsible positions, and unless the executives take a firm hand, this retrogressive element may easily endanger the success of the scheme.

The position is different when the business is a flourishing one, and the lines to be advertised are distinctive and are sure of a certain amount of success. The work of the agent in such a case would be limited to preparing the copy and placing the advertisements, and the interests of the advertiser might be better served by his organizing an advertising department to do this work. The personnel of this department should include men with a wide experience of copy writing, illustrating, and space buying, so that the outlook of the department is not restricted to the limits of the business itself. Such a department should be able to keep in closer touch with the production and selling sides of the business than could an outside agency—a very important point.

Work for an Advertising Department.

The danger of placing the work in the hands of an outsider is that the responsibility for advertising is taken away from the staff. This is foreign to the principle of advertising, because every employee of a firm should play his part in building up the goodwill.

Every productive operation, every communication with a customer, and every act of service gives an opportunity to do this, and the advertising literature should be freely distributed amongst the staff, so that every one of them can carry the spirit of it into the execution of his duties. It is a common thing to find that the high ideals expressed in a firm's advertisements are those prescribed for it by the advertising agent, and that they are rarely perceptible in the conduct of the business.

Goodwill and the Staff.

One advantage of employing an agent is that some economy in cost is offered, as the agent works upon commissions received from publishers and billposting contractors, and makes little or no charge to his client.

The actual advertising must be conducted in accordance with a definite plan, and should be as regular as possible. Advertising by fits and starts, excellent though the efforts may be, cannot give the same results as systematic advertising. Every advertisement should appear to the consumer as an offer of service, not as an advertisement, and it should be borne in mind that in these days he receives offers of service out of all proportion to his requirements.

Advertise Systematically.

The steady reiteration of an offer will ensure its being accepted as such, whereas a brilliant " stunt " is apt to be regarded as an advertisement and nothing more.

This principle applies to direct publicity as well as to newspaper and outdoor publicity. It frequently happens that a booklet sent out to a number of selected prospects brings a disappointing number of replies, but that the same booklet, sent out to the same people after an interval of a few months, will bring more replies than the first distribution. This practice has been followed by some firms to the extent of sending out the same booklet four or five times, and each time an increasing number of replies has been received, the reason being that the offer of service is strengthened by repetition, and the form of the offer is a matter of secondary importance.

The Effect of Repetition.

The placing of the advertisements must be made with careful regard to the class of consumer it is desired to attract.

Country newspapers or hoardings are not a suitable medium for the advertisements of electrical appliances, or city newspapers and hoardings for candle and oil-lamp advertisements ; articles which must be obtained direct from the manufacturers cannot be advertised successfully on outdoor spaces ; high-class tailors cannot use spaces in cheap magazines.

In considering the merits of periodicals, careful consideration must be given to the class, age, and sex of the people who may be expected to read them. In making use of newspapers, the actual position of the advertisement is a matter of importance. The financial and sports pages are not suitable for appeals to the housewife, or the serial story and fashion pages for appeals to men.

Important Considerations for Advertisers.

The examples quoted are obvious, but there are many equally important exceptions which are not obvious. This point must be closely studied and the advertising results watched, in order to find the comparative value of the various spaces for the article offered.

Advertisers should not hesitate to ask publishers for details of net sales of, circulation of, districts covered by, or class of subscriber to, any publication—they cannot be expected to buy a pig in a poke.

Journals which are mainly distributed gratis should always be eyed with suspicion. They are naturally only sent to people who

should be interested in the contents, and if these people are not sufficiently interested to pay for their copy, there must be something wrong with the journal. There are thousands of these publications, with contents of the " scissors and paste " variety, which rely solely upon the revenue from advertisers. It can generally be assumed that if the news and articles make no appeal to the recipient, he will pay scant attention to the advertisements.

The tone of a journal has a decided bearing upon the results of the advertisements, because the public is fully alive to the fact that the better class publishers exercise a supervision over their advertisers' announcements, which the smaller fry dare not attempt.

With press advertising it is advisable to keep a publicity record which will contain, in a form convenient for reference, the information necessary to prepare the copy and to pass the contractors' invoices.

Advantages of a Publicity Record.

The best medium for this record is a card index, in which cards similar to that illustrated on the next page are provided for each publication used in the campaign.

The cards will be kept in order of the date upon which copy is next required, so that the copy is sent to the publishers in good time to secure the positions desired. Each time this is done the card will be moved on to the date when the next copy is due to be sent in.

Spaces are provided on the cards for recording the cost of each advertisement, and particulars of the contract. The record will also enable the illustration blocks to be traced. It is usual to have all the blocks " pulled off " by a printer so that a catalogue can be made, and to give each one a distinctive number. This catalogue will be valuable in preparing copy, and the numbers can be used for the purpose of the publicity record.

Advertisers should insist that proofs of every advertisement are submitted, and a column has been provided for recording the date of passing these. The columns headed " replies received " will carry particulars of the inquiries and business traced to each advertisement. In order to enable results to be credited to the various advertisements, it is usual to ask persons replying to them to state the name of the publication, or to incorporate in the address given in each advertisement a key number which will act as a clue to the publication and issue. For example, in the fourth

PUBLICITY RECORD CARD

Publication	*Ironmongers' Sentinel*	Publisher	*Blake & Austin*
Nature	*Trade Journal, Monthly*	Address	*Sentinel House, Bishopsgate, E C.*
Circulation	*.5,000*	Gross Rate	*£6*
Net Sales	*.3,000*	Discount	*10% Series, 2½% cash*
Size of Advert.	*6" × 7"*	Date of Contract.	*15th December, 1925*
Position	*Front Cover*	Contract expires	*December issue, 1926*

Copy Wanted		Description of Advert.	Blocks			Proof Passed		Voucher Copy Received.		Invoice Passed.		Key No.	Replies Recd.			
			No used	Date Sent	Returned								No	Sales.		
1926				*1926*	*1926*	*1926*		*1926*		*1926*				*£*	*s.*	*d.*
Jan.	*5*	*Pocket Knives*	*271–384*	*Jan.* *6*		*Jan.*	*9*	*Jan*	*29*	*Feb.*	*6*	*S1*	*27*	*25*	*6*	–
Feb.	*5*	,, ,,	*271–384*		*Mar.* *12*	*Feb*	*11*	*Feb.*	*27*	*Mar.*	*6*	*2*	*59*	*41*	*10*	*6*
Mar.	*5*	*Spades and Forks*	*631–703*	*Mar.* *5*		*Mar.*	*9*	*Mar.*	*27*	*Apr.*	*3*	*3*	*46*	*36*	*4*	–
Apr.	*4*	,, ,,	*631–703*			*Apr.*	*10*	*Apr.*	*30*	*May*	*8*	*4*	*63*	*80*	*3*	*9*
May	*5*	,, ,,	*631–703*			*May*	*8*	*May*	*29*	*June*	*5*	*5*	*82*	*101*	*2*	*6*
June	*5*	,, ,,	*631–703*		*July* *13*	*June*	*12*	*June*	*26*	*July*	*10*	*6*	*52*	*48*	–	–
July	*4*	*Small Garden Tools*	*392–6*	*July* *6*		*July*	*10*	*July*	*24*	*Aug*	*7*	*7*	*38*	*36*	*9*	*10*
Aug.	*5*	,, ,,	*392–6*			*Aug*	*10*	*Aug*	*28*	*Sep.*	*11*	*8*	*72*	*64*	*17*	–
Sep.	*5*	,, ,,	*392–6*		*Oct.* *12*	*Sep.*	*11*	*Sep.*	*25*	*Oct.*	*9*	*9*	*43*	*51*	*8*	–
Oct.	*5*	*Pocket Knives*	*271–384*	*Oct.* *5*		*Oct.*	*9*	*Oct*	*30*	*Nov.*	*6*	*10*				
Nov.	*5*	,, ,,	*271–384*			*Nov.*	*10*									
Dec.	*5*															

advertisement appearing in the *Daily Mail*, people will be asked to reply to " Desk *DM4* " or " Department *DM4*."

The analysis of returns from advertising is further dealt with in the chapter on " Postal Publicity." Direct advertising and the operation of a " mailing list " are also described in that chapter.

Outdoor publicity is perhaps the most difficult form of advertising to conduct, the chief problems being the acquisition of suitable sites, and the presentation of a sales argument in a way that will enable it to be taken in at a glance.

Outdoor Publicity.

The billposting companies' charges for space are arranged according to the size of the poster to be exhibited, but usually are fixed without reference to the site. The best positions are obtained only by priority of claim, so that a new advertiser will find it difficult to secure prominent sites for his posters.

Advertisers will need to arrange for their interests to be watched to ensure their being given the best available sites, although it is no easy matter to choose between positions. A main thoroughfare, busy with fast traffic, does not provide such good sites as a place frequented by pedestrians; well lighted streets will enable the posters to tell their story during the evenings, whereas this is not possible in poorly lighted streets; a position in the business quarter will not claim the attention that would be given in a shopping neighbourhood or a theatre district; a railway platform with a frequent service of trains may not be so good as one with a less frequent service, in spite of the fact that the number of passengers passing by would be greater.

An Opportunity for Concentration.

Outdoor publicity gives the advertiser an opportunity to concentrate his efforts on a particular district, and so commends itself to proprietors of places of amusement, retail traders, and public service companies, who are able to confine their advertising to the district which they serve. It also enables some advertisers to reach the class of consumer they desire to influence; for example, advertisers of smoking requisites will obtain spaces in the smoking compartments of trains, and advertisers of motoring supplies will secure hoardings at isolated spots on main roads.

Posters need to be designed with much more care than advertisements for periodicals. The illustrations must be prepared by

expert poster artists, and the sales argument must be condensed to a simple phrase or slogan.

Outdoor publicity is comparatively expensive. Hoarding rents are not a heavy item, but the posters themselves are costly, and the outdoor campaign is usually only a supplement to the press advertising. It is practically impossible to conduct a successful publicity campaign solely through the medium of posters, owing to the incomplete nature of the message that is conveyed.

The extent of the advertising must depend upon the necessity for it and the means of the advertiser. An advertising campaign is expensive in comparison with other selling expenses but, if properly conducted, it may be regarded as an investment rather than an expense.

Many firms set aside a proportion of each year's profits for advertising, treating the amount as a kind of reserve. This is a very wise policy, because the greatest need for advertising is at times when trade is slack and competition becomes most keen, and at such times the current profits will not stand an increased expense. Some of the allocation should be reserved for special publicity ; for example, the advertising of a new line or the development of a new territory, so that the general advertising need not be curtailed to allow for this expenditure.

The Appropriation for Advertising.

With seasonal trades it is advisable to open the campaign well in advance, so that the offer of service is made before the service is required, and retailers are reminded of the necessity for ordering supplies.

The actual wording of the advertisements must be governed by the selling policy of the business itself and not by any outside influence. It is never wise to follow competitors' examples or to reply to their claims by any form of criticism, however subtle this may appear.

Every advertisement should help to create a demand for the class of goods in general, and for the advertiser's product in particular. A bald statement that a certain article is the best of its class does nothing to create a demand for that article, and insinuations against competitive articles may prejudice prospective purchasers against the whole class of merchandise.

It is hardly necessary to say that every claim made for an article

should be truthful, but it may be necessary to say that the claims should be modest. A statement which is based upon actual experience under favourable conditions may be perfectly true, but if any suspicion is aroused in the mind of the prospective customer, the value of the advertisement will be lost.

Modesty Pays in Advertising.

Testimonials are always treated with suspicion, because it is a well-known fact that a large number of people earn their living, or considerably supplement their income, by writing letters of commendation. Unless the testimonials are from persons or corporations who are obviously above suspicion, they are not worth the trouble necessary to obtain them, or the space which must be devoted to their reproduction.

It is unwise to devote much advertising space to lists of the names of users of the article advertised, or to boost a particular order which has been obtained. With a comparatively new article, it may be helpful to refer to existing customers in a booklet or catalogue, or in a list that travellers can show to prospective customers as a matter of interest, but to rely upon this to influence a prospect is to credit him with the intelligence of a sheep, and he may resent the suggestion that he should follow the example of people who may be his competitors. There is also the danger that customers might be annoyed at having their names mentioned, although they may consent to this being done, not caring to refuse permission in the absence of a reasonable excuse.

Simplicity should be the keynote of all advertising. In fact, there are many cases in which the advertisements should be made sufficiently simple for a child to understand. To engage the interest of the children in an article will often prove to be the best introduction to the household.

A plain statement of the service offered is all that is required. The purchaser is not primarily concerned with the description of the article, the way in which it is produced, or the organization which produces it, he is most interested in what he can do with the article and the benefits he will derive from its purchase. Nobody really wishes to buy a typewriter, an electric cleaner, or medicine—the people who purchase these things do so to obtain neat and legible correspondence, clean homes, or good health respectively.

The Customer's Point of View.

The organization of the supplier is only a matter of prime importance to the purchaser when after-sales service is required, as in the case of machinery. Even then it is dangerous to say much about the repair or maintenance services, as it may give the impression that the machine offered is unreliable or weak in construction. Any suggestion of boasting should be carefully avoided.

Emphasize Uses and Advantages.

The comparatively modern idea of taking people behind the scenes and showing them what articles are made of, how they are made, and the organization which markets them, is sometimes good as supplemental advertising, but this should on no account be allowed to encroach upon the space necessary for describing the uses and advantages of the articles. If people really knew the way in which the articles they eat and use were produced, they might find it difficult to enjoy or appreciate many of them.

Descriptions of ingredients or manufacturing processes are often completely lost upon the general public, which is prone to ascribe ulterior motives to many of the operations of a factory.

As an instance of the way in which it is an easy matter to say too much about an article, the case may be quoted of a manufacturer of a productive machine who displayed regularly in trade journals an advertisement composed of a large illustration of the machine, a specification of its equipment, and a brief statement of its uses. On one occasion, owing to a misunderstanding on the part of the printer, the illustration and specification of the machine were omitted, and the statement of its uses occupied the whole of the space. The distorted advertisement offered a better system of production, but did not state that this was made possible by the use of a machine. The replies to this advertisement exceeded in number, and led to more business than, those resulting from any previous advertisement.

The standard of advertising in trade journals is, generally speaking, very low, in spite of the fact that here the announcements of firms in close competition are often grouped together. A scrutiny of the average trade journal will reveal dozens of advertisements which could be improved by the omission of the illustrations, or for which a more suitable illustration is suggested by the text.

In general advertising the best thing to illustrate is not always the actual article offered, and it is often better to depict the article in favourable surroundings than to show it alone as a close-up.

To give a few illustrations of this, a portrait of a girl with a perfect complexion is a better advertisement for a toilet soap than an illustration of the tablet itself; a picture of a motor-car passing through beautiful scenery is more likely to create a desire for the possession of one than a picture of the car alone; and an advertisement for an easy chair will be made much more attractive if a person is shown reclining in the chair.

Art in Advertising

The artist can be of great service to the advertiser, provided that he is not allowed to get away from the point of the announcement. Many of the advertisements in circulation now are works of art, which have practically no value as offers of service. Cartoons or elaborate drawings with little or no bearing on the articles offered are used in newspapers by a large number of advertisers, and might achieve their purpose if favourably placed. When, however, one of these complicated advertisements is situated next a bold and simple statement of fact by another advertiser, the elaborate advertisement is likely to become, in advertising value, merely an attribute to the simple advertisement, by throwing this into greater relief.

Names and addresses, unless they are a feature of the advertisement, should be reduced to occupy the minimum space, and trade-marks and slogans, where they are of little advertising value, should be used sparingly.

Slogans, which are really sales arguments condensed into a few words, may prove very valuable features of the campaign, but will need to be changed from time to time in order to prevent their becoming stale.

Slogans.

The phrases "Give her Bovril," "A little Bovril keeps the doctor away," "This will be a Bovril winter," "Bovril prevents that sinking feeling," and "Bovril soon puts a man on his feet," constitute an excellent example of a series of slogans emanating from a business house which has always made a feature of this form of publicity. A slogan, to be effective, should include the name of the article advertised and should be distinctive. Such phrases as "The very best," "The best for all purposes," "The

finest on the market," and "The best on the market," are of no advertising value, although so many advertisers devote valuable space to them.

Constructive Criticism from Retailers.

Manufacturers and wholesalers should endeavour to obtain from retailers constructive criticism of their advertising. The retail trader, with some knowledge of the subject, is in a better position than anyone else to judge the value of a form of advertising, either his own or his suppliers', as his close contact with the consumer enables him to distinguish the sales resulting from advertisements, and to obtain the consumers' views on the subject.



OMITTING THE ARTICLE OFFERED

An advertisement with a strong "human appeal." The article offered, being unattractive in its appearance, has been omitted.

A number of manufacturers have sent inquiry forms to their retail customers, asking questions of the following description—

"Do you find that our advertisements create as much interest as those of our competitors ?
Which of our advertisements do you consider to be the best ?
Can you suggest any additional feature which could be used in the advertising campaign ?
Do you object to any of our advertisements ?
Is there any kind of display material which you could use to advantage ?



FEATURING THE ARTICLE OFFERED

An advertisement in which a topical subject has been introduced in a way that does not lessen the natural appeal of the goods advertised

Do your customers criticize our goods ?
,, ,, ,, ,, the sizes ?
,, ,, ,, ,, the prices ?
Do you think that our goods could be more attractively packed ? "

In order to encourage customers to give as much information as they can, some form of reward should be offered for all suggestions which prove to be of service.

If the class of customer cannot be expected to co-operate in a matter of this kind, or is not likely to take the trouble to make written statements, it may be left to the travellers to interrogate each customer, and to record any criticism or suggestion upon an inquiry form.

The last few years have seen a great increase in the number of competitions conducted as a form of advertising, and there is no doubt that they are very popular with the public.

The question of their advertising value is a very difficult one, as so much depends upon the nature of the competition. A simple contest which necessitates the competitor's purchasing a sufficient quantity of the advertised goods to make a fair test of their quality, or causes him to display a knowledge of the goods which can only be gained by actual experience of them, may prove a very valuable method of introducing new customers, and if the prizes can be restricted to the trading lines of the advertiser, and some consolation afforded to unsuccessful competitors, so much the better.

Advertising by means of Competitions.

Competitions as nearly approaching lotteries as the law will permit, in which large sums of money are offered as prizes, the only condition being that competitors must prove the purchase of a sample of the goods advertised, are rarely a success.

Undesirable Types of Competitions.

The majority of people entering these competitions do so in a "get rich quick" spirit, and are in no mood to pay attention to the article which they are compelled to purchase in order to compete. They are apt to judge this article by the measure of their success in the competition, and, on the face of it, it is very doubtful whether a firm can be said to build up goodwill by disappointing thousands of people who have entered into a competition in the hope of winning a valuable prize.

Apart from this, there is a growing resentment on the part of shopkeepers towards this type of advertising. Retailers are naturally annoyed at being forced into stocking large quantities of goods in sizes which may be too small to meet regular customers' requirements, with the possibility of these goods being left on their hands at the close of the competition.

Some firms prepare lists showing the names and addresses of the competitors in each town, and give each traveller the lists referring to his territory, so that they can be produced to the retailers as evidence of an interest in the goods offered.

They are, however, a poor sales argument, as the retailers know that, in order to enter for competitions, people buy articles which they would never use under ordinary circumstances.

In considering the advertising value of a competition, the results must be discounted as heavily as the net sales figures of certain weekly journals, which are bought in quantities by numbers of people merely in order to obtain football coupons. Very few competitions have achieved the success which could be expected from the same amount of trouble and money spent in regular advertising, and many small firms have been ruined by them.

Results Uncertain.

Exhibitions constitute another form of advertising which needs special consideration.

An exhibition gives an opportunity for a manufacturer to display his products under favourable conditions and in close proximity to those of competitors, so that selling points which are difficult to explain in conversation, correspondence, or advertising literature, are demonstrable. It also acts as a test for the selling force, as it is possible to watch the way in which the individual salesman engaged deals with the prospects, and it gives the salesmen a chance to watch one another at work, which may be very helpful to them.

Trade Exhibitions.

Sales can be made through the medium of an exhibition which could not be achieved in any other way. A man will often refrain from investigating an article in which he is interested, if he is called upon to go into a shop or office and ask for the information he requires, as he feels that he would be under an obligation to make a purchase of some kind. On the other hand, on calling at an exhibition stand, he need only display a casual interest in the

article, and cannot under these circumstances be pressed to purchase.

Then, again, a business man is in a very different mood at an exhibition from that in which he is found by travellers calling upon him. For example, in his own office it might be difficult to convince him that he has any use for a particular type of office appliance, and sales arguments which had the effect of criticizing his own methods might offend him, but he goes to an exhibition in a progressive frame of mind, and is bound to be impressed if he sees work being carried out in a more efficient manner than is possible in his own office.

A "Prospect" Susceptible to Impressions.

It may be that the demand for the article which makes a good impression will not be created for some time afterwards, but interest has been aroused, and can be increased by publicity matter if the prospect is known to the exhibitor.

If the article is of real service the demand is sure to be created sooner or later. Tardy arrivals of employees will remind the principal of a time clock; a forgery will remind him of a cheque protector; a breakdown in the accounts department will remind him of book-keeping, adding, and calculating machines. Because of this necessity for the demand to arise, the benefit of an exhibition is not likely to be felt for some time afterwards, and may not be appreciated.

There are three important essentials to a successful exhibition—

Essentials to Success in Exhibitions.

1. It must be distinctive, and must occupy sufficient space to enable a representative range of the exhibitor's lines to be shown to advantage.
2. There must be a sufficient attendance of competent assistants.
3. Close contact must be maintained between the exhibition staff and the main organization, so that inquiries arising from the exhibit are promptly dealt with, and orders received are given special attention.

It too often happens that a firm cannot induce good salesmen to leave their territories for service at the exhibition, so that the stand is left in charge of juniors or members of the office staff, who are unable to make the best use of the opportunity presented, and

have insufficient authority to deal properly with any important business which may develop.

A diary should be kept showing the events of each day, with the name and address of each caller at the stand, and the business transacted or prospect disclosed.

This book will enable the prospects to be followed up and offers of service to be made, with a view to furthering the impression created upon the visitor.

CHAPTER V

POSTAL PUBLICITY

DIRECT advertising, that is, the sending of sales literature through the medium of the post to people known or surmised to be interested in the articles offered, has, within the last few years, become a very common form of publicity.

The traders who resort to direct advertising can be divided into four classes—

Mail Order Traders.

Mail order houses where business is solely conducted by post.

Retail traders who circularize selected local residents, or maintain a mail order department as an adjunct to their local business and in order to extend their field of activity.

Manufacturers and wholesalers who do not employ travelling salesmen, or whose salesmen do not make regular journeys.

Manufacturers of machinery and appliances who find it necessary to educate the employees of their customers to the use of their products.

The first class of trader, the mail order house, plays an important part in the distribution of both necessities and luxuries to residents in outlying districts and country towns.

It is a difficult business, calling for careful and economical buying, persistent and attractive advertising, and efficient and satisfactory service to the customers.

Shopkeepers complain bitterly of the advantages which mail order houses possess, firstly, because they do not have to maintain expensive shop premises; secondly, because they are able to stock a restricted number of lines; and thirdly, because they are not called upon to give credit; but when all the facts of the case are considered it is found that these advantages are illusory. Selling through the post is an expensive process.

True, the establishment expenses are not high, but there is a direct cost attaching to each sale for postage, packing, and clerical labour which has no equivalent in the case of goods sold over the

counter. Because of this heavy direct cost, the mail order trader executes a proportion of the orders he receives at a loss, the value of the orders being so small that the profit does not offset the expense of supplying the goods. The shopkeeper can well afford to serve a customer with one article, costing ninepence, for a shilling, but the mail order trader cannot, because the postage alone may be greater than the gross profit on the sale.

Difficulties of Mail Order Trading.

The fact that the mail order trader only stocks a limited number of lines is in itself a disadvantage. There are only a few lines which he is able to sell in competition with the shopkeeper, for the simple reason that he must show the customer some considerable economy in price in order to repay the latter's trouble and expense of sending for the goods.

Therefore he is compelled to make his purchases in very large quantities, so as to secure the best possible terms, and under these conditions must restrict the number of lines dealt in.

So far as the question of credit is concerned, the majority of the shopkeepers in these days receive cash for the greater part of the goods sold, and the amount of credit they are called upon to give is usually more than offset by the amount which they receive from their suppliers. On the other hand, the mail order trader is generally called upon to pay prompt cash against all his purchases.

From the above comparison arise three points which must influence the mail order trader's advertising.

First, he must so arrange his catalogues that the customer is induced to order in fairly large quantities, in order to cover the direct cost of postage or carriage, packing, and clerical expenses. It would be disastrous for a catalogue to be sent out in which a shilling article was the outstanding bargain, because every order received for one of these alone would involve the trader in a proportionately heavy loss. Some traders stipulate that customers pay the postage on all orders below a certain value, while others fix a minimum amount to which orders must be made up.

Principles of Mail Order Advertising.

Second, he must make it as easy as possible for the customer to order, by enclosing order forms and addressed envelopes with all literature sent out. It may even be considered necessary to supply regular customers with stamped addressed envelopes, and to

emphasize the fact that they will thus incur no expense in sending for goods.

Third, he must endeavour to obtain lines which are distinctive, so that he need not rely upon price cutting alone to bring him orders. Cheapness is no foundation for sound business, or method of securing regular custom, and the mail order trader needs repeat orders if he is to recover his initial expense in respect of each customer.

There are mail order houses which specialize in buying up bankrupts' stock, and salvage goods, but a business relying upon such precarious sources of supply can only be regarded as speculative and adventitious.

The Most Successful Postal Trading.

Perhaps the most successful mail order traders are manufacturers who find it more satisfactory to sell directly to the public, than through wholesalers and retailers, and can therefore honestly offer the consumer the saving of the middlemen's profits. Very often this method of distribution is adopted as a form of fighting trade "rings" or trusts, and it is the only way in which the manufacturer can get his goods to the consumer.

Traders buying in large quantities in default of manufacturing themselves, should be able to obtain the exclusive selling rights of a number of lines which can be sold through the post, or to have goods made and packed specially for sale under their own brands.

There will, of course, be a much wider field of operation open to traders offering distinctive lines, as these can be offered in cities where general produce could not be sold through the post in competition with the shops.

The basis of the mail order trader's advertising campaign is a mailing list giving the names and addresses of customers and prospective customers.

The Mailing List.

This mailing list will be built up in various ways, according to the class of person it is desired to approach. Lists of selected householders may be purchased from addressing agencies, or names and addresses may be extracted from directories. Firms offering articles which are of special attraction to a class of trader or professional man, will be able to build up lists from the classified directories, while if it is desired to make an appeal to the better class of resident in a particular district, telephone directories may be used.

It is, however, an established fact that a number of people, which constitutes the majority in most classes, would never buy through the medium of the post, so that only in very exceptional circumstances would it pay to build up mailing lists from directories.

The alternative method usually adopted is to advertise, in suitable publications, lines of outstanding attraction. The persons replying to these advertisements show that they are prepared to go to the trouble of buying through the post and will, therefore, be worth the expense involved in adding their names to the mailing list. Many firms offer these introductory lines at a price which represents the cost of the goods or even less, treating these initial sales as an item of advertising and in the nature of an investment.

Each advertisement should be given a key number, so that the value of the various publications used can be found by tracing the results. For this purpose a " record of returns," similar to that illustrated on the next page should be kept, each day's replies being credited, in number and value, to the particular advertisement.

The Record of Returns from Advertising.

From the record can be ascertained the average value of the orders received from each advertisement, the average cost per order, and the percentage of cost to value, figures which will be of great assistance in placing advertising contracts, and in fixing selling prices for the goods advertised.

The mailing list itself will generally be kept in the form of an index of addressing machine plates. In any case, addressing machines will offer an economy in the cost of distributing, and as the cards attached to the plates bear all the necessary information in printed form, there will be no need to keep any other index.

Utility of Addressing Machines.

By using cards of various colours, or metal tags attached to the plates, it will be possible to divide the customers according to territories, or in any other way that it is desired, and, if necessary, orders received can be recorded by marking the cards.

The practice of marking the cards with the dates of the orders received will greatly enhance the value of the mailing list. With this information available, it will be a simple matter to send out a particular offer to regular customers only, or to eliminate, from the index, names of people who failed to develop into customers.

The words " or occupier " are often added to the address, so that

RECORD OF RETURNS FROM ADVERTISING

(MAIL ORDER BUSINESS)

Publication . *Smith's Magazine* Space used *Quarter Page* . . . . Price . *£10* .

1926

Date of Advt. .	*5th Jan*			*2nd Feb*			*2nd March*			*6th April*			*4th May*			*1st June*								
Key No.	*S.1*			*S.2*			*S 3*			*S 4*			*S 5*			*S 6*								
Replies	Date	No.	Value	Date	No.	Value	Date	No.	Value	Date	No.	Value	Date	No	Value	Date	No.	Value	Date	No.	Value	Date	No.	Value
	Jan.		£	*Feb.*		£	*Mar.*		£	*Apr.*		£	*May*		£	*June*		£			£			£
	6	*41*	*37*	*3*	*36*	*28*	*3*	*16*	*18*	*7*	*19*	*15*	*5*	*14*	*10*	*2*	*20*	*15*						
	7	*54*	*61*	*4*	*28*	*27*	*4*	*32*	*24*	*8*	*26*	*19*	*6*	*18*	*21*	*3*	*23*	*41*						
	8	*26*	*22*	*5*	*40*	*38*	*6*	*19*	*15*	*10*	*5*	*4*	*7*	*7*	*6*	*6*	*4*	*3*						
	9	*14*	*10*	*6*	*7*	*5*	*7*	*8*	*10*	*13*	*7*	*9*	*11*	*6*	*8*	*8*	*1*	*1*						
	10	*29*	*21*	*7*	*3*	*2*	*9*	*2*	*4*	*17*	*2*	*4*	*18*	*1*	*1*	*15*	*3*	*2*						
	12	*7*	*12*	*9*	*6*	*4*	*11*	*3*	*2*	*20*	*3*	*2*	*25*	*1*	*3*									
	15	*3*	*2*	*12*	*1*	*3*	*14*	*1*	*1*				*28*	*1*	*1*									
	20	*1*	*1*	*13*	*9*	*7*	*16*	*1*	*1*															
	21	*1*	*2*	*19*	*1*	*3*																		
				20	*1*	*2*																		
				23	*2*	*4*																		
TOTALS .		*176*	*168*		*134*	*123*		*82*	*75*		*62*	*53*		*48*	*50*									
Average Value .	£	*s.* *19*	*d.* *1*	£	*s.* *18*	*d.* *4*	£	*s* *18*	*d.* *3*	£	*s* *17*	*d.* *1*	£ *1*	*s.* –	*d* *10*	£	*s.*	*d.*	£	*s.*	*d*	£	*s.*	*d.*
Average Cost .		*1*	*1¾*		*1*	*6*		*2*	*5¼*		*3*	*2¾*		*4*	*2*									
Per cent. Cost to Value .	*6%*			*8%*			*13%*			*19%*			*20%*											

there is no fear of the literature being returned unopened if the addressee moves without arranging for his correspondence to be forwarded.

On the other hand, there are many firms which endeavour to make their appeals as personal as possible, and to avoid their literature being obvious circulars by having their envelopes hand written and sent out sealed.

The "Personal Touch."

If the appeal is made to the better class of consumer, the improved tone gained in this way will probably more than compensate the trader for losing the economical advantages of mechanical addressing and reduced postal rates.

The actual form of the advertising literature will depend upon the nature and extent of the lines offered. A trader offering a wide range of merchandise would send out a catalogue every month or so, while, in other cases, leaflets would be sufficient.

The object in sending out order forms or cards with every piece of literature is not only to make it easier for the customer to order, but also to ensure the order being given in a way that will facilitate its execution and avoid the necessity for correspondence. It should never be forgotten that writing letters is a very expensive matter—some business houses have calculated the cost to be as high as 1s. 6d. per letter.

The Order Form.

The order forms may either be bound into the booklet or catalogue and perforated near the binding margin to permit of their being easily detached, or they may be prepared as separate sheets. In either case, they should be made distinctive from the rest of the literature, by the use of contrasting colours, and should be placed at the front of the booklet or catalogue, so that the recipient is soon reminded of the fact that the goods must be ordered through the post.

It is a good plan to insert a batch of order forms at the end of the catalogue, with a loose "draft" order form at the beginning. This draft can be headed—

> "As you go through the catalogue please make a note of the articles which interest you. You will find a regular order form at the end of the catalogue. Keep this draft as your copy of the order."

The order form may be made to serve many purposes. It can be used to push the sale of a particular line, by giving an illustration

of this on the form with the words, " Do not forget to order," and the name of the article.

A leading line can be printed at the head of the list so that the customer need only fill in the quantity he requires, or if only a few lines are offered the order form could be prepared as a list of them.

When a guarantee is given this should be shown on the order form, and it is considered an advantage to incorporate the guarantee in the wording of the actual order, e.g.—

The Guarantee.

" Please send me the following goods :—

.....

I enclose for £ : : in settlement, on the understanding that if I return the goods within ten days of receipt I shall be entitled to an immediate refund of this amount."

Some form of guarantee is necessary with mail order trading, in order to allay the suspicions of the man who " likes to see what he is buying." In dealing with a reputable mail order trader, the customer is in a better position than in dealing with a shop, as he can place more reliance upon a written statement, made in the literature of the former, than upon the verbal statements made by the assistants of the latter. It is sometimes worth while to mention this in the advertising.

If " cash with order " is insisted upon, as is usually the case, a money column should be provided in which the customer can calculate the amount of his remittance, and a space in which he can enter a description of the remittance—" cheque," " money order " or " postal order," and the number of this.

When customers are not asked to send cash with order, or only a deposit is called for, some precaution must be taken to prevent minors, who could not be sued for debt unless the goods were necessities, from obtaining credit.

Minors.

A bald statement that minors will not be served, might not stop youngsters from sending for goods, so that it is, perhaps, better to set some form of trap for them by saying, for example, " Customers under 21 should give their age in this space ————— " ; " Customers under 21 years of age should write ' minor ' after their signature." Some special method of payment can usually be arranged for these minors, or they can be asked to obtain their parents' guarantee.

The mailing list can be verified and kept up to date if a space is left beside the name and address section of the order form, with the words, " If this name and address is not exactly the same as that given on the envelope in which our catalogue was sent to you, please mark a cross in this space."

Further, the order form may be used to extend the mailing list by providing a space, in which the customer can insert a friend's name and address, with the wording, " We shall be grateful if you will give us the name and address of any friend who might be interested in our goods. We shall not mention your having introduced him."

Most firms supply their customers with addressed envelopes to be used in ordering, and it is sometimes helpful to put a last " reminder " under the flap of the envelope, e.g. " Please read over your order and make sure that you have given all the information necessary " ; " Please do not forget the deposit " ; " Please remember to give size and colour."

The style of the catalogue or leaflet itself must depend upon the nature of the goods offered, and the class of people approached. In offering goods for sale through the post, it is important that the prospective customer be impressed with the status of the trader and, therefore, the exercising of too much economy in producing the literature may debar it from favourable consideration by the better class of prospect. In these days, every householder with a good address receives several circulars a day, and a piece of sales literature must incite interest at the first glance or it will go straight to the wastepaper basket.

Style and Quality of Advertising Literature.

It must be borne in mind that the trader and the goods which he offers can only be judged by the advertising literature, unless he is well known to the general public.

The big retail stores, of course, are not dependent upon the literature itself for the impression given, and they often send out sales literature which has been purposely printed roughly, in order to create a " bargain " atmosphere.

The trader who is not so well known must inspire confidence before he can hope to receive orders, especially if he asks for payment in advance. It is a common practice to give bankers' references, date of establishment, and particulars of the constitution of the

company or firm, where these are calculated to make a good impression.

It may also be helpful to give views of the exterior or interior of the premises occupied. In all probability space will be too valuable to make a feature of these, but they can be worked into the margin of the pages. An invitation for customers to inspect the stocks at headquarters will also assist in disposing of any feeling of mistrust on the part of the prospect.

Creating Confidence.

This mistrust is frequently met with, and has been increased in recent years by a number of irresponsible individuals who set up mail order businesses upon little or no capital, offering lines which they do not carry in stock, but which they can obtain at short notice with the cash sent them by their customers.

These individuals are often amateurs set up in business, so far as advice is concerned, by wholesale firms which supply the trading lines and, in some cases, the catalogues.

Of course, it is feasible that honest business could be carried on under these conditions, but it is obvious that, except in extremely favourable circumstances, these people, buying in such small quantities, cannot give the value for money that is expected, and if there is a set back of any kind their slender resources do not permit of their tiding over the difficulty. When this occurs, customers' unexecuted orders, in respect of which payment has been accepted, begin to mount up, with the inevitable result that the " one back room emporium " has to close its doors, and the failure brings discredit to the whole industry.

In view of this, mail order houses should not hesitate to give their prospective customers evidence of their financial standing, and a guarantee that the goods offered are actually in stock. Some firms have gone to the length of publishing chartered accountants' certificates as to their ability to carry out their undertakings.

Illustrations of the goods offered are essential to the catalogue. In this connection photographs can be relied upon to inspire greater confidence than sketches, although if photographs are to be used, paper of superior quality will be needed, and the cost of the catalogues will be considerably increased.

The Catalogue.

It is usual to give each article offered a distinctive number, and to ask customers to add these numbers to the description of the goods in making out their orders. Confusion may arise, however, if these numbers are relied upon to link up the illustrations with the descriptions of the goods, and this practice should be avoided if possible. A better plan would be to give each line offered a separate panel containing the illustration, description, and price, There can then be little fear of a misunderstanding arising.

Each page of the catalogue should be self-contained and a sales argument in itself. In order to achieve this it will be necessary to group the lines offered, according to their nature. In some cases it will be better to group them in accordance with their use, than with their description. For example, in a catalogue of furniture, it is better to divide the lines into sections representing various rooms—best bedroom, spare bedroom, servant's bedroom —rather than to show all qualities of beds, washstands, wardrobes, etc , together. This arrangement will enable the illustrations to be made more attractive, and will help to make the customer's order more complete. To take a furniture catalogue as an example again, such articles as electric light fittings, curbs, and fireirons will stand a better chance if they are shown in the various rooms, than if collected together at the end of the catalogue

It is a good practice to have one outstanding feature on each page, and here is an opportunity to give preference to the most successful lines of the trader. Lines which have been proved to create a demand should always be given more prominence than lines of doubtful appeal. It is a great mistake to feature lines which are " hanging fire " in a campaign of this kind.

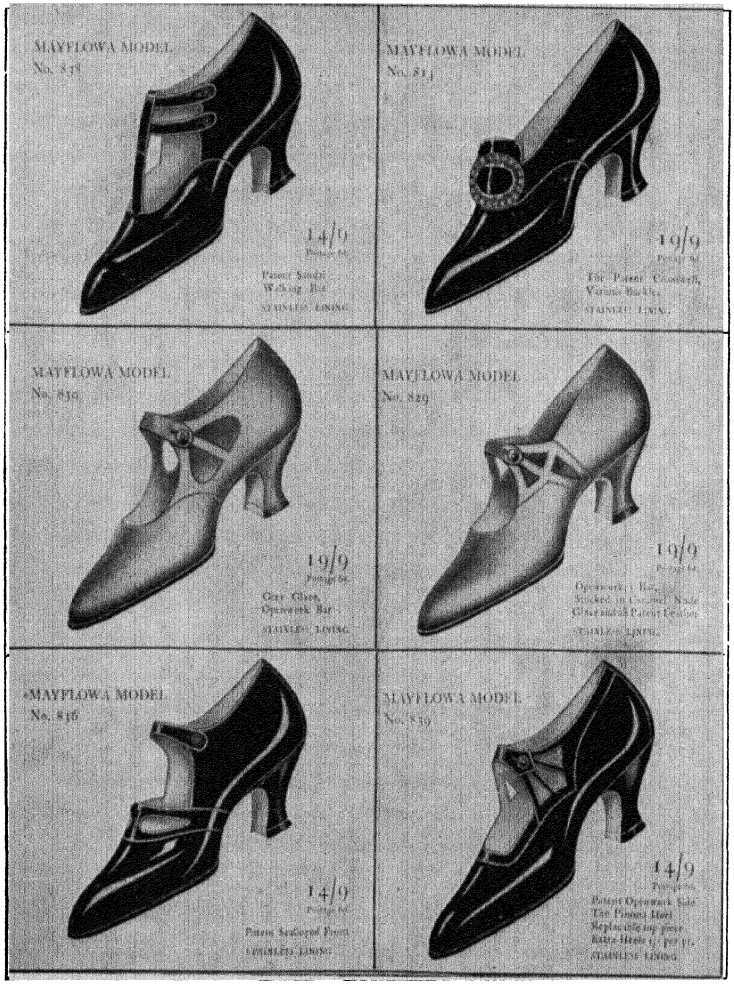
Feature Successful Lines.

The catalogue should give the customer all the assistance he is likely to require in placing his order. In selling clothing, careful instructions should be given to enable the customer to determine the size or measurements necessary, and in selling general produce it will often be an advantage, to both trader and customer, if a money multiplication table is given to assist the latter to calculate the amount of his remittance.

A space in the catalogue may be devoted to an appeal to the recipient to hand the catalogue on to a friend if he himself is not interested. Catalogues passed on in this way will, in most cases,

A CONTRAST IN

BROWN BROS. CROYDON



SEPTEMBER 1926

A typical catalogue page which presents no outstanding feature. Black and silver grey shoes are shown upon a background which is only suitable for the former.

BROWN BROS. CROYDON



16/9

S 1374.

Refined Model Shoe in Patent Leather Oxford, Smart Cuban Heel.



S 1721 Low Heel Model, giving a smart, elegant line. In best Colt patent or rich brown Glace. . 25/-

SATISFACTION GUARANTEED



S 1744 Smart Low Heel Walking Shoe, in best Colt patent Leather 25/-

AVAILABLE IN ALL SIZES



S 1753. Patent Fancy Bar Shoe; open sides, outdoor pump sole . 27/6

SEPTEMBER 1926

A page upon which the bargain line has been featured by increasing the size of the illustration and description. For light shoes the page should be dark with illustrations and lettering in white.

receive better attention than if they were sent directly to the ultimate recipient.

In preparing a catalogue careful consideration must be given to the weight of the paper used, as this will largely affect the cost of the postage. The size of the catalogue is also an important matter, because if the opening of the envelope is more than 6 in. wide, some form of fastening will be required in order to meet the postal regulations. Generally speaking, it is better to have a small page area and a large number of pages, than to have a large area and a few pages. The appearance of the catalogue may be spoiled if it must be folded before being sent out, or if it is likely to be crushed through a letter box

Important Details.

The retail trader who circularizes the residents in his district has a much easier task than the mail order trader The retailer uses this form of advertising merely to attract customers to his shop, and can therefore confine his literature to the presentation of the sales argument, the invitation to visit the shop being, in most cases, the outstanding appeal. Even this favour need not be asked of the customer when roundsmen are employed, as in such cases a roundsman can call for orders a few days after the literature has been sent out.

The Retail Trader's Problem.

Some retailers are content with enclosing an addressed post card with the wording, " Please have your roundsman call for orders on . . . . . ," and space for the customer's name and address, but this procedure cannot be recommended, as it is asking too much of the average householder The personal visit of the trader's representative is a very good way of following up literature, emphasizing as it does the offer of service, and is bound to make a better impression. A card can be sent out with the literature, stating that the roundsman will call at a stated time on a certain day and asking for instructions to be left for him.

The retail trader will usually work from the local directory in sending out literature, and will not require to maintain a mailing list. The prospects can usually be classified according to the streets in which they reside, and special attention given to the class most likely to be attracted.

This kind of advertising, carried out by a shop in a busy neighbourhood, is very much like working in the dark, because, in the

first place, the shopkeeper may not know which householders are already numbered among his customers and, in the second place, it is very difficult to trace the results of the advertising.

The benefit of the campaign may not be felt until some time after it has been commenced, because householders, although interested, will frequently ignore the offer of service, in practice, until they become dissatisfied for some reason with the shop at which they have been dealing.

Therefore this, like every other form of advertising, should be regular and systematic, so that the trader is sure of being remembered when custom is transferred.

Of course, the results of such advertising should, sooner or later, show themselves in the sales statistics, and if careful records are kept of the dates and quantities of literature sent out, it should be possible to ascertain the relative value of each piece of advertising.

There are methods of obtaining direct replies from this form of advertising. For example, a ticket could be sent out with each circular, entitling the recipient to a special discount upon a purchase of any of the lines offered. This method is not, however, absolutely trustworthy, as the sales covered by discount tickets could not all be considered as new business. Regular customers who received the literature would be sure to avail themselves of the discount offered.

How to Get Direct Replies.

Another method is to make a special feature in the advertising of lines which are outside the usual scope of the business, so that inquiries for these lines can safely be ascribed to the advertising.

This method is objectionable because it is against the first principles of advertising. A trader should always feature his most successful lines in his advertising, and back this up by dressing his shop windows with the lines offered.

In featuring lines which are outside the range of, or are new to, his business, an advertiser is not correctly representing that business, and may be playing into the hands of competitors who are better able to supply those lines. For example, if a grocer featured carpet sweepers, knife cleaning machines, and similar appliances in his advertising, the local ironmongers might easily frustrate this advertising by cutting prices of these lines, being enabled to do this by the fact of their buying in larger quantities.

The manufacturer or wholesaler who uses postal publicity as a supplement to the activities of the travellers, will usually have as his objective the planning of special journeys for these salesmen. The action suggested by the advertising matter sent out will be an invitation to the traveller to call, and this can best be stimulated by enclosing with each catalogue or circular an addressed post card with the printed wording—

Postal Publicity for Manufacturers and Wholesalers.

" Please ask your traveller to call as soon as possible " ;

" Please ask your traveller to call next time he is in this district " ;

and a request that the sentence inapplicable be struck out ; spaces being provided for the name and address of the prospective customer, and the name of the buyer for whom the traveller should ask.

A mailing list will be necessary in such cases, and will be operated in the same way as with a mail order business. The mailing list will usually be compiled in the first place from the trade directory. The classification should distinguish between firms which have been called upon by travellers, and those which have not yet replied to the advertising, so that the nature of the appeal can be varied as between the two classes.

It is suggested that every prospect on the mailing list should be called upon sooner or later, as only a small proportion of the prospects interested by the literature can be expected to reply.

The salesman should make a report upon each prospect on the mailing list, advising whether or not they should be retained on this list, and recommending for special attention firms which are likely to develop into customers.

With this class of business the descriptive literature can be effectively backed up by a series of short, to-the-point, circular letters, emphasizing the strong points of the service offered, and working up an introduction for the salesman calling without invitation in the event of this not being received.

Effective Circular Letters.

The catalogues sent out should be prepared in a durable and handy form, so that they stand a fair chance of being retained for

reference. Books with cloth covers will be far more suitable for this purpose than paper catalogues, as most people hesitate to throw away a well-bound book which may be of use at some time in the future.

Railway, road transport, insurance, lighterage, wharfage, storage, shipping, printing contractors, and many other concerns offering service as distinct from supplies, resort to this form of advertising, and in such cases the offer of service will usually be contained in circular letters or extended through the medium of calendars, diaries, desk pads, wallets, and other advertising novelties carrying suitable wording.

The value of these novelties as publicity should not be underrated, as they carry their message, not only to the staff of the office to which they are sent, but also to the people visiting that office.

The Useful Calendar.

In hanging up a calendar in an office the staff are unconsciously endorsing the advertisement upon it. A visitor to that office will often make a note of the apparent fact that the firm deals with the supplier of the calendar, although this may not be the case. Apart from this, the calendar works full office hours for every working day of the year, and, provided that the offer of service which it makes is definite and acceptable, it can hardly be ignored.

The wording should be clear and concise. For example, " If you want quality printing at short notice ring up Hop 19326 " ; " Day and night maintenance service for all classes of machinery. 'Phone Gerrard 21920."

The appeals should not be subjugated by the decorative or informative parts of the design, or the value of the advertisement will be lost.

Indirect Publicity : Educating the Operator.

Firms selling machinery or appliances, which call for the services of skilled operators, are well advised to devote a certain amount of their advertising to educating the employees of their customers and prospective customers in the use of their products, and explaining to the operators the merits peculiar to these.

Apart from productive machinery, there are many cases in which the manufacturer could, with advantage, keep in closer touch with the operator than has been customary in the past. Typewriters and commercial vehicles are cases in point.

The following are some of the advantages to be gained by this—

The education of the employees will help the customer to get the full benefit of the machine or appliance.

By giving the operator a better knowledge of the machine the customer will be saved the annoyance of stoppages and breakdowns, while the supplier will be less liable to have to send out his men on minor adjustments or the replacement of parts.

The education of the employees in the industry will make operators easier to obtain, and thus benefit both customer and supplier.

The employees can be expected to recommend the machine they know most about, or are most interested in, if they are called upon to give advice.

In the event of an employee becoming a master man, a great deal will have been done towards making him a customer.

Sales of extra supplies will be assisted by the operator's knowing what equipment or accessories can be used with the machine, and by their being informed of new improvements brought out.

Suggestions regarding the use or design of the machine or appliance are likely to come from the operators, and may be of considerable value.

A mailing list will usually be built up of all operators known to the advertiser, names and addresses being obtained from customers, or by announcements in the trade journals inviting operators to send for information.

The operators should be encouraged to give the names of their employers and to notify any changes they may make, so that this information can be kept on record. It will then be possible to divide the mailing list between " customers' employees " and " prospects' employees," and to select the literature most suitable for each class in making a distribution.

If the mailing list is arranged geographically, it can be used to obtain operators for customers. This is another method of building up goodwill with both customers and operators. Of course, in obtaining staff for customers, the operators approached should be unemployed or those employed by the less likely prospects, not those of other customers.

Building up Goodwill.

The educational literature need not be so carefully designed or expensively produced as purely advertising literature, but should be in keeping with the dignity of the publisher, and prepared with the points in view that technical details must be more carefully dealt with, and that it is likely to be seen by the operators' employers.

It goes without saying that questions which are likely to be controversial as between employer and employee should be avoided, and that no suggestion should be made of the employee's being rewarded for influencing sales.

It is a good plan to send the first batch of literature to the employee in a loose-leaf binder. He will then be able to keep this as an up-to-date textbook on the machine, by inserting those pieces of literature sent him from time to time which are of particular interest. All literature sent out should be punched in the binding margin to facilitate this.

CHAPTER VI

RETAILING

In considering the management of retail businesses, distinction must be made between that of the single shop and that of the multiple shop, as the policies and methods of the two classes are very different.

Single Shops and Multiple Shops.

The policy of the single shop, whether it is a small business in a side street or a great departmental stores, is to meet the requirements of the district in which it is situated, and to buy on the best market the goods required.

The multiple shop, on the other hand, is usually a factory branch, established in order to introduce to the district the products of the manufacturer.

Many shopkeepers have been known to express the belief that the single shop is doomed to extinction at the hands of the manufacturer who sells directly to the public.

Shopkeepers appear to be naturally pessimistic, and there is no doubt that in many cases the competition of multiple shops has ruined individual traders, but, generally speaking, they should easily be able to compete with the factory branches, because the latter work under a number of serious disadvantages.

Disadvantages of Multiple Shops.

In the first place, the service rendered by most of these branches is incomplete. The number of lines offered is restricted to the products of the manufacturer, or to lines which can be purchased in large quantities at a considerable saving in price, for the simple reason that the enormous overhead charges, inseparable from an organization of this kind, necessitate a larger percentage of gross profit than is required by the ordinary shopkeeper. There are very few multiple shop companies which could afford to sell proprietary articles of other manufacture in competition with single shops.

Then there is the important fact that many manufacturers, whose goods are in universal demand, will not sell to the multiple shop companies, in fairness to the smaller shopkeepers who form the

bulk of their customers and to protect their own interests. It is obvious that the elimination of the smaller shopkeeper would be disastrous to manufacturers of proprietary articles, because they would have to dispose of their goods to a few powerful concerns, which would be in a position to dictate practically their own terms.

In the second place, the routine of the multiple shop cannot easily be varied to meet local conditions or tastes. A company with five hundred retail shops cannot allow its branch managers a free hand in the conduct of local business. Standard regulations must be made for all branches and the managers' powers limited to the extent of these regulations, so that the smaller shopkeeper should be able to hold his own by studying local conditions as much as possible, profiting in every way by the fact that the hands of his adversary, the branch manager, are tied.

There is one great advantage the multiple shops do possess. They can, if their lines are distinctive and of good quality, build up a goodwill which will attach to all their branches, so that if customers of one branch move to, or pass through, the neighbourhood of another branch, they are likely to extend their custom to the other branch, for they are thus relieved of the necessity for testing new lines or the service of new shops. Therefore, the policy of a multiple shop company should be to confine its activities to an area which it can predominate, and to make the service rendered to the customers uniform throughout the whole organization.

An Important Compensating Advantage.

A company selling men's clothing would do better to open branches in neighbouring districts, say, Wandsworth, Clapham, Brixton, Camberwell, and Walworth than in districts wide apart, say, Nottingham, Leeds, Bristol, Manchester, and Glasgow. Not only would the close proximity of the branches help them to advertise one another, but it would make it easier to cater for local requirements, and permit of the branches being more effectively controlled, so that the uniformity of the service given is assured.

The standardization of the branch operations should not be carried too far. For example, there is no reason why every branch should sell off its own shop-soiled stock. It may be that one of the branches has a class of customer which is particularly responsive to " bargain sales," and if this is the case it might be advisable to transfer all the shop-soiled stock to that branch.

Firms are often compelled to vary the stocks and methods of their branches to a very great extent in order to appeal to differences in taste as between various neighbourhoods, and they will frequently carry on business under two or more trading names to avoid the branches clashing.

Trading Names.

For example, a number of tailoring concerns conduct their branches serving the better class of customer under a firm name, and their branches serving the poorer classes under a high-sounding company name, there being nothing in the appearance of the shops to suggest that " Jones, Smith & Brown " and the " United Metropolitan Tailoring Co." are one and the same.

Turning to the organization of the shop, the first point to be considered is the status of the manager. Whether the shop is an independent business or a branch, the manager should be given full authority, so that he is looked upon by the staff as the mouthpiece of the employers. It is too common with retail businesses to find partners or directors, inspectors or head office officials undermining the authority of the manager by giving orders to the staff without his knowledge, or criticizing his actions before the staff.

The Manager's Status and Authority.

A shop calls for the presence of a responsible executive, as there is always the possibility of questions arising which will call for immediate reply. A customer may require a quotation for a large quantity of goods, may make a complaint or need some special form of service, and it is important that there should be no question as to who is called upon to deal with such matters. Apart from this, there is the legal responsibility. Every shop in these days is subject to a large number of laws and local regulations, and it is very necessary to fix the responsibility for the conduct of the business during the whole of the time that the shop is open.

The manager should never leave the shop without appointing a deputy, and it may be necessary to keep a record which will show the person in charge at any time, in case some query should arise.

A shop manager will usually be called upon to sign an agreement to serve a minimum period of time, and not to take up a similar position within a certain radius of the shop for a stated number of years after the termination of his employment. In the absence of such a provision, a popular manager might take customers and

staff with him on leaving, either to a rival shop or to a new business of his own.

Perhaps the most difficult problem connected with shopkeeping is the recruiting and retention of suitable staff, and the fixing of the number of employees required and their respective duties. The labour turnover, i.e. the changes in personnel, should be kept down to a minimum by careful selection of the assistants, and close attention to the distribution of the work.

Staff Selection.

Every time a new assistant is brought into the business, the working of the organization, or a section of it, is slowed down until the new-comer has learned the routine, prices, position of stock, and other matters, while there is risk of customers being given indifferent service through ignorance or carelessness on the part of the assistant.

It is very important that every regular daily task should be assigned to a particular assistant, so that there can be no question of favouritism or victimization on the part of the manager, or evasion on the part of the assistants. Giving out jobs in a haphazard way at the last moment is always likely to cause dissatisfaction.

The trouble is that many situations in shops are " dead end " jobs, there being no prospect of advancement within the organization, and the employees have to go to another business in order to better themselves.

It will often be found an advantage to give the assistants a commission on the sales they make, provided they are not allowed to importune customers into making additional purchases which are unnecessary and likely to be regretted, or to vie with one another in attending to the more promising customers.

Commission on Sales: Preventing Its Abuse.

When the commission represents a substantial part of the assistants' remuneration, it may be necessary to give the senior assistants a form of preference by establishing an " order of service." With this method in operation, the senior assistant in each department will have the first option of serving, the juniors not being called upon to serve until the number of customers requiring attention necessitates this. Assistants of the same grade will serve in rotation.

If the assistants are systematically called into service, in order

of seniority, there can be no scrambling for sales, or neglect of customers who are known to make insignificant purchases or to be difficult to serve.

The shop should be arranged and fitted and the attendance should be directed with quick service as the objective. When people have the option of purchasing the same articles from several shops in close competition, they will usually decide in favour of the shop which is known to have the smartest service, although they may do so unconsciously.

Ensuring Quick Service.

The position of the stock is one of the most important factors affecting the speed of service. It is usually better not to serve from the bulk of the stock, but from moderate quantities brought forward to positions convenient to the counter. If service racks are maintained with, say, two days' average supply of each line, and these are replenished every morning, there will be little fear of customers having to wait while goods are fetched from the bulk stocks.

In many shops the assistants are severely handicapped by the counters being crammed with merchandise, so that they have insufficient space to pack up parcels or to show lines to the customers.

If counter displays are considered as a means of advertising special lines, it is a bad policy to overcrowd these lines, because the effect of the display is lost when too great a variety is exhibited.

Counter Arrangement.

Alternatively, if the displays are intended to remind customers of articles which they may have forgotten to order, it will usually be found a better plan to arrange the service racks so that the customers can see the goods. The fact that the counter is clear and that the goods are farther away from the customer will facilitate this.

It is often found helpful to hang a placard over the counter, headed with the words, " Do not forget," and giving the names of various lines which are apt to be forgotten. For example, grocers might remind customers of condiments and cleaning materials by giving a list of each.

The way in which the cash is handled also has a great effect upon the speed of service. When goods are passed straight across the counter, without any preparation or packing, it will be best for each assistant to take and account for the money received from his customers.

Sufficient precaution against dishonesty will be afforded by giving each assistant an automatic cash register, provided the rule is made that assistants take and record the money before handing over the goods.

Cash Control.

Cash registers can be obtained in a variety of styles that will meet every business. Most of them add the takings automatically, so that the amount which the assistant has to account for is shown. To protect the assistant, registers can be obtained with cash drawers which open when a certain combination of keys, known only to the particular assistant, is pressed, and a device is provided to enable assistants to lock their registers and render them completely inoperative, so that a register cannot be tampered with while an assistant is away from the counter.

Registers can be obtained which will classify the takings under a number of headings, so that the amount of each day's sales of any particular line or group of lines can be ascertained.

They can also be obtained with printing attachments, the amount of each sale being printed on a roll of paper similar to that used on an adding machine. Receipts can also be printed from the machines. These receipts are not only an additional safeguard against dishonesty, but a method of advertising, as the back of the receipt ticket given to the customer can be devoted to a sales argument.

When the class of business calls for the goods to be prepared or packed, as in the case of provisions, it is a better plan to take the handling of the cash away from the assistant, and set up a cash desk with a cashier to whom the customers will tender their money.

The Cash Desk.

With this method in operation each sale must be recorded in duplicate by the assistant, the amount of information given on the ticket or bill used for the record varying as between different trades.

When it is necessary to exercise special supervision, in order to see that the prices charged by the assistants are correct, a full description of the goods sold must be given, so that the cashier, or supervisor to whom the bills are submitted before being taken to the cash desk, can check the prices, extensions, and totals.

It is becoming a common practice to ask customers to take both copies of the bill or ticket from the assistant, and pay at the cash desk, one copy being returned to them receipted, this to be given

up at the counter in exchange for the goods. There is nothing objectionable in this practice, if it means that the customer is saving time by paying at a cash desk, but the assistants should be told to take the cash to the desk themselves if they have nothing else to do.

Customers are likely to resent being asked to walk across the shop to the cash desk if the assistant has nothing better to do than to watch them, and in many cases the introduction of this system has led to considerable business being lost to competitors whose assistants took the money.

Cash railways are desirable when the shop premises are extensive, and it is considered advisable to reduce the number of cash desks to a minimum. Great care should be exercised in the selection of a cash railway system; simplicity, speed, and security being essential. A complicated system may take up a considerable amount of the assistants' time, and cause delays which will drive away customers, who naturally object to waiting for their change.

Cash Railways.

If cash registers and duplicate books are considered as alternative systems, the amount of checking work necessary with the latter system must be taken into account. In most shops the work of listing and totalling the tickets or bills cannot be started until the end of the day, and a considerable amount of time is required, while there is room for a wide margin of error, especially if the tickets or bills are hastily written in pencil. Unless the tickets or bills are numbered, and an examination is made to see that each number is accounted for, there is great scope for dishonesty on the part of the cashier. Under no circumstances should the cashiers be allowed access to the duplicate or counterfoil books, even after the day's cash has been agreed.

Dangers of Duplicate Book System.

It is very difficult to guard against collusion between the cashiers and assistants, as both copies of a ticket or bill can easily be altered after a customer has left the shop.

The risk of this will be reduced if the cashiers are made to drop the duplicate bills, or tickets, into a locked ballot box as soon as the cash is taken; the work of listing and totalling the sales being carried out by a clerk who changes the boxes at frequent intervals. In any case, indelible pencils should be used in making out the

tickets or bills, and all alterations should be initialed by a supervisor.

With general produce, service can be accelerated by careful attention to the methods of weighing and packing employed. It is important that a good number and variety of scales is provided, so that the assistants do not have to wait to weigh the goods, and a suitable scale is available for each class of merchandise.

Weighing and Packing.

It is often possible to have commodities packed ready for sale in the weights most frequently called for. This can be done by the assistants at odd moments. If the class of customer served is likely to be suspicious of this, the packets can be printed with a guarantee, such as "Guaranteed weight. One pound. Charles Smith & Co., Walsall." The cost of printing can be considered as being in the nature of an advertising expense, and a slogan or sales argument added to the guarantee.

Packing paper can be most conveniently packed in rolls hung from the counter, each roll being fitted with a shutter knife, so that the length required can easily be torn off. The slightly increased cost of paper purchased in rolls is set off by the elimination of waste, as the rolls are cleaner in operation and the amount of paper can be reduced to the minimum required for the parcel.

Adhesive tape, also kept in rolls, will frequently be found more efficacious than string, as it is quickly attached and gives the parcel a neater appearance.

Both wrapping paper and tape provide a medium for the printing of an advertisement, the value of which should not be underrated. Glaring lettering may annoy customers, but distinctive and artistic designs can be used with advantage. Evidence of sales is always good publicity, and a neatly packed parcel, the origin of which is apparent, is a form of advertisement which amply repays the expense.

The need for civility under all circumstances is an important point to impress upon the assistants. If a controversy occurs, and the customer is obviously in the wrong, there is no occasion for the assistant to lose his temper or even to raise his voice. The customer should be convinced of his error in such a way that he can come into the shop again without loss of dignity.

The Right Way to Handle Customers.

Most people will avoid a shop in which they frequently hear quarrelling between the assistants and customers, or among the assistants themselves, and will certainly resent any attempt to drag them into an argument. A shop is no place of employment for a person of a quarrelsome disposition. Managers should watch their staffs closely in order to restrain any assistant who is inclined to cause trouble, and must be careful not to create any condition which might occasion jealousy between the assistants. This point must be borne in mind when arranging commission or proficiency schemes in which the employees are called upon to compete with one another.

Assistants should not, however, be allowed to fawn over customers, as this is likely to make the latter uncomfortable and to waste valuable time. Many business houses put their juniors through a course of training in the art of dealing with customers, and find that the results are well worth the trouble. Each assistant in the shop must be looked upon as a representative of the house, and not as a unit of a business machine comparable with factory or office workers of an equivalent grade.

A shopkeeper who undertakes to deliver goods to his customers' addresses places the goodwill of his business in the hands of his roundsmen. The best class of consumers will, in placing orders for goods, be influenced to a great extent by the speed with which they can obtain delivery.

If vans are employed, each one should be allotted a territory and deliveries arranged for regular intervals, a schedule being drawn up for the use of assistants and customers, with the latest times at which orders can be accepted for each delivery.

The Delivery System.

Arrangements should be made with a local cartage contractor for an auxiliary van to be hired quickly in the event of a breakdown or rush of orders, and one transport unit, if only a tricycle, should be kept for urgent orders and similar emergencies.

In this connection traders not in competition can often co-operate with one another to great advantage. For example, a joint delivery can be arranged for an outlying district which does not place sufficient orders to warrant its being included on the regular delivery schedule of each trader.

Occasional tours of inspection should be made to see that the customers are satisfied with the service, and that they are making

the best use of the delivery system. Special attention should be given to any district in which sales have diminished, and customers who have ceased to give orders should be called upon. It is not safe to accept the reason given by the roundsman for an account being closed, as he may be withholding a customer's complaint which reflects upon his own conduct.

Window dressing is a form of publicity governed by the principles of general advertising, and should be made to fit in with the shopkeeper's press and poster advertisements and those of his suppliers. To the independent shopkeeper the benefit of being able to take advantage of his suppliers' advertising, by displaying the lines advertised, represents a powerful weapon against the multiple shop and the mail order trader.

Window Dressing Points.

Simplicity should be the keynote of the display, and crowding the windows is objectionable for three good reasons. In the first place, it means that too much stock is used, with the risk of the display having to be broken into to meet the customers' demands, or of the accumulation of large stocks of goods which have deteriorated through exhibition ; in the second place, the crowding does not give the shopkeeper a chance to judge correctly the pulling power of the various lines, as the value of their individual appeal is considerably reduced ; and in the third place, crowding a shop window makes it appear smaller than it really is.

Arranging the goods in vertical or parallel lines also has the effect of making the window appear smaller.

Backgrounds should be arranged with special care to avoid their clashing with the goods or darkening the interior of the shop. It is important that the window fittings used be as flexible as possible, so that the displays are not distorted by the necessity of their conforming with fixtures.

Displays of particular interest should be away from the doorways, to prevent casual observers keeping out customers.

The doorway itself should be free from goods and an attractive display made opposite the doorway, but well inside the shop ; it is a bad policy to have the cash desk immediately facing the entrance. Assistants should be forbidden to gaze out of the window or through the doorway, as this is likely to deter prospective customers from entering.

The aim in window dressing should be to create and maintain a "tone," distinctive to the shop, which will appeal to the class of customer it is intended to attract. For this reason shopkeepers should not feature side-lines which are outside the general scheme of their business, or vie with competitors in the display of any particular line.

Be Distinctive.

The shop-front itself should be distinctive and in keeping with the class of business, rather than with the surrounding premises. This is of paramount importance in the case of multiple shops. The "Dorothy Perkins" drapery shops, "Lyons" tea shops, and "Woolworth's" stores are good examples of shops with a distinctive appearance familiar to the general public.

The functions which are, generally speaking, peculiar to the single shop include purchasing, granting credit, price fixlng, and book-keeping.

"Purchasing" has been dealt with in this book in a chapter under that name. In that chapter the purchases of a trader have been divided under two headings: regular trading lines, and lines stocked for the convenience of customers. The chief difficulty confronting the average retailer in making his purchases is the fact that he must carry an overwhelming majority of the second class of goods. It is, therefore, no easy matter for him to make his business distinctive, and so protect his connection against present and future competition. A retailer whose trade is mainly in proprietary articles is in a very insecure position, as the goodwill which he is able to build up is in no way exclusive.

The Purchasing Problem.

As an instance of this, the goodwill of a grocery business attaches primarily to the commodities—tea, coffee, sugar, etc.—which are sold under the proprietor's own name, and in the event of new competition arising these must be relied upon to retain the connection.

In making his purchases, therefore, a retailer should keep a sharp look out for lines of especial merit, which can be sold under his own brands, and should endeavour to keep the names of his suppliers secret unless they are firms well known to the general public.

The shopkeeper must watch the advertisements of manufacturers and of his competitors, and consider their probable influence upon his own customers. He is bound either to anticipate the demands of his customers, or to risk their going elsewhere for lines in which

they become interested, and possibly transferring their general custom.

He should also keep in close touch with his suppliers, in order to benefit by any special offers or advertising schemes which will help to extend his business.

The retailer who is able to conduct his business without granting credit is relieved of half the troubles of the average shopkeeper.

Credit Trading.

Apart from the tying up of capital in customers' accounts and the risk of bad debts, the clerical work necessary is arduous and expensive.

The statements rendered to the customers must give details of each item charged, and it is customary to enter full particulars of each credit sale, as shown by the charge slips, in a day book, and to post the items in detail to the customers' accounts in the ledger.

In many cases, however, it would be possible to reduce greatly the clerical work by adopting the " duplicate statement " system.

The Duplicate Statement System.

With this system, the day book is replaced by a loose-leaf book containing double sheets in statement form, but folded at the right-hand side, the left-hand side of the bottom copy being secured to the binder, and the top copy left free, so that a sheet of carbon paper can be inserted between them. Each customer's weekly or monthly account, as the case may be, is represented by one of these double sheets, and the items are entered on these sheets directly from the charge slips every day. By the use of carbon paper the items are recorded on both copies of the statement at once.

At the end of each week or month the sheets will be totalled and the top copies detached and sent to the customers, any arrears from previous periods being added to the totals of the customers' copies.

The totals of the office copies will then be posted to the customers' accounts in the ledger. A loose-leaf ledger should be used, so that these accounts can be kept in alphabetical order.

To facilitate reference the customers' statements for each period should also be kept in alphabetical order. At the end of the period they should be numbered consecutively, and these numbers should be entered in the ledger against each corresponding item. The details of the charges will then be traced as easily as if they were given in the ledger.

This system permits of the statements being written up from day

to day and sent out immediately each period is ended, a great advantage over the old pass book system.

Prices which are not regulated by the manufacturer or trade custom should be fixed in accordance with a definite profit percentage, so that it will be possible to estimate the cost of the goods sold by deducting a percentage from the proceeds of sale, e.g. if the percentage added to the cost in fixing the selling price is 25 per cent, the cost price of the goods sold will be the proceeds of sale less 20 per cent.

Price Fixing.

It will also be possible to ascertain the approximate value of the stock at any time by adding to the value at the last stock-taking the purchases since that time, and deducting the estimated cost of the goods sold during the same period.

The stock figures estimated in this way will be valuable for insurance purposes.

The books of account should be as simple as possible, and the number of impersonal accounts should be reduced to a minimum in order to lighten the clerical work.

It will, however, be well worth while in most cases to prepare a periodical trading summary, which will show the transactions for the period and estimated profit or loss. These summaries will be of inestimable value to the management in judging the effect of advertising campaigns or "bargain sales," and generally in deciding the trading policy to be followed.

Value of Periodical Trading Summary.

A typical form of weekly summary for a retail trader is shown on the opposite page. The case illustrated is that of a grocer and provision merchant, and it will be seen that the sales are divided into six sections, each with a different percentage of profit to sales. It will, of course, be necessary for the sales to be divided under these sections when they are first recorded, on the counter tickets or bills, or on the cash register.

The sales and takings for each day are shown and the accounts receivable and stock figures are reconciled with those of the previous week.

In the profit and loss statement the estimated cost of the goods sold, as established by the trading analysis, is added to the expenses, and the total is deducted from the sales in order to arrive at the estimated profit.

RETAIL TRADER'S WEEKLY SUMMARY

JAMES ROBINSON & Co. Week ended . . . *20th March* . 19 *26*

	SALES. Credit. £	s	d.	Cash. £	s.	d	Accts. Collected. £	s.	d.
MONDAY	15	18	2	10	17	6	21	10	7
TUESDAY .	19	16	1	13	10	–	8	14	6
WEDNESDAY	21	4	–	12	8	2	25	6	–
THURSDAY .	16	18	3	11	4	6	9	12	8
FRIDAY .	19	8	–	12	7	6	14	9	1
SATURDAY .	37	5	4	29	6	–	31	10	–
Total for Week	130	9	10	89	13	8	111	2	10

ACCOUNTS RECEIVABLE	£	s.	d.
Total at beginning of Week	572	6	11
Credit Sales . . .	130	9	10
	702	16	9
Collections . . .	111	2	10
Total at end of Week .	591	13	11

STOCK	£	s.	d.
Estimated value at beginning of Week . .	1,963	6	3
Purchases . . .	159	10	6
	2,122	16	9
Less Estimated Cost of Goods Sold . .	184	9	7
Estimated Value at end of Week . . .	1,938	7	2

TRADING ANALYSIS

CLASS OF GOODS	Sales. £	s	d	% of Sales	Estimated Profit £	s.	d.	Estimated Cost £	s	d.
Provisions	41	7	9	12½	5	3	6	36	4	3
Sugar, tea, coffee, etc.	66	9	11	10	6	13	–	59	16	11
Jams, fruits, etc	39	18	10	20	7	19	9	31	19	1
Cleaning materials	17	6	8	15	2	12	–	14	14	8
Proprietary articles	36	2	–	25	9	–	6	27	1	6
Biscuits, cakes, etc.	18	18	4	22½	4	5	2	14	13	2
£	220	3	6		35	13	11	184	9	7

PROFIT AND LOSS STATEMENT

	% to Sales	£	s.	d.
Sales	100	220	3	6
Estimated Cost of Goods Sold	84	184	9	7
Wages	7	15	4	–
Cash Disbursements	1	3	7	10
Establishment Expenses	4	8	10	–
Special Expenses—				
Sandwich board men	1	2	–	–
Total Cost and Expenses	97	213	11	5
Estimated Profit for week	3	6	12	1

The " establishment expenses " would be the average weekly cost of all standing charges, including rent, rates, lighting, heating, water, and insurance.

The " cash disbursements " are the actual petty expenses for the week, paid out of petty cash.

Payments of any size, which were not in the nature of establishment charges, would be shown as separate items under the heading " special expenses."

Any items of income or expenditure, outside the ordinary routine of the business, would be excluded from the statement or shown only as memoranda at the foot of the summary.

The functions peculiar to the management of a multiple shop will be the requisitioning of stock from the central depot, and the periodical reports made to the head office.

Multiple Shop Methods.

Branch managers are rarely allowed a free hand in the requisitioning of stock, their demands are usually treated by the head office as recommendations and subjected to close scrutiny.

In many cases the branch manager merely sends in a statement of the stock on hand and the shortages are replenished at the discretion of the head office.

The head office will often arrange the transfer of stock from one branch to another, if it is found to hang fire at the former, and, if this practice is likely to be common, the requisitions must be replaced or supplemented by a stock report.

It is customary to charge all stock to retail branches at selling prices, so that the branch managers have to show either sales or stock on hand to the amount of the goods charged to them.

The form of report made to the head office will vary according to the nature of the business, and the extent of the branch manager's responsibility.

A typical weekly report is illustrated on the opposite page.

Upon this the takings for each day are shown with the amounts banked, i.e. paid into the credit of the company's account for the use of the head office.

Multiple Shop Weekly Report.

The cash on hand at the end of the period is reconciled with the corresponding figure on the last report.

The schedules of disbursements for the current week, and wages payable for the ensuing week, are in the nature

MULTIPLE SHOP WEEKLY REPORT

No. *63*

D. F B. CO , LTD.

Week ended *10th April,* 19 *26* *Balham* Branch

CASH RECONCILIATION	£	s	d.
Cash on hand, beginning of Week . .	*44*	*19*	*6*
Takings (Schedule A)	*144*	*15*	*6*
	189	*15*	–
Less Amount banked (Schedule B) . .	*143*	*5*	*5*
Cash on hand, end of Week	*46*	*9*	*7*

STOCK ADJUSTMENT	£	s.	d
Takings for the week (Schedule A) . .	*144*	*15*	*6*
Less Miscellaneous Income (Schedule E)	*3*	*17*	–
	140	*18*	*6*
Goods supplied free and allowances (Schedule F) . .	*1*	*18*	*11*
Value of Stock Sold (at selling prices) .	*142*	*17*	*5*

	(A) Takings			(B) Banked		
	£	s	d	£	s	d
MONDAY *5th*	*20*	*18*	*4*	*34*	*19*	*6*
TUESDAY *6th*	*25*	*7*	*6*	*20*	*18*	*4*
WEDNESDAY *7th*	*18*	*4*	*10*	*25*	*7*	*6*
THURSDAY *8th*	*23*	*18*	*6*	*18*	*4*	*10*
FRIDAY *9th*	*19*	*16*	*9*	*23*	*18*	*6*
SATURDAY *10th*	*36*	*9*	*7*	*19*	*16*	*9*
Total for Week	*144*	*15*	*6*	*143*	*5*	*5*

(E) MISCELLANEOUS INCOME	£	s	d.
Sale of empty cases		*12*	–
Sale of goods spoilt in shop window		*10*	–
Charges for alterations to goods	*2*	*15*	–
	3	*17*	–

(C) DISBURSEMENTS	£	s	d.
Office expenses	*1*	*2*	*7*
Materials for alterations		*17*	*6*
Casual labour		*10*	–
Amount to be reimbursed	*2*	*10*	*1*

(F) GOODS SUPPLIED FREE AND ALLOWANCES	£	s.	d.
Quantity discount, 1 gross line No. 351		*7*	*2*
Spoilt in shop window, 5, line No. 157		*6*	*3*
12 line No. 320		*12*	–
1 line No 174		*7*	*6*
Quantity discount, ½ gross, line No 270		*3*	*6*
Allowance on soiled goods, 2 line No. 162		*2*	*6*
	1	*18*	*11*

(D) WAGES (Required for Next Week)	£	s	d.
Hodges, J. Manager	*6*	–	–
Miller, F B. Senr Ast	*4*	–	–
Hughes, S Jnr. Ast.	*2*	–	–
Grant, L. H. Jnr. Ast	*2*	–	–
Murphy, Mrs. Cleaner	*1*	–	–
Amount to be provided	*15*	–	–

REMARKS

(Signed) . . *John Hughes.* .
Manager.

of requisitions. A cheque should be sent to the branch to cover these items, in time for the payment of the wages; the branch must not be allowed to deduct expenses of any kind from the takings. All establishment charges, i.e. rent, rates, lighting, heating, insurance, etc., would be paid by the head office without the assistance of the branch manager, unless it were necessary to refer to him for information.

A fixed amount of money must be kept at the branch as a "float," in order to provide change and to cover the petty expenses. In practice, the cash on hand over-night will always be more than this float, because of the fact that banks close so much earlier than shops.

In the illustration the takings for each day have been banked on the following day, the amount of the float being £10.

It will be seen that the value, at selling prices, of the stock sold is arrived at by deducting from the takings any income from sources other than the sale of goods, and adding the value of any goods supplied free, spoiled or wasted, and any allowances made, which had the effect of reducing the proceeds of sale. Schedules are given of the items which necessitate these adjustments, and these would be scrutinized in order to see that the firm's interests were being properly protected, special attention being given to instances of goods being supplied free or wasted, and to allowances of an unusual nature.

The head office accountants will know the percentage of profit to sales, and also the average establishment charges per week, so that from the branch report they can build up a profit and loss statement, while it is impossible for the branch employees to know the trading results.

Head Office Accounting.

The "summary of branch reports," illustrated on the opposite page, shows the way in which the trading results are arrived at. It will be seen that the reports of eight branches have been incorporated in this summary, in order to facilitate comparison, and that in arriving at the net profits each branch has been called upon to bear a proportion of the "administrative expenses." This charge represents the average weekly cost of the establishment charges, salaries, and wages, and other expenses of the head office and central stores depot, and of the general advertising. In the case in point the branches

SUMMARY OF BRANCH REPORTS
(Multiple Shop Company)

Week ended.. .... . . *10th April*,. .. ..19. ..26.... D. F. B CO., LTD.

Branch.	Report No.	Takings. £	s.	d.	Value of Stock Sold. £	s.	d.	Profit at 25% of Selling Prices. £	s.	d.	Cost of Goods Sold. £	s.	d.	Establishment Charges. £	s.	d.	Branch Disbursements. £	s.	d.	Wages. £	s.	d.	Total of Cost and Expenses. £	s.	d.	Trading Profit. £	s.	d.	Administrative Expenses £	s.	d.	Net Profit. £	s.	d.
BALHAM	63	144	15	6	142	17	5	35	14	4	107	3	1	9	5	–	2	10	1	15	–	–	133	18	2	10	17	4	6	10	–	4	7	4
BATTERSEA	101	193	6	–	189	2	7	47	5	8	141	16	11	9	–	–	5	11	6	15	10	–	171	18	5	21	7	7	6	10	–	14	17	7
CLAPHAM	73	162	11	10	160	19	–	40	4	9	120	14	3	9	10	–	2	16	3	15	5	–	148	5	6	14	6	4	6	10	–	7	16	4
MERTON	61	176	3	9	170	9	7	42	12	5	127	17	2	9	10	–	2	18	9	16	15	–	157	–	11	19	2	10	6	10	–	12	12	10
PUTNEY	132	207	1	8	182	3	–	45	10	9	136	12	3	9	15	–	4	9	2	16	5	–	167	1	5	40	–	3	6	10	–	33	10	3
STREATHAM	208	184	–	10	178	6	8	44	11	8	133	15	–	10	–	–	3	1	7	15	17	6	162	14	1	21	6	9	6	10	–	14	16	9
TOOTING	171	236	18	5	219	7	6	54	16	10	164	10	8	9	–	–	5	7	6	15	16	–	194	14	2	42	4	3	6	10	–	35	14	3
WIMBLEDON	134	192	16	–	184	3	2	46	–	9	138	2	5	10	–	–	3	4	11	16	2	6	167	9	10	25	6	2	6	10	–	18	16	2
Totals for All Branches		1,497	14	–	1,427	8	11	356	17	2	1,070	11	9	76	–	–	29	19	9	126	11	–	1,303	2	6	194	11	6	52	–	–	142	11	6

are all of equal size, and the administration expenses have been divided equally. If some of the branches were larger than the others, these expenses would be divided in accordance with the relative size, but not necessarily according to the turnover. An unsuccessful branch might require more attention from the head office than a prosperous one, and in such circumstances a division according to turnover would be unfair and misleading.

CHAPTER VII

SELLING AGAINST DEFERRED PAYMENTS

THE adverse effect upon trade of the universal shortage of ready money has caused many manufacturers who have hitherto sold exclusively on a short credit basis to grant customers the option of payment by instalments, and firms marketing articles which call for a comparatively large outlay on the part of the purchaser, or an expenditure by nature distinct from his usual commitments, will find themselves compelled—in the face of severe competition—to offer this inducement.

Experience has shown that all classes of productive machinery, agricultural implements, furniture, office equipment, musical instruments and household appliances can be sold on a deferred payment basis with absolute security, provided that reasonable care is exercised. There should always be a proper agreement securing to the vendor his interest in the article until paid for ; so that, if he does meet with a defaulter, he is in a far safer position than when selling on a short payment, but unsecured, basis.

Some of the larger concerns have formed subsidiary companies solely for the purpose of rendering their customers financial assistance in this way, it being the practice for all sales made on a deferred payment basis to be handed over to this subsidiary company, which will purchase the goods required from the parent company, receiving a discount to cover working expenses, and then enter into the necessary arrangements with the purchaser.

There are also a number of independent corporations which will purchase machinery, etc., from the manufacturers for cash and resell on deferred terms to the users.

In most cases, however, the introduction of a third party into the transaction is considered objectionable, and it is left to the sales department of the manufacturer to deal with the question.

The form and wording of the contract is, of course, the vital point to be taken care of. Usually the sales made under these conditions require a considerable amount of persuasion, for there is still a great deal of prejudice against " hire purchase," and the

prospective customer will fight shy of an agreement in strict legal form and language unless the amount involved is very large.

The best way to present the terms and conditions in an unobtrusive manner is to embody them in an order form, printed except for the particulars of the individual sale. For moral effect this form should be well printed, on good paper, in a light attractive type. If a general illustration of the goods dealt with can be given it will be helpful, as it gives the impression that everything is being done to show the purchaser just what he is buying.

The Agreement.

Great care should be taken to give the correct name of the purchaser and to distinguish between a limited company, partnership, and sole owner. Very often a partner in a firm or director of a company will wish to make the purchase of a machine a private transaction—at least until the payments have been completed—and there can be no objection to this, provided that the position is fully disclosed in the document which covers the transaction.

Essential Points.

The address to which delivery is to be made is also important, and it should be distinctly stated who is to be responsible for carriage, freight, customs duty, and installation expenses, if applicable. The purchaser will usually be asked to refund expenses of this kind to the vendor so soon as they are incurred.

There should be set out, without attempt at disguise, the fact that the vendor is entitled to take back the goods in the event of the purchaser—

The Supplier's Lien.

Failing to make his payments as they become due,

Becoming a bankrupt or entering into any arrangement or composition with his creditors, or

Causing or allowing any condition to arise which will endanger the vendor's security.

With limited companies the appointment of a receiver or liquidator should be sufficient ground for recovery. In the event of a failure the only challenge to a lien of this sort is likely to come from a landlord in a position to distress for rent, or a receiver for a debenture holder.

If it is known that a charge exists upon any of the purchaser's property it is advisable for the vendor to label the goods as his and to see that the mortgagee is notified of the terms of the transaction.

This precaution is especially necessary when the charge is security for a bank overdraft, as these charges usually embrace the whole of the borrower's assets.

It should be stated what part, if any, of the instalments paid, the purchaser is entitled to recover if the goods are taken back. In most cases the purchaser will lose the whole of his investment if he fails to keep to his agreement, and it is just as well to word the agreement on these lines; although, of course, voluntary repayments can always be made in cases of especial hardship.

Repayments of Instalments.

It will be readily understood that the manufacturer is never eager to take back his goods, and will usually refrain from taking drastic action until there is obviously no alternative. On the other hand, the difference in selling value between a new article and one which must be sold as second-hand may be out of all proportion to the use which the article has had, and the depreciation which the user would provide for.

A clause must be inserted restraining the purchaser from selling or otherwise parting with possession of the goods.

Sometimes it will be considered necessary to restrict the use of the articles. Certainly the purchaser should not be allowed to fix them in a way which will hinder removal or risk their being considered as "landlord's fittings," and it is important that machines be kept as separate units, so that they can be easily identified.

Restrictive Conditions.

The purchaser should undertake to keep the articles in good condition, and to replace any worn or broken parts, and the vendor should be allowed to send an inspector at any time to see that this regulation is observed.

In exporting goods against payment by instalments the lien which the supplier retains is not usually considered sufficient security, in view of the possible difficulties in enforcing it and the danger of goods being thrown back upon the exporter's hands in a foreign country.

Frequently a bank guarantee, that the instalments and interest, if any, will be duly paid, is insisted upon, and when the goods are sold through the medium of an agent in the country he will be called upon to endorse the bills covering the instalments, thereby undertaking to make payment himself in the event of the customer defaulting.

Additional Security for Foreign Sales.

It may easily be that the standing of the banker or agent is such that the lien can be dispensed with, and may be surrendered to them as security for the amount they have guaranteed.

Although the laws of most foreign countries permit of a foreigner retaining a lien upon goods sent into the country against payment by instalments, there are often local regulations which must be carefully observed.

To give one example of this. In several European countries it is necessary to register all charges upon property or effects of any description with a government department maintaining records available to the public—a regulation which may add considerably to the mortgagee's security.

In preparing the agreement, it is as well to give a table showing the due date and amount of each payment, unless the instalments are very numerous.

If the amounts are large, each of these should be evidenced by a bill of exchange or promissory note, so that it is not necessary to make application for each instalment, and the moral obligation to pay is strengthened.

Evidencing Instalments by Bills of Exchange and Promissory Notes.

Then there is the great advantage that the bills or notes can be discounted, although this accommodation must not be relied upon in these days. Bankers are very cautious in lending on this class of security—calling for heavy margins—while in some trades a large number of customers will stipulate that their acceptances must not be discounted.

When interest is charged, the amount accrued on the total outstanding balance should be added to each instalment, so that the customer settles his liability under this heading regularly, and if the payments are evidenced by promissory notes or bills, the interest should be included in the amount of each bill or note.

Interest.

Care should be taken to mention the rate of interest which will become payable on instalments not met at the proper time. If interest is already being paid, the rate payable on overdue instalments should be made 1 per cent or 2 per cent higher than the original rate.

In the ordinary hire purchase sale to the general public the interest will, of course, be included in the price of the goods.

When a bill or promissory note is held in respect of each instalment, it will be a simple matter to renew this in order to meet with a customer's reasonable request for additional time. Before such indulgence is granted, it is advisable to insist that the customer pay all accrued interest and any amounts due on unsecured accounts.

It often happens that a purchaser finds himself able to pay off the balance before the appointed time, and it is worth while to offer an inducement in the shape of a discount on the amount prepaid.

Discount for Prepayment.

The rate of discount will vary according to the nature of the goods. For example, it is usually 5 per cent in the case of productive machinery, and $7\frac{1}{2}$ per cent in the furnishing trade. When interest is being paid on the instalments a rebate of this, proportionate to the prepayment, will usually meet the case.

With productive machinery a cash deposit of one-third of the purchase price is generally asked for, but luxury goods are being sold on very small first payments.

The Cash Deposit.

Every effort should be made to obtain a deposit with the order, as this is a good test of the prospective customer's attitude towards the transaction. It is, after all, only asking to " see the colour of his money " before expense is incurred, and if the order form is worded to provide for this it can hardly be refused without good excuse.

With expensive machinery it is usual for a nominal amount to be paid with the order, and the balance of the first payment on completion of the erection.

The goods should be insured by the vendor against fire and any other risks which suggest themselves, and the purchaser should refund the premiums. In the event of a loss occurring the suppliers will, naturally, be in a better position if they have dealt with the insurance company themselves, and they will usually be able to enter into an agency arrangement with the insurance company which will provide for their receiving a commission of 10 to 15 per cent to cover expenses.

Insurance: Joint Policies.

It is a good practice to have a joint policy with the name of the vendor mentioned first. Very often a purchaser will claim that his own general insurance policy will cover, or can be extended to cover, the goods, but it will nearly always be found that such policies

are worded to protect only " the property of the insured," and in the event of a loss it would be held that goods on hire purchase arrangement were still the property of the supplier.

Firms selling furniture, and similar merchandise, to the general public will effect one " floating " policy, protecting all goods out on hire against loss by fire and possibly other risks.

Some furniture companies have adopted a scheme which provides for their cancelling the balance due on an agreement and freeing the articles upon the death of the hirer. A form of collective life policy is taken out so that they recover from the insurance company the value of the balance waived.

" Floating " and " Life " Policies.

Apart from the benefits conferred upon the relatives of the deceased by the operation of this scheme, the supplier is relieved of considerable difficulty, as in most cases the death of the hirer would seriously delay the completion of the purchase, and pressure cannot be exerted in these circumstances.

An addition will be made to the price of the goods in order to recover the cost of whatever insurances are effected.

It is essential that a detailed description of the purchase be given. In the case of machinery the equipment should be set out in full, as the purchaser will often be doubtful of this point. He would, in all probability, consider several models before deciding, and a misunderstanding must be avoided at all costs.

If a guarantee is given, it should be clearly defined. A vague guarantee may be treated lightly in the courts, but it leaves the vendor open to vexatious claims, and goodwill and customers are easily lost in this way.

Guarantees.

When spare parts or extra equipment are likely to be supplied in the future it is as well to fix the basis of payment; the former at any rate should be on a prompt cash basis. Frequently the vendor will be asked to supply extra equipment or additional articles before the instalments in respect of the original purchase have all been met, payment for these to be made by instalments commencing after the original series. Care must be taken that these further supplies are also made the subject of a proper agreement so that payment is secured.

Extra Equipment: Payment Basis.

It will be a great advantage if the arrangement provides for the

articles originally supplied remaining the property of the vendor until the additional purchase has been paid for. In the absence of this arrangement, a machine might be the property of the user, but certain of the equipment still the property of the supplier, although this equipment has little or no separate value.

It is advisable to conclude the order form with a proviso to the effect that the vendor is free to make any concession which may seem advisable, without affecting his rights under the agreement. This gives a great amount of satisfaction to a timid customer by suggesting that it is open to him to approach the vendor for assistance in the event of an unforeseen difficulty arising.

A Useful Proviso.

It will be appreciated that with a number of vital routine operations to be made, there is need for a careful system to ensure that every precaution is taken.

On the next page a form of deferred payment sales record is given which will show how, by use of a simple memorandum book, distinct from the books of account, each stage of a transaction can be followed and the position of any sale in question seen at a glance. The first item recorded will be the receipt of the customer's order. This is allotted a number which will appear on all papers relating to the particular sale—agreement, advice notes, invoices, insurance policy, bills, etc.—and which will serve to distinguish such transactions from sales made upon a prompt cash basis.

Deferred Payment Sales Record.

The order first obtained will not necessarily be the formal order embodying the conditions just outlined. In selling machinery to business houses it is usually found advisable to have the salesman obtain the order in the first place upon the customer's own order form or headed notepaper, so that the actual conditions of sale are not presented until the purchaser has definitely shown his willingness to enter into the transaction. Immediately this first order comes to hand inquiries are made through the usual credit advisory agents, and it is a good plan to obtain reports from two agents on each case. The form constituting the agreement is then submitted and the deposit called for. Not until the record shows that all the necessary formalities have been completed will authority for the dispatch of the goods be given.

Order Formalities and Routine.

DEFERRED PAYMENT SALES RECORD

Sale No.	Sales-man.	Customer	Address	Order.		References.			Agreement.			Deposit Paid	Service Instructions Given.	Goods Dispatched	Insurance.		Installation.		Bills.		Remarks.
				Received.	Acknowledged.	Inquiry Made	Replies Received. A	Replies Received. B	Sent Out.	Received Completed.	Stamped.				Proposal Sent	Cover Note Received	Commenced	Finished.	Sent Out.	Received Completed.	
				1926																1926	
1327	Jones	Clark, H. S.	913 High Road, S.W 30	5-1	6-1	6-1	15-1	16-1	6-1	2-2	2-2	2-2	3-2	5-2	5-2	9-2	9-2	14-2	23-2	6-3	Terms of agreement revised 29/1/26
1328	Allen	Robinson, B. & Co.	1207 Dyke Rd., E.9	5-1	6-1	6-1	21-1	23-1	6-1	8-1	—	—	—	—	—	—	—	—	—	—	Reference replies unsatisfactory. Rejected 23/1/26
1329	Smith	Mackintosh, R.H., Ltd	624 Broadway, S.W 2	5-1	6-1	6-1	16-1	16-1	7-1	15-1	15-1	20-1	20-1	22-1	22-1	24-1	26-1	31-1	5-2	9-2	
1330	Jones	Stewart, Ball & Co.	397 High Road, S.W 30	6-1	7-1	7-1	16-1	19-1	7-1	12-1	12-1	12-1	13-1	13-1	13-1	15-1	19-1	24-1	2-2	12-2	
1331	Grant	Matthews, L. S.	1134 Long Row, N.12	6-1	7-1	7-1	23-1	19-1	7-1	13-1	13-1	13-1	13-1	15-1	15-1	17-1	19-1	23-1	—	—	Terms revised Cash settlement 24/1/26
1332	Smith	Lang Eng. Co.	601 Broadway, S.W.2	6-1	7-1	7-1	21-1	23-1	7-1	8-1	8-1	12-1	13-1	15-1	15-1	17-1	26-1	30-1	12-2	16-2	
1333	Grant	Ford, Chas. & Co	Fordway Works, Long Row, N 12	6-1	7-1	7-1	21-1	21-1	7-1	10-1	12-1	10-1	12-1	12-1	12-1	14-1	19-1	24-1	29-1	2-2	
1334	James	City Eng. Co.	West Mills, Walsall	7-1	7-1	7-1	15-1	17-1	7-1	17-1	19-1	4-2	5-2	9-2	9-2	12-2	16-2	20-2	2-3	18-3	

There are two distinct methods of book-keeping and accounting used in dealing with sales against deferred payments. Taking first the method usually adopted by firms selling expensive machinery, the service instructions will give the information necessary for the preparation of the advice notes, and the goods will be invoiced to the customers and charged to their sales ledger accounts, in the same way as is customary with prompt cash transactions. In this way the charges pass into the books of account without further reference to the department handling sales against deferred payments, but this department will need to be advised of the dispatch of the goods and, if applicable, of the dates of commencing and finishing the installation, so that the necessary insurances can be effected and the bills or promissory notes prepared. The instalments will usually be timed from the date of delivery or, alternatively, of completing the installation, rather than from the date of order.

Hire Purchase Accounting Methods, No. 1.

When the deposit has been paid and the bills or promissory notes have been obtained the customer's account in the sales ledger will, of course, be closed. The great advantage of this system is that the deferred payments sales record is the only special book needed.

It must be borne in mind that in treating sales on deferred terms in this way the whole profit on the transaction is taken in the period in which the goods are invoiced, although payment may not be obtained in full until three or four years afterwards.

The Profit Period.

In selling plant and equipment, etc., to firms of good standing, this will not be objectionable, as it will be a simple matter to set aside out of current profits a reserve to cover any losses through sales not being completed.

Should articles have to be recovered, they can be taken back into stock at either the cost price, less a provision for depreciation, or the balance due from the customer, whichever is the lower. If the former valuation has to be taken, it will mean that a loss has been made, which must be charged against the reserve. On the other hand, should the customer have paid so much on account that the goods come back into stock at a figure below the actual value, a profit has been made which will be taken when the goods are again disposed of.

Valuation of Goods Taken Back.

The following example will show the method of assessing the book value of a machine, taken back after being sold against instalments evidenced by promissory notes bearing interest.

Re SMITH, BROWN, AND COMPANY, IN LIQUIDATION

	£ s. d.	£ s. d.
1 A B C. machine sold at		3,500 – –
Less Deposit paid	1,000 – –	
Three quarterly instalments paid	750 – –	
Insurance refund obtained	4 10 6	
		1,754 10 6
		1,745 9 6
Unpaid Interest accrued to date of removal		66 10 –
Cost of dismantling and removal		32 7 6
Carriage back to works		18 3 10
Unsecured supplies account		29 8 8
Machine to be taken into stock at		£1,891 19 6

Note—Cost of machine	£ 2,706	s. d – –
Estimated wear and tear, 25%	676	10 –
Comparative value	£2,029	10 –

In the example given, a profit has been made which might consistently have been taken into account as such. The suppliers have, however, contented themselves with charging against the account all expenses in connection with the recovery and the balance of the customer's unsecured account, which has become a bad debt.

Firms selling articles to small traders or the general public, when only a small first payment is received, cannot handle the sales in this way. They will only be able to take into their accounts as profit the proportion of profit included in the instalments actually received.

Hire Purchase Accounting Methods, No. 2.

For example, if an article costing £10 is sold on hire purchase terms for £20, and half of the instalments have been paid, it is safe to assume that a profit of £5 has been made. On this basis the article may be considered to be still worth £5 to the supplier.

In order to provide for this, goods sold on hire purchase terms must be charged at cost price to the customer's account in the ledger. In practice, the hire purchase agreements are generally treated as

invoices, and the sales journal is written up from them. This sales journal contains both the cost and selling price of each article sold, and the selling price is entered—as a memorandum only—at the top of each account page in the hire purchase ledger. A specimen hire purchase ledger page is given below.

HIRE PURCHASE LEDGER SHEET

Name *Lewis, Charles Henry* . . Address *939 High Street, W.19*. ..

Articles *Gramophone Model S 6* H P. Acct. No. . *3719*.. ....

Selling Price . *£30* s. d. Profit . *33⅓* ... .% of Selling Price.

12 Instalments of *£2* s. d due *15th of each month from July, 1925*

1925			Fol 10 S. J.	£	s.	d.	1925			Fol 10 C.B.	£	s.	d.
June	10	To Cost of Goods	5/91	20	–	–	June	5	By Deposit	5/61	6	–	–
			J.				July	15	„ Instalment	83	2	–	–
Dec.	31	„ Profit proportion	163	6	–	–	Aug.	20	„ Instalment	107	2	–	–
							Sept.	17	„ Instalment	126	2	–	–
							Oct.	15	„ Instalment	171	2	–	–
							Noq.	19	„ Instalment	190	2	–	–
							Dec.	17	„ Instalment	6/11	2	–	–
							Dec.	31	„ Balance (value of goods)	c/d	8	–	–
			£	26	–	–				£	26	–	–
1926							1926						
Jan.	1	To Balance	b/d	8	–	–				C.B.			
							Jan.	15	By Instalment	6/34	2	–	–
							Feb.	19	„ Instalment	58	2	–	–
							Mar.	19	„ Instalment	92	2	–	–
			J.				Apr.	16	„ Instalment	117	2	–	–
June	30	„ Profit balance	207	4	–	–	May	14	„ Instalment	140	2	–	–
							June	18	„ Instalment	163	2	–	–
			£	12	–	–				£	12	–	–

It will be seen from this that the instalments received from the customer are credited against the cost price, and at the end of every trading period there is debited to each account, as profit earned for the period, a sum arrived at by taking the same percentage of the instalments actually paid as the percentage of profit to total selling price.

The balance of the account is then treated as stock, not as an account receivable, and the total of these balances will be shown as " goods out on hire " on the balance sheet.

The real difference of principle between the two methods outlined is that with the first system the balances due on the hire purchase accounts are treated as accounts receivable or bills receivable, while with the second system they are treated as stock. The latter is, of course, technically more correct, as the goods are still legally the property of the supplier.

The Difference of Principle.

An executive called upon to choose between the two methods would best be guided by the proportion of hire purchase sales to total sales. If it is merely a question of granting long credit to certain selected customers, the first system is the better, but if the firm is specializing in hire purchase business, and offering service on these terms to all customers, the second system is more suitable.

CHAPTER VIII

EXPORTING

THE export market is a very valuable field for the trader who can offer suitable goods, but it is one that has been neglected to a surprising extent within recent years.

Probably the reason for this is that the export trade presents certain peculiar difficulties which have been accentuated by the War and its aftermath.

Special Difficulties of Export Trade.

The chief difficulties met with by the exporter are—

Carrying out an advertising campaign over extensive territories where requirements vary considerably, and maintaining a sales organization abroad.

Making quotations for sales which cannot materialize for some weeks after the date of quoting, and for delivery to addresses overseas.

Arranging terms of payment which will minimize the risk of bad debts, and avoiding losses on exchange.

Meeting the laws and restrictions of the countries to which goods are sent.

The methods employed for conducting a sales campaign abroad will, of course, depend to a large extent upon the class of merchandise and the size of the business.

The exporter may either rely upon correspondence with the customers abroad, carrying out his business upon a mail order plan, appoint foreign agents, or establish branches in the, to him, most important countries.

Each of these three methods represents a stage in the development of the average export business, and the stages are usually reached in the order given.

The trader who builds up an export business as an adjunct to his local business will usually commence with the direct service of a number of overseas firms, the first sales being made, in all probability, through the overseas firms' buying offices in the trader's district.

When the experience gained in making these first sales shows that the trader can profitably engage in export business, he will begin his export advertising campaign by offering his goods in the official and trade journals devoted to overseas trading.

Stages in Export Trade Development.

He will also send a traveller round to the local offices of overseas traders likely to be interested in his goods, and will follow up the inquiries and invitations for tenders in the journals.

If the trader wishes to tender for the contracts of governments and public service companies abroad, he must make his offer of service to the headquarters of these governments and companies, giving them the fullest particulars of his products.

It is not sufficient to make this offer to the buying offices or agents in his own country, because these offices or agents are merely instructed to buy certain specified goods on the best possible terms.

The trader who begins to submit tenders for this class of business will often find that he is called upon to quote for goods which answer the description of a competitor's lines, and may be at a great disadvantage because of this. The reason is that the headquarters of a government or company, in instructing its buying office or agent to obtain supplies, has taken the description of the goods from a particular brand of which they have had experience or in which they are interested. If the new exporter can interest them in his lines, invitations for tenders will become more general in description or even in conformity with his specifications.

Tenders for Foreign Government Contracts.

At the same time the exporter undertaking this class of business must be prepared to vary his goods to meet customers' requirements. Buying agents are always inclined to play for safety by giving preference to traders of whom they have had experience, and will not risk incurring their principals' displeasure by obtaining goods which are not exactly to specification.

At the early stages in the development of the export business, care must be taken to see that this new departure is given every chance of success.

When a firm with a large home trade begins to send goods overseas, the departments of the organization will be called upon to give the export orders special treatment. The factory may have

to vary the goods to meet the peculiar needs of foreign markets, the packing and dispatch departments will certainly have to pay special attention to export orders, and the office will be required to devote a proportionately large amount of time to the preparation of the shipping documents, and to completing the formalities consequent upon the special terms and conditions of sale.

Special Treatment for Export Orders.

The danger is that these departments will neglect the export business, in view of the fact that it is more exacting and at the same time comparatively insignificant in volume.

Even the traveller sent to canvass for export orders may resent being allotted this task, especially if he is working on commission, since it is equivalent to breaking new ground.

Of course, if a trader's home business were sufficient to keep his factory busy, or if he had not fully developed his home territories, he would be foolish to attempt an export campaign.

A Method of Reducing Cost by Increasing Turnover.

On the other hand, to the trader whose organization is not fully employed, export business presents a method of keeping the factory busy, and reducing the sales and administration cost attaching to each transaction, by increasing the turnover.

There are firms which turn their attention to the export market only during periods when business is slack, but, except in seasonal trades, this can hardly be recommended as a business policy. When the factory is waiting for orders, quick returns are wanted from the supplementary sales campaign, and these cannot be expected from the export market.

In most cases, it would be more effective to devote the attention to the weaker home territories by intensifying the sales campaign already established.

Firms in seasonal trades may be considered as exceptions, since the export trade gives them a chance to stabilize their business and keep their factories open during the whole of the year. For example, manufacturers of summer sports requisites could take advantage of the fact that in Australia and New Zealand the summer occurs during our winter, and endeavour to build up business with those countries.

In order to give the export campaign a fair chance of success, it is advisable for the trader setting out to serve the overseas

markets to establish an export department, under the management of a responsible executive who will look after the overseas customers and see that they receive proper attention.

Establishing an Export Department.

This executive should not hold any other position of importance concurrently with his position as export manager. It is better to make this department the sole responsibility of a capable senior clerk, than to make it one of the responsibilities of the sales manager.

The first duty of the export department will be to compile information on the overseas markets and the regulations affecting the goods of the trader in the various countries, and on the cost of shipping the goods to the principal ports of the world.

Collecting Essential Information.

A great deal of this information can be obtained from the several government offices dealing with overseas trade, and from the shipping companies.

The government offices of most service to the exporter are those of the Department of Overseas Trade, the High Commissioners of the various British Dominions, and the Crown Agents for the Colonies.

The first-mentioned office, in particular, will give every possible assistance to the British manufacturer who is out to obtain export business. In this matter the Government is actuated by the political importance of exporting to the welfare of the country.

The national prosperity of any country can be measured by the relative value of its imports and exports. When the imports of a country exceed the exports in value, it must make up the difference—the " balance of trade "—by sending gold abroad, or become a " debtor country." In either case, the exchange value of the country's currency will be adversely affected.

Political Importance of Exporting.

On the other hand, when the exports of a country exceed the imports in value, it is, as a " creditor country," in a position of distinct economic advantage, the benefits of this favourable balance of trade going to the people of the country in the shape of security of employment and a low cost of living.

The shipping companies are, of course, actuated by more selfish motives in aiding the exporter, since they will hope to gain freight in this way, but their service is none the less valuable.

At the same time, the information of most assistance to the exporter will be the statistics arising from his own experience. Often in making a quotation to a new customer the trader will be called upon to take a considerable risk, in the absence of previous experience of shipment to the port in question, and may make losses through not providing for unforeseen contingencies, but these risks are attendant upon any extension of a business, and the losses must be regarded as a form of investment.

In actual practice, the exporter will usually keep an index with a card for each port to which he has shipped goods. Upon this card will be entered particulars of the cost of every shipment of goods to the port in question, with details of the quantities, weights, and measurement of the goods included in each shipment, any unusual condition or route being noted.

Cost of Shipment: Port Index.

This index will enable the exporter to quote upon the basis of actual experience for delivery to any port which he has already served.

Many firms handicap their export departments by insisting upon quotations being made f.o.b. (free on board), or f.a.s. (free alongside steamer) in a home port.

The place of delivery is a very important matter to the overseas buyer and he will, in most cases, be forced to give preference to the exporter who quotes him for delivery to his local port.

In the absence of precise information as to the weights and measurements of the goods offered him, he will be unable to estimate the freight and marine insurance correctly and, even if this information is given him, he may not feel disposed to investigate the matter.

Delivery: F.O.B. and F.A.S. Quotations.

There is also the important point that in buying " free on board " or " free alongside steamer " in a foreign port, the customer will be put to the trouble and expense of employing shipping agents in that port.

In view of this, an exporter is often wasting his time in making a quotation for delivery other than to the customer's port, as the customer is not prepared to buy on any other terms.

A quotation for delivery to the customer's local port is known as a c.i.f. (cost, insurance, and freight) quotation. This includes the cost of the goods, delivery to steamer, freight and marine insurance,

The exporter not only pays all these expenses, but makes all necessary arrangements, and accepts full responsibility for the conveyance and protection of the goods. His responsibility ends when the goods are taken from the steamer at the foreign port—the customer pays the landing charges, dock dues, customs charges and duties, and the cost of delivery to his address.

C.I.F. Quotations.

In some cases quotations are made to include delivery to the customer's premises, the shipper paying cost, insurance, freight, landing charges, dock dues, delivery to customer's warehouse, and customs duty, if any.

Such quotations are ideal from the customer's point of view, but very few exporters will sell on these " free house " or " franco " terms, as the latter would be called upon to employ landing agents at the customer's port, and to run the risk of being put to considerable loss through customs duties or delivery charges being overlooked or underestimated in quoting.

" Franco " Quotations.

The trader whose prices are subject to severe fluctuations will find it no easy matter to make quotations to overseas customers. If transactions were arranged in correspondence, several weeks might elapse between the date of making the quotation and that of receiving the order. It will be necessary in such cases to arrange for customers at some distance to be quoted by cable, all offers being made subject to immediate acceptance by cable.

In dealing with foreign firms the language difficulty will arise. Unless the staff of the export department includes clerks who are fully conversant with the language used by a customer, it is advisable for the exporter to correspond in his own language, so that there can be no fear of misunderstandings arising through errors or ambiguity in translation. If it is felt that the customer will not understand the exporter's language, a translation can be sent with the letter, but the signed original, which would be taken as the basis of an agreement, should be in the exporter's own language. There is grave danger of the arrangement with the customer being misinterpreted by the office staff if the correspondence is only available in a foreign language.

Meeting the Language Difficulty.

In the same way the customers should be encouraged to write

in their own language, so that the onus of correctly interpreting any communication rests with the recipient. A careful translation of the customer's letters should be attached to them as soon as they are received.

It is far easier for each party to translate the letters of the other than to express their wishes in the other's language.

The export trader who is opening new accounts will be wise to refrain from granting credit, since it is a very difficult matter to judge the status of foreign firms. Inquiries through the usual credit advisory agents take a considerable amount of time, and frequently bring replies which are too vague to be of service.

Credit.

In dealing with foreign countries fluctuations in exchange will also enter into the question. A profit on a transaction may easily be turned into a loss, if the rate of exchange goes against the exporter in the interval between quotation and payment. It will be many years before some countries will be safe to deal with in this respect, and regulations enforced to deal with local currency crises must be carefully watched.

Regulations in certain of the Baltic States, which had the effect of forbidding the payment of accounts in foreign currencies, or of establishing a fictitious rate of exchange favourable to the particular State, have caused losses to unwary exporters to those States of as much as 10 per cent of the value of their goods.

Exchange Fluctuations.

In these cases British exporters, who had sold goods to firms in these States against payment in sterling, were forced to accept local currency in settlement, and this at a fictitious rate, which secured the exporters considerably less in sterling than the amount of their accounts.

The exporter will, therefore, be well advised to cut prices for prompt cash settlements rather than give unsecured credit, so that the customer is encouraged to finance the transaction himself by borrowing, if he is unable to meet the amount of the account. The fact of settlement being made more promptly than in the case of home business may enable the exporter to offer a reduction in prices.

" Cash against documents " will be the usual terms of business, the customer being called upon to arrange for a banker in his or

the exporter's country to pay the amount of the invoice against the bill of lading, and other shipping documents, conveying the title to the goods. If the exporter has had no previous experience with the customer, he will be well advised to insist upon the settlement being made in his own country before the goods are shipped, otherwise he may have the goods left on his hands in a foreign port, through the customer failing to arrange for payment.

Terms of Payment.

In some classes of business a certain amount of credit must be given—with expensive machinery, for example—and it is then customary to ask for bank guarantees in respect of any portion of the purchase price which is not paid before shipment of the goods. The customer in such cases will usually give bills of exchange in respect of the deferred portion of the purchase price, payment of these bills being guaranteed by the banker, who will hand them over in exchange for the shipping documents.

Bank Guarantees.

The exporter will be entitled to interest upon the amount deferred, and this interest is generally calculated at a rate considerably higher than that prevailing in inland business. In some European countries the rate of interest charged on commercial credits is as high as 12 per cent, and the British exporter who is, in effect, financing a trader in those countries, is justified in demanding the same rate of interest.

When credit is given, differences in exchange can be avoided if each transaction is made the subject of a "commercial letter of credit" or "forward exchange contract." These methods of financing foreign business are dealt with in the chapter on "Banking and Cash Control."

The "shipping documents" covering each consignment of goods will consist of a bill of lading, an insurance certificate, a set of invoices, and the declarations required by the customs authorities of the country to which the goods are consigned.

A bill of lading is a shipowner's receipt for goods which he has undertaken to transport, giving a detailed description of the goods, their destination, and the conditions under which the shipowner carries them. The bill of lading is the title to the goods, and ownership of these can be transferred by endorsing the bill of lading.

The Bill of Lading.

The insurance certificate is an insurance policy evidencing the fact that the goods have been protected for a certain sum against certain risks during the period of transit.

When a shipper makes regular consignments to a port, he will often take out one " floating " policy in respect of these consignments. If this is done it will only be necessary to notify the insurance company of the date and value of each consignment, as it takes place. The floating policy will usually be made out for a figure equivalent to the estimated value of the consignments for one year, the premium being paid in advance on the basis of this figure, and adjusted by a rebate or supplementary charge when the actual figures for the year are available.

Marine Insurance Floating Policies.

There are two main classes of marine insurance, known by the initials " w.p.a." and " f.p.a." respectively.

W.p.a. stands for " with particular average," an expression which is frequently misunderstood. The word " average " is derived from the French word *avarie*, meaning " damage in transit," and is used with this meaning in marine business.

Particular Average.

" Particular " average means the particular or individual loss of the goods belonging to the insurer, as distinct from the " general " average or loss of the entire cargo of a ship.

A w.p.a. insurance will, therefore, protect the exporter from loss or damage to his goods, whether the loss or damage is confined to his goods or not.

F.p.a. means " free of particular average." This is a cheaper form of insurance under which a claim can only be made when the whole cargo is lost through the sinking of the ship.

In choosing between these two forms of insurance the exporter will be guided by the nature of the goods consigned. If these are liable to suffer breakage, or any other kind of damage, a w.p.a. insurance is recommended. On the other hand, if the only risk to which they are subject is a total loss, an f.p.a. insurance is all that is required.

The number of invoices prepared in respect of a consignment will vary according to the terms of payment, the requirements of the customs authorities of the country to which the goods are shipped, and the wishes of the customer.

Preparation of Shipping Invoices.

In many cases the invoices must be certified by the local consuls

of the countries to which the goods are sent. The exporter may have to declare the value of the goods for home consumption or use, and state the country of their origin, either upon the invoices or upon special forms.

Shipping Agents.

The methods of arranging for the shipment and insurance of goods are simple and straightforward, but at the same time it may be an advantage for the exporter to employ shipping agents who will make these arrangements for him, in consideration of a small commission on the value of the goods consigned.

The trader who is new to the export trade will certainly be well advised to obtain the benefit of expert advice and assistance in this way, so that there is no fear of incorrect instructions being given to the shipping or insurance companies, or of the customs and other formalities not being completed.

The exporter must follow closely the laws and regulations of the countries with which he trades, in so far as they affect his business.

Many traders will find their goods barred unconditionally from certain countries, while in other cases alterations will have to be made to meet local legislation.

In this connection it may be necessary to consider not only the legislation of the country to which the goods are sent, but also that of the countries through which they must pass on the way, and deviations in route may have to be made to avoid countries where restrictions would be encountered.

Customs Duties.

If the goods are dutiable the exporter must take care that the arrangement with the customer provides for the latter to pay the duties, either directly, as in the case of an f.a.s., f.o.b., or c.i.f. quotation, or through a supplement to the price he pays for the goods, in the case of a " free house " or " franco " quotation.

The tariff lists of the various countries must be very carefully studied, not only for mention of the goods themselves, but for their ingredients or component parts.

Unless this is done a shipment may be held up or confiscated through a minor constituent being classed as dutiable by the customs authorities of the country to which it is sent.

With export business it is often very difficult to deal with claims for short delivery, bad condition, or " goods not to sample." Unless

the exporter has a representative in the customer's country, he may be compelled to accept the latter's word in any question which may arise.

He can, however, protect himself by maintaining a very careful system of inspection of shipments, by insisting on claims being made within a certain period after delivery, and by calling for the certificate of an independent authority in respect of any discrepancy.

Protection Against Claims.

In stipulating that claims must be made within a certain time after delivery, care must be taken to state the place of delivery.

It has been held in the courts that, in default of any address being stated, " delivery " means delivery to the customer's premises, although in selling f.a s. or f.o.b. the exporter might consider delivery to be made when the goods are handed over to the shipping agent or steamship company.

When the customer has a representative in the exporter's country, the latter will frequently ask for the goods to be inspected by this representative before shipment is made, so that there can be no fear of claims arising after the goods have left the country.

Up to this point the exporter has been considered as selling directly to his customers without the aid of intermediaries.

If his goods are distinctive, and create a general interest in the countries to which they are sent, the trader will soon begin to receive inquiries from firms abroad which seek agencies for their territories.

Foreign Agents.

It is objectionable to many exporters to have to place their affairs in the hands of foreign agents, who can hardly be expected to conform to the policies and practices of their principals, but the fact remains that a trader cannot expect to conduct his business in all countries in accordance with one standard selling plan. Each of the great markets of the world—the English-speaking nations and dominions, Central Europe, Scandinavia, Latin Europe, South America, the Levant, and Asia —calls for distinctive treatment.

Policies and practices must be varied to meet local conditions, and it is better for these local conditions to be met by agents who are accustomed to the particular market than by the central organization.

It goes without saying that an exporter should exercise the greatest care in appointing agents. In many cases he would be wise to refrain from entering into agency arrangements until he has had considerable experience of the territory and agent in question, making it a practice in the meantime to sell outright to merchants who will act as wholesalers, and giving these merchants the advantage of exclusive selling rights for their districts.

It is exceedingly difficult to choose foreign agents. A London manufacturer seeking business with Spain might be approached by a large firm in Madrid, and a small one in Barcelona, for the exclusive selling rights for that country. On first consideration it might appear better to enter into negotiations with the Madrid firm, because of their larger organization and better standing, but it may be that the Barcelona firm is fully capable of conducting the agency, and is willing to devote a greater amount of attention to it than the Madrid firm. Then, again, the goods of the manufacturer may have a better market in one part of Spain than in another.

If the greater demand is likely to come from the South, it might be better for the manufacturer to wait until he can appoint a firm in Cadiz as agents.

Advantages of Outright Purchase.

The exporter who insists upon his goods being bought outright by wholesalers will not obtain such good prices as if he sold through agents, but he will be able to obtain prompt cash and, if it is necessary to grant exclusive selling rights, the wholesalers will not call for such large territories as the agents.

The solution to the problem of the London manufacturer, mentioned above, might be to divide Spain into three territories, granting the selling rights to three firms in Cadiz, Madrid, and Barcelona respectively, and calling for the goods to be bought outright in the opening transactions on the understanding that agencies will be granted if the firms prove their ability to represent the manufacturer.

Before ceding a territory to an agent, careful inquiry must be made into the nature of his business and the lines which he already sells.

It may be that these lines will clash with those of the exporter, because they appeal to the same customers and serve the same

purpose. On the other hand, the exporter's lines may be outside the scope of the agent's business, and make no appeal to his customers.

In this connection the exporter must not put too much faith in the statements made by the applicant for an agency.

If the latter knows that he will not be called upon to invest capital in the purchase of stock, or in advertising the exporter's goods, he may seek the agency for the sole purpose of preventing his competitors from obtaining it. He may wish to be in a position to obtain the exporter's goods, if they are called for by his customers, and have no intention of devoting more than a cursory attention to the exporter's affairs.

Agency Pitfalls.

An unwary exporter may even play into the hands of his rivals by employing an agent who is under their influence.

If the expense is justified, the exporter should send a special representative to the territory for the purpose of arranging the agency, so that the agent's capabilities and resources can be studied at close quarters, and the details of the local sales campaign can be arranged personally.

It may also be advisable to arrange for representatives of the exporter to visit the territory at regular intervals, in order to deal with any points which may arise in the course of business, and to advise the agent on questions of policy and practice.

The local advertising of the exporter's goods may be left to the agents for the various territories, although it is often advisable for the exporter to supply the necessary literature and to co-operate with his agents in other ways—for example, by making a contribution to the cost of displays at exhibitions and trade fairs. In many foreign markets, particularly those of Central Europe, these trade fairs are a very important factor in commerce, and it is absolutely necessary for the exporter who wishes to serve these markets to be represented.

Local Advertising Policy.

By exercising some control over the local advertising, the exporter will safeguard his goodwill, and at the same time stimulate the agent's sales campaign.

Should the goods of the exporter meet with outstanding success in a territory, he may consider opening a direct branch office there.

It is, however, only in very exceptional cases that any material advantage is to be gained by this, as the cost of maintaining such a branch is a considerable item, and the benefits derived are often of little importance.

In the home market the trader will open branch offices, rather than appoint agents, in order to ensure uniformity in the selling campaign, a policy which can rarely be extended to foreign business with success.

There have been many cases of exporters losing a considerable volume of business by replacing agents with branches, because the branches could not be allowed to conduct the local business in the same way as the agents.

Foreign Branches.

This may have been because the agent was a general merchant buying from his customers, and to all intents and purposes taking other goods in exchange for the merchandise of his principal, or he may have obtained business by bribery or other corrupt practices which are almost essential to business in some foreign countries, or by giving a more complete service than the branch could render without departing from the policy of its headquarters.

Customers may also object to dealing with the branch from patriotic motives. There are important countries in which prejudices and legal restrictions make it very difficult for a foreign concern to operate. In some countries foreign commercial travellers must obtain licences and pay a heavy fee before they can solicit orders.

It is an indisputable fact that in no country in the world does the Government give the foreign trader such freedom of action, or do the people show such a willingness to deal with a foreigner, as in Britain.

Should the exporter have particular reasons for opening branch offices, for instance, if after-sales service is necessary, as in the case of machinery, he will be well advised to organize a branch that will conform in every way to the local conditions, and make it as self-supporting as possible.

It may be necessary to send a few of the branch employees out from the headquarters, but natives of the country should form the bulk of the staff. Apart from the cost of sending men to foreign branches, and paying the higher salaries which men living abroad must earn in comparison with the native, there is the fact that these men will usually

The Staff Problem.

only undertake to serve a comparatively short time at the foreign branch. This means that the personnel of the branch will be continually changing, and the exporter will be under a moral obligation to take the branch employees back into the home organization when their period of service overseas is completed, an obligation which is often found very difficult to fulfil.

CHAPTER IX

CONSIGNMENT SALES

THE distribution of produce through consignment agents calls for a very sound understanding between the parties concerned, confirmed by a formal agreement. The principal is entrusting to the agent a quantity of stock, representing a certain amount of capital, and must be assured of this being protected from loss, and disposed of to the best advantage. On the other hand, the agent is accepting a heavy responsibility in selling goods upon the basis of a commission, representing only a small proportion of the proceeds, and must be protected against losses arising from circumstances which are beyond his control.

The Consignment Agreement.

The first point to be decided upon will be the limits of the territory in which the goods consigned may be disposed of by the agent. These limits must, of course, depend to a great extent upon the existing arrangements of the principal. The agent will naturally press for as much scope as possible, but careful inquiry must be made into his capacity to represent the principal adequately in each district. Generally speaking, it is best for the producer to employ as large a number of agents as is practicable, in order to avoid placing his business too much in the hands of one firm.

Territories.

It may be necessary to procure a formal undertaking from the agent to maintain an efficient sales organization in each of the districts covered, and to fix details of the strength of the selling force and service arrangements. When several distinct territories are ceded to one agent, it is often advisable to enter into a separate contract in respect of each territory, so that, in the event of the business done in any particular territory not satisfying either agent or principal, the relative agreement may be terminated or modified without affecting the arrangements pertaining to the other territories.

The period for which the agency is to exist is a matter of prime importance. Usually a minimum of at least three years will be arranged, with an understanding that after that time the agency

may continue from year to year subject to six months' notice on either side. If the agent is called upon to exploit a new market, he will require sufficient time to reap the benefit of his groundwork, and at the same time the principal will wish to guard against the new market being handed over to a competitor before his own produce has become widely known. It may be found that there is a great demand for the class of goods introduced, and the agent may be offered better agency terms by another house producing similar lines, which house would stand a very good chance of obtaining all the business coming from the firms whose custom has been gained in selling the produce of the rival concern.

Period of Agency.

To give an illustration of this. Two Australian companies, A and B, are producing a certain description of tinned fruit, and B has the larger output. This particular line is not introduced to the British Isles until A enters into an arrangement to make consignments to a London agent, C.

It is impossible to judge beforehand the reception which will be accorded the new line by the British public, so that A, knowing he may have to meet heavy storage charges, insists upon a comparatively high minimum selling price, and offers a low rate of commission to the agent.

If the introduction of the new line is a success, the rival producer, B, will be able to offer C a higher rate of commission, the benefit of a lower selling price—which will make for a larger turnover—and, because of his greater output, an increased quantity of fruit to sell, advantages which C would have difficulty in refusing.

An important factor to be taken into account in considering this question will be the branding of the goods introduced. If the lines are distinctive and are introduced under the producer's own brand, there will be far less need for caution than when the lines are general and are sold under the agent's name or brands. Very often the consignor's business will be confined to buying on his local market for export, in which case a competitor might be able to offer the very same lines and the branding, unless backed by extensive advertising, would be practically no protection.

Branding.

In most cases, the agent will be forbidden to sell competitive goods, or restricted to certain limits in this respect, and he will be

called upon to disclose any existing or future connection with other producers or their agents.

The period of notice is important, as the consignor will require ample time to arrange for other representation, and it will be necessary either to relieve the consignee of his stock or to curtail the consignments, so that he can dispose of it before the termination of his agency.

Care must be taken in preparing the agency agreement to prescribe the method of dealing with any stock left on hand through consignments not being completely disposed of during the period of the agency.

When the lines to be introduced have been decided upon, it will be necessary to fix a limit to the stock for which the consignee may call, and for him to undertake to render at frequent intervals statements of all stocks on hand. This stock represents the consignor's investment in the venture, and he must be protected against too much of his capital being tied up by the consignee. On the other hand, the consignee must be sure of having sufficient goods to sell to ensure the agency being remunerative to him, and of having a figure upon which to base his sales campaign.

Consignee's Stock Limits.

The principal will usually be called upon to guarantee the goods being prepared in accordance with any laws which may affect them in the country to which they are sent and to guarantee all patents, trade-marks, and copyrights valid, indemnifying the agent against any expenses incurred in establishing or upholding such patents, etc., and any sums payable as fines, damages or legal costs in connection with anything the principal has guaranteed.

The principal's interests in connection with his patents, trade-marks, and copyrights can best be watched by a professional patent agent, and the consignment agent should be prohibited from patenting in his own name any improvement upon the principal's goods, or any article used in connection with them, or from registering in his own name any additional trade-mark, copyright advertisement or literature used in the sales campaign. If this precaution were not taken the principal might be compelled, on the termination of the agency, to purchase such patents, trade-marks or copyrights at the agent's own price.

Patent and Other Rights.

The rate of commission will depend on the nature of the goods, the service which the consignee must render in connection with them, and the extent to which they are known in the territory assigned to him. In introducing new lines it is frequently arranged for an extra commission to be paid in respect of the business done in the first year or two, in order to cover the agent's initial outlay. The commission will usually be payable upon the basis of the net sales before deducting handling charges, insurance, interest, etc.

Commission Rates.

In selling goods through an agent, the principal must suffer any loss through bad debts which the agent may incur, unless the agreement entered into places the agent upon a *del credere* basis,in which case he will have to make good any such loss. The latter basis is the one usually adopted, because under modern business conditions the principal will have no knowledge of his agent's customers, and it would be almost impossible to maintain a system of credit approval.

Bad Debts: "Del Credere" Terms.

The possibility of bad debts being incurred must be borne in mind in fixing the rate of commission especially if, in introducing the goods, the agent is compelled to open a number of new accounts —thereby subjecting himself to a considerable risk.

In the event of a consignment being lost, damaged or delayed in transit to the agent, he may be involved in heavy financial loss through having entered into forward sales and being either unable to make delivery, or forced to buy competitive goods in the local market to fill the order. The proceeds of any insurance claim would be collected by the consignor so that, in the ordinary way, the consignee would receive no commission to offset his losses. It is usual to prescribe that in such circumstances the consignee be paid commission upon the amount received from the insurance company, frequently at a higher rate than the commission payable in respect of sales.

The Agent and Losses in Transit.

Another important point is the basis of payment. The consignee will be required to render account sales within a stated time from the date of the last sale made from each consignment, every shipment of goods being treated as a separate consignment in order to facilitate this, and the net proceeds of each consignment will be payable to the consignor

The Account Sales.

within so many days of the last sale being made—according to the average credit allowed in the particular trade.

The amount of detail which is given to the consignor on the account sales will naturally depend upon the extent to which his interests are watched by auditors or representatives in the agent's territory.

It is usual to give, in respect of each sale made, the date, name, and address of purchaser, number of cases, and weight, price, and net proceeds. It is also customary to give a summary of the charges which have been set off against the proceeds.

A specimen account sales is given below.

ACCOUNT SALES

Of *50 cases American Sides, finest quality* 341
Sold for . . *Western Packing Co , Chicago* . . S S. . *Altic*
Date *15th March, 1926* Consignment No . . *W 36*. .

Date.		Purchaser.	Cases.	Weight. C.	Q.	lbs.	Price.	£	s.	d.	Interest. Dys	£	s.	d.
1926														
Jan.	*28*	*Smith Wells & Co., Borough*	*5*	*9*	–	*7*	*112/–*	*50*	*15*	–	*33*	*1,674*	*15*	–
	28	*Gordons Ltd. Deptford*	*5*	*9*	–	*7*	*112/–*	*50*	*15*	–	*33*	*1,674*	*15*	–
	28	*Leslie Grant Borough*	*5*	*8*	*2*	*3*	*112/–*	*47*	*15*	–	*33*	*1,575*	*15*	–
	28	*Braddons Bermondsey*	*5*	*9*	–	*7*	*112/–*	*50*	*15*	–	*33*	*1,674*	*15*	–
	28	*Maxwell Borough*	*5*	*8*	*1*	*21*	*112/–*	*47*	*5*	–	*33*	*1,559*	*5*	–
Feb.	*9*	*United Bacon Bermondsey*	*10*	*18*	–	*14*	*100/–*	*90*	*12*	*6*	*22*	*1,993*	*15*	–
	10	*Gordons Ltd. Deptford*	*5*	*9*	–	*7*	*90/8*	*41*	*1*	*8*	*20*	*821*	*13*	*4*
Mar.	*2*	*United Bacon Bermondsey*	*10*	*18*	–	*14*	*90/–*	*81*	*11*	*3*				
		Tare		*11*	*2*	*18*								
		S.R.362	*50*	*101*	–	*14*		*460*	*10*	*5*		*10,974*	*13*	*4*
		Charges—	£	s.	d.									
		Landing .	*11*	*8*	*6*									
		Cartage	*3*	*5*	–									
		Storage .	*3*	*10*	–									
		Delivery to Customers . .	*6*	*1*	–									
			24	*4*	*6*	*C R 356*								
		Insurance— *Minimum*		*10*	–									
		Commission 2½ %	*11*	*10*	*3*									
		Interest	*2*	*14*	*4*									
			38	*19*	*1*			*38*	*19*	*1*				
Jan.	*15*	*Acceptance on Account*						*421*	*11*	*4*				
								400	–	–	*77*	*30,800*	–	–
											365)	*19,825*	*6*	*8*
												54	*6*	*4*
											5 %	= *2*	*14*	*4*
		Balance, payable 2nd April, 1926						*21*	*11*	*4*				

Exchange Building,
London, S.E.1.

SMITH, BROWN & Co.,
Per . *Fredk Brown*. . . .

The consignor may reserve the right to call for payments on account, and will usually be entitled to interest upon his money while it remains in the consignee's hands. It is customary to calculate this interest upon the basis of the amount of each individual sale, and for the period between the date of each sale and the last day upon which a sale is made. The period of credit allowed to the consignee by the consignor will be offset by the period allowed to his customers by the consignee. When the consignor receives a payment on account, he will be charged interest upon this from the date of payment to the date of the last sale, plus the period of credit.

Calculating Interest Charges.

In the example of an account sales, given on the opposite page, the figures upon which the interest is calculated have been given in the two columns on the extreme left—a practical example of the method employed.

When the consignee is called upon to allow a cash discount to his customers, he will be entitled to deduct discount, at the same rate, from the net sales made from each consignment—unless the agency commission is intended to cover this item.

The prices at which the goods are to be sold will need to be arranged between the consignor and consignee. With manufactured articles the complete price list will sometimes be drawn up by the consignor, but in most cases he will be content to fix a minimum price for each line, allowing the consignee to obtain the best price he can from the customers, but not allowing him to cut minimum prices without first referring to the consignor.

Price Arrangements.

With raw materials and foodstuffs, the market reports will enable the consignor to check the consignee's returns, and he will need to follow these closely in order to see that the consignee is not underselling in order to bolster up his commission, or to obtain general business which will not benefit the consignor.

Need for Supervision of Prices.

The need for the consignor to supervise the prices at which his goods are sold is illustrated by the following case.

An agent, who already represents a producer of good quality bacon, enters into an agreement with a packer of inferior quality tinned meat. The tinned meat packer offers an exceptionally

high rate of commission, but his produce only appeals to the cheap provision trade, so that the agent cannot associate the two lines in one selling campaign.

In order to surmount this difficulty and to obtain customers for the tinned meat, the agent might be tempted to reduce the price of the bacon he is entrusted to sell, thereby making it attractive to the cheap provision trade. If he does this, he will not only reduce the bacon producer's profits, but will also seriously injure the local goodwill of the latter by giving the impression that the quality of the bacon has deteriorated.

The consignor will also have to follow the production and exports of the countries producing his class of merchandise, in order to advise the consignee of possible fluctuations and the price adjustments necessary to meet them.

Care must be taken to determine exactly the handling expenses which may be charged to the consignor. Usually he will have paid the freight and marine insurance, and it will be left to the consignee to meet all the expense of landing, wharfage, cartage, storage, and delivery to customer, and to recover the same by deduction from the proceeds of the consignment.

Handling Charges.

One of the consignee's obligations will be to guarantee that the goods entrusted to him are adequately insured against loss by fire. This may be dealt with in either of two ways. The consignee may effect a floating policy covering only the consignor's goods, adjusting it as the value of the stock fluctuates and charging the premium to the consignor as a separate item, or he may protect all stock on hand with one policy and make a charge for insurance against each consignment, taking the amount of the proceeds as the basis of the charge.

Fire Insurance.

The first method is the better from the consignor's point of view as, if he is advised of the amount covered by insurance each time a return of stock is made, he will be able to satisfy himself that his goods have ample protection.

It may be that in opening up a new market the consignor will expend a certain amount of money upon advertising, either through the consignee or through an advertising agent, according to the class of produce. Many producers continue to advertise their lines when they have become firmly

Publicity Policy.

established in a territory, through an advertising agent and without reference to their consignment agents, as a safeguard against what may be termed the "local goodwill" of their business becoming identified with the consignee to such an extent that a change of agent would seriously affect it.

This precaution is absolutely necessary when the agent is also selling competitive goods, as his position will make it extremely difficult for him to conduct an extensive advertising campaign in favour of any particular brand.

The agency agreement must state what records covering the consignor's business are to be kept by the consignee, and provide for whatever system of audit is considered necessary.

Auditing the Agent's Records.

This raises the question as to which of the consignee's records, other than those devoted exclusively to the consignor's business, are to be available to the auditors. They should have the right to inspect copies of the invoices sent to customers, the sales journals, and the sales ledgers, so that they may verify the amounts received for the goods by tracing the charges to the customers' accounts. They may also need the cash books in order to satisfy themselves further as to the authenticity of the charges, by tracing the payments made against them. The real purpose of an audit of this kind is to prove the accuracy of the account sales, stock lists, debit notes, and credit notes sent to the consignor, by reference to the books and vouchers. To facilitate this, each of these forms should be prepared in triplicate, one copy being retained by the consignee, and the other two sent by him to the auditor, who will compare them, pass one on to the consignor and retain the other until his next audit is conducted, to be used as the basis of the investigation.

In the same way, the consignor should send a copy of all consignment invoices to the auditor, and it may be advisable for him to send a copy of any correspondence likely to be of service in carrying out the audit work.

Vouching the charges made to the consignor for expenses will be an important duty of the auditor, and if it is the practice to charge the actual expenditure against each consignment, he will call for formal receipts in respect of each item. Very often it is possible to save the heavy book-keeping work necessary to record these

CONSIGNMENT RE

Consignment No.	Consignor.	Consignor's Invoice No.	Ship.	Port of Shipment.	Date of Shipment.	Date of Landing.	Number of Cases.	Description.	Marks.
A.P. 94	*Amalgamated Pckrs.*	*3,491*	*Altic*	*N.Y.*	*8/1/26*	*18/1/26*	*200*	*American Sides*	*A P 94*
W. 36	*Western Packing Co.*	*635*	*Altic*	*N.Y.*	*8/1/26*	*18/1/26*	*50*	*American Sides*	*W P. 36*
M. 121	*Macdonald & Co.*	*C. 392*	*Delta*	*Montreal*	*20/1/26*	*1/2/26*	*350*	*Canadian Sides*	*M 121*
A.P. 95	*Amalgamated Pckrs.*	*3,630*	*Munro*	*N.Y.*	*3/2/26*	*15/2/26*	*200*	*American Sides*	*A.P. 95*
A.P. 96	*Amalgamated Pckrs*	*3,641*	*Halma*	*N.Y.*	*10/2/26*	*22/2/26*	*200*	*American Sides*	*A.P. 96*
M. 122	*Macdonald & Co.*	*C. 514*	*Maine*	*Montreal*	*12/2/26*	*26/2/26*	*350*	*Canadian Sides*	*M. 122*

SALES RECORD

Consignor . *Western Packing Co., Chicago*

S S. . *Altic* .

Average weight *1* cwt. *3* qr.. *7* lb.

Date.			Cases.	Weight. Cwt.	Q.	lb	Folio	£	s	d	Date.		Customer
1926 Jan.	*8*	*Consignors Inv. 635*	*50*	*101*	*–*	*14*					*1926 Jan.*	*28*	*Smith Wells & Co. Borough*
												28	*Gordons Ltd. Deptford*
												28	*Leslie Grant Borough*
Mar.	*8*	*Transfer to Act. Sales*					*A.S. 341*	*460*	*10*	*5*		*28*	*Braddons Bermondsey*
												28	*Maxwell Borough*
												8	*United Bacon Bermondsey*
											Feb.	*10*	*Gordons Ltd. Deptford*
											Mar.	*2*	*United Bacon Bermondsey*
													Tare
			50	*101*	*–*	*14*		*460*	*10*	*5*			

CORD (Consignee's)

Bill of Lading Weight. T	C.	Q	Lb	Port of Entry.	Dock	Ware house.	Storage	Insurance. Date Effected	Amount	Date Cancled.	Account Sales. No.	Date.
20	3	1	0	London	King George	C	Main Street	18 1 26	£2,000	1 2 26	302	1 Feb./26
5	1	0	14	London	King George	C	Wards	18 1 26	£500	3 3 26	341	15 Mar /26
34	18	3	14	London	Royal Albert	S	Main Street	1 2/26	£3,500	22 2/26	327	27 Feb /26
19	17	3	0	London	King George	H.	Main Street	15/2/26	£2,000	2/3/26	336	15 Mar./26
20	1	3	14	London	King George	B	Wards	22/2/26	£2,000	16/3/26	360	29 Mar./26
34	16	1	0	London	Royal Albert	D.	Main Street	26/2/26	£3,500	22/3/26	328	27 Feb./26

(Consignee's)

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Consignment No W 36

Produce 50 cases, finest quality, American Sides

Cases	Weight Cwt	Q	lb	Invoices Price	Folio	£	s	d	Credit Notes Date		Claim	Folio	£	s	d	Net Proceeds £	s.	d.
									1926									
5	9		7	112/	19/37	50	15	-								50	15	-
5	9		7	112/-	41	50	15											
	8	2	3													50	15	-
5	9	0	7	112/-	42	50	15	-	Feb	1	Short Wght	6/47	3			47	15	-
5	9		7	112/	56	50	15	-										
	8	1	21													50	15	-
5	9	0	7	112/-	57	50	15	-	Feb	2	Short Weight	6/54	3	10	-	47	5	-
10	18		14	100/	20/116	90	12	6										
				90/8												90	12	6
5	9	-	7	100/-	134	15	6	3	Feb	17	Bad Cond	6/92	4	4	7	41	1	8
10	18		14	90/-	21/36	81	11	3										
																81	11	3
	11	2	18															
50	101		14			471	5	-					10	14	7	460	10	5

charges by the consignee being allowed a fixed rate per hundredweight to cover all expenses of handling. Whether a flat rate can be satisfactorily arranged or not will depend to a large extent upon the storage necessary, as this will be the most expensive item —especially if cold storage is required.

The books kept exclusively for the consignor's business should include a consignment record, a sales record, and a charges record.

The consignment record, a specimen sheet of which is shown on the preceding pages, is really a form of diary from which the shipments can be readily traced from the time when the first notification of shipment is received from the consignor, to the time when the account sales is rendered.

The Consignment Record.

From this consignment record the information necessary to open the accounts in the sales record and charges record will be obtained, and in preparing and checking stock reports this record will give the necessary clue to the shipments not yet completely disposed of.

Columns are provided for recording the whereabouts of the goods, and particulars of the insurances effected upon them. If goods are insured by the storage company or under the consignee's general policy this should be noted, the object of this part of the record being to prevent the removal of goods from the premises in which they are insured without fresh cover being obtained.

The sales record, a specimen sheet of which is shown on the preceding pages, is a form of ledger giving a separate sheet to each consignment, to which are posted all sales made from that consignment. Columns must be provided for the recording of credit notes given to customers in allowing for returns, bad condition, or short weight. In selling many classes of produce it is usual to weigh only a few cases (throughout this chapter the word " cases " is intended to cover barrels, sacks or other forms of packing) out of each consignment when they are taken into stock, and to take the average weight of these as the weight of every case in invoicing the purchaser.

The Sales Record.

This averaging is necessary, because the particular cases sold to the customer are in warehouse and, therefore, the contents cannot conveniently be taken out and weighed, or the weight arrived at by weighing the case and deducting the tare. Apart from this

there is the question of expense, as a charge is made by the storage companies for taking out and weighing and for restacking cases. A customer, however, usually has the right to claim credit for any short weight discovered upon delivery, provided that a certain margin—say 2½ per cent—customary in the trade, is exceeded.

From this sales record can be found the number of cases in stock at any time, as the total number of cases in the consignment is recorded on the debit side when the account is opened, and the number of cases included in each sale is recorded on the credit side.

When all the goods constituting a consignment have been sold, and sufficient time has been allowed for all claims for credit to be dealt with, the sales record account is closed by debiting the net sales carried to the account sales.

Disposal of Remainders.

When only one or two cases are left out of a consignment, the consignee may be willing to purchase these himself and the consignor, in order to clear the consignment, will usually offer an inducement by accepting a price several points below the market quotation, and at the same time allowing the usual commission. It is advisable, however, to insist that in each case of this kind the consignee should make a formal offer to the consignor, and await his acceptance before taking over the residue.

The Charges Record.

The charges record, a specimen sheet of which is given on the next page, is also kept in the form of a ledger account, the expense items being debited as they are paid, and the total being credited when it is posted to the account sales.

The number of cases and the weights are entered in the charges record, so that it can be readily ascertained whether the cost of landing, warehousing, carting to store, storing, and delivering to customer is charged in respect of every case. This is very important, because it is no easy matter to identify the charges in connection with each consignment, there being often only the marks and dates (which should be noted at the top of each sheet in the charges record) to go by, and it is sometimes easier to search for the charges on the invoices rendered by the cartage and storage companies than to take these invoices and allocate them over the charges record accounts. Each item on

CHARGES RECORD

Consignment No *W 36* Consignor *Western Packing Co , Chicago*

Produce *50 cases American Sides finest quality*

Marks *W P. 36* Date of Landing *18th January, 1926*

Date.		Dr.		Folio	Voucher No	Cases.	Weight T.	Cwt.	Qr.	Lb.	£	s.	d.	Date.		Cr.	Folio.	£	s	d.
1926														*1926*		*Transfer to Acct. Sales*	*A.S. 341*	*24*	*4*	*6*
Jan.	*25*	*P.L.A.*	*Landing*	*17/36*	*1,170*	*50*	*5*	*1*	–	*14*	*11*	*8*	*6*	*Mar*	*15*					
	29	*Turner & Co*	*Cartage to Store*	*38*	*1,224*	*50*					*3*	*5*	–							
Feb.	*22*	*Wards Store*	*Storage*	*161*	*2,096*	*50*					*2*	*11*	*6*							
	22	*Hall's Cartage Co.*	*Dely to Customers*	*161*	*2,107*	*40*					*4*	*16*	–							
Mar.	*15*	*Hall's Cartage Co.*	*Dely to Customers*	*18/24*	*2,736*	*10*					*1*	*5*	–							
Mar.	*15*	*Wards Store*	*Storage*	*18/24*	*2,739*	*10*						*18*	*6*							
											24	*4*	*6*					*24*	*4*	*6*

the invoices should be foliod as it is posted to the charges record, so that the items not yet allocated can be seen at a glance.

When the account sales is prepared, it may be found that all the charges in respect of a consignment have not yet been ascertained. In this event it will be necessary to reserve an estimated amount to cover these expenses, charging this to the account sales and adjusting any difference between the reserve and what are afterwards found to be the actual expenses, by a debit note or credit note to the consignor's account.

It is a good plan to use loose-leaf books of uniform size for the sales record, charges record, and for the consignee's copy of the account sales. It will then be possible, when an account sales has been rendered, to place behind it in the same book the sheets from the sales record and charges record referring to that consignment. In this way the two last-mentioned books will only contain the sheets relating to the consignments in respect of which account sales have not yet been rendered.

Advantages of Loose leaf Records.

It is not usual for a consignment agent to take any book profit, by charging commission to an account, unless the sale is completed and the account sales has been rendered. Even at the end of a financial period the consignment agent ignores accrued commission on partly sold consignments.

The consignee will have the choice of treating the sales record and charges record books of the consignors either as memoranda, or as part of his book-keeping system.

From his point of view there is no question of stock, since none of it belongs to him, and the items in the records in question will merely represent cash paid and cash received—the balance at any time being an amount due to or from the consignor.

A firm with a large amount of consignment business would have a heavy task in balancing its books if the consignment records were made part of the double entry system, and it is generally preferable to keep them as memorandum books, the consignee maintaining control accounts in his own ledger just in the same way as the ordinary bought ledger and sales ledger control accounts are kept by most firms. If this is done, a column for each consignor's business will be provided in the cash payments book and the sales journal, the

Control Accounts.

totals received on behalf of and paid on account of the various consignors being carried to an account which will control their respective consignment records.

If the remittances made to the consignors and the commission earned are also charged to these control accounts, the balances must agree with the net balances of the corresponding sets of consignment records.

The Consignor's Records.

The records kept by the consignor will, of course, be much more simple. It will only be necessary for him to keep a consignment ledger in which a separate sheet, similar to that illustrated in the form below, is devoted to each consignment. It will be seen from this illustration that the goods, when shipped, are charged to the consignment account at cost price. At this time the consignment only represents stock transferred from one place to another and the balances at the end of any period must be taken into the accounts as "stock on consignment," not as an amount owing by the consignee.

CONSIGNMENT RECORD
(Consignor's)

Consignee . *Juarez y Hijo* Consignment No *1256*

. *Almira 371, Barcelona, Spain*

Merchandise . . *100 cases Scotch Whisky. Second Quality.*

Date of Shipment *20th January, 1926* Commission 2½%

Port of Shipment. .. . . .. *Glasgow* . Terms. *30 days*

S S .. .... *Henchman* .. .... Date of Account Sales *2nd April, 1926*

1926				£	s.	d.	1926				£	s.	d.
Jan.	20	To Cost of Merchandise	J 84	270	–	–	Feb.	9	By Acceptance on a/c (10,000 Pesetas)	C 148	312	10	–
	22	,, Cartage to Steamer	C 131	5	3	6	May	10	,, Remittance to balance (1,200 Pesetas)	C 291	37	10	–
	26	,, Freight	C 133	8	11	10							
	29	,, Marine Insurance	C 136		18	6							
May	31	,, Profit and Loss Account	J 161	65	6	2							
				350	–	–					350	–	–

To this account will be debited all payments for carriage or cartage to steamer, freight, and marine insurance in respect of the consignment. It will be quite reasonable to add these expenses to the cost of the goods in valuing the stock on consignment.

When an account sales is received from the consignee the net proceeds shown thereon will be credited to this account, and the balance will be carried to profit and loss account.

Here, again, the use of a loose-leaf ledger will be an advantage, as the sheets covering shipments which have been disposed of can be transferred to another binder when the accounts have been closed off.

Under certain circumstances it is necessary for the consignee to have a much larger share in the proceeds of a consignment—for example, when the consignee is called upon to bear all the handling expenses, carriage, insurance, etc., to assemble articles from component parts, to adapt them to the particular needs of a local market, or to undertake an expensive selling campaign and maintain offices, showrooms, and works devoted exclusively to the consignor's business. In such cases, the consignor's share of the proceeds will usually be fixed by a price list drawn up in his own currency, the consignee being left to obtain prices which will cover all his expenses and show him a reasonable margin of profit.

Special Consignment Business.

In these circumstances it might appear better for the principal to sell outright to the agent, but there are certain advantages to be obtained by still treating the shipments as consignments, among them being the following—

The consignor maintains control over the marketing of his goods, and will usually reserve the right to veto any prices, terms or methods which may be objectionable to him. He is also assured of his name and brands being used, so that the identity of the goods cannot be concealed by the agents.

He will receive his share of the proceeds in his own currency, and so avoid differences in exchange.

In the event of an agent becoming a bankrupt, the goods on consignment cannot be touched by his creditors, whereas if they had been sold outright to the agent, the principal might suffer heavy loss. Further, the principal is protected against a large quantity of his goods being sold by a receiver or liquidator, and the market thus being flooded and spoilt.

Apart from the provisions relating to commission, terms of payment and selling prices, the agreement will be drawn up in very much the same terms as the ordinary consignment agreement, already described in this chapter.

The goods consigned will be invoiced to the consignee at the actual prices he will have to pay when he has sold them, but these invoices can only be considered as recording transfers of stock and not sales.

Invoicing.

It is usual for the consignor to be sent a carbon copy of every invoice rendered to the customers, and his proportion of the proceeds will be noted by marking against each item the agreed price payable by the consignee.

Space can be provided for these notes by an extension of the invoice forms. In order to give one copy each to the customer, consignor, and consignee it will be necessary to prepare these in triplicate, and the margin of the customer's copy will be taken off before the invoice is sent out as, of course, the figures given on this must not be seen by him.

A summary of the invoices, which need only give the number of each invoice and his share of the proceeds, will be sent with them to the consignor each month.

Payment can best be made by monthly remittances covering each month's sales, and allowing the same credit as is extended to the customers.

With this class of business the consignments cannot be kept separately, and the stock records covering the consignor's goods must be arranged in the ordinary way, with a separate sheet for each component part or article.

Stock Records.

To these stock sheets will be debited all supplies received from the consignor, as shown by his invoices, and the sales will be credited against these from the invoices sent to the customers.

The consignor will generally find it necessary to keep a duplicate record of this stock on exactly the same principle, so that when stock reports are made by the consignee they can be checked in detail.

When consignees in various territories are working under these conditions, they will frequently call upon one another for stock. It is usually considered objectionable for them to settle with one

another for this, as the question of their respective shares of profit is involved, and the usual practice is for the agent supplying the goods to charge these to the consignor, who will in turn charge them to the agent who has received them, so that when they are ultimately sold to the customer, they can be accounted for in the ordinary way.

Transactions Between Consignees.

The consignee who originally carried the goods in his stock will usually be paid a commission by the consignor to cover his handling expenses. He will also be entitled to recover from the consignor the cost of sending the goods to the other agent.

In each of the two main classes of consignment business, already described in this chapter, the consignee is merely an agent.

There are, however, many cases in which the consignee is a partner with the consignor in what is termed a "joint venture," and receives a share in the profits made upon the consignment. Alternatively, he will have to bear the same proportion of any loss incurred.

"Joint Venture" Agreements.

This partnership basis is frequently adopted when the shipment is outside the general business of the parties concerned, or when it is in the nature of an experiment. If a series of shipments is arranged for, it will be advisable for the parties to enter into an agreement similar to that governing an ordinary partnership.

The chief points to be dealt with in this agreement will be—

The way in which the profits or losses are to be apportioned between the partners, the limits of the territory in which the goods may be sold, the selling prices, and other details of the sales campaign.

The responsibility of each partner towards the goods consigned, for example, regarding insurance, guarantees, patents, and copyrights.

The terms of payment to the consignor, and any necessary provision regarding interest.

The expenses which each partner is entitled to charge against the consignment.

When a joint venture of this kind is embarked upon, each partner will devote an account in his books to the transaction, debiting to this account all expenses in connection with the consignment, and crediting all moneys received.

The consignor will send to the consignee a statement showing the cost of the goods and his other expenditure in connection with them, and when the consignment has been disposed of the consignee will reply with a statement showing the proceeds and his expenses.

When these statements have been exchanged, each partner will be able to determine his share of the profit or loss, and a draft will be sent to the consignor to complete the transaction.

The following will serve as a practical example of a "joint venture."

A Practical Illustration. A Canadian producer consigns a quantity of apples to London, and his statement covering the shipment gives the following figures—

	£	s.	d
Cost of apples	312	–	–
Cartage to steamer, freight, and marine insurance	7	10	6
	319	10	6
Drawn from consignee on account	300	–	–
Leaving a balance of	£19	10	6

The consignee disposes of these, and his statement is made up as follows—

	£	s	d
Proceeds of sale	437	8	–
Expenses of landing, storage, insurance, and delivery to customers	26	3	6
	411	4	6
Less payment on account to consignor	300	–	–
	£111	4	6

It will be seen that the profit on the consignment amounts to £91 14s. The consignee is entitled to a half share of the profit, i.e. £45 17s., and he will deduct this from the above balance and remit £65 7s. 6d. to the consignor.

The consignor's account in respect of the consignment will then be closed off as follows—

	£	s.	d
Balance shown above	19	10	6
Add Share of profit	45	17	–
Remittance from consignee	£65	7	6

CHAPTER X

WORKS ORGANIZATION

A FACTORY or works is a machine equipped and staffed to do a particular job or series of jobs. The system employed in the management of the works must, therefore, be governed by the exigencies of the jobs to be done, and not by any outside influence.

In the case of the sales organization the system must be arranged to meet competition and varied to take advantage of market developments.

The employees on the selling side will be given a certain amount of scope, to enable them to use their own initiative in dealing with the minor questions which arise in the execution of their duties, and to a certain extent the system can be varied in order to allow the salesmen to develop their own plans of action.

Contrasting Systems.

In the works the position is vastly different. There is a certain job to be done. Before work is commenced upon it, the processes to be used must be decided, the material must be furnished, and the necessary men and machines must be selected for service on the job.

In a works of any size these three questions would call for the advice of a number of executives, but the responsibility for the working of the system must be shouldered by one man, who may be called the works manager. He will pass this responsibility on to his assistants, by giving them authority for the carrying out of certain duties, but he must clearly define the extent of each assistant's responsibility and authority. If there is any doubt as to who is responsible for the conduct of a certain operation, or if more than one person is directing one operation, there can be no hope of works efficiency.

Responsibility of the Works Manager.

The immediate subordinates of the works manager will be divided into two classes, advisory and managerial. The advisory staff will prepare the drawings, formulas or recipes necessary for the production of the finished product, the detailed specification of

the material required, and the working instructions which will govern the execution of the job. Every job must be carried out in theory by the advisory staff before it can be commenced in practice by the managerial staff. It will not do to keep men and machines waiting for instructions or material if there is work to be done, and it would be better to delay the commencement of a job until it had been planned than to delay its progress after it had been commenced.

Work of Advisory and Managerial Staff.

The managerial staff or "progress department" will put into operation the plans of the advisory staff, giving the necessary orders to the manufacturing departments who will be called upon to assist, and authorizing the stores department to issue the material required.

Each of the under-managers will represent a manufacturing department, and be responsible to the works manager for the conduct of that department.

The extent of the advisory and managerial work, in relation to the size of the factory, will depend upon the nature of the work undertaken.

When jobs are carried out to meet the individual customer's requirements, every one of them will need particular attention. With engineering work, for example, blue prints will be required covering every part which is to be manufactured, various processes which can be used by the factory must be carefully studied, in order to determine which of them is the most appropriate for the job, and it may be necessary to obtain or manufacture special jigs, blocks, cutters or other machine tool parts for use on the job.

The Preparation for Special Jobs.

The processes must be arranged according to the equipment and staff available, so that the equipment must be flexible and the staff must be versatile. The departments of the factory will usually be subdivided into sections, distinguished by names or letters. Each section will be directly controlled by a foreman.

When work upon a job is about to be commenced, and the necessary drawings and special tools have been prepared, the progress manager or departmental manager responsible for the execution of the work will issue written instructions, upon a printed form bearing his signature,

Written Instructions.

to the section called upon to carry out the work. This instruction form will be accompanied by a printed requisition form, also signed by the manager, giving a list of the material required for the job, and authorizing the foreman of the section to draw this material from the stores.

If the job is a small one the foreman will draw all his material at once, countersigning the requisition form as a receipt and surrendering it to the storekeeper.

If the job is a long one the requisition will usually be issued in duplicate. The foreman will then draw his material by instalments as it is required. One copy of the requisition form will be surrendered to the storekeeper when the first instalment is given out, and each subsequent issue will be noted upon this. The foreman will retain the other copy so long as he has a balance of material to draw. Each issue will be "written off" this copy, and it will be surrendered to the storekeeper when the total quantities have been given out.

Requisitioning Material.

With this system the foreman will not be able to take material from the stores unless he can submit a requisition signed by the manager. If he finds that he has insufficient material to carry out his instructions he must apply to the manager for a fresh requisition. This will draw attention to any errors on the part of the estimating clerks, or wastage or spoilage in operation.

The foreman is responsible for the proper use of the material which he takes out of stores, and the storekeeper's responsibility ends with the obtaining of a requisition signed by the manager. The storekeeper should not be called upon to supervise the requisitioning of material, as this may lead to arguments between him and the foreman, which will hinder his work and at the same time delay production.

The Storekeeper's Responsibility.

Every requisition must bear the number of the job to which the value of the material is chargeable, as this information will be needed for costing purposes.

Surplus material must be returned to stores immediately after the completion of each job, accompanied by a returns form giving the quantities and description and the number of the job to which the value of the material is to be credited.

If any by-products or waste have a commercial value they should be dealt with in the same way.

In many cases special tools will be required for use upon the jobs. These tools should be kept in the stores, requisitioned with the material, and returned under a returns form when the job has been completed. This will enable the tools to be traced and make the foreman responsible for their safe custody.

In the assembly room of a factory producing heavy machinery, the parts and sub-assemblies will be received from the stores in sets, according to a special or standard specification.

System in Assembling Machinery.

Each set will represent one machine, and will be laid out at a "station" ready for assembly. The fitters move round the assembly stations, taking up the next assembly as soon as they have finished work on a machine. If men of several trades are required for the assembly of each machine, e.g. labourers, fitters, and electricians, they will move round in batches one after the other.

Under these circumstances the operations must be carefully timed, and the size of each batch of men arranged so that labourers, fitters, and electricians all spend approximately the same amount of time on each machine.

In the absence of such an arrangement confusion would be bound to arise, with the consequent loss of a great deal of working time.

With this class of work the material supplied to the assembly staff will be exactly the amount they require, except that fitters may carry with them a stock of unimportant screws, bolts, nuts, etc., to replace any that are damaged in assembly.

Breakages.

If a fitter breaks a more valuable part, the broken part should be given back to the stores in exchange for a new one, and recorded in a "breakage book." This book should show the number of the part, the name of the fitter who broke it, and the operation in which it was broken.

A scrutiny of the breakage book will then disclose parts which are unreliable or weak in construction, careless workmen, and operations which are clumsy or dangerous. The frequent recurrence of the number of any part or name of any fitter or operation should occasion an inquiry.

When the machines are erected they will be connected up to the power supply, and run on test in the presence of inspectors. For

this purpose the actual conditions under which the machine will be called upon to work should be reproduced as faithfully as possible. It may be necessary to obtain supplies of material for use in the tests, and to employ skilled operators to run the machines. It very often happens that engineers with long experience in the manufacture and assembly of a machine know very little of its operation, and are unable to put the machine to a comprehensive test.

Test Runs.

Machines that are built to a standard specification and completed to meet individual purchasers' requirements should, if possible, be tested with the actual equipment selected by the purchasers.

It is unwise in such cases to carry a large stock of incomplete machines which have been inspected, because, in fitting an unimportant accessory, a workman may injure some integral part of the mechanism, and the cost of testing the machine on two occasions, once before taking it into stock and again before dispatch to the customer, would in all probability be prohibitive.

Advantage of Stocking Machines in Sub-Assemblies.

In view of this, such machines should be held in stock in sub-assemblies, so that the final erection work is reduced to a minimum, and single but exhaustive tests should be carried out immediately before the machines are dispatched, in order to safeguard the purchasers against defective work or material, and the manufacturer against having to send men to the purchasers' premises to make adjustments.

Some manufacturers invite purchasers to be present at the testing of their machines, a practice which gives a considerable amount of satisfaction to some purchasers, and also reduces the possibility of subsequent adjustments having to be made.

The packing of a heavy machine for dispatch to the customer presents some difficulty. In many factories the machine is assembled upon a batten, which afterwards forms the base of the packing case; the case being literally built up round the machine. Struts are used to secure the machine within the packing case, but at the same time it is often necessary to stipulate that the case must be kept base downwards, the cases being conspicuously labelled to that effect.

The Packing of Heavy Machinery.

Of recent years the principles of mass production have been applied to the manufacture of many machines, motor-cars in particular. It is then the machine that moves round the assembly room, usually upon a slowly moving platform or "endless conveyer." Each fitter has but one operation to perform, and has to do his work while the machine moves past his station. The number of machines to be assembled each day must be fixed beforehand and each fitter must be supplied, at his station, with an equivalent number of parts. This is a very important matter, because it will be understood that if one fitter runs out of parts, the whole assembly organization must cease work until he has received a further supply.

Mass Production Assemblies.

Naturally, the principle of "one man—one operation" calls for a large number of fitters, and the turnover of the business must be regular and of considerable volume if they are to be continuously employed.

It is very doubtful whether any but the very cheapest class of machinery could be produced economically under these conditions. In many factories which have adopted mass production principles the after-inspection adjustments necessitated by hasty workmanship and the lack of cohesion, resulting from the attention of every fitter being confined to his own job, more than offset the economies gained by the greater output and the speed of assembly.

In a factory which is equipped for versatile production the progress department will be responsible for keeping every section busily engaged upon suitable work, and the progress manager will endeavour to plan the operations of the factory for as many days ahead as he can.

Work of the Progress Manager.

As each job undertaken is notified to the progress manager, he will have a card prepared for each section which will be called upon to assist, sections which can conduct the same operations being grouped together for this purpose. The cards will give particulars of the work to be done and the approximate time which will be taken. They will be indexed under the initials of the sections and, within the sections, in order of precedence, that is to say, in the order in which they should be executed. Each job will be numbered as it is undertaken, and these numbers will appear

on the job cards. The order of precedence will correspond with the rotation of these numbers, unless the job is an urgent one, entitled to preference.

There are some industries in which all jobs are urgent, because customers wait until the last moment before placing their orders. There are some customers who mark all their orders "urgent" as a matter of routine, and in the belief that they will receive preferential treatment, and there are some commercial travellers who represent all the orders they take as urgent, in order to gain favour with their customers.

When this state of affairs exists, the progress manager will be well advised to execute all orders in rotation, and not to depart from this procedure unless he is satisfied that there is some good reason for doing so. Customers who wish to obtain preferential treatment can be asked to give a preliminary advice of their order, which advice will be recorded as a job, so that the job card is made out and placed in rotation pending receipt of the detailed specification.

Order Precedence Methods.

The progress manager can well afford to render this service to customers who give preliminary advice, as, by doing so, they assist him to forecast his operations.

From the job cards a chart will be prepared showing the sections of the factory and the numbers of the jobs awaiting the attention of each section. Perhaps the best chart of this kind is obtained by preparing a board with the initials of each section, or group of sections carrying out similar work, on the left-hand side, and slots, running across the board from each initial, in which cards bearing the numbers of the jobs awaiting the attention of the section can be inserted. The cards will run from left to right in order of precedence. As each job is completed, the corresponding card will be removed from the slot, and the rest of the cards will be pushed over to the left.

Progress Charts.

It may be an advantage to insert a card for each day's work the job is expected to give, and to head the chart with the days of the month. The chart will then show not only the jobs awaiting attention, but also the day on which they should be commenced. The illustration on the next page will show what is meant.

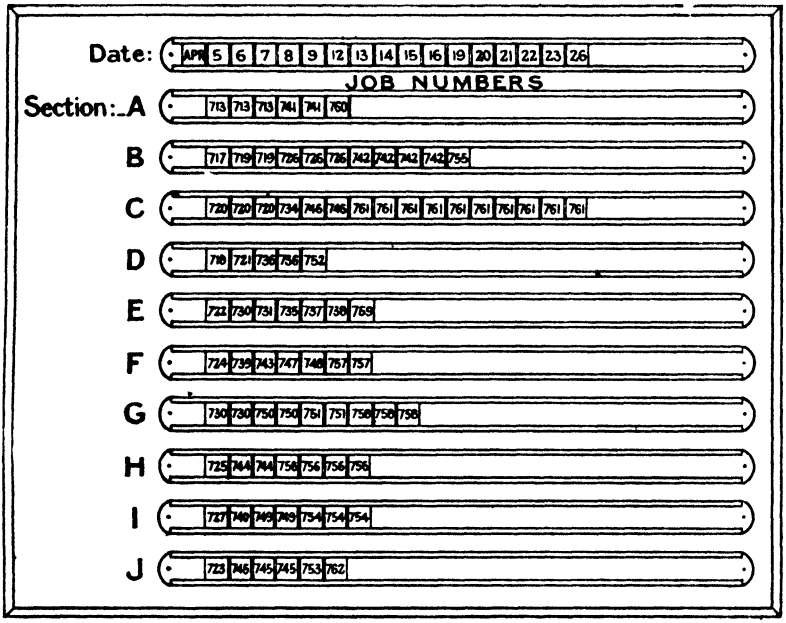
With a chart of this kind, jobs which cannot be commenced by one section until another section has finished with the material,

must be distinguished in some way. This can be done by inserting a card lettered in a contrasting colour (red, if the other cards are lettered in black) for all jobs which are dependent upon the work of other sections.

Planning the Factory Operations.

These red cards will then be moved from right to left on the chart, in accordance with the movement of the black cards bearing the same number, and not in accordance with the progress of their own section.

WORKS PROGRAMME BOARD



For example, if in the above specimen chart, section D were called upon to take up job No. 742, when section B had finished work on it, a card lettered in red would be entered in slot "D" under the 19th of April, this being the date upon which the material would probably be ready.

As soon as work upon them has been commenced, orders of this kind must be given a certain amount of preference in their progress through the manufacturing sections, in order to avoid work in progress having to be taken into stores, or left lying about the factory.

The forces at the disposal of the progress manager need not be confined to his own organization, and he should take full advantage of the services of outside contractors.

The factory should be self-contained so far as its own sphere of operations is concerned, but the policy of complete manufacture can be carried too far.

Manufacturing Policy.

It is often advantageous to have materials prepared specially by the suppliers rather than buy them in the raw state and prepare them in the factory, and to purchase minor parts—springs, bolts, nuts, screws, belts, pinions, etc.—rather than manufacture them.

Organization for Standard Stock Line Production.

When the operations of the factory mainly consist of the production of regular trading lines for stock, the advisory and managerial work will naturally be much lighter. Standard drawings, formulas or recipes, and material specifications, will be prepared in respect of each trading line and used repeatedly, so that the activities of whatever advisory staff is employed will be confined to work necessitated by alterations in the trading lines or processes, and to planning the manufacture of new lines.

The equipment and staff will be arranged according to the processes of manufacture which are accepted as the most suitable. In such cases, a more or less regular output of each trading line will be required, and the processes of manufacture will be automatically carried out, standing orders being given to the manufacturing sections, and in some cases to the stores departments.

A section of the works will be equipped and staffed to produce the required quantities of a particular trading line, and will go ahead until further notice, turning out regular quantities and requisitioning the materials from the stores as and when they are required. The preparation of the requisitions can be left to the foreman in charge of the manufacturing section, as the quantities requisitioned will be regular, and the output will show whether or not the material is being properly used.

It is, however, a common practice for production to be governed by the issue of material, the stores being instructed each morning to issue a certain quantity of material to the manufacturing sections, to cover the day's operations. The output can be maintained at a regular quota in this way.

When a number of departments must assist in the production of one trading line, the progress of the material through the departments must be traced. It will not do for material to be issued to one department and lost sight of for several days, until the finished product is returned to stores by another department.

Keeping Track of Material.

In the absence of any check upon the transfers between departments, it will be difficult to lay the blame for any shortage or spoilage upon the offending department, or to maintain accurate costing records.

In some factories transfers between departments are forbidden, the rule being made that all work in progress must be returned to stores between each process.

When the material does not pass *en bloc* from one department to another, that is to say, when the finished product of one department does not correspond exactly to the raw material of the department undertaking the next process, the practice of returning the work in progress to store between each process may be necessary, in order to avoid material accumulating in the manufacturing departments.

Movement of Work in Progress.

Generally speaking, however, this practice necessitates too much internal conveyance of material, and adds considerably to the overhead expenses of the factory.

In many factories, particularly those in the clothing industries, batches of articles pass round the departments accompanied by a "progress form," upon which the operations of each department are recorded.

To this form are appended a number of detachable slips, which are used to notify the works manager or progress department of the movement of the work in progress.

A specimen progress form, designed for use in a boot factory, is illustrated on the opposite page.

The progress form in this case was first sent to the material stores, where the storekeeper collected the materials required and passed them, with the form, to the clicking department.

The Progress System in Operation.

Before parting with the form he detached the bottom slip and returned this to the progress department, as evidence of the instruction having been complied with.

The clicking department cut out parts for 515 pairs of boots from the materials and passed these parts over to the machine department with the form, after entering particulars of its work

PROGRESS FORM (Boot Factory)

Date of Order. 8/3/26 Approximate Number Required. 480 Order No. 7991
Line. No. 712 Size. 9 Fitting. B

	Date Received.	Date Completed.	Quantity Completed	Spoils.	Foreman's Initials.
Material Stores		8/3/26			L.J.B
Clicking Dept.	8/3/26	9/3/26	515		M.S
Machine Dept.	9/3/26	10/3/26	496	19	B.P
Lasting Dept.	10/3/26	12/3/26	475	21	E.R.K.
Finishing Dept.	12/3/26	15/3/26	473	2	L.M.
Commercial Stores	15/3/26		473		J.E.R.

F L.M. Finishing Dept.	12/3/26	15/3/26	473	2	7991
L E.R.K. Lasting Dept.	10/3/26	12/3/26	475	21	7991
M B.P. Machine Dept.	9/3/26	10/3/26	496	19	7991
C M.S. Clicking Dept.	8/3/26	9/3/26	515		7991
S L.J.B. Material Stores		8/3/26			7991

on the form and coupon, and detaching the latter for forwarding to the progress department.

The same procedure was followed by the machine department, where the parts were skived (thinned at the edges) and fitted together; by the lasting department, where the parts were shaped and the soles and heels were joined to the uppers; and by the finishing department, where the roughly shaped boots were trimmed, scoured, and burnished.

In each department the work in progress was inspected, and a certain number of spoils were condemned, the quantities being shown on the progress form.

The finished boots were finally passed to the commercial stores, where they would be held pending dispatch to customers.

The storekeeper completed the progress form by entering the date and the quantity received, and then forwarded it to the progress department, thus advising them of the completion of the job.

By the use of a system of this kind the position of every order, the amount of material in the hands of any department, the output of any department, and the corresponding quantity of spoils can be readily ascertained.

Its Advantages.

The progress department will usually keep copies of all progress forms in a "work in progress" folder, arranged according to the order in which the goods are required, the coupons being attached to these copies as the former are received from the manufacturing departments.

When the original progress form is received from the commercial stores, the copy and coupons will be taken from the "work in progress" file and the complete record will be filed away in a "work completed" file, the contents of which will be arranged in numerical order under the job numbers.

The amount of clerical work given to manual workers or their immediate overseers should be reduced to a minimum. If a form can be completed either by a workman or a clerk in the office, the duty should be given to the clerk, and rubber stamps, recording time clocks, and other devices should be used in the factory whenever they will save clerical work.

Clerical Work in a Factory.

The clerical work necessary in a large factory will fall under two headings, the costing work carried out by clerks working under the managerial staff, and the statistical work carried out by clerks working under the advisory staff.

"Costing" has been dealt with in this book in a chapter under that name.

The statistical work will include the compiling of information on the speed of production and capacity of the individual manufacturing sections, on the comparative efficiency of the various processes

which can be undertaken, and of the constitution, temper, and characteristics of the different materials used.

The Use of Statistics.

This information will be used, in conjunction with the figures obtained from the costing system, in preparing quotations and estimates, and in spreading the work over the sections of the factory.

In many cases the statistics will act as a valuable check upon the costing figures, and vice versa.

Drawings which have been used in the execution of jobs, or preparation of special tools, must be filed away in a library, so that they will be available for reference.

All formulas and recipes must be entered in registers, full and precise details being given in every case. These registers ensure the products of the factory being uniform, and are looked upon by some manufacturers as their most valuable asset. The information contained in them is usually available only to the highest executives, and they are kept by a clerk who can be relied upon not to divulge any of the contents.

Unit Manufacture Records.

Manufacturers of vehicles, machines, instruments or appliances, the unit costs of which are considerable, usually keep a record showing the serial number, date of manufacture, design, type, equipment, and purchaser of every unit produced.

This record serves many purposes. It will be useful when the introduction of new models is being considered, as it shows the comparative success of previous and existing models. It will facilitate the execution of orders for spare parts and accessories, as it shows the design of the unit in each customer's hands. It will act as the basis of any inspection or other after-sales service programme, and it will enable the manufacturer to answer questions raised in correspondence by the users.

Manufacturers who do not keep such a record often find themselves compelled to send a representative to inspect an article before a question raised by the user can be answered.

Users of valuable vehicles, machines, instruments, and appliances will always assume that the manufacturer is familiar with the design and equipment of the article they have purchased from him, and will resent having to give a detailed description of it when asking for information or ordering spare parts and accessories.

In order to ensure the smooth working of the organization for which he is responsible, the authority of the works manager, within that organization, must be unquestionable.

There will, however, be many points upon which he will need to consult his subordinates collectively, and many matters which will call for discussion between all the factory executives.

Works Councils.

In most factories frequent meetings of a "works council" or "factory committee" are held, at which points connected with the work of the factory, such as wages, overtime, bonus rates, working hours, shifts, holidays, staff welfare conditions, equipment alterations, and the provision of jobs for idle sections are dealt with.

The works manager will usually find this practice more effective than consulting the individual executives.

A departmental manager is unlikely to make a suggestion from an ulterior or selfish motive in the presence of his associates, and valuable suggestions may come from an unexpected quarter.

If the various departments are to co-operate with one another in the way that is essential to the efficiency of the factory as a whole, they must know what one another are doing.

There are works managers who adopt the motto, "Never let your right hand know what your left hand is doing," in the belief that they will make their own positions more secure. In effect, they make their own tasks more arduous, because they are compelled to deal with minor questions which could easily be arranged between the departmental managers.

The Works Manager's Policy.

The departments get out of touch with the business as a whole, and adopt their own policies and practices, the factory machine becomes cumbersome and erratic in operation, frequent reorganizations and alterations in routine are necessary to keep the business together, and if a crisis arises the whole structure falls to the ground.

The wise works manager delegates every routine task to an assistant and leaves himself free to deal with innovations, anomalies, and emergencies. In the average factory these will keep him fully occupied.

CHAPTER XI

THE FACTORY AND ITS EQUIPMENT

A MANUFACTURER is not often called upon to select factory premises; the average manufacturer meets with this problem but once or twice in the course of his career.

In view of this, he should plan his factory with care and foresight, taking full advantage of the opportunity to lay out premises that will meet with the present and future requirements of his business.

There are three important questions which must be answered. First, "Where is the factory to be?" Second, "What size and type of building is required?" Third, "How is it to be equipped?"

The Choice of Site.

In many cases, the nature of the business will determine the district in which the factory is to be situated. A certain climatic condition may be necessary, as in the case of most of the textile industries; it may be necessary for the factory to be situated near to the source of supply of the raw materials, as in the case of the iron and steel industries; or to a seaport if the raw materials are imported.

In order to reduce transit costs as much as possible, the factory must, in any case, be in a central position in relation to the field of the manufacturer's activities. If the customers he serves are confined to a particular area, his factory should be in that area, unless there are reasons for this not being so.

All things being equal, it is better for the factory to be convenient to the customers' premises than to the sources of supply, as the cost of conveying raw materials in bulk from one place to another is less than that of conveying equivalent quantities of manufactured articles in small parcels over the same distance.

Essential Requirements.

In all cases the manufacturer must be assured of good transport facilities by road, rail or water, as the case may require, of a sufficient supply of labour, and the forms of power—gas, electricity, and water—which he will need.

Many manufacturers make the great mistake of building their factories in isolated parts of the country, being influenced by the low cost of land in such places.

It may be that the initial outlay on the factory premises can be reduced to the extent of thousands of pounds by choosing a site which is removed from areas which have already been developed, but the manufacturer must be careful not to impair the efficiency of his factory by " pioneering " in this respect.

The initial outlay on the factory is, after all, an investment. Land in an industrial area costs more because it is worth more.

Site Values Considered.

It has a more staple value than land in an outside area, can be more readily disposed of, if necessary, and can be mortgaged for a much larger percentage of the cost price. This last point is important to the manufacturer whose resources are slender, as it means that he need not find the whole of the difference in cost between the central site and the outlying site.

The benefits attendant upon a central position, a plentiful supply of skilled and unskilled labour, and an adequate power supply, will amply repay the manufacturer for the use of the additional capital invested, or offset the additional interest payable if the money is borrowed.

On the other hand, the manufacturer may be forced into seclusion in order to avoid restrictions upon his activities, or obnoxious neighbours. The noisy or offensive factory will be debarred from cities or residential districts, and the foodstuff manufacturer must keep away from soap factories and chemical works.

There is no doubt that the environment of the factory has a great effect upon the quality of certain classes of produce. Many manufacturers of foodstuffs feature in their advertising the fact that their factories are in congenial surroundings, making use of such slogans as : " Made in a garden village," and " From the factory in an orchard."

Effect of Environment on Quality of Products.

The amount of difficulty presented by the question, " What size and type of building is required ? " will depend upon the extent of the manufacturer's experience of his own business.

The manufacturer with an established factory who is arranging to move to new premises, or to open additional premises, will be

able to plan his new factory with assurance, arranging even the smallest details of the building and equipment before a brick is laid.

Removing to Larger Premises.

He will be guided by his experience in his old premises, reproducing the conditions of his old premises when they have served his purpose and looking for new ideas for those features which have not been satisfactory.

Departmental Suggestions.

If the business is a large one, each department in the old factory will submit its suggestions for that part of the new factory in which it is directly interested, and it will only be necessary to combine these parts to form the complete organization. Care must be taken to see that the claims made by each department are not extravagant, and that the new premises are apportioned between the departments in the correct ratio. This ratio is often exceedingly difficult to determine, especially if the departments have been cramped and congested in the old factory.

Under these circumstances, the proportion of floor space occupied by a department in the old factory cannot be taken as the proportion which it must be allotted in the new factory.

Very often the demand for additional floor space, which necessitates the removal of the factory, arises from the extension of one department alone.

Before the removal is decided upon, the demands of this department for more space may be met by allowing it to encroach upon that of other departments. These encroachments will not always be systematic or justified.

It is usually the departments which are managed by the least important officials which are called upon to surrender space. In many cases, the additional space required would be taken from a stores department rather than a manufacturing department, because the manager of a manufacturing department naturally has more say in the affairs of the factory than has the storekeeper.

The executive responsible for the laying out of a new factory must, therefore, study the abnormal conditions of the old one, and see that the interests of the less important departments are protected. He will plan the buildings and divide them up between the departments, so that the architect is only called upon to design the fabric of the buildings.

The manufacturer who is opening his first factory has a much more difficult task. In the absence of personal experience, he must obtain the assistance of outsiders in the planning of his factory; but, before he can go to outside advisers for assistance, he must determine just what amount and class of work he intends to carry out in his factory; the machinery and labour necessary, and the floor space which must be provided for it; the power required and its application; the quantity of material stores and finished stocks which will be carried, and the space, fixtures, and apparatus which must be provided for its accommodation and movement.

Planning a First Factory.

It will not do to obtain the factory premises first and arrange these matters afterwards, although this practice is often attempted.

The manufacturing programme should not have to be varied to meet with the deficiencies of the factory premises.

The folly of taking the factory first and arranging the manufacturing programme afterwards was demonstrated in many cases after the Great War. At that time a large number of factories, equipped for the production of war material, were thrown on the market and sold at prices which were ridiculously low in relation to their value.

Post-war Experience.

A number of these factories were taken over by speculators, who exploited the possibilities of the factories as they stood, making no attempt to alter the layout or equipment.

They endeavoured to obtain contracts for the classes of work which could be done by the factory, or to manufacture articles which could be produced with the equipment at their disposal.

In most of these cases it was found that the factories were not versatile enough to carry out extensive contracts, and that it was impossible to undertake successfully the manufacture of articles other than the war material for the production of which the factories were designed.

If a trader has had no previous experience of manufacturing, he may be unable to ascertain his requirements until he has carried out a practical test. He may also be unable to take the premises he considers most suitable, because he has insufficient capital.

Use of Temporary Premises.

In such cases the trader will be wise to obtain temporary premises of modest dimensions, and to commence with

the manufacture of his most distinctive lines, or the most important constituents of the article sold, the balance of his lines or constituents being produced by outside contractors.

A section of the temporary premises should be equipped for experimental purposes, so that the alternative methods of producing the lines not yet manufactured can be studied.

As the trader finds that he can produce additional lines or constituents to advantage in his own factory, he will take the work away from outside contractors, until he has the complete manufacturing programme and, if funds permit, is ready to lay out and equip a permanent factory.

In arranging the size of a factory, the estimates of floor space required should always be made on the generous side. Any arrangement which may cause cramping or congestion must be avoided at all costs, because the efficiency of the factory will be jeopardized if such conditions arise.

The rooms in the factory should be as large as possible. It is far better to have the manufacturing sections grouped in one large hall, than to have each section occupy a separate room.

Grouping of Manufacturing Sections.

If the former principle is adopted the factory will be more flexible, and it will be easier to re-arrange the machinery.

Ample space must always be allowed for increasing the equipment of the factory, and this space may be wasted if separate rooms are given to each section, especially if the machines used are large.

For example, if a room is to be provided for four presses, each of which calls for 500 sq. ft. of working space, and there is to be room for extension, i.e. the installation of a fifth press, 2,500 sq. ft. of floor space will be required.

In all probability, the 500 sq. ft. provided for extension could not be used for any other purpose, whereas if the machines were arranged in a large hall, it would be of general utility.

The type of factory most favoured by manufacturers of to-day is a one-story building, containing one large hall.

Types of Factory Construction.

Such buildings are eminently suitable for industries in which heavy machinery is required, or in which the materials and manufactured articles are cumbersome. Loads can be taken quickly from one part of the factory

to another on trucks or barrows, without the necessity for cranes, pulleys or lifts.

They will enable the utmost advantage to be taken of natural lighting, as glass roofs can be provided, and ventilation can be assisted by fanlights or sliding panels in the roof. One of the greatest objections to one-story buildings with glass roofs is that they are hot in summer and cold in winter, so that careful attention must be paid to the method of ventilation. In an extensive building, air cooling and air heating devices will be necessary.

Although one-story buildings are somewhat cheaper to erect, they naturally occupy considerably more land than buildings of several stories, a fact which prohibits their use in districts where land is valuable.

Buildings of several stories will be more suitable when the material or product is a grain, powder or liquid, as gravity conveyers of various kinds can then be used for carrying the loads from one section of the factory to another.

It goes without saying that if a manufacturer is in a position to purchase the freehold of his factory site he should do so, although this may call for the investment of a considerable sum of money, with a yield which is very small compared with that of money invested in the manufacturer's business.

Purchasing or Renting the Factory ?

A manufacturer paying £900 per annum rent for a factory might not consider it worth while to pay £15,000 for the freehold, since this investment would only give a return of 6 per cent on the capital tied up.

He should, however, take into account the fact that this yield can be increased by mortgaging the factory.

It is possible to mortgage freehold property for at least two-thirds of its value, at a rate of interest which is considerably lower than that paid on commercial loans.

If, in the above case, the manufacturer created a mortgage of £10,000 on the factory at 5 per cent per annum interest, he would reduce his investment to £5,000, and the return for this would be £400 (rental value £900, less mortgage interest £500).

This is equivalent to 8 per cent interest, a rate which might be attractive to him.

Apart from the yield on the capital invested, there are other

benefits to be derived from the ownership of the freehold. The freeholder is exempt from landlord's restrictions, can use the property as he thinks fit, carry out alterations, repairs, and decorations as and when he wishes and, most important of all, he will have the benefit of any increased value which his activities give to the premises.

Before buying property the manufacturer must make careful inquiry into its condition and the validity of the title.

Precautions in Buying Property.

It will usually be left to a solicitor to investigate the title and establish the legal ownership in favour of the vendor, but the manufacturer must give attention to any points which affect his use of the property. He must satisfy himself that there are no rights of way over the property which would hinder his operations, that the land is sufficiently sound to form the foundation of his factory, that the building line will give him sufficient floor space, and that there are no neighbours who could oppose the erection of the buildings because of their obstructing " ancient lights."

If he is buying buildings he must make sure that the drains are in order, that the walls are safe, and that the floors are strong enough to carry his machinery and stores.

He will be well advised to employ a surveyor to attend to these matters for him.

Leaseholds.

In some parts of the country freehold property is practically impossible to obtain, and the manufacturer who wishes to erect his own buildings will have to be content with a building lease.

' These are usually granted for a term of 99 years, the property reverting to the landlord at the end of that time.

The lessee will be called upon to erect buildings of a certain minimum value, to maintain these premises during the period of the lease, and either to surrender the property in good condition at the end of the tenancy, or to pay " dilapidations," i.e. the amount which the landlord would be called upon to spend in order to make the property fit for reletting.

The average manufacturer would consider 99 years a sufficient tenure, and look upon such a lease as an attractive alternative to a freehold, provided that the ground rent was reasonable and there were no objectionable restrictions on the use of the property.

He should, however, be very chary of taking over the residue of such a lease, since in doing so he might incur a heavy liability for dilapidations, out of proportion to the benefits which he can derive from the property in the time at his disposal. It is quite common for a lessee to pay a sum of money to another person in order to induce him to take over the tail-end of a lease and the responsibility attaching to it.

The manufacturer who has insufficient capital to purchase a freehold or leasehold must be content with a temporary tenancy.

Short Tenancies.

In this event he should secure as long a period of occupation as possible. Agreements for the letting of factories usually run for 7, 14, or 21 years.

The manufacturer who wishes to erect his own factory as soon as he is in a position to do so should endeavour to acquire a 21 years' tenancy, with the option of determining this at the end of 7 or 14 years.

If this is refused he should obtain power to assign the tenancy to a responsible tenant. There will then be less likelihood of his having to occupy the premises when they have ceased to meet with his requirements.

The chief objection to a short tenancy is that the tenant cannot make any extensive alterations or install any fixtures of a permanent nature, so that a manufacturer would be considerably restricted in his use of the premises.

Fixtures in Temporary Premises.

Great care must be taken in equipping temporary premises, because " fixtures " will become part of the premises, and must be left for the landlord at the termination of the tenancy.

The expression " fixture " is somewhat difficult to define. It has been held in the courts that a partition secured with nails is a fixture, but that one secured with screws is not.

To avoid controversy, nothing which it is desired to remove at the end of the tenancy should be fixed to walls, ceilings or floors. Truck rails in temporary premises should be laid on sleepers, and shelving should be installed in self-supporting stacks.

The occupier of temporary premises must be careful what repairs he undertakes to do. Since the War the cost of repairs to premises has enormously increased, and tenants' covenants to repair have become more stringent and in many cases onerous.

The tenancy agreement will usually call upon the tenant to " paint, grain, varnish, paper, whitewash, and cleanse the premises and the fences, fixtures, fittings, and appurtenances thereto," but the prospective tenant should avoid covenanting to " amend, renew, uphold, support, and maintain the drains, sewers, water courses, and walls," as he thus might incur expenses out of all proportion to his interest in the premises.

Repairs and the Tenancy Agreement.

Another important matter is the provision for reinstatement of the premises after a fire. The landlord will, in most cases, effect an insurance on the premises, and recover from the tenant the premiums paid. If this is the case the agreement should call upon the landlord, in the event of the occurrence of a fire, to spend all moneys received from the insurance company in reinstating or rebuilding the property at once and, should the insurance moneys be insufficient for this purpose, to make good the deficiency out of his own pocket.

When he has secured his premises, the manufacturer must give his attention to their equipment, the first items for consideration being the lighting, heating, sanitation, and ventilation appliances.

In all these matters important progress has been made within the last few years, and the manufacturer will be wise to take advantage of the latest developments. Economy in this direction is unwise, as the efficiency of the factory will be affected to a considerable extent by the conditions under which the employees work.

Artificial lighting, during the daytime, should be avoided as much as possible, by the provision of ample windows and ceiling lights and the careful arrangement of the interior of the factory.

Lighting Arrangements.

Stacks of material or shelving should not be raised to such a height that they will obscure the light, and when partitions are used the upper part of them should be of glass, opaque if necessary.

The artificial lighting should be indirect, free from glare or flickering, and evenly distributed to avoid shadows.

Powerful ceiling lamps are preferable to a large number of small lamps directly over the work, but where the latter are necessary they should be shaded to protect the eyes of the workers.

Flickering lighting is often found in factories, especially those which have their own electric plant, and the trouble can usually be ascribed to an erratic supply or defective connections. This imposes a terrific strain upon the workers, and should be eliminated by a frequent overhaul of the electrical system.

Alternative Supply for Emergencies.

Whenever possible an alternative source of electrical supply should be available as a stand-by in case of emergency, particularly if electricity is used for power as well as lighting. A failure of the local service will not then cause the suspension of the factory operations.

In country districts only one source of electric supply will be available, but gas will serve the purpose of emergency lighting, and a gas engine can be used to run the machinery when necessary.

The planning of an efficient heating system is one of the most difficult tasks in connection with the equipment of a factory, and expert advice should be obtained. The situation and aspect of the building, its type and the class of materials used in its construction, the temperature required, and the amount of heat generated by the boilers, machines, etc., used in the manufacturing processes, must all be closely studied.

The Heating System : Hot Water or Steam ?

The majority of factories use either hot water heating or steam heating. The principles and apparatus of these two systems are very similar, and they are both economical when applied to a building of any size.

A boiler will be required for producing hot water or steam, as the case may be, pipes to conduct the hot water or steam to the parts of the factory which are to be heated, and radiators at each heating point.

With a hot water system circulation is obtained by running pipes from the top of the boiler to the radiators, and from the radiators back to the bottom of the boiler. Hot water is lighter than cold water and is, therefore, forced to rise, while the cold water drops and is heated again.

With a steam system the steam rises from the boiler directly to the highest radiator. As the steam gives off its heat it condenses into water and this water is carried back to the boiler by gravity, the pipes connecting the radiators being arranged in a gradual slope.

Of the two alternatives, the hot water system is perhaps the more efficient, as the heat distributed is more uniform.

The disadvantages of steam heating are that the heat is given off very quickly after the steam leaves the boiler, and that air is likely to collect in the pipes and impede circulation.

Hot water or steam pipes must be secured or laid in a way that will allow room for expansion, both in circumference and length, when they become hot.

Slow Combustion Stoves.

In some factories separate slow combustion stoves are placed in each section, but this method of heating is not recommended for two reasons: in the first place, it means that the time of a number of employees is taken up with tending the stoves, and in the second place, there is a considerable danger of fire attendant upon their use.

If slow combustion stoves must be used, they should be placed upon large trays of thick metal and the stove pipes should be kept away from partitions, beams, rafters, and other woodwork. It is not sufficient to place asbestos packing between the pipe and the woodwork, because this packing is liable to perish and fall away.

Sanitation and Ventilation.

On the questions of sanitation and ventilation the manufacturer will have to meet the wishes of the local government officials, who will state their requirements when the plans of the factory are submitted for approval. These requirements will depend to a great extent upon the number of persons employed and the manufacturer should be careful to provide for his maximum staff at the time of first laying out the factory. Manufacturers who understate the number of persons that will be employed in order to reduce their initial outlay upon sanitation and ventilation work, will usually find this policy expensive in the long run. If inspectors subsequently visit the factory and call for additional work to be carried out, as is only to be expected, the whole layout and organization of the factory may have to be planned again.

Water Supply.

With a large factory it may be an advantage to sink wells rather than obtain water from the local authority. The practice of charging for water at a rate which represents a percentage of the rental value of the property is unfair to the occupier of extensive premises who makes little use of water, as is the case with many manufacturers. The saving in water rate which can be effected will often pay in a few years for the installation of the necessary apparatus.

Fire Fighting Appliances.

Of recent years considerable attention has been devoted to fire fighting appliances. Substantial rebates on fire insurance premiums can be obtained if special precautions are taken, so that the manufacturer can consider expenditure on these as in the nature of an investment. If hoses or fire extinguishers are installed the staff should be instructed in their use, and fire drills should be arranged to establish the facts that the apparatus is efficient and that the staff detailed for fire fighting knows its duties.

In factories where the danger of fire is considerable, automatic extinguishers should be installed. The type in common use is a ceiling fitting, with a capsule which is particularly sensitive to heat. When the temperature rises to an abnormal extent the capsule releases the fluid contained in or laid to the sprinkler, and this fluid is automatically spread over the space below.

First-Aid Equipment.

The manufacturer is compelled by law to keep a prescribed quantity of first-aid equipment in each section of the factory, and to display a notice showing the name of the employee responsible for the equipment. The dressings, lotions, etc., specified are only suitable for the treatment of accident cases, but the manufacturer will usually provide drugs and medicines for the treatment of sudden illnesses as well, especially if the work carried on is conducive to a particular ailment.

Cleaning the Factory.

Many manufactuers pay scant attention to the cleaning of their premises, but this is a very important matter. Over half of the fires occurring in factories are attributed to the ignition of waste which has been left about the workrooms. Where waste materials are left over from processes they should be enclosed in crates, bins or sacks at the earliest opportunity. If the waste material is bulky, like paper, a baling press should be installed, so that it can be compressed into parcels which are easily handled.

Dust is injurious to workers, machines, and products and must not be allowed to accumulate. Its removal is best effected by the use of vacuum cleaners, since sweeping will often do more harm than good by raising the dust. Where metal dust is created by processes, or delicate machinery is employed, the floors should be sprinkled with water at frequent intervals during the day.

The classes of equipment already dealt with are common to every

factory. The distinctive equipment will be the productive machinery and its adjuncts.

In selecting his productive machinery the manufacturer will be determining the nature of his products. Machinery, as opposed to hand work, increases production and reduces costs, but it places a limit upon the operations of the factory. The manufacturer who relies upon machinery is restricted to the work which the machines can do.

Plant Selection: Machinery v. Manual Labour.

In some cases the choice between machinery and manual labour is an exceedingly difficult one to make. With simple operations men cannot compete with machines, but if versatile production or specialized work is called for, the manufacturer may handicap himself by relying too much on machinery and not having a sufficient number of skilled craftsmen.

On the other hand, if a craftsman can be made the master of a machine which will take the drudgery out of his work and leave him free to exercise his skill, his employer will be well repaid for the capital investment in the machine.

It is impossible to lay down hard and fast rules for the selection of machinery, but there are certain principles which apply to most cases.

Before introducing a machine into the factory, the manufacturer must satisfy himself that it will fit in with the manufacturing programme and work in conjunction with the other equipment, unless it is an innovation of sufficient importance to justify a reorganization.

The use of the machine must not necessitate a reduction in the quality of the manufacturer's products. If makeshifts and substitutes must be resorted to in order to bring the work within the scope of the machine, its installation is bound to affect the prestige of the user.

Generally speaking, it does not pay to pioneer in the use of particular machines, and the manufacturer who cannot afford to invest in experiments will be well advised to restrict his purchases to machines which have stood practical tests in other factories.

Buy Standard Machines: Avoid Experiments.

In buying a machine which is in general use in the industry, the manufacturer will be assured of its efficiency, of supplies of spare parts and accessories, and of skilled operators, if these are necessary.

The manufacturer who purchases a machine which is still in the experimental stage is participating in a venture, and may lose heavily if the machine is not a commercial success, however brilliant the invention may be.

In the same way there is a considerable element of risk in buying imported machinery, unless this machinery is backed by a local organization, which will supply spare parts and undertake repair work and the training of operators when necessary.

The manufacturer should purchase new machines equipped to meet his particular requirements. The purchase of second-hand machinery is very often a doubtful measure of economy, because a saving in initial outlay may easily be offset by an increased cost of maintenance and operation, especially if the machine is of an obsolete pattern or does not exactly meet the manufacturer's requirements. Before investing in second-hand machinery the manufacturer should make sure that he is not precluding himself from modern improvements and developments, which are embodied in more recent models, and that he can obtain whatever supply parts or maintenance service he will require.

New v. Second-hand Machinery.

It goes without saying that the manufacturer must keep his machinery up to date, and take advantage of every invention which is successfully applied in his industry, as soon as the machine or appliance has passed the experimental stage.

The manufacturer who retains a machine which has become obsolete, through the development of improvements or new inventions, may be handicapping or injuring his business. He has actually suffered a capital loss, and will be well advised to cut this loss by selling the machine at the best price he can, and installing one which embodies the new development.

Obsolescence.

In buying expensive machinery the manufacturer should study the policies of the suppliers with regard to the introduction of new features.

The machinery supplier who wishes to introduce a new feature has a choice of two methods. He can either develop the new feature as a separate unit, so that it can be fitted to existing machines, or produce a new " model " of machine embodying the feature, making all existing models obsolete.

When the first method is adopted, a user can keep his machine up to date by purchasing the parts which embody the new features, as they are brought out. When the second method is adopted, a user who pays, say, £600 for a machine, may find that it has a market value of only £200 after a few months, because the introduction of a new model has made his machine obsolete.

To protect his capital invested in machinery the manufacturer should, therefore, avoid dealing with machinery suppliers who do not consider the interests of their customers when introducing new features.

If boilers, gas engines, or electrical power plants are installed, they should be of sufficient capacity to meet not only the immediate requirements of the factory, but also the extensions which may be made in the future. If an installation of additional machinery calls for an increase in the capacity of the power plant, it will not do for the whole factory to be put out of action while the boiler, engine, or dynamo is exchanged.

Power Plant Capacity.

At one time it was the general practice for machines to be run from overhead shafting, driven by a central power station. In most modern factories, however, shafting has been abolished, and each machine is driven by a separate electric motor. This latter arrangement may necessitate a greater initial expenditure, but it offers distinct advantages. If the whole factory is working, the amount of power consumed is reduced, because the drive is more direct, and the heavy loss attendant upon transmission by shafting is avoided. If only one section of the factory is working, all the separate motors in the other sections can be shut off, whereas with shafting the whole driving gear will have to be set in motion to operate one machine.

Separate Electric Motors.

Apart from questions of economy, shafting and belting are objectionable, because they take up considerable room, obscure the light, are noisy, and in some cases dangerous.

Light machines can be more easily moved from one place in the factory to another if they are driven by separate electric motors, than if they are driven from shafting.

Disadvantages of Shafting and Belting.

When each machine is driven by a separate motor, breakdowns

(other than failures of the power supply) will be confined to single machines. If the motors used are of standard size and type, a number of them can be kept in stock against such emergencies. A defective motor can then be replaced by a stand-by motor in a few minutes, without calling in outside assistance.

If none of the manufacturer's staff can undertake repair work in connection with the machinery, he should enter into an arrangement with a local engineer for immediate service in the event of a breakdown, and the foremen should be instructed to telephone for this engineer in any emergency.

Breakdown Service.

Machines should not be kept idle while requests for repair work to be arranged for are passed through the office.

It goes without saying that the factory and its contents should be insured, to the full extent of their value, against loss or damage by fire or any other risks to which they are subject.

Factory and Plant Insurance.

The manufacturer should keep in close touch with the insurance company, advising them of all developments or events which affect their interests, and review the insurance position at frequent intervals to see that his property is adequately covered.

He must also be sure that, in the event of the occurrence of a fire, he could support his claim in accordance with the conditions of the insurance policy. These conditions will usually insist upon his supplying a detailed schedule of the articles destroyed or damaged, with the value of each article at the time of the fire.

In order to have this information available, the manufacturer will need to maintain a complete schedule of the whole of his factory equipment, stating the description, location, date of purchase, cost price, and current value of each item.

The Schedule of Equipment.

This schedule must be adjusted every time an alteration is made in the equipment, the values must be revised at frequent intervals, and the value of the total equipment must be calculated and compared with the amount covered by the insurance policy.

In many cases these matters are attended to by outside experts —professional valuers who prepare detailed inventories of the manufacturer's property, and place a value against each item, revising the inventories from time to time as occasion demands.

Professional Valuations.

Insurance companies naturally have a great respect for a valuer of repute, and will accept his detailed inventories as the basis of claims for compensation.

The value of the factory and its equipment as shown by the books of account cannot be taken as a basis in effecting insurances or making claims. If the property has been in the hands of the manufacturer for a considerable time, and depreciation has been written off regularly, it will stand on the books at a figure which is far below its value to the manufacturer.

In preparing balance sheets, the accountant will usually endeavour to reduce the value of the assets to their " break-up " value, i.e. the amount which they would fetch if disposed of as " second-hand." Only in very exceptional cases will he increase the book value of the assets, whatever appreciation may have taken place in their market value.

The manufacturer who is claiming compensation for loss through fire will certainly not be satisfied with the " break-up " value of his property. He will expect an amount which will approximate to his expenditure on reinstating the property and will, therefore, require more than the cost price of any article which has increased in market value since the time of his purchase.

Reinstatement Value the Basis of Claim.

If the manufacturer's premises are rented, and he is liable for rent during the period of reinstatement after a fire, this " loss of rent " should be covered by his fire insurance policy.

It will be understood that in the event of a fire, the manufacturer stands to lose a sum considerably greater than the value of the property damaged.

A slight fire in one section of the factory—the power house, for example—may stop all manufacturing operations for several weeks, while the establishment and overhead expenses still have to be met, and may be increased by the confusion consequent upon the fire.

In view of this, it may be advisable for the manufacturer to effect an insurance against " loss of profits," or loss contingent upon a fire. There are two classes of " loss of profits " or " consequential loss " policies. With the first, the older class, the " loss of profits " insurance is supplementary to the fire insurance, and the insurance

Loss of Profits Policies.

company undertakes to pay, in addition to the amount payable in respect of property destroyed or damaged, a previously determined percentage of this amount to cover loss of profits, without regard to the actual loss sustained by the manufacturer. For example, if the amount payable in respect of damage to property by fire was £5,000, and the loss of profits insurance was for 10 per cent of the fire loss, the manufacturer would receive £500 in respect of this, whether his actual consequential loss was £100 or £1,000.

With the second, the modern class, the manufacturer insures against loss of net profit, and standing charges, up to an agreed maximum, and for an agreed period after a fire, and the insurance company pays, within these limits, the actual loss attributable to the fire, as established by an independent accountant.

Of the two classes of insurance, the second is unquestionably the better. The first method is in the nature of a gamble, and will not appeal to the manufacturer who seeks to protect himself from losses which may cripple his business for years.

CHAPTER XII

THE STORAGE AND DELIVERY OF GOODS

THE arrangements for the storage and handling of raw material and partly manufactured and finished stocks must be very carefully considered, as the smooth running of the factory will depend to a great extent upon the efficiency of the stores department.

There are two essentials to stores efficiency—convenience and security.

Position of the Stores.

The position of the space allocated to the stores is a matter of prime importance, because the conveyance of goods within the factory must be reduced to a minimum, and production must not be hindered by the passage of materials. In view of this, the stores should be near to one of the factory entrances, so that materials can be taken in and goods sent out without their having to traverse other sections of the factory.

If the turnover is large, it may be advisable to divide the stores into two sections, one for raw materials and the other for finished products, and to arrange for a goods entrance and a goods exit to the factory, in order to avoid congestion.

The raw material store would, of course, be adjacent to the goods entrance, and the finished products store adjacent to the goods exit.

Essential Precautions Against Loss and Damage.

The stores must be divided from the rest of the factory in such a way that a close watch can be kept upon the goods passing in and out. If the stock is spread over the factory, it will be very difficult to guard against loss through theft, or book differences through receipts or issues being omitted from, or wrongly recorded on, the stock accounts. It is also necessary to protect the goods from damage or deterioration through heat, damp, dirt, breakage, or any other risk to which they may be subject. The stores must, therefore, be dry and well removed from boilers, there must be plenty of light in order to facilitate working and the examination of the stocks, and the goods should, as far as possible, be kept off the floor.

Heavy articles or raw materials in bulk should be placed on low platforms, in the nature of battens, so that air can pass underneath and the cleaning is facilitated.

Each description of stock must be accessible, and there must be no question of one article having to be moved in order to get at another. The layout of the space will have to be carefully planned, by determining the maximum quantity of each article which will be stocked, and the amount of space which will be required for its accommodation. It will also be necessary to decide whether the article can best be stored in bays, bins, racks, or boxes.

Layout.

In actual practice, it is usually found convenient to store the heavy or bulky raw materials in bays, formed by running partitions out at right angles from the walls, and the lighter articles in racks or tiers of shelving occupying the central positions.

Unless the building is lofty or has a glass roof, neither the partitions of the bays nor the stacks of shelving should be more than 6 ft. high, otherwise the light will be obscured.

Metal shelving will be found more serviceable than wood, although with the former material the initial outlay will be greater.

The type of metal shelving in common use is made in standardized and interchangeable units, so that the racks can be re-arranged by the adjustment of a few bolts and nuts. Metal shelving has many other advantages over wood. It is stronger, it takes up less space in itself, it can be cleaned more easily, it lasts much longer, and there is less danger of fire.

Standardized Shelving.

Bins can be used for grains, powders, and other materials consisting of small particles. These bins should be fitted with lids, in order to prevent deterioration of the material through dirt or exposure.

For small engineering and other parts, drawers should be used. It is necessary to mark the drawer with the name or number of the part which it contains, and it may be an advantage to fix one of the actual parts to the outside of the drawer.

Small Parts Storage.

The nests of drawers used for this class of work should be in metal with roller bearings, so that they will run easily with the heaviest weight, and can be pulled out to the fullest extent without tipping.

To facilitate handling and cleanliness, loose material should be avoided as much as possible. The slightly increased cost which may be incurred in purchasing materials in sacks, crates, cases or other packings of manageable size, will be offset by the greater ease with which they can be handled, and the waste which will be avoided.

The materials should be grouped in accordance with the processes of manufacture. If several materials are required for the production of one line, they should be stored close together, since supplies of each will usually be called for at the same time.

The Grouping of Materials

This method will be found much more serviceable than that of arranging the materials according to their nature, unless this nature demands special conditions of storage.

With engineering work there is often a certain amount of overlapping in the stocks. Small parts, bolts, nuts, screws, etc., will be required in the preparation of a number of sub-assemblies, and it may be advantageous in such cases to group the stocks according to the sub-assemblies, and to spread the small parts commonly used over the groups.

This will not only facilitate the execution of requisitions, but will also make it easier for the storekeeper to watch his stocks with a view to replenishing them.

It may mean that some small parts will be found in a large number of places, but they can easily be totalled at stock-taking times, if this is considered necessary.

Most engineers describe the sub-assemblies by letters, and the component parts by numbers, and work upon the basis of a catalogue, which gives against each part number a full description of the part and an illustration. If this is the case, parts used for a number of purposes should be given a corresponding number of part numbers. The part numbers can then run according to the grouping, but the catalogue should give the alternative part numbers, so that the supplies can be taken from another group when necessary.

The Parts Catalogue.

For example, in a motor car factory, engine parts might be lettered " A," chassis parts " B," transmission parts " C," and so on. An entry in the catalogue might read : " B34, bolt fastening B33 and B35 (identical with A26 and C51)."

It is imperative that all incoming goods be taken straight to the stores department. There will be no difficulty in this with parcels of any size, as the carriers can be instructed to deliver these to the storekeeper. There may, however, be instances of goods arriving by post, in letters or small parcels which are opened in the office. Articles arriving in this way should be sent to the storekeeper at the first opportunity, accompanied by a note describing the articles and stating the name of the sender, unless they were covered by a supplier's advice note.

Receiving Goods into Stores.

Machinery suppliers who continually receive small parts for repair must pay particular attention to this matter, otherwise customers may be annoyed by their parts being mislaid or confused with those sent in by other customers.

The storekeeper must be notified of all purchases as soon as the order has been given to the supplier, so that he can arrange for the reception and accommodation of the goods. This notification is usually effected by sending to the storekeeper a copy of each order issued by the purchase department. The storekeeper's copy should state the use to which the goods are to be put, if they are bought for a specific purpose, or "stock," if they are purchased against future requirements. Goods could easily be mislaid in a factory of any size, if this advice were not given, especially if there were sub-stores or departmental stores.

Stores Notification of Purchases.

If goods are received unexpectedly, the storekeeper should notify the purchase department, giving the sender's name and a description of the goods. On no account should the goods be used, or taken into stock, until the purchase department has authorized their acceptance.

Unexpected Consignments: Authority for Acceptance.

In some business houses the storekeepers are instructed to apply to the buyers by telephone for permission to accept goods which are received unexpectedly, and to refuse to accept them if the official order cannot be traced. This will act as a check upon departments which attempt to obtain supplies without the knowledge of the purchase department, and upon firms which deliver goods without instructions, on the off chance of their being accepted.

The storekeeper should prepare a daily list, in triplicate, giving

brief particulars of all goods received. One copy should be sent to the works manager or progress department, one to the purchase department, and the other retained by the storekeeper.

The Storekeeper's Daily List of Goods Received.

This list will enable the works manager, or progress department, to arrange for the disposal of any goods which require special treatment, as in the case of material required urgently for use on a job, or customers' property sent in for repair.

The purchase department will treat its copy of the list as a preliminary announcement of the delivery of the goods, pending receipt of the inspector's report. It will be understood that in many cases goods cannot be inspected on the day they are received.

The inspector will examine the goods, and report to the purchase department any shortages or discrepancies. The inspector's position is one of considerable responsibility, since his reports will be taken as evidence of the way in which the suppliers carry out their instructions, and as justification for the payment of their invoices.

His work will call for considerable technical knowledge, and his honesty and loyalty should be beyond question. In order to prevent collusion between suppliers and inspectors, the inspectors in large business houses are not allowed to deal with the suppliers in any way, and are changed at frequent intervals. The amount of inspection work will rarely call for the undivided attention of an official, and it will often be necessary for different classes of material to be examined by different inspectors.

Work of the Stores Inspector.

In any case, the storekeeper should not be relied upon to inspect the incoming goods, as his position must be of a permanent nature, and he will be in close touch with the suppliers through their employees or agents.

With some classes of business, materials are purchased in units different from those in which they are issued to the manufacturing departments or to customers. Goods may be purchased by measurement or weight and issued in dozens, or vice versa. Under these circumstances the inspector will be called upon to supervise the counting, weighing or measuring of the materials, and to certify the quantity figures which are to be entered in the stock records.

It should not be left to the stock clerks to convert the quantities by calculation or estimate, as this practice may give rise to differences between the actual stocks and the balances on the stock records.

When perishable goods are stocked the packages must be marked with the date of delivery, so that it will be an easy matter for the storekeeper to distinguish the old stock, which must be used first.

Goods purchased for a specific purpose, reserved for customers, obsolete, damaged, incomplete, and unsaleable articles should be labelled accordingly to prevent their being misused.

Customers' Property, Returned for Repair. Customers' property, returned for repair, should be labelled with the customer's name and address, and full particulars of the work to be done, and kept apart from the stock. It is important that such articles be labelled as soon as they are received, and numbered in order of receipt.

There will then be no excuse for the customer's wishes not being carried out, for repairs being executed other than in rotation, or for customer's property being taken into stock, or scrapped.

It will be one of the most important duties of the storekeeper to call for fresh supplies when stocks are becoming exhausted. If supplies must be obtained from outside sources,

Obtaining Fresh Supplies. advice must be given to the purchase department, and if they must be prepared in the factory, application must be made to the works manager or progress department.

It cannot, however, be left to the storekeeper to decide whether supplies will be obtained from outside sources or prepared in the factory, so that where it is necessary to make this decision, the storekeeper's applications should be sent to the works manager or progress department for consideration.

To prevent overstocking and to ensure applications being made in good time, it is customary to fix maximum and minimum limits to the stock of each description of goods. The store-

Maximum and Minimum Stock Limits. keeper will then apply for a further supply as soon as the stock on hand approaches the prescribed minimum, ordering a quantity which will bring the stock up to the maximum. In making his applications, he will

state the maximum and minimum limits, as well as the stock on hand.

The materials for use in production will be used against requisition forms, stating the precise quantities required and the job upon which they will be used. These forms should be signed by the foreman of the department or section from which they emanate.

Issue of Material.

It may be advisable for some manufacturing departments to carry a certain amount of material as stock on hand, so that they do not have to send to the main stores every time material is required, and the work of transporting is lightened.

In such cases the sub-stores, or departmental stores, will work upon the same lines as the main or bulk stores, keeping their stocks of each material within prescribed maximum and minimum limits, and declaring these limits, and the actual stock on hand, each time they requisition further supplies from the main stores.

Sub-Stores Routine.

The main stores will charge the material issued in this way to the respective manufacturing departments and, if a costing system is in operation, these departments will be required to submit accounts showing the quantities used on the various jobs, and particulars of any waste or spoilage.

The sub-stores should not be allowed to requisition material from outside suppliers, or to take material into their stock unless and until it has passed through the hands of the main stores, or receiving stores, and has been inspected and reported to the office.

In a factory of any size the work of transporting material from the stores to the work rooms will be considerable. A number of porters will be required, and they should be under the control of the storekeeper. It would be a waste of valuable time if the men working on production were called upon to fetch their own material, and would inflict hardship upon men who were paid according to output, that is to say, when piece-work or production bonus schemes were in operation.

Internal Transport of Material.

Because of this, many trade unions will not allow their members to fetch material.

The labour required for the transportation of material should be

reduced to the minimum by the use of mechanical appliances. Pneumatic tubes are frequently used to carry the requisitions from the manufacturing departments to the material stores.

At one time it was usual for an extensive factory to be equipped with a system of miniature railway tracks, trucks propelled by hand or by small engines being used to convey the material from one section to another.

In modern factories these systems have been superseded by mobile trucks running independently of tracks. The trackless truck has all the advantages over a rail truck that a motor omnibus has over a tramway car. It can be taken to any part of the factory and left in the exact position desired; it can pass another truck going in the same direction or in an opposite direction; and it can be stored away in any odd corner when not in use.

The Modern Trackless Truck.

The wheels of trackless trucks usually run on roller bearings, so that they are very easily pushed or pulled by hand, but electrically propelled trucks can be used when the expense is justified.

The lifting or elevating truck is becoming very popular, and is in general use in many industries. These trucks will pick up a load from one part of the factory and deposit it in another, no loading or unloading being required. In order to make this possible, every load must be placed upon a wooden platform, built to fit over the flat surface of the lifting truck.

Elevating Trucks.

When it is necessary to move a load, the lifting truck is pushed under the platform, and a lever is pulled which raises the surface of the lifting truck, and lifts the platform bearing the load off its feet.

With this system in use a large number of wooden platforms will be required, as all goods must be kept off the floor, but only a few lifting trucks will be necessary. One truck will do the conveying work of a factory of considerable size. This system is particularly suitable to an engineering works in which a heavy part must be taken round a number of departments, a certain amount of work being done in each, as from the time a rough casting leaves the material stores, to the time the finished part is taken back into stores, it will remain on one platform.

When bulky loads must be carried across the works, and floor space must be economized, overhead conveyers can be used with advantage. These overhead systems are to be seen in most large newspaper works, where the rolls of paper, weighing up to half a ton, are carried from the paper store directly to a point immediately over the position they will occupy on the press.

Overhead Conveyers

An overhead runway need not call for heavy outlay; gravity can often be relied upon to carry the loads across the factory, so that cables and motors are unnecessary.

It goes without saying that an overhead conveyer cannot be used for heavy loads unless the building in which it is installed is of sound construction.

The goods issued from stores for dispatch to customers will be given out against advice notes, stating the name and address of the customer and the precise quantities to be issued. These advice notes will be prepared in sets in the office, and the storekeeper will retain one copy out of each set as his receipt for the goods.

Delivery Advice Notes.

If he is responsible for the dispatch of the goods, he will send one copy of the advice note with them to the customer, and return another to the office as the basis of the charge to the customer. This procedure is fully explained in the chapter on "Handling Customers' Orders."

If there is a separate "dispatch department," the storekeeper will issue the goods to this department in exchange for a copy of the covering advice note, and the dispatch department will be responsible for notifying the customer and the office of the goods having been dispatched.

In order to lighten the storekeeper's work, it is a common practice for a summary of each batch of advice notes to be prepared by the dispatch department. A sheet of analysis paper will be headed with the names or numbers of the various lines, and the advice note numbers will be entered in a column on the left-hand side.

The Advice Notes Summary: A Time-Saving System.

The quantities required of each line will be entered under the corresponding headings, and the columns will be totalled. The total quantities of each line will then be requisitioned from the storekeeper, and the dispatch department

will make the goods up into parcels for the customers. This procedure will save a considerable amount of the storekeeper's time, as he will be dealing with larger quantities at a time, and it will act as a check on the quantities prepared for dispatch, as any goods packed short, or over, will be disclosed by a corresponding surplus, or shortage, when the batch of parcels is completed ready for dispatch.

Generally speaking, the storekeeper should be relieved of clerical work, in order to enable him to give his undivided attention to his stocks.

At the same time it may be necessary to maintain a perpetual inventory or stock record, which will show the balance of each article on hand at any time.

The Stock Record.

Where a costing system is in operation this stock record will be an important unit of the cost records, and will be kept by clerks in the costing office, being written up from the stores' copies of the orders to suppliers, works requisitions, and advice notes to customers. A form of stock record sheet is illustrated on page 223.

In some cases, even when a stock record is maintained in the costing office, the storekeeper is called upon to keep a perpetual inventory of his stocks.

The Perpetual Inventory: Storekeeper's Bin Cards.

This record usually takes the form of cards, one for each description of stock, hung up near or placed in each bay, bin, or section of shelving. Every time an article is added to, or taken from, stock the storekeeper marks the appropriate card with the number of the supplies order, works requisition or customer's advice note, the quantity of stock moved in or out, and the balance of stock remaining after the adjustment.

The cards should be printed, and in the simplest possible form, the type illustrated on the opposite page being recommended. Indelible pencil should be used by the storekeeper in making his entries.

With these cards in use the storekeeper will be able to walk round his stores at odd moments, and check the physical stock balances with the corresponding cards, while, if a stock record is kept in the costing office, the storekeeper's cards will be a valuable check upon this, and vice versa.

STOREKEEPER'S BIN CARD

Bay *23* Bin *7*

Part No. .. *K 117* .

Maximum . *100* Minimum *20* ..

	Reference.	Quantity	Balance.
IN OUT	*Brought forward*		*60*
~~IN~~ OUT	*11,726*	*10*	*50*
~~IN~~ OUT	*11,839*	*20*	*30*
~~IN~~ OUT	*12,017*	*10*	*20*
IN ~~OUT~~	*S 3,971*	*80*	*100*
~~IN~~ OUT	*12,136*	*10*	*90*
~~IN~~ OUT	*12,218*	*30*	*60*
~~IN~~ OUT	*12,400*	*20*	*40*
~~IN~~ OUT	*12 616*	*20*	*20*
IN ~~OUT~~	*T 107*	*80*	*100*
~~IN~~ OUT	*13,112*	*10*	*90*
IN OUT			
IN OUT			
IN OUT			

If the onus of applying for further supplies of stock is placed upon the storekeeper, his cards should show the maximum and minimum limits placed upon the stock of each line. There will then be less danger of his allowing a stock balance to fall below the minimum, or of his applying for supplies in excess of the maximum.

Obsolete, incomplete, damaged, or unsaleable parts should be so described on the storekeeper's cards, but care should be taken to see that no machine tools or other articles standing on capital accounts in the firm's books are recorded in this way.

In other words, the storekeeper's cards must be a sufficiently accurate record of the stock to be taken as the basis of the calculations made at times of stock-taking. If these cards are properly kept, and are compared with the actual stocks at frequent intervals, it should not be necessary for the complete stocks to be counted when it is desired to find their total value.

The stock should be insured against loss or damage by fire up to its full value, that is to say, the amount which would have to be expended in order to replace the whole of it.

Stock Valuation for Fire Insurance.

If the trader pays carriage inwards on any of the materials or merchandise he purchases, the amount of his fire insurance should cover this carriage, in addition to the purchase price of the goods. This point is of special importance to the trader who buys foreign goods and pays the freight and other expenses of bringing them to his country, as in such cases the transit costs may constitute a heavy proportion of the value of the goods.

The fire insurance policy must be extended to cover any goods "held on trust" by the trader. The common form of policy is worded to cover "the property of the insured," and the holder would not obtain compensation for the loss of, or damage to, any article, unless he could prove that that article actually belonged to him at the time of the fire. Traders who handle quantities of customers' property in the conduct of their business, for example, printers, and engineers undertaking repair work, risk incurring a heavy loss if they do not take this precaution. In such cases, the policy should be worded to cover "the property of the insured, and property for which he is responsible."

Cover for Goods "Held on Trust."

When the trader occupies premises in a congested district, or part of a large building, he should insure against the effects of a fire in his neighbours' premises.

A Serious Risk.

It is a common thing for a trader's stock and equipment to be seriously damaged by water, heat or smoke in consequence of a fire in adjoining premises, and yet for him to be unable to claim compensation under his fire insurance policy, because the fire did not occur in his own premises.

The conveyance of goods from the stores to the customer is a very important matter. It represents one operation and should, therefore, be carried out by one "dispatch" or "forwarding" department.

Work of the Dispatch Department.

When such a department exists, it will take the goods from the storekeeper, pack them, choose the method of conveyance to the customer, and see the goods safely off the premises.

The packing of the goods is, perhaps, the most important of these duties. The consignor of goods is under an obligation to pack his goods securely, so that they are given every chance of arriving at their destination in the same condition as they were dispatched. He has to study his own interests, as the goods are his property until they reach the customer; the customer's interests, as the latter must not be annoyed by delays, loss, or damage in transit through faulty packing; and the interests of the carrier, as the parcels must be convenient to handle, and must not be a source of danger to other merchandise which they will accompany in transit.

Importance of Proper Packing.

There is no doubt that, generally speaking, goods are not being packed for transit as carefully to-day as they were some years ago, the modern tendency being towards more flimsy packings, designed with greater regard for attractive appearance than for usefulness.

Some firms are now using cardboard for boxes of quite considerable size. These cardboard boxes are light, neat, and economical, and are quite suitable for the conveyance of light articles by private delivery van. They are, however, apt to suffer considerable damage if they come in contact with the corners of wooden cases, with hooks or projections, or with water, and are therefore unsuitable for the conveyance of goods by railway, ship, barge, or common carrier's van.

The dispatch department should be furnished with a comprehensive range of packing materials, and the materials used should be varied to meet the requirements of the individual parcels. Every case, barrel, crate, sack, carboy, etc., containing goods should be examined before it leaves the dispatch department to see that it is sound, and that it will not injure other parcels with which it comes in contact.

Bad Packing: The Trader's Liability.

The consignor of goods has a legal responsibility for damage done by his goods while in transit. If a trader sends a parcel by railway, and that parcel is damaged through a parcel accompanying it being improperly packed—a leaking cask or barrel, for example—the owner of the improperly packed parcel can be compelled to refund to the railway company any sums paid to the owner of the damaged goods by way of compensation.

The dispatch department must choose the method of conveyance of each parcel in accordance with a definite policy. It will not do for parcels to be handed to the first carrier who calls.

Routes.

Information regarding the routes available to various parts of the country must be collected and indexed away for quick reference, so that there will be no need to go outside the department for advice when a consignment to an unusual address has to be arranged.

Special Transit Instructions.

If a customer calls for a particular mode of transit to be adopted, his wishes should be recorded on the advice note when it is made out in the office. The dispatch clerks should pay particular attention to a request of this kind. It may be an indirect criticism of the usual mode of transit adopted by the department, or a hint of a better route.

Sending Goods Abroad: Customs Formalities.

When goods are sent abroad, the dispatch clerks must be given the information which will be necessary for the preparation of the customs declarations. To accomplish this, the value of the goods, the country of their origin, and their official classification or description should be stated upon the advice note.

It is a good plan to mark the outside of the parcel with a description of the goods and of the use to which they are to be put, as this will often save the parcels being opened by the customs authorities, and the delay and damage which may possibly result.

Many firms stencil all their cases with an advertisement which describes the contents. In the home trade this description will be useful, as it will acquaint all persons handling the cases with the nature of the contents, and leave less excuse for their not receiving proper treatment.

In any case, the advertisements on the cases are a cheap and effective form of publicity.

When goods are consigned by railway, care must be taken to see that they are clearly and sufficiently described on the consignment note. In invoicing carriage charges, the railway clerks base their calculations upon a "General Railway Classification of Goods," which is published in book form.

Railway Consignments: Necessity of Accurate Description.

If the description of the goods, given on the consignment note, leaves the railway clerk in doubt as to their correct classification, he will charge the highest rate applicable to the class of goods.

If a case of rough machine castings were described as "machinery" on the consignment note, carriage might be charged at the rate applicable to delicate precision machines—more than doubling the cost to the consignor.

The dispatch clerks should, therefore, be given copies of the railway classification book, with instructions to take the wording from this book when describing goods on consignment notes.

The preparation of labels for parcels takes a considerable amount of time, and when goods are supplied to a moderate number of regular customers an addressing machine can be used to advantage. The use of a machine will not only save time, but will also ensure accuracy and legibility.

Parcel Labels: Use of the Addressing Machine.

If the addressing machine plates are kept in alphabetical order under the names of the customers, and are divided into sections by metal tags, attached to the first plate in each section and bearing the initial letters, they can be operated with the same ease as a card index.

The labels should be prepared from the advice notes as soon as these are received by the dispatch department.

The number of the advice note should be recorded on each label, and any special forwarding instructions appearing on the advice

note should be copied on to the labels. In the absence of special instructions, the dispatch foreman should mark the labels with the name or initials of the railway company or firm of carriers by which the parcel is to be forwarded.

The Choice of Transport.

In choosing between different carriers, economy in cost of conveyance will usually be the objective. Water transport is the cheapest mode of conveyance, but unless the goods cannot be conveyed all the way by land, or the trader's premises are situated near a harbour or wharf, and there is plenty of time available for transit, water transport will be out of the question.

The choice will then rest between railway and road transport. For distances of ten miles or so, goods can usually be carried cheaper by road than by railway, and the trader will be well advised to employ either his own vans or those of local carriers for deliveries within this distance of his works.

Advantages of Road Transport.

Apart from the question of cost, delivery by road is much quicker and safer on short journeys and, if his goods are perishable, fragile, or urgently required, the trader can use road transport to advantage for deliveries within a considerable radius from his premises.

There is the added advantage that if goods are carried by road, they need not be so carefully packed as if they were sent by railway.

In many cases, goods delivered by the trader's own vans need not be packed in cases at all, apart from the unit boxes, jars, tins, or other containers in which they are packed for stock.

The trader who has a large number of local customers will be well advised to have vans of his own.

Delivery Vans.

The popular type of delivery vehicle for light articles is the one ton motor van. The transport service should be as flexible as possible, and the trader should beware of having "all his goods in one van." Unless heavy loads are to be carried, two small vans are usually better than one large one. Too much importance must not be placed on the fact that the cost of running a large van may not be much greater than that of running a small one. The objective is efficiency and not economy.

Very few traders save money by employing their own delivery

vans. Their object in doing so is to render a more prompt and reliable service to their customers than can be obtained by the employment of outside carriers.

Box tricycles are commonly used for the delivery of small parcels within a limited radius, and they represent a very cheap and handy method of transport.

If small parcels are to be carried by railway, the trader may save money by sending them through railway carriers. These railway carriers bulk consignments of small parcels together, and by doing so are able to obtain much lower rates from the railway companies than those charged for corresponding quantities of separate parcels. In order to obtain business, the railway carriers pass a certain amount of the benefit of the reduced rate over to the consignor, hence his saving money by employing them.

Railway Carriers.

When goods are to be consigned by railway, the trader must decide the extent to which he intends to make the railway company responsible for the safe conveyance of the goods.

If goods are sent "at carrier's risk," the railway company is responsible for anything which may happen to them in transit. If goods are sent "at owner's risk," the consignor will be called upon to sign a consignment note, which is so worded as to relieve the railway company of all responsibility for loss or damage in transit. This does not relieve the railway company of its responsibility for wilful negligence on the part of its employees, although the consignor is rarely able to prove that a loss arose through such negligence.

Owner's Risk v. Carrier's Risk.

The rates charged by the railway companies for conveying goods at owner's risk are considerably lower than those charged for conveying goods at carrier's risk. In some cases the saving amounts to as much as 20 per cent. This saving will be a sufficient inducement for the trader whose goods are not of a fragile nature to accept responsibility for the risks attendant upon conveyance; he can in any case cover the risks of transit with an insurance policy.

Protection Against Transit Risks.

Whether or not the insurance premium will offset the difference between the owner's risk rate and the carrier's risk rate will, of course, depend on the value of the goods in relation to the cost

of transit, since the insurance premium will be based upon the value of the goods.

It is possible to cover goods in transit with a collective insurance policy. This policy is an annual one, the premium being based upon the estimated value of the consignments for the year.

The Collective Insurance Policy.

The actual value of the goods consigned will be reported to the insurance company at weekly or monthly intervals, and at the end of the year a surcharge will be made, or rebate will be given, in order to adjust the premium to the appropriate percentage of the actual value of the goods consigned.

In making claims for compensation, the trader will certainly find it easier to deal with an insurance company than with a railway company. The railway companies will not recognize a claim for compensation for damage or partial loss unless it is made within three days of delivery of the goods to destination, and it is proved that the damage or partial loss occurred upon their systems.

Claims.

Many firms insert in their advice notes a paragraph requesting the customers to sign " not examined," for all parcels which cannot be inspected upon arrival, and to notify both the sender and the railway company in the event of partial loss or damage, but such requests are lost upon many small traders, and cannot be relied upon to any extent.

In the same way, when goods are sold by the trader in the original packings in which he buys them, without being inspected, it will be impossible to say whether damage has taken place in transit to the trader's premises, in the trader's premises, or in transit to the customer. As an instance of this, goods are often imported, kept in warehouse by the importer until sold, and then consigned by railway to the customer, the cases remaining unopened from the time they leave the foreign producer to the time they reach the importer's customer.

Difficulty of Proving Damage.

The trader who knows that his customers cannot be relied upon to examine goods immediately upon arrival, or that his goods are not examined before being handed to the railway company, will therefore be wasting money by sending goods at carrier's risk

rates. By taking out an insurance policy instead, he will obtain less stringent conditions regarding claims, and will be able, if necessary, to insure goods through from his supplier to his customer, irrespective of the number of carriers or warehouses employed.

The All-Important Signature.

It is important that the dispatch clerks obtain a signature for every parcel which leaves their hands, whether it is given directly to the customer or to a railway company or other carrier. When goods are delivered by the trader's own employees, the customer's signature should be obtained in a delivery book, or on a copy of the waybill or advice note.

Dispatch Department's Daily List.

As a check upon the operations of the dispatch department, it should be called upon to render to the office a daily list of all parcels dispatched, giving, in respect of each parcel, the consignee's name and short address, a description of the parcel, the number of the advice note covering the goods, particulars of any "shortages," or items on the advice note not sent, the name of the carrier, and the initials of the inspector who passed the consignment as ready for forwarding. These lists will be valuable evidence in the event of queries arising with customers or carriers.

CHAPTER XIII

LABOUR

In establishing a factory or works, some of the last points to be dealt with will be the engagement of the operatives, the arrangements for their employment, payment and advancement, and the organization of a system of staff control.

Although they may be the last to receive attention, these matters are of primary importance. Quite as much deliberation must be given to the personnel of the factory as to its equipment. On first consideration it might appear that the installation of machinery reduces the importance of the factory operatives, but the reverse is really the case. If, in a particular factory, a machine with one operator takes the place of ten manual workers, comprising one manufacturing section, the whole work of that section will depend upon the one operator. When the ten manual workers were employed, one of them might have been an indifferent worker or a learner, and the section as a whole would still have had a chance of efficiency.

The Factory Worker : How Machinery Increases His Importance.

On the other hand, if the one machine operator is an indifferent worker or a learner, there will be no hope of the section being efficient.

In dealing with his factory staff, the manufacturer will endeavour to accomplish the following tasks—

Aims of the Manufacturer in Staff Relationships.

To attract the right type of employee—the efficient and conscientious worker—and give him an incentive to do his best.

To give the worker the requisite technical education and to make him a specialist in the performance of his duties.

To enable the worker to develop his natural propensities and to improve his position.

To retain the employees' goodwill and keep the labour turnover, or changes in personnel, down to the minimum.

To exercise a system of control which will direct the activities

of the employees to the fullest advantage, and at the same time bind them together into a team.

Some employers of labour would say that the above list was incorrectly arranged—that the manufacturer's most important task was to control his staff. This is a fallacy, because the amount of control necessary will depend upon the way in which the manufacturer accomplishes the other tasks mentioned.

If he is able to obtain the right men, to train them to carry out their work in the simplest and most intelligent manner, to give them a prospect of advancement and to make the conditions under which they work as congenial as possible, there will be no need for intensive control. What control is exercised will be confined to the conduct of the business and to leading the workers, not to driving them.

When the employer has the goodwill of his employees, hints will take the place of reprimands, and to a certain extent the employees will control one another, to the benefit of the employer. No individual employee will dare to behave openly in a way that will injure the employer's interests. Goodwill between manufacturer and staff is an asset as valuable to the former as goodwill with customers is to the trader.

Value of Staff Goodwill.

In a factory where there is more control than goodwill the supervision staff must be large in order to drive the workers, and rules and regulations must be drawn up and placarded about the works, defining the duties, rights, and privileges of each worker. This definition is most objectionable, because it takes away from the employer the advantage to be gained by giving special privileges to good workers. The employees will work blindly to the rules and regulations, striving to gain points over the employer, and will pay more attention to their rights and privileges than to their duties and responsibilities. A worker will openly flout the rules whenever he has an opportunity, and this action will be looked upon by his fellow-workers as a piece of cleverness.

Ill Effects of Rigid Staff Control.

The employer who is commencing to manufacture for the first time must make his factory a place where good men will work, and where good work can be done, before he can pay much attention to systems of control. If he wishes to give his personal attention to

one matter of routine in particular, this matter should be the employment of labour. He will be well advised to engage the employees himself, and to deal personally with all questions of promotion, increases, bonuses and dismissals, at least until such time as the staff becomes too large to be personally supervised.

Need for Employer's Personal Supervision.

When this stage in the development of the business is reached, he should delegate the task of labour supervision to the works manager, who should be able to carry on the work in the same spirit as the employer.

In some large factories, all labour questions are dealt with by a staff superintendent, who acts in close co-operation with the managers of the various departments, providing each department with the labour it requires, and arranging for the continuous employment of all workers on the permanent staff.

The Staff Superintendent.

It should not be left to the foremen to engage, dismiss or transfer men, nor should too much reliance be placed upon their recommendations. The foremen will naturally consider the labour questions from the point of view of their own sections, which may not be that of the factory as a whole.

For example, if a foreman were called upon to recommend a man for promotion and, incidentally, for transfer to another section, he might be tempted to pass over his best man, in order not to lose his services, and recommend a man who was unreliable or troublesome in order to be rid of him.

Why Foremen Should Not Handle Labour Questions.

There is also the objection that the foremen might bring in relatives and friends and give them preferential treatment, a practice which is the cause of a great deal of trouble in many factories.

The executive responsible for engaging the staff should work in close touch with the departmental managers or foremen, and nobody should be engaged until the official responsible for his employment has been consulted.

In other words, the manufacturing section should notify the staff superintendent of the vacancy and the type of man required, and the staff superintendent should find a man for the post, either from another section, or from outside.

It is a bad policy for the staff superintendent to be allowed to engage men at random, and rely upon the heads of the manufacturing sections to keep them employed.

Executive Policy in Engaging the Staff.

A staff superintendent may discover a man who appears to be a very desirable employee, but he should not engage him unless he can fit him into a position. If he did so he would be doing the man an injustice, as the latter would be at a serious disadvantage in not having definite duties to take up.

Men should be found for jobs, not jobs for men.

When a vacancy occurs, the staff superintendent should advertise the fact widely and so take full advantage of the labour market.

Advertising Vacancies.

It is a curious fact that many firms who would search the markets for weeks, if they were buying a minor article of equipment, are content with sending to the labour exchange when they require a skilled craftsman.

The labour exchange may serve a very useful purpose (some employers would not admit this), but it cannot be considered as the labour market.

In these days the labour exchanges are the haunts of the unemployables, and since the officials make no attempt to judge the relative merits of the men on their registers, the staff superintendent may find it necessary to interview a considerable number of applicants, very few of whom are at all eligible for the job he has in mind.

The best type of worker will rarely be unemployed, and even then may not go to the labour exchange. Therefore, vacancies calling for skilled craftsmen should be advertised in the local newspapers and by notices outside the works.

Skilled Craftsmen and the Labour Exchanges.

If the position vacant is one that calls for no skill, or is of a temporary nature, the staff superintendent may not wish to take a man out of a job, and in that case the labour exchange should be applied to.

With a works of considerable size, applications for employment will be received daily, most of the applicants presenting themselves at the works entrances. In such cases the timekeepers or other officials on duty at the doors should be notified of all vacancies, and

should introduce to the staff superintendent any promising candidates for these vacancies.

Applicants whose services are not required at the moment should be given a form to fill up, so that a record of their application is made. The type of form in common use provides spaces for recording the applicant's name, address, age, trade, grade, previous experience, and rate of wage required. The applicant should also be asked to state whether he is disengaged and to which trade union, if any, he belongs. An application for employment form is illustrated on the opposite page.

Employment Application Forms.

The timekeeper should mark the application form with the date and any remarks he may have to make regarding the man's appearance or bearing, drawing attention to any statements made by the applicant, upon the form, which he has reason to doubt.

This scrutiny by the timekeeper will save the staff superintendent from interviewing men who are naturally unsuited to the work, or who make statements which are contradicted by their appearance.

The application forms should be filed away by the staff superintendent under the trade and grade of the applicant. They will then be available when a vacancy occurs, and may save the time and expense of advertising for and interviewing candidates.

Value of a "Waiting List."

It is a good plan to make all new employees fill in an application form, so that their description and experience are placed on record. If the back of the form is used for recording the terms of engagement, as is the case with the one illustrated on the opposite page, and the employee signs this as an acceptance of the terms, there will be no fear of a misunderstanding arising regarding these.

Some employers give each member of their staff a letter of appointment, printed with the general rules of the factory regarding hours, time recording, overtime, holidays, tools, etc., and completed with the terms of the individual employee's engagement and any special rules to which he is subject.

The spirit of goodwill must be extended to the worker when he first comes into contact with the firm, that is to say, when he is engaged.

APPLICATION FOR EMPLOYMENT
(Front of Form)

Position desired .. . .*Fitter* . . Trade *Genl. Engineering* . .
Applicant's Full Name . .*John Henry Kemp* . .. Grade *First Class.*
Present Address ... . *511 Mann Street, Clerkenwell* . . . .
Permanent Address ....*1217 High Street, Colchester* . . .. . .
Date of Birth .....*26th Oct., 1891* .. ... Married or Single ..*Married*
Number of Children ..... .*Two* .. ..Wages desired .. . .*£4 per week*. . . .
Trade Union ....*None* ..... Date disengaged . . .*Now*.. . . . ..

Particulars of Applicant's Experience

Name of Employer.	Address.	Nature of Work or Position Held.	Date of Commencing.	Date of Leaving.	Reason for Leaving.
Scotts' Engineering Works	*Colchester*	*Apprentice and Fitter*	*Dec., 1905*	*Feb., 1915*	*War*
Army	*R.E.*		*Feb., 1915*	*Feb , 1919*	*Demobilized*
Lapland Car Co.	*Horton*	*Fitter*	*Feb., 1919*	*Dec., 1923*	*Firm went bankrupt*

Applicant must not write in this space
Smart appearance
Knows our work
C. Mason,
Timekeeper.

Applicant's Signature—
. . . .*J. H. Kemp* . . ..
Date *9th Feb., 1924* .. . .

APPLICATION FOR EMPLOYMENT
(Back of Form)

Applicant engaged as . . . .*Fitter* . . Employee No. *2267*
. .....*Assembly* . . . . Department.
Commencing ... . . .*11th February, 1924* .. . ..
Subject to..... ..*one week's* .. .. notice.
Wages Rate. ... .*Four pounds (£4) per week*.... . . ..
Date of Engagement . . *9th February, 1924* . .. .

Signature of Applicant—
....*J. H. Kemp* . . ..
Accepting the above terms.

Signature of Staff Superintendent
....*B. Cooke* .. . .
Authorizing the above terms.

REFERENCES

Inquiries made.
Liquidator of Lapland Car Co.

Replies received.
Army papers satisfactory
Very good report

There must be no misrepresentation of the importance of the position offered, and the employer must, therefore, be very careful what prospects of promotion he suggests to the recruit.

Ensuring Staff Goodwill : Folly of Misrepresentation.

Many employers create discontent amongst their staff by making rash promises of early and specific promotion to new recruits, in order to induce the recruits to accept lower wages rates.

In such cases the new employees are disillusioned as soon as they begin to talk to the other employees, and to judge the position for themselves. They realize that they have been deceived, and harbour feelings of contempt and resentment which must be expected to affect their work.

There can be no objection to a workman being told that he can qualify for a position as foreman of a department by working his way up to that position, but it is objectionable for a workman to be told that he will automatically be given the position of foreman of *his* department when it becomes vacant.

If a promise of this kind is made, the workman is almost certain to disclose the fact to his fellow workmen either in conversation or by his bearing, and they are bound to resent such a suggestion being made casually to a new employee.

The discontent created by a rash promise to a new employee is therefore not confined to him, it spreads through the factory and affects the morale of every type of worker, even those who are without ambition.

Every employer should keep a record of his employees, both present and past, giving a description of them and full particulars of their service. It is not business-like or fair to the employees to rely upon memory, or upon the scant information given in the wages records, in valuing the services of a present employee or giving a testimonial to a past employee.

Importance of the Staff Record.

In most factories the staff record is kept in the form of a card index with a card for each employee. These cards are made out from the application forms of new employees, and are marked with particulars of every change in the employees' positions, wages rates, or terms of employment.

A specimen staff record card is illustrated on the opposite page. The back of this specimen would be used for comments on the

STAFF RECORD CARD
(Front)

Name *Kemp, John Henry* Employee No. *2267* .

Address. Local *511 Mann Street, Clerkenwell* . . .

Home . . *1217 High Street, Colchester*

Trade *Fitter Genl. Engineering* . Grade *First class* ..

Married or Single *Married* Children ..*Two* . . ..

Date of Birth *26th October, 1891*

Subject to *one week's* notice. Trade Union *None*

Date.	Change.	Department.	Position.	Wages Rate.				Remarks.
				£	s.	d.	Per	
1924								
Feb. 11	*Commenced*	*Assembly*	*Fitter*	*4*	-	–	*week*	
Sep. 15	*Increase*	*Assembly*	*Fitter*	*4*	*10*	–	,,	
1925								
Mar. 2	*Transfer*	*Inspection*	*Inspector*	*5*	*10*	–	,,	
Oct 5	*Increase*	*Inspection*	*Inspector*	*6*	–	–	,,	
1926								
May 8	*Resigned*							

STAFF RECORD CARD
(Back)

Name *Kemp, John Henry* Employee No. *2267* .

Commendations.	Reprimands.
Sept , 1924, Brilliant work on experimental car (Model S) *Sept , 1925, Valuable suggestion for improvement in part G1027*	

Final report . . *Excellent character—very conscientious and intelligent. Punctual and healthy* . . ..

Reason for leaving *Opening car repair works of his own* . . ..

Signature of Staff Superintendent.. .. ..*B. Cooke*..... .....

employee's service and conduct, and any other notes which it is not intended that he should see, it being probable that he would be shown the face of the card if any question arose regarding his employment.

The cards referring to present employees should be kept in a " current " index in alphabetical order, under the names of the employees.

When an employee leaves, the date of and reason for this, with a final statement of his character, capabilities, and conduct should be added to the information already given on his card, which should then be transferred to a " past employees' " index. The cards should still be kept in alphabetical order, under the names of the employees, so that they are handy for reference.

Staff Record Procedure.

It is important that the terms of employment of each member of the staff be reviewed at frequent intervals, and that increases and promotion be given whenever they have been earned, without waiting for the employee to demand them.

If this procedure is followed, the employees can consistently be discouraged from calling for adjustments in their wages rates, and an increase given to one worker will be no excuse for his associates to demand similar treatment.

A man may be quite satisfied if his wages rate is increased by five shillings per week at the end of each year's service without his having to raise the question, but if he has to ask for an increase he will, in all probability, demand another ten shillings a week, and nurse a grievance if he only receives another five shillings a week.

Policy in Wage Adjustments.

It is only natural that, when increases have to be demanded, the employees think they are being exploited. If a man asks for a " rise," and it is given readily, he feels that he should have asked before. If it is given grudgingly, he fears that his future prospects are unpromising.

The staff superintendent should carry out a revision of the staff at frequent intervals, say quarterly, working on the following lines. He should first draw up from the staff record a list of the staff, showing the position, length of service, and wages rate of each member, with any other information which may have to be taken into account.

Quarterly Wage Revisions.

He should then record, against each employee's name, reports upon his recent behaviour from every reliable source which is available. For example, reports upon a mechanic's behaviour might be obtained from his foreman, from the inspector who examines his work, and from the timekeeper.

In some factories it is customary for the foremen to make written reports at regular intervals upon the conduct of their men, but this practice is not recommended. The average foreman is very careful what written statements he makes regarding his men, and will usually make more or less stereotyped reports, erring on the generous side. It will, therefore, be a better plan for the staff superintendent to interview each foreman, inspector or timekeeper and obtain verbal replies to the questions he has to raise. The officials concerned will be much more communicative under these circumstances.

Written Conduct Reports not Recommended.

When the list has been completed it should be submitted to the official or officials authorized to adjust wages rates, and any necessary adjustments should be made at the first opportunity.

Increases should not be notified to the foremen unless this is absolutely necessary. If the foremen know the wages rates of their men, they must of course be notified of the increases, but in such cases the recipients should be notified before the foremen. It is not wise to give a workman the impression that his foreman has control over his rate of pay, as the foreman could exploit this impression for ulterior motives.

The staff superintendent must be able to exercise a considerable amount of tact, especially when it is necessary to reprimand or discharge an employee, and, in justice to the employee, the staff superintendent must make a full inquiry into the circumstances of the case before taking any action. If this action is called for by the employee's foreman or supervisor, the inquiry must be made in such a way that the latter's authority is not undermined, and on no account should the associates of the employee in question be brought into a general argument on the subject of his conduct.

Reprimands and Dismissals. The Foreman's Authority.

Foremen should, in their own interests, be warned not to take it for granted that the staff superintendent will act in accordance with their advice in connection with the reprimand or dismissal

of an employee. If a foreman's decision in such cases is reversed by the staff superintendent, the authority of the former will be undermined. On the other hand, the foreman cannot be allowed to act in a way that will precipitate matters, and force the staff superintendent's hand.

Staff Reductions.

If it is necessary to discharge a man through shortage of work, or any other cause which does not result from his own actions, he should be given as long a notice as possible. In such cases, the staff superintendent should take the workers into his confidence, and tell them as far as possible what the position is.

Reductions in staff affect the morale of the workers to a considerable extent. The discharge of ten men out of a staff of 1,000 may make " key " men, who need have no fear of dismissal, feel insecure in their positions and seek employment elsewhere.

Obviating Discontent in the Factory.

When a man must be discharged through misconduct he should be sent straight out of the factory, money in lieu of notice being paid to him if necessary, and the reason for his dismissal should be made known to his fellow workers.

It often happens that discontent is caused in a factory because a discharged employee is left to work out his notice, and the reason for his dismissal is not disclosed to the other workers. Under these circumstances the other workers hear the discharged employee's version of the story, and not that of the employers, and are bound to be influenced in favour of the former.

References v. Testimonials.

In some industries it is customary to give employees testimonials when they leave, but in most cases employers will give information regarding an employee's service only in reply to an inquiry from another employer.

The " reference " is more satisfactory than the testimonial, both to the past employer and to the prospective employer, since with the former the past employer is able to make statements in confidence, and there is no fear of fraudulent alteration or impersonation.

An employer is not bound to answer inquiries concerning an employee, although this is commonly believed to be the case, but if he does make a statement of any kind he will be liable for damages in respect of any wrong impression given to an intending employer.

In view of this the staff superintendent should exercise great care in wording replies to inquiries regarding former employees, and should refrain from making a statement upon any subject concerning which he is in doubt.

The employer of manual workers must give careful thought to the system by which they are remunerated, and see that the basis decided upon is fair and reasonable, and gives the workers an incentive to put their backs into their jobs.

Wages Systems.

There are many different systems to choose from—workers may be paid either by the week, day or hour; by the "piece," i.e. on the basis of the quantities produced; by the time worked, with a bonus for high output; or by the piece, with a bonus for quick work.

In some industries the basis of payment is fixed by custom, and, this being the case, an individual employer in the industry would be unwise to adopt any basis of payment which was in the nature of an innovation. Men are always suspicious of wages schemes which are a novelty to them, and the employer who attempts to introduce new methods of remuneration into an industry will generally be compelled to pay more for his labour than his competitors are paying, in order to allay this suspicion. Of course, the benefits of the new system might be worth the additional cost—for example, if production were increased to a considerable extent. In that case the employer would be well advised to make his system as simple as possible and widely advertise it, encouraging other employers in the industry to follow suit.

Casual Labour.

When there is a plentiful supply of labour, unskilled workers are often employed upon an hourly or piece basis, and have no claim to notice or money in lieu of notice. In the same way they are entitled to leave without giving notice.

Under such conditions the labour turnover is high, and the expenses of supervision are increased in consequence. Casual workers, about whom little is known, must be closely watched, and, however simple the operations they perform may be, there must be a certain amount of tuition given.

The direct cost of casual labour will also be considerably greater than that of labour engaged on a weekly basis. A labourer who is content with £2 per week of forty-four working hours will ask for at least 1s. 2d. per hour if casually employed.

Apart from the question of cost, the spirit of the workers must be considered. An employer cannot expect much loyalty or *esprit de corps* amongst casual workers, whose interest in him is confined to the present moment.

In order to stabilize the income of their members, the trade unions press employers to guarantee at least a week's work to every person employed, whether paid by the hour or by the piece.

Generally speaking, an engagement subject to one week's notice on either side is as satisfactory to the employer as it is to the employee. The employer can always protect himself by engaging all employees for the first week "on trial." They can then be paid off at any time during the first week if found to be unsatisfactory, and need only be given a proportion of the weekly wage, equivalent to the time actually worked.

Engagement Terms.

Of recent years a large number of employers have endeavoured to introduce "payment by results" methods into their works, in order to give the employees an incentive to increase their activity and to protect their employers' interests.

"Payment by results" schemes can be divided into two classes. With one class, the profit-sharing scheme, the employee's income fluctuates with the net results—the profits made by the employer.

Payment by Results.

With the other class, the production bonus scheme, the employee's income fluctuates with his own output.

Naturally, if an incentive is to be given to foremen, overseers, timekeepers, inspectors, clerks, storekeepers, and other employees who are not engaged upon actual production, it must be in the nature of a profit-sharing scheme.

The actual application of such a scheme is described in the chapter on "Company Finance and Secretarial Work."

The manual worker can rarely be inspired by a profit-sharing scheme. He knows that his sphere of influence is so restricted that his actions have little or no effect upon the net results of the trading operations, and that many circumstances which are beyond his control can make his work profitless to his employer. Even if the results of each separate section of the works are ascertained, and the men's bonus is based upon the production of their own section, the effect may be unsatisfactory. Under such

The Manual Worker and Profit Sharing.

circumstances it has been found that many men will neglect their own work in order to see that the others are busy.

Each worker should therefore be given an objective entirely of his own, an incentive to do more work in the given time, or to do the prescribed amount of work in less time.

As a first example—a man may be employed to work a week of forty hours for a wage of £4, and be expected to produce 200 articles during that week.

He could be encouraged to produce more by an offer of a bonus of sixpence for every article produced in excess of the 200. This method is a good one when there is no necessity to limit the production of the individual employees; for example, when regular trading lines are produced in one operation.

Bonus Schemes to Increase Production.

As a second example—a man may be employed upon piece work, and paid at the rate of sixpence per article produced, it being considered that he should be able to produce 200 articles in a working week of forty hours. He could be induced to turn out his articles in quicker time by an offer of a bonus of 2s. for each hour which he saves in his week's work.

This method is suitable for works in which the employees must produce prescribed quantities of articles, as in engineering works where parts are made for particular jobs.

When the employer has decided upon a bonus scheme which will serve his purpose, he must fix quotas, i.e. basic production or time allowances, for each worker, and determine the amount of the bonus for increased production or time saved.

Quotas.

These details are by no means easy to arrange, but upon their pertinency depends the success of the scheme.

The quotas must be fair and reasonable, and represent the amount of work which the employees could and should do for the wages already paid.

The employees should be adequately paid, apart from any bonus or other extra remuneration. Some employers have endeavoured to force men to greater production by paying low wages rates and high production bonus rates, but this is unsatisfactory. The effects are to make the employee's income irregular, and to reduce the quality of the product.

Unsatisfactory Incentives.

The same effects are likely to be caused by prize schemes, in the operation of which a substantial prize is given to the worker in each section who exceeds his quota by the highest proportion.

There is also the objection to prize schemes that a few workers are pleased every week and hundreds are disappointed. The steady, conscientious worker who is slow but sure will be annoyed if careless workers are allowed to put on a spurt and earn a prize, or if a few men who are particularly quick workers are allowed to take the prizes regularly.

It is, generally speaking, better to tell each worker what he is expected to do in return for his wages, and to reward him for whatever work he does over and above his allotted task.

The periods taken into account in calculating the actual quantities produced should be as short as possible, and the bonus should be paid as soon as convenient after the end of the period, preferably with the wages for the period.

The object in this is to maintain the incentive, and to remind the employees frequently that they can increase their income by producing more.

It is usual to carry arrears of production forward to the next period ; for example, if a worker produces 20 articles less than his quota one week, he must produce 21 more than his quota the next week before he can qualify for a bonus.

Arrears of Production.

These arrears must not be allowed to accumulate to such an extent that the worker loses all hope of qualifying for a bonus. When a man regularly fails to attain his quota, it either means that the man is inefficient or that the quota is unjustly high.

The circumstances should be investigated, and if the man cannot be assisted to increase his production and his services must be retained, the quota should be reduced to a quantity which he is able to produce, and the arrears should be written off.

With a certain class of worker, production bonus schemes are an inducement to careless work. A system of inspection of output is therefore necessary, and the inspector should record any spoils upon the worker's production or " piece " card.

Inspection of Output.

When valuable materials are used, workers are often heavily penalized for spoils, a number of articles being deducted from their total output for every one article spoilt.

One of the most difficult tasks the employer has to undertake is the education of his staff.

Educating the Staff.

In engaging a man to do certain work he is delegating part of his own job as a manufacturer or contractor. He, or his managers, may or may not know just how the work in question should be done, but they must satisfy themselves that it will be done in the most efficient manner. At the same time the new workman must be trained to carry out the ideas and wishes of his employer.

He must be told what objective his employer has, and be shown how he can assist his employer to gain it, and benefit himself at the same time.

By educating his staff the employer is laying the foundation for a system by which his employees can be advanced step by step within his organization, so that the men who have ability are given a chance to develop and their services are retained.

His executives will then be trained in his own business, and he will not have to bring in outside men who have been trained to the ideas and practices of his competitors.

The amount and class of education given to an employee must depend upon his attitude towards his job. The way in which this attitude may vary, as between different employees engaged upon the same work, is illustrated by the story of the three bricklayers who were stopped while at work and asked what they were doing. The first answered, " Earning my living " ; the second, " Laying bricks " ; and the third, " Building a house."

Types of Employees.

These three bricklayers represent three distinct types of worker, each of which requires a different system of education. The first type, the man whose interest centres in his wages rate and emoluments is, strangely enough, not the ambitious worker.

He goes to work to earn his living, and when the day's work is done he has no time for his trade or employer. So long as he is earning a living wage he is satisfied with his position, and will not undertake any responsibility which can be avoided. In fact, he will often seek to get into a groove or " dead end " job.

Naturally, this is the most difficult type of worker to educate. He is not prepared to make any temporary sacrifice to better his position, and is suspicious of any interest taken in his personal

affairs. If an attempt is made to teach him another man's job, he will at once demand the other man's wages rate. The employer would be well advised to leave such a man to pursue his own course, until such time as the man's outlook is broadened by the influence of his more enlightened fellow workers.

The second type, the man whose interest is centred in the job to be done, will gladly accept any tuition which assists him in the performance of his duties. When he has learned all that there is to know about his present job, he will instinctively begin to study the work of the man above him, and then the employer has a chance to develop the man's natural ability and help him to find his correct level.

The third type, the man whose vision is greater than his particular job, will educate himself to a large extent, but it is not always to the employer's advantage to let him do so.

Ambition is a very great asset to a worker, but it must be practical, and it is the employer's duty to make it so.

The Ambitious Worker.

The ambitious worker must be given a definite objective to strive for, and must be kept moving about the factory so that he can gain a wide experience. This type of man is always afraid of the "dead end" job, and will change his employer if he cannot change his position.

The Training of New Employees.

In actual practice the employer must set his old employees to train the new ones. Every new worker brought into the works should be placed under the tuition of a senior worker, who can be relied upon to help the new-comer. It should be made perfectly clear to the new employee that he can call upon the senior worker for advice, and that the latter is responsible for his training. Unless this is made clear the new employee may hesitate to ask for assistance or advice, and begin to do things the wrong way from the very start. There is a correct way of doing even the simplest factory operation, and if an employee does it incorrectly the first time, he may never find out the correct way.

If the employer can obtain the assistance of outside technical institutes or industrial colleges in training his staff, he should make the fullest possible use of them. Every employee should be encouraged to study in his spare time, and to enter for any

examination which has a bearing upon his work. Many employers pay the tuition and examination fees, and give prizes to those employees who pass their examinations.

In the days when the apprenticeship system was in general operation, the employers formally undertook the education of the youths they brought into their works, and received a direct return for this in the shape of a premium or the payment of a low wage rate during the period of the apprenticeship.

The apprenticeship system is now met with in but few industries, and is threatened with extinction. Four modern conditions have contributed to its abandonment, viz., free state education; the greater freedom which the youth of to-day enjoys; the antipathy of the trade unions; and the way in which the system has been abused by some employers.

Decline of the Apprenticeship System.

Before free state education was introduced, the children of the working classes, in most cases, received their education from their parents.

It was not what could be called a good education, so far as theory was concerned, and it was not given on scientific lines, but it was natural, practical, and personal, and had a definite objective—to make the child able to earn his own living.

When, at about the age of 14, a boy passed into the hands of an employer as an apprentice, his education continued on the same practical and direct lines.

The compulsory and free education of to-day has not effectively replaced this system. The elementary schools give tuition on a bewildering variety of subjects with no definite objective, and there is little personal or direct effect. Individual attention can hardly be expected when a teacher may have as many as forty pupils in a class. Naturally, the teachers concentrate upon the few brilliant pupils in their classes, whose prowess is likely to bring credit to them, and unfortunately these brilliant pupils do not go into the factories or workshops.

Defects of Elementary Education.

Indeed, it appears to be the aim of the elementary schools to make clerical workers of their best scholars, which is certainly not to the advantage of the latter. Generally speaking, the artisan of to-day earns more, has better prospects of advancement, and

works under better conditions than the clerk of an equivalent age and experience.

The youth of to-day has considerably more say in his own affairs than had the youth of twenty years ago. It is now considered a good policy to allow a boy to choose his own career, but there is always the danger that, left to his own devices, he will seek the best paid and most congenial position, without reference to the prospects of advancement.

Experience must be bought, and the youth who is influenced too much by wages rates or by privileges is likely to find himself in a "dead end" job.

The trade unions are opposed to the apprenticeship system, because it clashes with their demand for a minimum "living wage" for every class of worker. An apprentice may do the work of a skilled man and earn only a small proportion of the latter's trade union rate.

Trade Union Attitude towards Apprenticeship.

In those industries in which apprentices are still employed, the employers are usually restricted by the trade unions in regard to the number of apprentices which may be employed at one time.

There is no doubt that the apprenticeship system was abused by some employers, who gave indentures to apprentices solely as an excuse for paying lower wages rates, and made no attempt, or were not even in a position, to teach the apprentices a trade.

At the same time it is obvious that these offenders represented only a small minority of the employers.

The employment of minors is always a difficult question, because the employer has a moral obligation to protect their interests. The apprenticeship system made this obligation a formal one, and had many advantages both to the apprentice, whose technical education was assured, and to the employer, who was given a direct return for this tuition.

Advantages of the Apprenticeship System.

Its decline is responsible for the shortage of skilled workers which exists in nearly every industry to-day.

An employer who can undertake the training of apprentices should, therefore, make every effort to establish an apprenticeship system in his works, taking boys from school and engaging them to serve until they are 21 years of age. By doing so he can ensure his future supply of skilled workers, trained to his own ideas and

practices, and at the same time build up a sound basis for his employees' advancement scheme.

The employer should not hesitate to ask the advice of his employees, even that of the lowest in rank or the most stupid.

Consulting the Employees.

There is an old story of a farmer who lost a donkey and set all his men to search for it, which they did for several hours without success. At last the village simpleton was asked to join in the search, and to the astonishment of everyone he found the donkey in a few minutes. Asked to explain his methods, he said: "I just sat down and imagined I was a donkey and decided where I should go. Then I went there and found the donkey."

There are occasions when the most unintelligent member of the staff can be of especial use to the employer. When new rules or standing orders are being introduced, the employer should discuss them with the employee who is least likely to understand them, in order to find out what education to the new conditions should be given to the staff as a whole.

The advantages of a close understanding and personal touch between employer and employee are many and far reaching.

Benefits of Internal Harmony.

Points of staff welfare, accommodation and recreation, holidays, pension funds, and deposit clubs are all worthy of the employer's personal consideration, and should not be left to committees of employees.

This internal harmony is of particular importance at the present time, when the home industries are being hampered by heavy taxation and injured by foreign competition, which is assisted by the abnormal conditions prevailing, and when the relations between employer and employee are being strained by the subversive doctrines of the communists and socialists.

The employer should not be reluctant to discuss his policies with his men, and to tell them just what outside influences are at work against his business, and incidentally the welfare of the employees.

The British Workman and Socialism.

There are very few British workmen who are communists or socialists at heart. The trouble is that these doctrines have been confused with the proper and constructive ideals of organized labour. Socialism has been aptly described by the one word "envy," and the employer must show his employees that they have no cause to envy him.

The employer can easily prove to his men that when they earn their wages they are the labourers and he is the capitalist, but when they spend their wages they are the capitalists, and he and the other producers and traders are the labourers.

The ambition of the extremists among the labour movement is to be in a position to dictate to the capitalists, but they can at best only affect existing enterprises. They cannot force the capitalist to establish new businesses or to extend his activities. He has many alternative investments for his capital besides British industries, whereas the worker has no alternative but to earn his living in the British industries. Furthermore, the organizer and manager, whose services are essential to the workman, must go where the capitalist goes.

The employer certainly cannot afford to ignore these subversive influences or to leave it to outsiders to combat them. A straight talk between employer and employees will often save a strike or lock-out, or protracted conferences between masters' federations and trade unions.

The Employer's Duty to Combat Extremist Influences.

If the principals of the business remain aloof from the employees, and do not take them into their confidence, a very severe handicap is placed upon the minor officials who are called upon to control the workers, and who are naturally looked upon by the workers as the mouthpieces of the employers.

The system of control should be simple and clearly defined. Each employee should know which official is his immediate superior, and which other employees, if any, are under his own control. No man should be placed in the difficult position of serving two masters. The managers must on no account give orders directly to a man over his foreman's head, or criticize a foreman in front of his men. Workmen are very quick to notice differences of opinion between managers and foremen, and to take advantage of such differences.

The Right Policy in Factory Control.

It is a matter of prime importance that the foremen be sufficiently strong in personality to exercise the authority vested in them. On the other hand, the foremen must not be allowed to usurp the powers and privileges of superior officials.

The efficiency of a foreman can be judged to a considerable extent

by the number and nature of the points which he raises with his superiors.

If a foreman is continually going to his superiors with questions which evidence the employee's view of a point which is the subject of controversy between employer and employee, or if he avoids reporting to his superiors matters of comparative importance which reflect upon the conduct of his men, it can usually be considered that he is a weak foreman who allows his men to do pretty much as they like.

Efficiency of the Foreman.

Instead of this, if the foreman avoids reporting his own actions to his superiors, or if rumours and grumbles are heard from the men concerning matters which the foreman has not reported, it can usually be considered that the foreman is taking too much authority upon himself.

It goes without saying that the foreman should be encouraged to keep in close touch with his immediate superior, and should be able to obtain the latter's advice at any time. It is far better for the foreman to state his reasons for wishing to do a thing than to make excuses for having done it. He cannot be expected to judge a question from the point of view of the other sections of the factory as well as his own.

In fact, it is essential that the foreman's interest be confined as much as possible to his section. The man who is interested in everyone's job but his own is of no use as a foreman.

CHAPTER XIV

COSTING

THERE are very few manufacturers in these days who do not use some form of costing system, and the subject of costing has received a great deal of attention within the last few years.

The expression "costing system" is, however, very ambiguous, and owing to the diversity of practice, even among manufacturers whose operations are uniform, there is a great deal of misunderstanding as to just what is meant by "costing."

Ambiguity of "Costing."

In some cases the costing system is merely a collection of certain statistics regarding the cost of production, distinct from the books of account.

In other cases the costing system embraces the whole of the books of account, with the obvious exceptions of the bought and sold ledgers.

The methods adopted by different manufacturers vary between these two extremes, and it is impossible to suggest a method as being suitable for a business without an intimate knowledge of the goods dealt with and the processes of manufacture.

The costing system of a manufacturer or contractor may be designed to ascertain any of the following information —

Objects of Costing.

1. The unit cost (per article, pound, yard, gallon, etc.) of the lines produced.
2. The profit made upon the total sales of each description of goods produced.
3. The profit made by each department or section of the business.
4. The cost of each manufacturing process.
5. The profit made upon the carrying out of each contract.

Some manufacturers, requiring information under any of classifications 1 to 4 above, are content with the results of an investigation made for the express purpose of obtaining the information.

This investigation will usually be confined to a practical test or

series of tests, and/or the extraction from the books of account and other records of any figures which may have a bearing upon the subject of the inquiry.

An Elementary Method of Cost Finding.

For example, a manufacturer wishing to find the unit cost of producing a particular toy which is stamped in one machine operation from sheet metal, might run the stamping machine for one day under close observation, noting the quantity of metal used, the number of hours worked by the operator, and the number of toys produced. He would then ascertain the cost of the metal used and of the operator's time spent on the job; add an amount estimated to cover the proportion of establishment, supervision, machine maintenance, and other factory expenses, applicable to one day's operation of the machine, and divide the total amount by the number of toys produced. The result would be taken as the manufacturing cost of one toy. To estimate the profit made on the sale of each toy, a percentage intended to cover the selling and administrative expenses would be added to the estimated manufacturing cost, and the total deducted from the selling price.

The Human Element.

It is obvious that only under exceptionally favourable circumstances could correct costing figures be obtained in this way. So far as the machine operation is concerned, the very fact that a test is being made renders conditions abnormal. There is also the human element to be taken into account. If a workman knows that his output is being watched, he may work twice as hard as usual in order to create a good impression. On the other hand, he may imagine that some minimum production or bonus scheme is about to be introduced, and " go slow " with the object of obtaining a low quota.

The correct apportionment of the factory expenses, and of the selling and administration expenses, is also an almost impossible task under the circumstances.

If such investigations had to be carried out frequently and in a really conscientious manner, the work entailed would in all probability exceed the extra work necessary to maintain a costing system.

A contractor who wishes to know the profit made upon each contract, or who undertakes work in some cases on the arrangement

that the customer refunds the actual cost of the work, plus a percentage of profit, is bound to maintain a separate set of accounts and records in respect of each contract, or, in other words, must divide the whole of his production accounts and records between the various contracts.

Contractors' Cost Accounts.

Manufacturers have followed this example in order to obtain information as to the cost of production of, and profits made upon, each line, the profit made by each department, or the cost of each manufacturing process, by dividing the whole of their production accounts and records between the various lines, departments, or processes.

In order to do this, a perpetual inventory of all stocks, and accounts showing the cost and result of every manufacturing operation must be kept.

The Perpetual Inventory.

The stock records cannot be confined to saleable goods and raw materials. They must cover everything used in the execution of the contracts or the production of the lines, including raw materials, manufactured component parts, chemicals, supplies for machine maintenance, small tools, packing, labels, and finished products.

These records must show the actual quantities on hand at any time and the value upon the basis of the cost, so that physical stock-taking will only be necessary as a check upon the correctness of the records.

A form of stock record sheet is given on the opposite page.

It will be noticed that spaces are provided for recording the maximum and minimum stock limits, a precaution against too much or too little stock being carried, and for noting the dates upon which the balance has been verified by a physical check. When a perpetual inventory is kept, it is customary to check sections of the stocks at odd moments, so that the records are continually under comparison with the actual stock. If this is done, the confusion which so often attends a complete stock-taking can be avoided.

Stock Records.

This continual checking of the stocks will bring to light in good time any " dead stock," i.e. material which cannot be used owing to the abandonment of a job or trading line, or an alteration in the process of manufacture, so that early steps can be taken for the disposal of the material.

Loose-leaf books are generally accepted as the most suitable medium for these records, and the accounts can best be arranged in alphabetical order under the name of the material or article. The number of accounts will be numerous, and it is usually necessary to keep them as memorandum accounts only, maintaining in the general ledger a "stores control account," to which the total purchases and issues from stock will be posted at regular intervals, making it an easy matter to ascertain the value of the total stock at any time, and enabling the stock ledger balances to be proved independently.

The Stores Control Account.

STOCK RECORD SHEET

Description *Aluminium Strips . 6" × 2" × ⅛"* Stock No. *.A 3*

Maximum *400* Minimum *20* . . Bin No. Bay No.. *97*

Physical Checks : *28/2/26* .... Unit *one*. . Cost .... *.3d.*

IN.						OUT.						BALANCE.			
Date.	Order No.	Quantity.	Cost.			Date.	Requisition No	Quantity.	Cost.			Quantity.	Value.		
			£	s	d				£	s.	d.				
1926						*1926*									
Jan. 4	*1,392*	*100*	*1*	*5*	–							*100*	*1*	*5*	–
						Jan. 7	*2 931*	*20*		*5*	–	*80*	*1*	–	–
						14	*3,127*	*20*		*5*	–	*60*		*15*	–
						21	*3,243*	*20*		*5*	–	*40*	–	*10*	–
						28	*3,371*	*20*		*5*	–	*20*		*5*	–
Feb. 1	*1,761*	*400*	*5*	–	–							*420*	*5*	*5*	–
						Feb. 4	*3,462*	*20*		*5*	–	*400*	*5*	–	–
						11	*3,557*	*20*		*5*	–	*380*	*4*	*15*	–
						18	*3,639*	*40*		*10*	–	*340*	*4*	*5*	–
						25	*3,721*	*40*		*10*	–	*300*	*3*	*15*	–

The material issued is recorded by a system of requisition tickets giving the date, quantity, and description of the material required, the job for which it will be used (for the purpose of this chapter, the manufacture of each trading line, the productive work of each department, or the execution of each contract has been regarded as a "job" or a series of jobs), and the signature of the foreman who will be responsible for its use.

Issue of Material: Stores Requisitions.

REQUISITION FOR MATERIAL

Job No *437* Machine No *3* Employee No . . . . .

Operation *Cutting Aluminium Discs* *1½" diameter*

Quantity *20 strips* . Date *7th January, 1926* . . . . . .

Description *Aluminium* *6" × 2" × ⅛"*

Foreman's Signature *Fred Brown*

Stock No *A 3* Cost £ *5* d

Entered on Materials Used Summary by *L S B*

Entered in Stock Ledger by *A J* Requisition No *2931* ...

MATERIALS USED SUMMARY

THURSDAY, 7th JANUARY, 1926

Requisition No	Stock No	Total.			Waste.			Job Numbers.																	
								437			501			483			472			476			487		
		£	s.	d	£	s.	d.	£	s	d.	£	s.	d	£	s.	d	£	s	d	£	s	d.	£	s.	d.
2,931	A 3		5	–					5	–															
2,932	G 6	6	10	–							6	10	–												
2,933	M 7	8	–	–										8	–	–									
2,934	M 7	8	–	–										8	–	–									
2,935	M 4	12	2	6													12	2	6						
2,936	G 2	2	7	6							2	7	6												
2,937	H 3	3	10	–							3	10	–												
2,938	S 17	4	9	4				4	9	4															
2,939	M 17	8	3	6																8	3	6			
2,940	M 7	8	–	–										8	–	–									
2,941	B 12	21	–	–				21	–	–															
2,942	L 4	3	5	–																			3	5	–
2,943	M 7	8	–	–										8	–	–									
2,944	R 1	2	7	6	2	7	6																		
2,945	M 7	8	–	–										8	–	–									
2,946	L 4	3	5	–				3	5	–															
2,947	G 6	6	10	–				6	10	–															
2,948	M 7	8	–	–										8	–	–									
2,949	L 3	11	2	6																11	2	6			
2,950	B 8	1	10	3	1	10	3																		
2,951	G 2	3	5	–				3	5	–															
TOTALS for the day		137	13	1	3	17	9	38	14	4	12	7	6	48	–	–	12	2	6	19	6	–	3	5	–

As a safeguard against loss of requisitions they should be allotted consecutive numbers as soon as the material is issued against them. These requisitions will be posted to the stock records at once, so that the accuracy of the perpetual inventory is assured, and as each item is posted the value of the material issued will be noted upon the requisition ticket. The requisitions will afterwards be entered upon a materials used summary, where the cost of the material will be allocated over analysis columns headed for the various jobs.

A requisition form and materials used summary are illustrated on the immediately preceding pages.

Waste, spoils, and shortages in stock will be entered upon a requisition ticket, so that they are eliminated from the stock records, and the value will be charged upon the materials used summary to a "waste account," representing one of the factory overhead expenses.

The materials used summary will be closed off daily or weekly, according to the volume of requisitions, and the column totals will be posted to the debit of the various job accounts in the cost ledger. The total amount charged to cost ledger accounts, as shown by the materials used summary, will be debited to a "manufacturing control account" and credited to the stores control account in the general ledger, through the medium of an entry in the cost journal.

Machine Running Costs.

When productive machinery is used, a daily machine operation card will be prepared in respect of each machine, showing the hours worked on the various jobs. This machine operation card will be hung up beside the machine, so that the time of commencing and finishing work on each job can be entered by the operator, the card being signed by the foreman before it is passed to the office.

Immediately the daily batch of cards is received in the office, consecutive numbers will be allotted to them, so that if any card is afterwards mislaid, attention will be called to the fact.

The cost of the work executed on each job will then be estimated by multiplying the number of hours worked on the job by the hourly operation rate of the machine engaged. The rate charged will be calculated upon the actual cost of running the machine, and will allow for the operator's and overseer's wages, power, maintenance, and depreciation of the machine, and a proportion of

the establishment charges (work's rent, rates, insurance, etc.) equivalent to the floor space occupied by the particular machine.

The amount chargeable to each job will be recorded upon the machine operation cards, which are entered upon a machine operation summary, the charges being allocated over analysis columns representing the different jobs.

A machine operation card and summary are illustrated on the following pages. The illustration shows the type of card and summary used to record the manufacture of regular lines, and it will be noticed that the quantities dealt with in each operation are given. When only the terminal cost of the jobs is required, and there is no question of quantities produced, the analysis part of the machine operation summary would be similar to that of the materials used summary, illustrated on page 225.

The Machine Operation Card and Summary.

The machine operation summary will be closed off at the same intervals as the materials used summary, so that the total chargeable to each job, for the period, is arrived at. These totals will be posted to the debit of the respective job accounts in the cost ledger.

The total charges to cost ledger accounts, shown by each machine operation summary, will be debited to the manufacturing control account and credited to a "machine operation account" in the general ledger, through the medium of an entry in the cost journal.

This machine operation account corresponds with, and will be set off against, a set of accounts covering the actual expenditure on operators' and overseers' wages, power and maintenance of machinery, and the depreciation and establishment charges—in other words, the factory overhead charges applicable to the machine rooms.

The credits to the machine operation account must equal, as nearly as possible, the debits to the corresponding set of accounts, and if a comparison shows that there is an excess or deficiency in the amounts charged to the machine operations, this difference must be remedied by a decrease or increase respectively in the hourly operation rates.

It is usual to endeavour to make the charges to the machine operation account slightly in excess of the actual expenditure, so that a small amount is available to meet unforeseen expenses.

MACHINE OPERATION CARD

Machine *Roaster* No *14* Date *16th February, 1926*

Line	Commenced	Finished	Output	Inspector's Initials	Hours	Rate	Cost. £	s.	d
			Lb						
"*Surrey*"	*8.30*	*9.15*	*450*	*R J.*	¾	6/–		*4*	*6*
"*Kent*"	*9 15*	*10 15*	*609*	*R J.*	*1*			*6*	–
"*Sussex*"	*10 15*	*2 45*	*2,687*	*A S.*	*4½*		*1*	*7*	–
"*Surrey*"	*2 45*	*3 45*	*598*	*A S.*	*1*			*6*	–
"*London*"	*3 45*	*5 30*	*1,040*	*A S.*	*1¾*			*10*	*6*
			5,384		*9*		*£2*	*14*	–

Foreman's Signature *R Smith* Calculated by *B N.*

Entered on Summary by *S H.* M O Card No *1398* .

MACHINE OPERATION SUMMARY

(Four Brands of Patent Food, Made and Packed in Three Operations)

TUESDAY, 16th FEBRUARY, 1926

Machine Operation Card No.	Machine. No.	TOTAL.				"Kent."				"London"				"Surrey."				"Sussex."			
		Quan	£	s	d	Quan	£	s.	d	Quan.	£	s.	d	Quan.	£	s	d.	Quan	£	s.	d.
		Lb.				Lb.				Lb.				Lb.				Lb.			
1,386	Roller 1	11,400	2	5	–	11,400	2	5	–												
1,387	,, 2	10,900	2	5	–					10,900	2	5	–								
1,388	,, 3	11,600	2	5	–									11,600	2	5	–				
1,389	,, 4	12,400	2	5	–													12,400	2	5	–
1,390	,, 5	9,784	2	9	6	8,936	1	13	–	848		16	6								
TOTAL ROLLING		56,084	11	9	6	20,336	3	18	–	11,748	3	1	6	11,600	2	5	–	12,400	2	5	–
1,391	Roaster 6	5,098	2	14	–	5,098	2	14	–												
1,392	,, 7	5,234	2	14	–	5,234	2	14	–												
1,393	,, 8	4,963	2	14	–					4,963	2	14	–								
1,394	,, 9	5,024	2	14	–					5,024	2	14	–								
1,395	,, 10	5,163	2	14	–									5,163	2	14	–				
1,396	,, 11	5,291	2	14	–									5,291	2	14	–				
1,397	,, 12	5,109	2	14	–													5,109	2	14	–
1,398	,, 13	5,296	2	14	–													5,296	2	14	–
1,399	,, 14	5,384	2	14	–	609		6	–	1,040		10	6	1,048		10	6	2,687	1	7	–
1,400	,, 15	9,653	3	12	–	5,434	2	–	–	4,219	1	12	–								
TOTAL ROASTING		56,215	27	18	–	16,375	7	14	–	15,246	7	10	6	11,502	5	18	6	13,092	6	15	–
1,401	Packer 16	12,312	2	5	–	12,312	2	5	–												
1,402	,, 17	12,166	2	5	–					12,166	2	5	–								
1,403	,, 18	11,095	2	5	–									11,095	2	5	–				
1,404	,, 19	10,963	2	5	–													10,963	2	5	–
1,405	,, 20	17,398	3	7	6	8,855	1	13	9	8,543	1	13	9								
TOTAL PACKING		63,934	12	7	6	21,167	3	18	9	20,709	3	18	9	11,095	2	5	–	10,963	2	5	–

Care should be taken, however, that this excess does not accumulate, as this would mean that the stocks of finished goods would be overvalued, i.e. they would be entered upon the stock records at a figure above the actual cost.

When an operation is performed by manual labour without the aid of machinery, for example, the assembling of a machine from component parts, the basis taken must be the number of hours worked by the men.

Manual Labour: Job Cards.

Each employee will be given a daily job card, upon which he must account for the whole of the hours worked, giving the number of each job he has been engaged upon, and the times at which he commenced and finished work on the job.

In order to ensure accurate time-keeping, it is usual to provide time recording machines, so that the employee "clocks" on and off each job, and the time is automatically recorded upon the job card.

The job cards, signed by the foreman, will be given into the office, where they will at once be allotted consecutive numbers, as a precaution against their being lost.

The backs of the cards will be used for a summary of the time spent on each job, and the corresponding charge. The amount charged to each job will be calculated by multiplying the number of hours worked by the man's hourly operation rate, i.e. his hourly rate of wage, plus an overhead charge arrived at by dividing the total cost per hour of the overseer's wages, work's rent, rates, insurance, and other expenses by the number of men employed. Of course, where some operations are carried out by machine and some by hand, the total overhead charges must be divided into two amounts, proportionate to the space occupied and the supervision necessary, before the rates for machine and manual operation are calculated.

Methods of Proportioning Oncost.

The job cards will be entered upon a manual operation summary, where the cost will be allocated over the jobs by the use of analysis columns.

A job card and manual operation summary are illustrated on the following pages.

This summary will be closed off at the same time and the totals will be posted to the cost ledger accounts in the same way as the

JOB CARD

(Front)

Job. No.	Operation	Hours
761	*Assembly*	
1. Start	*8.30*	
2. Stop	*12 00*	3½
Job No.	Operation	
804	*Assembly*	
3. Start	*1.00*	
4. Stop	*3.15*	2¼
Job No.	Operation	
793	*Assembly*	
5. Start	*3.15*	
6. Stop	*4.00*	¾
Job No.	Operation	
801	*Assembly*	
7. Start	*4.00*	1½
8. Stop	*5.30*	
Job No.	Operation	
9. Start		
10. Stop		

The dial of the clock must be set to the number of the space in which the time is to be printed.

Date ..... *24th February, 1926*

Foreman's Signature. *J. Marshall*

(Back)

Employee's No. *73.* . .

Name *R. Kent*

Rate ..... *2/-* . . *per hour* .....

Job No.	Hours	£	s.	d.
761	3½		*7*	–
804	2¼		*4*	*6*
793	¾		*1*	*6*
801	1½		*3*	–
	8	£-	*16*	–

Calculated by . *N.F.A.*

Entered on Summary by ... *.G.N.*

Job Card No. . . . .. *3648* .. ...

MANUAL OPERATION SUMMARY

WEDNESDAY, 24th FEBRUARY, 1926

Job Card No.	Employee's No.	Total.			Job Numbers.																				
					761			804			793			801			779			782			794		
		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
3,648	73		16	–		7	–		4	6		1	6		3	–									
3,649	75	1	6	–														8	–		8	–		10	–
3,650	76	1	4	–		6	–					4	–					8	–					6	–
3,651	82		16	–		16	–																		
3,652	83	1	–	–		4	–		16	–															
3,653	89	1	–	–	1	–	–																		
3,654	90	1	6	–					6	–				1	–	–									
3,655	91	1	4	–				1	4	–															
3,656	92		16	–								16	–												
3,657	93		12	–								12	–												
3,658	94		16	–		16	–																		
3,659	96		13	–											6	–		6	–						
3,660	97	1	4	–		8	–		8	–		4	–		4	–									
3,661	100		12	–																	6	–		6	–
3,662	101		16	–														16	–						
3,663	102	1	–	–								10	–											10	–
3,664	103		16	–					16	–															
3,665	104		16	–					16	–															
3,666	105		12	–					6	–					6	–									
3,667	106		16	–																	16	–			
TOTALS for the day		18	–	–	3	17	–	4	16	6	2	7	6	1	19	–	1	18	–	1	10	–	1	12	–

materials used and machine operation summaries, care being taken that the intervals at which the summaries are made correspond exactly. The total charges to cost ledger accounts, shown by each manual operation summary, will be debited to the manufacturing control account, and credited to a "manual operation account" in the general ledger, through the medium of an entry in the cost journal.

This manual operation account corresponds with, and will be set off against, a set of accounts covering the actual expenditure on wages, work's rent, rates, insurance, and other expenses applicable to the section of the factory devoted to production by hand.

The Manual Operation Account.

The treatment of this account is the same as that of the machine operation account already described, and the same precaution is necessary to keep the margin between the actual expenditure and the amounts charged to jobs as close as possible, checking any divergence by an adjustment of the hourly rates chargeable to the jobs.

The cost ledger itself will usually be kept in loose-leaf form, a separate sheet being used for each job. The accounts will be arranged in numerical order, according to the job number.

When the units of manufacture are small the cost accounts will represent distinct lines, and in order that the cost per unit can be ascertained, the quantities manufactured must be recorded.

In such cases, the quantities produced must be given upon the machine operation and manual workers' time cards, and upon the respective summaries, so that they can be posted from the latter to the cost ledger accounts.

The Cost Ledger.

A specimen cost ledger sheet covering a piece of engineering work, where the terminal cost of the actual job must be ascertained, will be found on the next page and a collective cost account, covering the production of quantities of a regular line, on page 235.

These illustrations represent two distinct classes of business. In the first case, the cost of the piece of engineering work, plus a percentage to cover selling and administrative expenses, will be set off against the actual price at which it is sold, either in the cost ledger or in a contract ledger to which the figure of total cost will be carried.

COST LEDGER SHEET
(Contract Job)

Work... .. *Overhauling six " Kestrel " Motor Lorries*.... ... Contract No. *7391*

Customer. ..... *Gigantic Transport Co., Ltd., Grimsby*... .....

Date Commenced..... ..... *8th March, 1926* .....

Date Finished..... ... *25th March, 1926*.... ....

Date.		Debit.	Folio.	£	s.	d.	Date.		Credit.	Folio	£	s.	d.
1926							1926						
Mar.	13	*Materials*	137	42	7	1	Mar.	31	*Balance*	*c/d*	193	10	1
	13	*Machine operation*	206	36	7	6							
	13	*Manual operation*	536	18	2	9							
	20	*Materials*	142	36	4	8							
	20	*Machine operation*	209	24	1	9							
	20	*Manual operation*	548	17	10	–							
	27	*Materials*	148	3	7	10							
	27	*Manual operation*	561	15	8	6							
				193	10	1					193	10	1
				£	s.	d.					£	s.	d.
Mar.	*31*	*Balance (Works Cost)*	*b/d*	*193*	*10*	*1*	*Mar.*	*31*	*Contract price charged to customer*	*J 182*	*250*	–	–
	13	*Selling Expenses (5%)*	*J 181*	*9*	*13*	*6*							
	13	*Administrative Expenses (10%)*	*J 181*	*19*	*7*	–							
	31	*Profit on contract*	*J 184*	*27*	*9*	*5*							
				250	–	–					*250*	–	–

This cost will not be set off until the job is completed, so that the cost ledger account balances will represent the value of the work in progress.

In the second case, the goods produced will be charged at the cost established by the cost ledger account to a manufactured stock account covering the particular line, so that each cost ledger account is closed off regularly, and there can be no question of balances.

Process Records.

When several processes are essential to the manufacture of regular trading lines, it may be necessary for the manufacturer to provide accounts in the stock ledger to cover the partly manufactured stock in each stage of production, as well as the finished product, and accounts in the cost ledger to cover each operation. For example, if in the production of a certain confectionery line, almonds must be ground and then

COST LEDGER SHEET
(Manufacturer's Regular Line)

Line..... .. . *Paper Serviettes 20" square* .. . No. *126*

Operation .. *Reel to finished product* .. Average Cost *1/1 gross*

Date.		Debit.	Folio.	£	s.	d.	Date.		Credit	Folio.	Quantity.	Unit Cost.	£	s.	d.
1926							*1926*				*Gross*	*Pence*			
Apr.	*17*	*Materials*	*427*	*12*	*8*	*6*				*C.J.*					
	17	*Machine operation*	*391*	*6*	*3*	*6*	*Apr.*	*17*	*Stock*	*71*	*360*	*12 4*	*18*	*12*	–
July	*24*	*Materials*	*478*	*17*	*12*	*3*									
	24	*Machine operation*	*403*	*8*	*11*	*9*	*July*	*24*	*Stock*	*80*	*480*	*13 1*	*26*	*4*	–
Sept	*11*	*Materials*	*503*	*21*	*3*	*6*									
	11	*Machine operation*	*411*	*10*	*11*	*6*	*Sept,*	*11*	*Stock*	*87*	*600*	*12 7*	*31*	*15*	–
Dec.	*18*	*Materials*	*536*	*16*	*19*	–									
	18	*Machine operation*	*426*	*8*	*17*	–	*Dec*	*18*	*Stock*	*95*	*480*	*12 9*	*25*	*16*	–
1927															
Jan.	*15*	*Materials*	*568*	*20*	*10*	*3*	*1927*								
	15	*Machine operation*	*440*	*10*	*5*	*9*	*Jan.*	*15*	*Stock*	*110*	*560*	*13 2*	*30*	*16*	–

mixed with other ingredients, in two distinct operations, it will be necessary to carry accounts in the stock ledger and cost ledger for both " ground almonds " and the finished confection.

The cost ledger account for " ground almonds " will show the cost per pound after the first operation, and the ground almonds will be taken into stock at this rate.

When they are taken out of stock for the mixing operation, they will be treated in the same way as any other material, and charged to the cost account for the finished product at the rate established by the " ground almond " cost account.

The Cost Journal.

The actual postings from cost ledger accounts to stock ledger accounts covering manufactured, or partly manufactured, goods taken into stock, will be made through the medium of the cost journal. This journal will be ruled with the usual double money columns, and a column for the quantities produced. The transfers will be made at the same intervals as those governing the preparation of the materials used and operation summaries. The items in respect of each period will be totalled in the cost journal and the totals posted to the debit

of the stores control account, and credit of the manufacturing control account, in the general ledger. The manufacturing control account is the control account for the cost ledger, and will be closed off at the end of each period, as is the case with each account in the cost ledger.

There are two ways in which the cost of sales of finished stock can be credited to the respective stock accounts, and charged to "cost of sales" accounts in the general ledger which will correspond to the respective "sales" accounts.

Treatment of Selling Costs: Alternative Methods.

In the first method used, a copy of the advice note covering the goods sent to the customer is marked with the cost price of the goods and the amounts entered are credited to the various stock accounts. This copy is used for the preparation of the invoice, and the cost figures are entered upon the margin of the office copy of the invoice against each corresponding charge to the customer.

This copy of the invoice is used in the preparation of the sales analysis, and the sales and cost of sales will be entered in two corresponding sets of columns headed for each line or department. The totals of these columns are posted to the respective sales and cost of sales accounts in the general ledger, and the total cost of sales is credited to the stores control account, completing the book-keeping operation.

With the alternative method a copy of the advice note is retained in the stores department. The cost of the goods sold is entered upon this, and the amounts are credited to the stock accounts in the same way as with the first method. A daily or weekly cost of sales summary is then prepared, giving the numbers of the advice notes and allocating the cost of the goods supplied over columns headed for the various lines or departments. The totals of these columns will be posted to the respective cost of sales accounts in the general ledger.

The choice between these two methods will depend to a great extent upon the number of lines produced or the number of departments existing. The second method is the better if the number is large, as it will not then be convenient to incorporate both sales and cost of sales figures in one sales analysis.

Their Suitability Compared.

The first method gives the assurance that the sales and cost of

sales figures correspond exactly, whereas with the second method goods might be charged to cost of sales in one period and invoiced in another.

On the other hand, the first method is liable to delay the invoicing of the goods, as the copy of the advice note upon which the charge is based is held up in the stores department while the stock entries are made and the cost figures entered.

It is generally considered advisable for the invoicing copy of the advice note to be returned to the office by the dispatch department, and another copy given to the stores department as a receipt for the goods dispatched and to meet their requirements. This system is described in the chapter on " Handling Customers' Orders."

When a costing system of the kind outlined in this chapter is in operation, the unit manufacturing cost of each line will be given in the cost ledger, and as this unit cost is shown in respect of each day's or week's operation, any unusual fluctuation will be disclosed.

Unit Manufacturing Cost and Selling Price

A comparison of these figures of unit cost is a test of the efficiency of the costing system, and any sudden increase or decrease should be made the subject of careful inquiry.

In arriving at a unit manufacturing cost figure to form the basis of the selling price, the operation accounts for several months back will be studied, and the figure taken will usually be the highest unit cost disclosed in the period reviewed, so that the adequacy of the provision for manufacturing is assured. Of course, the results of any period in which the conditions prevailing were abnormal should be excluded.

The formula used in fixing the selling price of a line is : manufacturing cost plus provision for selling expenses plus provision for administrative expenses plus profit margin.

Careful consideration must be given to the distinction between the " factory overhead expenses " included in the manufacturing cost, and " selling expenses " and " administrative expenses." The line of demarcation between the last two headings is not clear, and the question of whether an item should be charged under one or other of them is not vitally important, but it is imperative that the " manufacturing cost " be confined to, and embrace all,

Manufacturing Cost : An Important Distinction.

the cost of manufacture up to the point when the finished goods are taken into stock ready for sale. The fact must not be lost sight of that every item charged to "factory overhead expenses" is added to the value of the stock, as it will be passed on to the cost ledger accounts through the rate charged in respect of the machine and manual operations.

The expenses, therefore, arising after the goods are ready for sale, must be either selling or administrative expenses. Suppose, for example, that manufactured goods must be warehoused outside the factory. If the warehouse rent were treated as a factory expense, it would be equivalent to increasing the value of the goods in stock, when, as a matter of fact, they may depreciate through storage. Consequently, if the business calls for heavy stocks of finished goods to be kept in the factory, the expenses of the stores department cannot all be charged to "factory expenses," as the position is no different in principle.

On the other hand, the expenses of the purchase department can rightly be charged to "factory expenses," as the work of this department is essential to production, and it does not deal with the goods in any way after they have been manufactured.

Factory Overhead Expenses.

In some factories, drawing, experimental, and testing offices are also essential to production, and in most cases the bulk of the expenses of these offices will be charged directly to the jobs upon which they have been working, the balance being treated as a factory expense.

The selling and administrative expenses will be found upon the various general ledger accounts, and the provision made for them, in deciding the selling prices, will usually be a percentage of the manufacturing cost.

Selling and Administrative Expenses.

In deciding the percentage to be taken, too much importance must not be attached to the actual expenditure in the past.

The percentage must be based upon an estimate of the expenditure and output for a period in the immediate future, so that attention must be given to the policy which the firm is pursuing and the state of trade.

It is obvious that the selling and administrative expenses will not vary in relation to the turnover.

A decrease in turnover may encourage a firm to extend its advertising and intensify its sales campaign at considerable expense, which must, if possible, be passed on to the consumer, unless these increased activities result in an immediate increase in turnover. **Their Relation to Turnover.**

On the other hand, the administrative expenses may be subject to very little variation as between trading periods, and be affected to no appreciable extent by the turnover, as these expenses may be largely composed of such invariable items as debenture interest and office establishment expenses. Moreover, a decrease in turnover may result in increased expenditure. For example, a falling off in sales, and the consequent increase in stocks, may necessitate borrowing from the bank, so that heavy interest charges are incurred, and if the reason for the falling off in sales is a general depression in trade, this may be accompanied by considerable loss through bad debts.

The example given at the foot of the next page illustrates the method employed to find the minimum selling price of goods.

If a business is divided into departments, and it is necessary to know the profit made by each one of them, the selling and administrative expenses must be divided between the departments by the use of analysis columns in the cash books and journals. Items relating to more than one department will be apportioned between them, according to the relative value of the expenditure to each department.

In such cases the sales and cost of sales analysis will be arranged according to departments and, if necessary, the stock ledger accounts for finished goods can be grouped in the same way.

When the operations of the departments are naturally distinctive, as in the case of a gramophone company with " machine," " record," and " accessory " departments, it may be advisable to maintain entirely separate sets of books for each department. If a balance sheet is required for each department, it will of course be necessary to keep separate stock ledgers, purchase ledgers, and sales ledgers so that the material and goods on hand, creditors and debtors belonging to each department can be readily ascertained. **Departmental Cost Records.**

The system of costing described may appear to necessitate a considerable amount of clerical work, but the illustrations will show

that the various recording operations are simple and straightforward, and do not call for the employment of highly skilled clerks.

It is impossible to provide a system which will meet the needs of every manufacturing business, but the broad principles are the same, and the methods used to arrive at the trading results must be the simplest and most direct methods possible. There should be nothing complicated in the costing system, because it is imperative that every executive and clerk whose duties are in any

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How to Ascertain Minimum Selling Prices.

A firm manufactures three selling lines, "A," "B," and "C," the costs of manufacture being 2s. 6d., 5s., and 10s. respectively. It is estimated that the sales for the year for which prices are being fixed will be "A" 160,000, "B" 100,000, and "C" 30,000.

The selling and administrative expenses for the year are estimated at £20,000, and the profit desired is 25 per cent.

The selling prices will be calculated as follows—

	A.	B.	C.	Total.
Unit cost of manufacture	2/6	5/-	10/-	
Number to be manufactured	160,000	100,000	30,000	290,000
Total cost of manufacture	£20,000	£25,000	£15,000	£60,000
Estimated selling and administrative expenses				20,000
Total all-in cost of sales				80,000
25% profit desired				20,000
Total revenue required				£100,000
Selling and administrative expenses and profit desired				£40,000
Relation to manufacturing cost (£60,000)				66⅔%

	A.	B.	C.	Total.
Unit cost of manufacture	2/6	5/-	10/-	
Addition to cover selling and administration expenses and profit (66⅔%)	1/8	3/4	6/8	
SELLING PRICES	4/2	8/4	16/8	
Estimated output	160,000	100,000	30,000	290,000
Estimated revenue	£33,333 6 8	£41,666 13 4	£25,000	£100,000

way connected with the system should thoroughly understand its working.

It is particularly important that executives making use of the figures obtained by costing should understand just how these figures are arrived at. A sales manager who is investigating the possibilities of a new line may not wish to give very much information to the cost clerks regarding the idea upon which he is working —there may be some good reason for not disclosing the project until the final arrangements have been made—and in using figures given him by the cost clerks as the basis of his calculations, he must be fully conversant with their nature.

Executives and Cost Statistics.

In the same way the works manager using costing figures in comparing alternative methods of production must know the quantities upon which the calculations have been based, and what overhead charges have been allowed for.

It is a common occurrence to find that the cost clerks' knowledge is limited to the records which they themselves keep, so that they are unable to visualize the system as a whole, and the possibility of their making errors, or omitting to detect errors made by others, is greatly increased.

It is always worth while to prepare charts, illustrating the costing system as a whole, for distribution to the clerks working on the records, and to the executives using the figures obtained.

Having satisfied themselves that the employees thoroughly understand the costing system and their respective duties, the executives responsible for the efficiency of the system should see that these duties are carried out in a conscientious manner. Carelessness on the part of the employees concerned may defeat the whole purpose of the system, and the behaviour of those responsible for the issue of materials from stores must be watched especially.

Reasons for Vigilance.

It is imperative that all materials issued against requisition tickets be correctly weighed or counted and properly recorded. If guesswork is tolerated, differences in stock cannot be avoided, for an employee will generally be consistently over or under in estimating quantities, with the result that the differences either way rapidly accumulate.

The stores assistants will have no excuse for guesswork if

proper weighing machines are provided, and the stores are arranged in such a way that the counting out of supplies is facilitated.

Materials should be purchased in packings of convenient size, so that they can be handled easily and the work of weighing and counting is reduced as much as possible.

Waste matter and by-products will also need careful attention. Waste which is valueless or is only saleable as scrap need not be recorded as stock, the proceeds of any sale made being treated as a deduction from the factory overhead expenses.

Treatment of Waste and By-Products.

Waste which has a staple market value, or which can be used in another operation, and by-products must be taken into stock in the same way as manufactured goods. Under these circumstances, the machine operation card or job card covering the process must bear the quantities of waste or by-products, and these quantities will be carried through the summaries to the cost ledger account. Here columns will be provided for each class of waste, so that they are posted to stock ledger accounts at a fair value.

The value placed upon the waste and by-products should be either the price at which they could be sold, less the usual reserve for selling and administrative expenses and profit, or the price at which they could be purchased outside—whichever is the lower.

Packing materials may upset the costing figures if they are not properly dealt with. All packing materials should be taken into stock, and should only be issued against requisition tickets. The cost of unit packings, i.e. tins, cartons, bottles, packets, etc., in which the goods are packed for stock, will be charged to the cost accounts for the various lines in the same way as the materials, but collective packings, i.e. cases, crates, etc., in which the goods are packed for conveyance to the customer, will be charged to a " packing account," which will come under the classification of " selling expenses."

Packing Materials.

If a charge for these packings is made to the customer, the amount of the charge will be credited to the " packing account."

When packings are returned by the customer for credit they must be taken back into stock at cost prices, therefore it will be necessary to debit the " packing account " with the amounts allowed to the customer, and credit it with the cost prices at which

the packings are taken back into stock. It is assumed that the packings are charged to the customer at a price in excess of the cost, this being the general practice.

A few words must be said about the control of the costing system. The executive in charge—he will usually be called the "cost accountant"—will need to be in close touch with the actual factory operations, and to have a far greater knowledge of the production methods and problems than an accountant in charge of the records of a factory where no costing system is in operation.

The Cost Accountant's Relation to the Factory.

Unless the cost accountant is fully conversant with the manufacturing processes, he will be unable to profit by the lessons which the costing figures teach, and a great deal of the benefit to be derived from them will be lost.

The first introduction of a costing system is a very difficult problem, and considerable time and money will be wasted if the point of view of the technical side of the business is not fully considered.

It is unwise to leave the planning of the system entirely to an accountant whose experience has been confined to the financial side of the business, or to an outside accountant who has even less knowledge of the factory operations.

A system evolved in these circumstances may give the final figures which will meet the requirements of the administration, but may not be of service to the factory executives, who should be able to look to the costing system for guidance and assistance in deciding upon the actual means of production, and in determining the relative efficiency of the men, materials, machines, and methods employed.

CHAPTER XV

OUTSIDE SERVICE WORK

In a large number of industries, firms must undertake work outside their own premises, either as a main feature of their business, as in the case of building contractors, or as an auxiliary service to customers, as in the case of machinery suppliers.

The terms upon which this outside work is undertaken and the way in which it is carried out will need special consideration, whether the work is the erection of a building or a minor repair to a typewriter, since a number of problems arise which are not encountered in connection with work carried out in the contractor's premises.

The first question to be considered is the basis of the charges made to the customers. In the majority of cases, the charges will be arrived at by calculating the cost of labour and material, and adding to this an amount intended to cover the overhead expenses and to allow for a reasonable margin of profit. If the work is undertaken on a "cost plus percentage for profit" basis, or if no quotation is made to the customer, these calculations will be made when the job is finished and upon the basis of actual experience.

Basis of Charges to Customers.

If the amount of the charge must be fixed before the work is commenced, the calculations will be based upon estimates.

The cost of the labour and material used upon the various jobs can easily be ascertained if separate cost accounts are maintained in respect of each one of them, the practice being the same as that prescribed for inside work in the previous chapter.

A number of overhead expenses, which would be charged indirectly in the case of inside work, will be chargeable directly to outside work. The wages and expenses of foremen, timekeepers, watchmen, and inspectors will be costed out in the same way as those of the manual workers, because the actual time which these employees spend upon each job will be known.

The Ascertainment of Costs.

Local works offices may have to be maintained at the scene of operations, if the amount of clerical work involved is considerable, and the cost of these offices will also be charged directly to the jobs.

Plant and tackle standing on capital accounts in the firm's books may have to be sent to the sites for use on the jobs. It will then be necessary to charge each job with the hire of this, the charge being based upon the rate of depreciation or "life" of the equipment.

For example, a concrete mixer costing £260, and estimated to have an effective life of five years, would be charged to the job at the rate of £1 per week, plus an addition to cover the cost of repairs or spare parts, if these were necessary.

If this method of costing were adopted, the overhead expenses to be charged indirectly to the jobs would include the latter's proportion of the cost of maintaining the administrative offices and depots, the idle time of the employees, and of the plant and equipment.

Charging Indirect Overheads.

These overhead expenses would not vary in accordance with the amount of work on hand. The administrative expenses would be increased by a rush of work, but the idle time of the men and machines would be increased by a shortage of work.

In preparing the final costing figures, for the purpose of ascertaining the actual profit made upon a job, it would be correct to charge these overhead expenses in proportion to the value of the job in relation to the total contemporary work, but in preparing quotations for submission to customers such a policy would be dangerous, as it would increase the quotations at times when work was most needed and competition was most keen, and decrease the quotations when business was brisk.

Quotations: A Dangerous Policy.

In the same way, when charging customers on a cost plus profit percentage basis, it would be unfair and a bad business policy to penalize them for the fact that their work was carried out during a slack time. On the other hand, there might be no need to extend to them the benefits consequent upon a rush of work.

The percentage chargeable in fixing prices is, therefore, dependent more upon principle than actual overhead cost. It will, of course, be the object of every contractor to keep this percentage as low as possible, since the figures obtained by its application will, in most cases, be the main difference between quotations submitted by rival contractors.

The "Profit" Percentage.

In some industries the "profit" percentage is fixed by custom,

being varied only to meet general conditions prevailing in the industry as a whole.

The preparation of quotations will call for the services of an expert, who must make careful inquiries, not only into the nature of the work which must be undertaken, but also into the conditions under which it must be carried out.

Special Circumstances Affecting Outside Work.

The conduct of outside work is liable to be affected by many circumstances over which the contractor has no control. With building construction, the weather, the local transport facilities, the supply and cost of casual labour, the attitude of the local government body and public service companies, may all affect the carrying out of the contract.

In installing machinery in a customer's office, the routine of that office, the provision of the power required, and the local by-laws will have to be considered.

Actual experience of a job carried out under similar conditions is the best basis to go upon, and contractors should make a close study of the circumstances which occasion delay in the completion of their jobs, so that if a similar contract is encountered, precautions can be taken against such delays and, if necessary, a reserve can be made for contingencies by an addition to the quotation.

Twin Pitfalls in Quotations.

It is no exaggeration to say that the success of a contractor's business is dependent upon the accuracy of the quotations made to prospective customers. Over-caution in preparing quotations may result in contracts being lost to competition, while to under-estimate the cost of the work may result in a direct loss being incurred.

Great care must be taken to ascertain correctly the customer's requirements, otherwise additional expense may be incurred in making alterations, or the work may be held up during the discussion of questions which should have been finally settled before work was commenced.

Quotations and Estimates Distinguished.

In many industries a quotation is called an "estimate," but distinction must be made between the two forms of offer. Strictly speaking, a contractor who suggests to his customer the amount which he estimates a job will cost, is entitled to charge the actual cost of the job, plus his profit percentage, without regard to the estimate.

If, therefore, the job is of such a nature that the cost cannot be closely forecasted, an estimate, in the correct sense of the word, should be submitted, it being made clear to the customer that this estimate must not be regarded as a definite quotation. Should there be any danger of the contract being lost if these terms are insisted upon, a maximum figure can be arranged, so that the customer places a limit upon the extent of his liability.

A contractor will often be called upon to guarantee to carry out his work within a certain time, and to pay a fine of so much per extra day in the event of his failing to complete the work in the time specified.

Guarantees and Penalties.

It goes without saying that a contractor should not enter into arrangements of this kind without safeguarding himself against loss from circumstances outside his control. His guarantee should not make him responsible for delays occasioned by strikes, lock-outs, fire, storm, or war. It may also be necessary to name an independent referee who will decide whether or not the contract has been properly carried out, so that there can be no fear of a misunderstanding arising, or of the customer making frivolous excuses for not acknowledging the contract as completed.

It is an important matter that the date of completing the contract be formally acknowledged either by the customer, his surveyor, or an appointed referee, even if there has been no undertaking to complete the work by a certain date.

The contractor will need to be relieved of his responsibility towards the customer as soon as the work is finished.

An accident may easily happen to a building or a machine after it has been erected and handed over to the customer, and in the absence of a formal release the contractor might find it a difficult matter to prove that he carried out his undertaking.

Date of Completion: An Important Consideration.

Apart from this, the date of completion will usually be taken as the basis in calculating the date of payment. Here, again, it may be advisable for the contractor to insist upon a referee being appointed, otherwise the customer may take advantage of insignificant omissions or deviations from the specification in order to delay payment.

With contracts which call for a considerable outlay on the part

of the contractor, it is customary for a surveyor to be appointed as referee, with power to grant to the contractor certificates entitling the latter to payments on account as the work proceeds.

Payments on Account.

A large firm of contractors, carrying out small jobs, may be compelled to charge for these at prices which bring little or no contribution to their overhead expenses.

Builders who wish to keep out competition, by obtaining all the work of their customers, will have to carry out minor repairs at prices which compare favourably with those of small firms, whose overhead charges are negligible.

Machinery suppliers can rarely make their service department self-supporting. A man's work in a typewriter factory may be worth five shillings an hour to his employers, but if he is sent out to make an adjustment to a machine, it may only be possible to charge a shilling or two for a visit which necessitates the man being away from the factory for an hour, and calls for an expenditure on travelling.

Unremunerative Service Departments.

Apart from the fact that service charges which appear to be excessive may prejudice the user against a machine, there is the danger that the user will allow novices to undertake the repairs in order to save expense, with the result that the efficiency of the machine is jeopardized and the prestige of its suppliers adversely affected.

In order to avoid controversies upon the subject of charges for repairs, many machinery suppliers undertake to carry out repair work, free of charge, for a certain period after the machine is supplied.

This policy often represents an economy, because the nominal amounts which could be charged for the repair work would not offset the cost of invoicing and collecting the accounts.

The organization of the department dealing with outside work, which may be called the " service department," will vary according to the proportion which the outside work has to the operations of the business as a whole.

Variable Organization of the Service Department.

If the majority of the contractor's work is carried on outside his premises, the service department will have control of the staff, and the responsibility for keeping the men employed.

In such cases the volume of work must be kept as steady as

possible, in order to maintain a regular force of skilled employees, and at the same time reduce to a minimum the amount of idle time. The aim of the service department will then be to obtain or provide a number of " stock jobs," which can be carried out when there are no urgent jobs to engage the staff.

Contractors will frequently offer regular customers the benefit of specially favourable terms if their work can be carried out at odd times, or undertake work on their own account to keep their men employed. Builders will erect houses in spare time for sale on completion, and engineers will purchase machinery for overhaul and resale.

When the outside work is only an auxiliary to the general business the service department will be able to draw its men from the works staff, and to arrange its work programme with greater ease, although it will still be necessary to keep the volume of outside work as steady as possible, so that the inside operations are not hindered by numbers of men being called away or drafted back at short notice.

The clerical work necessary in connection with the outside work will include—

Clerical Work and Method.

Recording the customers' orders.
Indexing the jobs waiting attention.
Issuing the service instructions to the men.
Indexing the jobs which are in course of completion.
Preparing the invoices to the customers.

The following system is recommended as a simple method of accomplishing this work by the use of one " service instruction " form similar to that illustrated on page 252.

These forms must be printed in duplicate and numbered consecutively. They will be prepared from the customers' orders as soon as these are received.

Full particulars of the work undertaken must be recorded on both copies of the form, and this can be done in one operation by the use of carbon paper. If additional space is required for these particulars, they can be continued on the back of the form or on plain continuation sheets.

When the work calls for the attention of a particular employee, or must be carried out on a particular day, this must be stated on the form.

The form will be completed for the time being by noting the number, trade, and grade of the men who will be required, the items of plant which will be necessary, and the approximate time which the work will take.

After this preparation the forms will be filed away in a "jobs awaiting attention" file, the two copies of each being fastened together by a metal clip.

They will be arranged in this file in order of precedence of execution, so that the work which must next be undertaken can be readily ascertained.

If the number of jobs dealt with is large, cards or stiff paper should be used for the duplicate copies. The "jobs awaiting attention" file can then be kept in the form of a card index.

When a job is about to be commenced the form will be removed from the file, and the names of the men detailed for its execution will be entered on both copies, with the date and time at which work must be commenced. The plant selected for use on the job will also be identified, and the time at which it must be available will be entered.

Service Instruction Routine.

The original copy will then be given to the charge hand, so that he can collect his men and plant and proceed with the work. The duplicate will be filed in a "jobs under way" index.

The forms in this index will be arranged in the order in which the jobs should be finished. This will draw attention to any job which is taking longer than was expected, and at the same time will show which men should next be available for fresh work.

The man in charge of each job will be called upon to make a daily report, notifying the progress made and giving the name of any man, or description of any item of plant, that can be dispensed with in the near future, so far as the particular job is concerned, and the date when they will be free.

Charge Hand's Daily Report.

The service manager can then make his advance arrangements for the employment of these men, and the instructions for the next job will be ready for them as soon as they are free to take up fresh work. He can also arrange for the transfer of the plant.

As each man or item of plant is taken from the job, the time of transfer will be recorded on the original copy by the charge hand, and on the duplicate copy by a clerk in the office.

When the job is completed the charge hand will give up his original copy of the " service instruction," signed by the customer as a certificate of completion. The time occupied on the job as recorded by the charge hand should be checked with the time recorded by the office staff on the duplicate copy. The original copies should be filed away in a " jobs completed " file in alphabetical order, under the names of the customers, so that they can be referred to if any query should arise. The cost of the job will be calculated on the duplicate copy, and the percentage to cover overhead expenses and profit added to arrive at the amount chargeable to the customer.

Routine on Completion.

In the example given on the next page, the amount charged in respect of one day's use of the steam wagon would cover depreciation, insurance and taxation and the driver's wages.

The amount charged as " mileage " in the extreme right-hand column would cover the cost of fuel, oil, tyres, and other running expenses, and would be based upon the number of miles run by the steam wagon on the job, not upon the number of hours worked. In charging the cost of using vehicles, distinction must always be made between these two classes of expense.

If the charge for a job is fixed before the work is commenced, the amount of the quotation must be noted on the duplicate copy at the time of the preparation of the " service instruction."

In such cases, the charge which would have been made, had the work been carried out on a cost plus percentage for overhead expenses and profit basis, should still be ascertained, as has been done in the example. This will act as a check upon the accuracy of the quotations, and form a basis for future quotations. Either the word " charge " or " quoted " should be struck out on the service instruction form, so that there is no fear of the wrong figure being invoiced.

Checking the Accuracy of Quotations.

Many contractors are content to base their quotations upon previous estimates which have obtained orders, and do not trouble to find the cost of jobs which have been quoted for. Because of this, they are at a great disadvantage in competing with the contractor who uses actual cost figures resulting from previous experience. The jobs obtained by the contractor who works " in the dark," as regards his quotations, will be those for which he

SERVICE INSTRUCTION FORM
(In Duplicate)

Date Service is required . *25th March, 1926* . . No. 12976

Customer ... ..*J. Anderson, Esq.* .. Date and Nature of Order *Letter 9/3/26*

Remove entire contents of house (6 rooms)

" Woodlands," Sunderland Road, to 97 Newcastle Avenue

Men Employed.	Commenced.	Finished	Days.	Hours.	Signature of Charge Hand.
	25th	*25th*			
Foreman—Jones	*8 a.m.*	*5 p.m.*	*1*		
Carpenter—Miller	*3 p.m.*	*5 p.m.*		*2*	*Fred Jones*
3 Labourers. Grant	*8 a.m.*	*5 p.m.*	*1*		
Fowler	*8 a.m.*	*5 p.m.*	*1*		
Brown	*8 a.m.*	*12 noon*		*4*	The above work has been carried out to my satisfaction
Plant Used					
1 Steamer, No. 6 (Driver Harris)	*8 a.m.*	*5 p.m.*	*1*		*Jas. Anderson*
1 Trailer, No. 28	*8 a.m.*	*12 noon*		*4*	Customer

ORIGINAL

ch, 1926 . No. 12976

ate and Nature of Order *Letter, 9/3/26*

oms) Invoice No

97 Newcastle Avenue *B 6391*

Days	Hours	£	s	d		£	s.	d
1		*1*	–	–	Brought fwd	*4*	*12*	*6*
	2		*4*	*6*	Outpockets—			
1			*12*	–	Mileage . .	*2*	–	–
1			*12*	–	Casual Labour	*1*	–	–
	4		*6*	–	Sundries . .		*10*	–
					Cost . .	*8*	*2*	*6*
1		*1*	*10*	–	Overheads and Profit			
	4		*8*	–	*20%*	*1*	*12*	*6*
					~~Charge~~	*9*	*15*	–
					if not			
c/f		*4*	*12*	*6*	Quoted	*10*	–	–

DUPLICATE

has underquoted, so that his margin for overhead expenses and profit will gradually decrease until he finds he is making a loss.

The duplicate copy will give all the particulars necessary for the preparation of the invoice, and can be used as the office copy. In this event the duplicates will be filed away in the order of invoicing as vouchers to the day book. The number of the invoice must be recorded on the duplicate " service instruction " form.

With the use of this system there will be no fear of men misunderstanding their instructions, as is often the case when verbal orders are relied upon, or of men arriving back at the works unexpectedly and hanging about while a fresh job is found for them.

Advantages of the System.

The fact that the time occupied upon the job is given on the form which the customer is asked to sign, will prevent arguments with the customer on this question after the invoice is presented, and will act as a safeguard against men charging more hours to a job than those actually spent on it.

When the number of jobs undertaken is large, it will be advisable to keep a record of the " service instruction " forms.

For this purpose a book should be used giving columns for entering the number of the form, the name of the customer, the date of the order, the date of commencing work and of completion, and the number of the invoice.

Service Instruction Record.

If this book is written up at each stage of the service instruction routine, it will act as a diary, and periodical scrutiny will ensure every order being executed and every job being charged for.

If the outside work is merely an auxiliary service to the customers, there may be a number of jobs which can be carried out, wholly or partly, at the works, instead of in the customer's premises.

Outside Jobs in the Workshop.

Generally speaking, as much of the work as is possible should be done in the contractor's workshop. The men will then be working under closer supervision, and there will be less likelihood of difficult jobs being botched or patched up. They will, moreover, be free from any interference of the customer, his employees, or the conditions prevailing in his premises.

It is, for example, often an exceedingly difficult matter to repair a typewriter in a busy office, or a machine tool in a congested factory.

The plumber's mate who is continually returning to the workshop to do work in connection with an outside job is the subject of much ridicule, but he is acting in the best interests of his employer and the customer.

Workmen are greatly impeded if they are compelled to carry a large number of tools and appliances on the off chance of these being required. Some gas companies must send at least four men to attend to the smallest job, because their regulations insist upon a barrow load of paraphernalia being taken, and four men are required to push the barrow.

The larger contractors have men on the inside staff who carry out the workshop part of the outside jobs, but it is usually more convenient for the man who is working outside on the job to do whatever inside work is necessary. Every outside worker should, therefore, have the use of a properly equipped bench in the workshop, so that when it is necessary for him to work inside he does not interfere with other jobs.

When materials are required for an outside job the service department must estimate the quantities, requisition them from the stores, and arrange for their being dispatched to the site in good time, so that they are available when required.

Collecting Materials.

If the job is a large one it may be necessary to send the material by instalments. There will then be no need to purchase the material until it is actually required, and the site will not be overloaded.

In such cases a series of requisitions will be prepared, arranged in accordance with the programme of the job.

When work is carried out at a distance from headquarters, the local material market must be studied, as it may be possible to secure material near the site at less cost than that of the material in stock, plus the expense of packing, loading, and conveyance.

Looking Out for Economies.

In the same way it may be possible to effect economies by hiring plant and tackle locally.

The estimates of material required must err on the side of over requisitioning, in order to allow for waste, and there will usually be a remainder when the job is finished.

It will often be more advantageous to sell this surplus material

and even minor plant and tackle, locally rather than take it back to headquarters.

With long distance jobs the cost of alternative methods of conveyance must be carefully studied. Water transport is always the cheapest method of transport for long distances, and the contractor whose materials are bulky should look for routes by sea or canal.

The cheapest route is, however, not always the most economical in the long run. The cost of packing, loading, delivery, and unpacking must be considered.

With machinery it may be possible to send a consignment in sub-assemblies by road without packing it in cases, whereas it would have to be completely dismantled and packed in cases if sent by railway or water.

Advantages of Road Transport

Road transport usually presents the quickest method of conveying material, as delivery is made directly from depot to site. Any risk of breakage is minimized by the fact that it is only necessary to load and unload once. With railway or water transport, material may have to be transferred from one conveying unit to another a large number of times, and loading and unloading operations are very clumsily performed at many goods depots and docks through lack of proper equipment.

With minor jobs the material required may consist of small standard parts, as in the case of electrical, plumbing, or machinery repair work. In such cases it is customary to supply each workman with a stock of small supplies.

He will state upon the instruction forms which he returns to the office the quantity of supplies used on the jobs, and will keep his stock up to a " float," or fixed schedule of quantities, by requisitioning each morning parts replacing those used on the previous day.

Workmen's Supplies : " Floats."

With this system in operation it will be an easy matter to check the material used by a workman, by comparing his daily requisitions with the quantities shown on the returned instruction forms.

The supplies listed on the instruction forms will be priced and charged to the customers with the man's time.

It is often necessary to establish a table of seniority embracing the whole of the outside staff, length of service and proficiency, as

well as age, being taken into account in determining the status of each employee. Any two men can then be sent out on a job without controversies arising as to which of them should be in charge.

Gang Supervision: Authority of the Charge Hand.

The amount of authority vested in the charge hand will, of course, depend to a large extent upon the nature of the work and the size of the gang, but his authority should be sufficient to ensure his being able to maintain proper discipline.

Each gang of men working on a job should be regarded as a self-contained unit. It is dangerous to divide the outside staff into " departments," even if men of different trades are employed, although this plan is frequently adopted.

If men of two different trades, say, fitters and electricians, are sent to work on a job and are instructed to operate independently as representing two departments, the work of supervision is duplicated, and there is always the possibility of time being wasted through lack of co-operation between departments. It will often be very difficult to say just which work should be done by the fitters and which by the electricians, and controversies between the two will jeopardize the proper execution of the job.

If responsible charge hands can be obtained, the overhead expenses of the contractor will be considerably reduced.

The timekeeping can be left to a reliable charge hand, so that there is no need for the men to report to the workshop every morning and evening.

He can be entrusted to engage casual labour locally when it is necessary to supplement the regular staff, and can be allowed to arrange matters of minor importance with the customers.

It will, therefore, be worth while to pay wages which will attract the right type of man.

Men engaged for outside work must be selected with much more care than is necessary in the case of inside workmen.

The Right Type of Outdoor Employee.

They must have a certain amount of initiative, since they will frequently be isolated to a certain extent from the organization they represent, and questions calling for quick decision are bound to arise.

They must be conscientious workers with a pride in their work,

and a proper respect for their employer's interests. The outside worker will often be tempted to please the customer at his employer's expense by doing more work than the amount contracted for, perhaps with the object of earning a gratuity. Most contractors have good workers on their staff who are prone to this sort of conduct, and such men are very difficult to deal with.

The employer can, however, safeguard his interests considerably by employing these men as much as possible on those jobs which are carried out on a cost, plus percentage, basis. The customers will then have to pay for any extra work which they induce the men to perform.

There must be no doubt about the men's honesty if they are to be sent into customers' premises. The contractor will have at least a moral responsibility for any dishonest action of an employee.

Workmen's Honesty.

Few people care to make allegations against a man to his employer, but if a customer thinks he has been robbed by a contractor's employee, he is likely to mention the circumstances to a number of other customers.

The employment of one dishonest workman may seriously affect a contractor's business, without the contractor himself having any suspicion of what is taking place.

If, therefore, a man is found taking anything from a customer's premises, although the article may be of no commercial value, he should at least be severely reprimanded, and to avoid any misunderstanding workmen should be forbidden to use any customer's tools or materials in the execution of a job, unless their use is arranged for between the contractor and the customer.

The contractor may find it necessary to employ inspectors who will visit the jobs on completion, and see that everything is in order. This will not only satisfy the contractor that the work undertaken has been properly carried out, but also that nothing has been done which was not included in the contract, a safeguard against collusion between workmen and customers.

In most cases the inspector will be the representative who took the customer's instructions for the job. He will act as the contractor's "salesman," and should be able to bring in sufficient orders from the customers he deals with to offset a substantial proportion of his salary.

Inspector-Salesmen.

Inspectors should certainly be employed when competition is keen, because they will help the contractor to retain his regular customers, by keeping him in close touch with them.

On visiting the customer in the course of business, the inspector can note other jobs which will be necessary in the near future, and make another visit after an interval for the purpose of offering to do the work.

If a customer feels that a firm of contractors takes a polite interest in his affairs, he is not likely to place his orders elsewhere.

Expense Allowances.

Outside workers are usually paid at a higher rate than inside workers of the same grade, so that when inside men are sent out on jobs it is customary to supplement their wages, either directly by paying a higher rate per hour, or indirectly by paying an "outside allowance" or "meals allowance."

Employees sent away from their homes should be paid a fixed amount per day to cover their living expenses. This is a better plan than refunding their actual expenses, as it ensures every employee of the same grade being treated alike, and enables the cost of the distant jobs to be more correctly estimated.

Special Arrangements with Trade Unions.

In some industries the trade unions will not allow their members to work with non-union men, even if the non-union men are the employees of an outside contractor.

If the contractor serves customers in these industries, he will have to employ union members or make an arrangement with the trade union.

This arrangement will usually be a simple matter, provided the contractor accepts the union's conditions regarding wages rates and employment conditions.

A similar arrangement may have to be made if the contractor's men belong to a different trade union to that of the customer's men.

The contractor must be careful to cover men sent out on jobs with an adequate employer's liability insurance, as in most cases the risks attendant upon their employment are greater than those incurred in the workshop.

CHAPTER XVI

OFFICE ORGANIZATION

THE word "office" is usually associated with clerical work, but besides maintaining the records of the business an office organization must carry out many important operations which call for capable management.

The most important functions of the typical office organization are as follows—

Chief Functions of the Business Office.

Purchasing raw materials for the factory and/or merchandise for the trading stocks.

Arranging for the execution of the orders obtained by the sales organization.

Collecting the accounts due to the business for goods supplied or services rendered.

Banking the cash received, and paying the accounts due by the business, and the salaries, wages, and out of pocket expenses of the staff.

Recording the transactions and preparing accounts showing the trading results

In the case of a company, carrying out the secretarial work in connection with the registration of members and the conduct of meetings, and fulfilling the obligations imposed by statute.

Each of these functions has been made the subject of a separate chapter in the section of this book which follows.

The office organization must conduct all the operations which do not come within the scope of either the sales organization or the works organization, so that the extent of its powers and duties varies according to the relative importance of the other sections of the business.

In some cases certain of the operations listed above are performed by the sales or works organizations. For example, with those concerns which manufacture all their trading lines, the purchases are mainly restricted to raw materials, and in such cases the purchasing operations are often carried out by the works and not by the office. Similarly in the case of a concern which does

not manufacture or make any alteration in its trading lines, selling them just as they are purchased, the work of executing the customers' orders will often be carried out by the sales organization.

Clerical Work Performed by Sales and Works Departments.

Generally speaking, however, the sales and works forces should be relieved of clerical work, so that they can give their undivided attention to their respective tasks of obtaining business and producing merchandise.

The office should stand as a link between the works and the outside world, and between the works and the sales force; a counter over which all transactions must pass and be recorded in passing.

The office organization should, like the sales and works organizations, be under the control of one man, in order to ensure uniformity of policy and practice throughout the departments.

Control and Managership of the Office.

The work of the departments incorporated in the office is very dissimilar, so that it will hardly do for any departmental manager—the buyer, chief accountant, head cashier or registrar, for example—to be in command of the other departments.

The managership of an office is a position of sufficient importance to warrant the attention of a partner in the firm, or director of the company, as the case may be.

The executive occupying this position usually acts only in a supervisory capacity, undertaking no routine duties and refraining from personal contact with any outsider. It is advisable for the office manager to deal with outsiders through the medium of his departmental managers, because these managers are executives of some importance, who must be given more scope than the managers of the various departments which are incorporated in the sales and works organizations.

In establishing the routine of an office, careful consideration must be given to the arrangements made for dealing with the incoming mail, as the speed with which this is distributed will set the pace for all the departments.

Handling the Incoming Mail.

The following system is in operation in many large offices and can, with slight modification, be used to advantage in any class of business.

The task of opening all letters, telegrams, and cables is allotted to the personal assistants of the office manager, and no one else

is allowed to interfere with the mail in any way. The assistants chosen for this work must be responsible and of proved integrity, as the mail will contain money and negotiable documents, and they must not be connected with any operating department, otherwise there is a danger of complaints, or notices criticizing the work of the departments, being suppressed.

As each communication is opened it is marked with the time and date. Automatic stamping clocks are generally used for this purpose.

If a letter appears to be a reply to one written by the firm, or makes a reference to previous correspondence, the papers in question are obtained from the filing room and attached to the letter.

The correspondence is then looked over by the office manager himself, and he marks each communication with the name of the department or individual that must attend to it.

There will usually be a number of communications which do not need to go before the office manager. The assistants dealing with the post can be entrusted to send customers' orders to the order department, invoices and statements to the accounts department, remittances to the cashiers' department, and share transfers to the registrar's department, provided that these appear to be straightforward.

Routine Communications.

It is a good plan for the assistants opening the post to prepare separate lists of the remittances, customers' orders, and share transfers as these come to hand, and to send a copy of the appropriate list to each department concerned. This will act as a check upon the distribution of the mail, and draw attention to any document which is mislaid or sent to the wrong department.

The letters which come before the office manager may call for the attention of several departments, and he will need to state upon the letter the order in which it is to be dealt with by these departments.

Distributing the Mail.

It is a good plan to mark every letter with a rubber stamp, giving an impression similar to that shown in the margin of the next page. The office manager can then place a tick against the name of the department to which the letter must be taken, or, if the letter calls for the attention of more than one department, a series of numbers showing the way in which the letter is to be circulated.

Each person dealing with the letter should enter his initials in the space alongside the name of his department, and the letter should not be filed until it bears initials opposite every departmental name ticked or numbered by the office manager. The filing clerk should enter his initials in the space provided for the purpose at the foot of the stamp impression.

1	ORDER	*A. B.*
	SERVICE	
	ACCOUNTS	
2	CASHIERS	*J. S.*
	SALES	
	WORKS	
	MAN. DIRECTOR	
	FILED	*E L*

With this system in operation there will be no excuse for letters being unanswered, or for letters which call for the attention of more than one department being retained in the first department they are sent to.

The office manager must keep a close watch upon the outgoing mail, to see that all the departments are upholding the dignity and policy of the firm.

Outgoing Correspondence and the Dignity of the Firm.

In these days nearly all business letters are typed from dictation, carbon copies being kept for reference. This being the case, the office manager can watch the outgoing correspondence by going through, each morning, the carbon copies of the letters sent out on the previous day.

There is no objection to each member of the office staff dictating the letters connected with his work, provided that he is able to express himself clearly and concisely, and that he is familiar with the policies and practices of the firm.

It is, however, often made a rule that only the head of a department may sign letters, in order to give him an opportunity of scrutinizing those written by his assistants. The observance of this rule will prevent an inexperienced junior from writing letters which will offend customers, or embarrass the firm in its relations with its suppliers.

A business house is judged to a very large extent by the letters it sends out, since in many cases the people dealt with have no other basis from which they can infer the status and power of the house.

The impression which a letter gives is created as much by its

appearance as by the wording, therefore the notepaper used must be of good quality, the headings must be dignified, and the letters must be typed in a neat and uniform style.

Points that Leave a Good Impression.

The shorthand-typists and others working on the correspondence should be of fairly good education, clean and tidy in their work, and they should all be made to use the same layout and style of typing.

It is the rule in most businesses that every letter should bear the initials of the person who dictated it and of the person who typed it. This not only fixes the responsibility for the dictation, but also makes it possible to refer to the shorthand notes in case of need. The typists should be instructed to arrange their shorthand note-books neatly, with the date at the beginning of each day's notes, and the name of the person written to in block capitals at the beginning of each letter. They should keep their shorthand notebooks for some time after the books are filled, in case it should be necessary to refer to the notes.

Keeping Shorthand Notes for Reference.

In most offices the typists are dispersed throughout the departments, each girl being given more or less regular duties, but a few of the larger offices have recently established a system of " pool " typing, the girls being grouped together in one stenographers' department under the control of a supervisor, who gives out the work and sends the girls to the various departments as dictation work is required. The idea of pool typewriting, applied without distinction, is a reversion to the days when a girl was not supposed to be capable of taking up a more responsible position than that of a shorthand-typist.

" Pool " Typing.

Pooling the work gives the girls practically no chance to better their positions, and this makes for an increase in the changes in personnel, which represents a loss to the house. As soon as the girls have become proficient in shorthand-typing they will seek positions which offer prospects of advancement.

The only circumstances under which pool typewriting may be an advantage are when the majority of the typists' work consists of statistical work or circulars, as distinct from shorthand-typing. It is then very convenient to have all the typists in one room and under one supervisor.

In the ordinary way, however, the girl who knows something of the work of a department can be of considerable assistance to the manager, as she should be able to answer a fair proportion of the letters received upon short instructions, without the necessity for dictation.

Personal Secretaries.

The chief executives of a business house will usually have personal secretaries, who will not only deal with their correspondence, but also arrange their appointments and keep their papers in order. A business executive should, however, be careful not to be dependent to too great an extent upon one secretary. He is usually better off with the part services of two secretaries than with the exclusive services of one secretary, as his work will then be more easily coped with at times of pressure of business, and he will not be inconvenienced by the holidays of his secretary.

Daily Correspondence Reports.

The departments of some business houses are called upon to make a daily correspondence report to the office manager, giving a précis of all letters received and written. These reports make it unnecessary for the office manager to go through the incoming mail or the carbon copies of the letters sent out. If the précis of a letter interests him, he can always call for the original or carbon copy, as the case may be.

Daily correspondence reports are a necessity when the office manager is not in attendance at the office regularly every morning, as the correspondence cannot be held from the departments, or the carbon copies from the files, pending his attendance.

At the same time, the amount of work required for their preparation is considerable, and a departmental manager is able to conceal points which reflect upon his conduct and which would be disclosed by the actual correspondence. Such reports cannot, therefore, be considered as a good alternative to a direct supervision.

The Internal "Post Office": Avoiding the Last Minute Rush.

If the outgoing mail is large it may be advisable to establish an internal "post office," in which the letters and enclosures will be assembled, sealed, and stamped ready for posting. The letters should then be sent to this "post office" as soon as they have been signed, and as much of the correspondence as can be made ready should be sent off early in the day.

In too many offices the post is dealt with in a last minute rush, by juniors whose one desire is to get home as quickly as possible.

It is under these circumstances that enclosures are damaged or put into wrong envelopes, and that letters are improperly sealed and insufficiently stamped. Every letter should be marked in the left-hand lower corner with a brief description of the enclosures, if any, or, as an alternative, seals bearing a distinctive number should be attached to each letter and enclosure which must go through the post together.

Another important matter which must engage the attention of the office manager is the filing system.

The files of correspondence should not be spread throughout the departments; they should all be kept in a central filing room, and one or more assistants should be detailed to look after them as a regular duty. In an office of any size the filing room should be arranged like a public library, with a counter at which clerks from the various departments must apply for the files they require. If *anyone* is allowed to go to the filing cabinets and take what he wants, confusion is bound to result, and the filing clerks cannot be blamed.

The Filing System: A Suggestion for Large Offices.

It is generally considered that the vertical steel filing cabinet is the best receptacle for the files. These cabinets take up the minimum amount of floor space, and are so standardized in construction that the units can be arranged in any formation. The drawers run easily on roller bearings, and can be pulled out to their full extent without tipping.

The Vertical Steel Filing Cabinet.

The files themselves are best arranged in strict alphabetical order, without the use of index numbers. There are several systems of indexing by numbers available, but it is generally found that such systems cause a considerable waste of time, without offering any material advantage.

Alphabetical v. Numerical Indexing.

The strict alphabetical system, with the names arranged in the same order as they would appear in a telephone directory, is more flexible and the files can be divided into sections, or "thinned out" by the removal of old papers, without difficulty.

With the numerical index systems, the files must be renumbered

and a new index must be prepared if the files are divided or thinned out.

The office manager should rebuke any member of the staff who withholds papers from the files. In most offices there are to be found men who are prone to accumulate a deskful of papers, sometimes because they may require the papers again and do not wish to go to the trouble of recovering them from the filing room, sometimes because they are dilatory in dealing with their correspondence, and sometimes because they believe that the fact that their desks are loaded with papers will give the impression that they are busy.

Hoarding Correspondence

Of course, if the filing system is faulty, as is so often the case, the executives may have a very good excuse for withholding correspondence they may need again.

On the other hand, if the filing system is efficient, the executives should be encouraged to use it as a " memory tickler," by marking with instructions to that effect papers which must be brought back to them on a certain date.

Making the Filing System a " Memory Tickler."

For example, an export manager makes a quotation to a prospective customer in Canada on the 5th June, 1926, and wishes to write again if he does not hear from the prospect within one month. He will mark the correspondence with the words " Wanted by Export Manager on 5th July, 1926." In order to cope with such requests the filing clerks keep a card index with a card for each day in the year. Upon the card for the 5th July, 1926, they would note the fact that a certain file was required by the Export Manager, and when the day arrived the file would be taken to him. Such an arrangement is a very great help to the executives, and takes away from them any excuse for hoarding correspondence.

Whenever a paper is given out to a department a note to that effect should be inserted in the place from which the paper has been taken.

There may be a number of letters which are of such importance that they must be kept in the safe or strong room. In such cases a note should be inserted in the appropriate file saying where the letter in question is to be found.

It is often desirable for each department to use paper of a different colour for the carbon copies of its letters, so that the search for

a copy letter in a correspondence file will be narrowed down to the copies on paper of a particular colour.

In many industries, business of considerable importance is transacted at interviews or over the telephone. It is a good plan for all verbal arrangements to be confirmed by letter, but if this is not considered advisable a note, giving the gist of the conversation, should be sent to the filing room for insertion in the appropriate file.

Confirmation of Telephone Messages and Telegrams.

Telegrams should also be confirmed by letter, or at least a copy of the telegram should be sent by letter post at the first opportunity.

With a business of any size it may be necessary for correspondence to be exchanged between departments. In such cases the memos should be treated in the same way as letters, inasmuch as they should all be signed by the manager of the department from which they emanate, and carbon copies should go before the office manager and afterwards be retained in the filing room.

Inter-Departmental Correspondence

The expense of dictating and typing a letter is considerable, when the time of the persons occupied is taken into account, and the expense of an inter-departmental memo is, of course, just as great, so that the office manager should watch the inter-departmental correspondence closely, and restrain any department which is inclined to write frivolous or unnecessary memos.

Office premises must be carefully planned and equipped, with three main objects in view.

The first object is to have the offices arranged in such a way that the departments which come in contact with each other most often will adjoin one another, and the filing, post, stenographers, and telephone rooms will be in a central position. The second object is to provide the office staff with healthy and pleasant surroundings by careful attention to the furnishing, lighting, ventilation, sanitation, cleaning, and heating of the premises.

Layout and Equipment of the Office.

The office worker is not protected by law from unhealthy working conditions, as are manual workers by the Factory Act, but it should not be necessary to bring legal pressure upon an employer to make his offices a fit place to work in.

Anyone who has to visit a number of offices regularly will notice

that in offices where the working conditions are favourable the staff is, on the whole, alert and business-like, whereas in offices where the conditions are objectionable the staff is dull, laggard, and discontented. The employer who pays attention to the accommodation of his office staff is, therefore, acting in his own interests.

The third object is to create a good impression upon visitors to the office, and to provide for their proper reception. Every office should have an entrance in keeping with the dignity of the house, with a doorkeeper to attend to callers, and one or more private rooms should be used exclusively for interviews. It is often very inconvenient for a manager to interview a stranger in the former's own room, as he may have papers of a confidential nature about the room, or may have to discuss embarrassing matters over the telephone during the interview. If a visitor is dealt with by an assistant, he may not like transacting business in the main office, where there is no privacy and the environment is disturbing.

Private Rooms for Interviews.

The introduction of typewriters, calculating, adding, bookkeeping, and other machines into offices has had the effect of making them noisy, and this noise is a great strain on the workers.

The Strain of Noisy Modern Offices.

In considering the relative merits of competitive office machines, the amount of noise they make should be taken into account, and if any accessories can be used to reduce the sound these should be obtained. At the same time such machines should be kept out of the main offices and installed in isolated rooms, so that the area of disturbance is reduced to a minimum.

Full advantage should be taken of the telephone, both as a means of communication with the outside world, and as a link between the various sections of the office.

Use of the Telephone.

It is important that there should be a switchboard, with a sufficient number of exchange lines and internal connections, under the control of an operator who is conversant not only with the use of the apparatus, but also with the office routine and the duties of the various executives. In other words, the operator should be able to connect a caller at once with the person competent to deal with the matter, without having to annoy the caller with a number of questions.

The executives should advise the telephone operator of their movements each time they leave their rooms, so that they can be traced if necessary.

Secret Telephone Lines.

Many firms keep one of their exchange lines a secret, by not mentioning the number on their letter headings, etc., or in the telephone directory. This secret line is used by the branches of the firm or by salesmen and other employees whose work takes them away from the office. If a line is reserved in this way there will be less fear of an employee finding "all numbers engaged," when he wishes to consult his superior at the office upon an urgent matter.

The Office Reference Library.

The office should be equipped with a small reference library, where such books as dictionaries, bilingual vocabularies, directories, atlases, gazetteers, code indexes, railway guides, and encyclopaedias can be obtained. The filing room is suggested as an appropriate place for this library.

The Employer's Policy in Relation to Office Workers.

The trader's policy in dealing with his office workers, and his practice in regard to their engagement, education, and advancement will be very similar to those prescribed for the treatment of manual workers in the chapter on "Labour." He must, however, exercise more care in engaging office workers, seeking the qualities of integrity, loyalty, and discretion, and he must be careful to treat the staff in such a way that these qualities are preserved.

The trader should incite the interest of his office workers in the operations of the business as a whole, and encourage them to acquire a superficial knowledge of the technical side of the business. They will then be able to carry out their allotted tasks in an intelligent manner, and will know the relative importance of their various duties.

CHAPTER XVII

PURCHASING

IT has been said that a merchant makes his profit when he buys goods, and takes it when he sells them. Certainly, the purchasing staff of a business has more opportunity to earn profits or create losses than the selling staff, whose efforts are restricted to obtaining the best price they can for the goods which the purchase department gives them to sell, and whose policy must be framed on the selling points brought forward by the purchase department. The latter department is in closer touch with the actual goods and must sell them, in theory, before they are purchased.

The Two Classes of Purchases.

The buyer for a firm offering a range of merchandise to its customers can usually divide his purchases under two headings, i.e. regular lines, or materials for the manufacture of them—representing the bulk of the firm's business—and special lines introduced to extend the business and for the convenience of customers.

Purchases under the first heading will be made in accordance with a carefully determined selling or manufacturing policy. Orders will be placed upon the basis of requisitions from the factory or stores, and the purchase department will only be concerned with obtaining the exact goods required at the lowest possible price, and with checking the stocks regularly to see that they are kept as nearly as possible to a prescribed average.

Purchases of special lines will be made with less regard to the profit obtainable, and more for the service given to customers. These lines are intended to give an introduction to new customers who may be expected to stock the regular lines at a later date, and to protect existing connections by making it unnecessary for regular customers to open accounts with competitors.

Buying Policy for Special Lines.

It is a very common practice for firms to sell side lines at a price which shows them no profit at all, simply to gain an entry into business houses which cannot be induced to open an account for the regular lines offered.

In making purchases of special lines the buyer will keep in close touch with the selling staff, and be guided by their

experience in the field; but here there is need for initiative and sound judgment, coupled with a proper regard for the policy of the house.

The points to be considered in making such purchases can be summarized as follows—

Scope for the line and the possibilities of its becoming a regular one.

Quality and reputation of the supplier.

Price and terms of payment.

Quantity, packing, and labelling.

The question of the suitability of merchandise for the trade of the firm is always important. A new line suggested may show a larger margin of profit than lines already stocked, and may be considered likely to introduce new customers, but if it clashes in any way with the regular trading lines, this difficulty will outweigh any advantages which may be claimed for the innovation.

For example, a wholesale firm serving high class grocers with preserves sold at comparatively high retail prices, but which have earned a reputation for quality, may seriously injure its business by marketing a cheap line of jam which, while showing a good profit to both wholesaler and retailer, may give the impression that the wholesaler's general class of business is deteriorating, and will frighten away customers who fear that the quality of the lines they already stock may be affected.

The Purchase Department.

The natural division of purchases into two classes, i.e. those made as the result of a requisition, and those made upon the initiative of the buyer, calls for a purchase department devoted to the work of checking requisitions and placing orders.

When such a department exists, every purchase should pass through its hands, and no other department should be allowed to call directly to an outside source for supplies.

It is customary in business houses of any size to provide a form of requisition, which can be used by every department in notifying its requirements to the purchase department.

On the next page a form of requisition in common use is illustrated. This form can be used for any requirement, and it will be noticed that it calls for details of the stock on hand, and the maximum and minimum stocks fixed for the particular material or line.

REQUISITION

29/36

Date *22nd February, 1926*

To PURCHASING DEPARTMENT—

Please obtain for :

Stock

the following Goods—

Stock in Hand :

15 tons.

Stock Maximum :

30 tons

Stock Minimum :

10 tons

15 tons Stove Coal

J. B. Lewis

Manager, *Stores* ...Department.

Ordered from *Valley Colliery*

Order No. *T.296*

R. Mitchell

Manager, Purchasing Department.

The fixing of these maximum and minimum stocks will be a duty of the purchase department, acting in co-operation with the department responsible for the stock, and the efficiency of the system will depend upon their being carefully calculated and faithfully adhered to. They will, of course, be periodically revised to ensure their proper relation to the turnover of the stock.

These figures are given upon the requisition form, so that the buyer will be in a position to check the quantities called for, and to guard against any understocking or overstocking through bad judgment on the part of the departmental manager who submits the requisition.

Works Requisitions.

The requisitions are usually issued to the departments in duplicate books, so that they may retain a carbon copy of all requests for supplies—a precaution against the same goods being called for twice.

After satisfying himself that the requisition is in order, the buyer will seek the best source of supply.

It is essential that there be available in the purchase department information enabling the buyer to ascertain quickly the current quotations of the various firms offering the regular lines or materials for their manufacture, and enabling him to obtain a supply of any special line called for by a customer or department.

The first requirement may be met by a price index, a loose-leaf book in which a sheet is given to every article or material in constant demand. The sheet will be headed with the name of the article or material and the quantities and packing in which it is bought. A column is provided at the left-hand side for the names of the various suppliers, and price columns in which the fluctuations can be recorded cover the rest of the sheet.

Current Price Index.

This price index will be written up from quotations received from time to time, as it is the usual practice to ask firms, offering to supply goods called for regularly, to notify all changes in price.

The information regarding special lines or items of factory or office equipment can best be kept in the form of a catalogue library. Catalogues likely to be of service at some time in the future are filed away in alphabetical order, under the name of the firm sending them. An index to these is prepared, giving the lines or classes of merchandise in alphabetical order with the names of the firms from which they could be obtained.

Catalogue Library.

The buyer must keep in close touch with the markets upon which he is operating, and his chief point of contact will be the travellers who call upon him.

It is very difficult to make any hard and fast rule in connection with the interviewing of travellers. Some buyers grant a certain amount of time to every traveller who calls, others devote certain days in each week to this task, while in many cases it is impossible for a traveller to obtain an interview unless an appointment has been made.

A system, however, can be arranged by which the travellers calling are subjected to examination by a smart assistant, so that the time of the buyer and of the travellers is saved, and any interesting offer which the traveller makes is placed on record.

A System for Interviewing Travellers.

For example, it may be considered that the travellers calling upon a certain firm could be classified as follows—

1. Travellers with a special offer, or who are calling by request.
2. Travellers whose houses regularly supply the firm in question.
3. Travellers who offer lines which may be called for at some time, or factory and office equipment.
4. Travellers whose lines can be purchased indirectly to better advantage.
5. Travellers whose lines are quite outside the range of the firm.

The first class will be entitled to an interview with the buyer himself, who will see that the information necessary for the records is obtained.

The second class will give the assistant details of any alterations which should be made in the price index. The buyer will usually be notified of their call so that he may grant them an interview if he feels so disposed.

These are the travellers who will keep the buyer in touch with the markets which directly concern him, and he will usually wish to keep on good terms with them in order to be advised of possible fluctuations in price. It is not suggested that anticipating market fluctuations is a function of the purchase department. A tendency to gamble is usually fatal to a buyer, whose duty is to ensure regular supplies and a frequent turnover of stock, rather than to invest the firm's

Duty of the Buyer.

money in speculative purchases. There is good excuse for a buyer, whose firm is wealthy, laying in extra stocks of commodities which are certain to rise because of some seasonal effect upon trade, or a crop failure, for example, but the object in doing this should be to keep down the firm's prices to its customers rather than to make a profit by the purchase.

The third class will be asked to leave their catalogues and price lists for inclusion in the library, and told that they will be written to if there is any prospect of business. The buyer will usually look through all catalogues received before they are filed away. It may be that the firm is on the look out for certain special lines called for by their customers or is, for the time being, interested in some class of factory or office equipment. In such cases the assistant will give the buyer an opportunity of seeing any travellers who may be of assistance.

The fourth class may be consulted regarding prices or descriptions of lines already stocked, but should in justice be told of their disadvantage.

The Useful Middleman.

It often happens that a buyer will deal with a middleman, rather than the actual manufacturer, because he is able to order just the quantities he requires. The benefit of a 5 per cent discount, given by the manufacturer, can soon be lost if it is only obtained by purchasing a much larger quantity of goods than is actually needed.

Apart from the risk of depreciation, the interest lost on the capital tied up in this way will frequently offset the extra discount.

The fifth class should be told candidly that they are wasting their time, and advised not to call again unless they have something new to offer.

If a system of this kind is adopted, it will be found that the travellers' visits become of service to the department, instead of being a waste of time to all parties concerned.

The man who wishes to sell has as much right to enter a business house as the man who wishes to buy, and it should always be borne in mind that the business house is merely a link between the two. Very often the buyer can obtain valuable selling points for the sales department in interviewing travellers; for, generally speaking, the persons nearest the source of supply have the best knowledge of the goods.

When it is necessary to write to a firm for a quotation, care should be taken to give precise information regarding the quantity, quality, packing, and delivery required. In the absence of these details a firm giving a quotation to a new or casual customer will rarely submit its lowest prices, there being always the tendency to add a margin to cover any unforeseen expense in connection with the execution of the order.

Quotations.

Purchases made upon the buyer's own initiative, and not in response to a departmental requisition, will need to be notified as soon as possible to the departments which must handle the goods. For example, if the buyer decides to stock a new special line, a full description and particulars of the cost must be supplied at once to the sales and advertising departments, so that the travellers are instructed to offer the new line, and it is mentioned in the advertising literature.

When New Lines are Stocked.

This very necessary procedure is overlooked far too often. It frequently happens that travellers and customers are ignorant of the fact that certain lines are stocked by a firm, while the people at headquarters are lamenting the fact that the particular lines are " hanging fire."

It is essential that all orders be given upon a specially printed form. The wording of this form will vary according to the nature of the trade, and it may be necessary to use a variety of forms to cover different classes of purchases.

The Order Form.

A specimen order form for general use is given on page 277. These will usually be printed in sets of at least four; paper of a different tint being used for each copy in a set. The four copies can be all printed alike, except for the portion below the signature. It is customary to use this space on the supplier's copy for a printed statement of the conditions governing all orders issued by the house, and on the other three copies for departmental references and signatures.

In order to illustrate the routine, it may be considered that four copies are used—white for the supplier, blue for the department which has requisitioned the goods, red for the accounts department, and yellow for the purchase department.

As the orders are issued, brief particulars of each will be entered in a purchase record, a specimen sheet of which is given on page 279.

No. T 296

INLAND TRADERS, LIMITED
1261 Kirkgate, Bradford

TRIPLICATE COPY. Date . *23rd February, 1926* .

OFFICIAL ORDER

No other Form of Order will be acknowledged.

To

Messrs. Valley Colliery Co., Ltd. .
. *Durham* . .

Requisition :
. *Stores 29/36*
22/2/26

Please supply—

Quantity.	Packing.	Description	Price.
15 tons		*Stove Coal*	*40/- per ton*

Terms *Monthly* . Cash Discount *net*

Deliver to . . *Our Siding (L.M. & S.), Inland Mills, Manningham*

Delivery Date .. . *as soon as possible* . ..

For and on behalf of Inland Traders Limited,

. . . . *R. Mitchell*. .. . .
Manager, Purchasing Department

Received by .... *.Stores* . . .. Dept. Date .. *.25 February, 1926* Remarks— *O.K.* . . *.J. B. Lewis* .. . .. Inspector.	Supplier's Invoice No. *19/1274* . Date . *26 Feb. 26* Voucher No *23046* Entered on Stock records	PAID 2 MAR., 1926 *.J.M.T.* . . Accountant.

The purpose of this record is to enable orders to be followed up, and to draw attention to those which have not been executed in the prescribed time.

The Purchasing System.

If the order is given in response to a departmental requisition, the number of the order and the name of the supplier will be entered upon the requisition. This will usually be signed by the purchase manager, who thereby sanctions the purchase and accepts the responsibility for the choice of the supplier.

When the order has been recorded the white copy should be sent directly to the supplier, not through the medium of any other department.

The blue and red copies will be sent to the department which has requisitioned the goods, to notify it that the order has been placed, thereby enabling the arrival of the goods to be anticipated. If the goods ordered are for stock, it is a good practice to note the order number and quantity ordered in pencil, at the head of the stores ledger sheet or stock card covering the particular line, as a safeguard against orders being duplicated.

The yellow copy will be retained by the purchase department and placed, for the time being, in a file marked "orders outstanding," arranged in alphabetical order under the name of the supplier, the requisition forms being filed with the yellow copies of the corresponding orders.

When the goods are received they must be carefully inspected, and the inspector should sign the blue and red copies of the order form, after making any necessary reservations as to quantities or conditions, and inserting the date of delivery.

The blue copy will then be used as the basis of the entry in the stock record, and the clerk making this entry will initial the copy and file it in numerical order.

The red copy, together with any advice note received with the goods, will be returned to the purchase department, where one of the clerks, after seeing that the order has been properly executed, will make the necessary entry in the purchase record and pass the copy on to the accounts department.

The yellow copy will now be removed from the "orders outstanding" file, and placed in a file marked "orders completed." The alphabetical order will still be maintained so that reference

PURCHASE RECORD

TUESDAY, 23RD FEBRUARY, 1926

Order No.	Supplier.	Address.	Goods.	Department Making Requisition.	Requisition.		Delivery Required by.	Date of Delivery.	Inspector's Report.	Date Passed to Accounts Department.
					Date.	No.				
T/291	Gordon, G.	Manningham	Groceries	Canteen	23rd	14/361	Urgent	24th Feb.	O.K.	25th Feb.
292	British Paper Co.	Sittingbourne	Paper	Stores	16th	29/38	31st Mar.	29th Mar.	O.K.	1st Mar.
293	Morgan & Smith	Leeds	Chemicals	Stores	22nd	29/39	2nd Mar.	4th Mar.	O.K.	5th Mar.
294	Office Supplies Ltd.	Leeds	Account Books	Accounts	9th	6/230	12th Mar.	9th Mar.	O.K.	10th Mar.
295	Empire Tools	Sheffield	Tools	Assembly	12th	21/135	26th Feb.	26th Feb.	Shortage (T392)	Part delivery 1st Mar.
296	Valley Colliery	Durham	Coal	Stores	22nd	29/36	Urgent	25th Feb.	O.K.	26th Feb.
297	Harding, F.	Manningham	Groceries	Canteen	23rd	14/362	Urgent	24th Feb.	O.K.	26th Feb.
298	Yorks. Twine Co.	Bradford	String	Stores	22nd	29/30	26th Feb.	25th Feb.	O.K.	26th Feb.
299	Gasoline Ltd.	Hunslet	Petrol	Transport	23rd	32/249	25th Feb.	26th Feb.	O.K.	1st Mar.
300	Johnson & Co.	Birmingham	Chemicals	Stores	20th	29/37	2nd Mar.	27th Feb.	1 carboy smashed Replaced 12th Mar	15th Mar.

to this file will show the lines purchased from any particular supplier, and the prices and terms. Any advice notes or packing lists received with the goods should be filed away with the yellow copy.

The accounts department will use the red copy in checking the supplier's invoice, and should have no need to refer to the purchase department for information. With some firms it is usual for the work of checking the suppliers' invoices to be carried out by the purchase department, but this practice is not recommended, as the amount of clerical work done by this department should be kept down as much as possible, so that the staff can give more time to the actual purchasing operations.

Checking Invoices.

The red copy will usually be filed away with the invoice as a purchase journal or cash book voucher, according to whether payment is made through a bought ledger account or upon the basis of the invoice.

This purchasing system can be applied to branches, no matter how far away they may be situated, these being treated in the same way as the departments at headquarters. They will send their requisitions to the purchase department at the head office, giving the usual particulars of existing stocks, etc. If the goods are to be forwarded directly to them by the suppliers, the branches will be sent the blue and red copies of the order form. The red copy will be returned to the purchase department, signed by the branch manager or inspector, as evidence of the goods having been delivered.

Routine for Branch Purchases.

This method of replenishing branch stocks is worthy of consideration as a whole or part alternative to sending the goods from headquarters' stock. It may be that some slight advantage in price is gained by buying in bulk for delivery to one address, but in many cases this is more than offset by the heavy handling charges incurred in serving the branches from a central depot.

Taking into account the amount of office work involved, the choice between the two methods will be influenced by the basis upon which the goods are charged to the branches.

If they are charged at cost price, it will naturally be more simple to have the items coming through the purchase journals, where the cost figures are available and can easily be charged to branch stock accounts.

On the other hand, if the goods are charged at selling prices, or selling prices less a discount, it will be better to send them out from headquarters under an advice note in the same way as deliveries to customers, so that they will be priced and charged to the branch stock accounts by the invoicing department.

In issuing orders covering several lines, care should be taken to use a separate form for each line, if it is felt that the supplier will be unable to make delivery of all the goods at the same time. For example, if a printer were called upon to supply 5,000 specially printed envelopes and 5,000 plain envelopes, these should be made the subject of two separate orders, as the time taken for printing may be considerable.

Overcoming Delivery Difficulties.

There are two reasons for this division of orders according to delivery time. In the first place, there will be less fear of the supplier holding up some of the supplies—which may be urgently needed—until he can make a complete delivery, and in the second place, the work of the purchase department is made easier if short deliveries are avoided as much as possible.

It will be understood that when an inspector finds that goods are delivered short of certain items, he must either retain the red copy of the order form until the shortages come to hand, or send the red copy back to the purchase department with a note of the goods actually delivered.

Shortages.

If the first course is adopted, it may mean that goods taken into stock, and possibly sold, have not been recorded as purchases in the books of account. It would be a serious matter if such a state of affairs existed at the end of a financial period, and a reserve would have to be made to cover these part deliveries.

With the alternative method, the red copy can be passed through to the accounts department, and payment made for that part of the order which has been executed, but this means that a fresh order form must be made out for the shortages, and the blue, red, and yellow copies distributed in the usual way. The white copy, of course, would not be used.

This method creates a considerable amount of additional work, and it is accordingly very important that the question of delivery be borne in mind in making out the orders. Standing orders for a

certain quantity of goods to be delivered at regular intervals should be made the subject of a series of order forms, so that they can be dealt with in the ordinary way. The white copies of these need not be sent to the suppliers, although they might serve the purpose of reminders.

In some cases it will be necessary to prescribe the exact date and time of delivery, so that congestion in the department handling incoming goods will be avoided. With perishable articles it will be necessary to know just when delivery will be made, so that suitable storage can be arranged for them.

Avoiding Congestion.

The purchase routine must provide for the handling of returns and claims for allowances. No goods should be returned to a supplier until the purchase manager has been consulted, and a proper returns advice note prepared.

Returns and Allowances.

Even with cases and other packing material this is important, as there is room for fraud in the disposal of these, if they are allowed to leave the premises without an advice note.

The returns advice notes should be printed and numbered in sets of four, the form used being uniform with that employed to cover goods sent to customers, except for the necessary alterations in the heading. The first copy will be sent to the supplier with the goods, the second kept in the department returning the goods, to be used in adjusting the stock records, the third sent to the accounts department to be charged to the supplier's account, and the fourth filed, in the purchase department, in alphabetical order under the name of the supplier, in case it may be necessary to refer to it.

Claims for allowances in respect of bad condition, price differences, and other causes not necessitating the goods being returned, can be made on this form also. The supplier's copy will be posted to him with the letter of complaint, and it will usually be necessary to hold the accounts department's copy back until the amount to be allowed has been agreed upon.

The purchase manager should accept the responsibility for the amounts of all claims settled by signing the accounts department's copies of the returns advice notes.

If the number of returns and allowances claimed is large, it may be advisable to keep a record giving, in respect of each advice note, the date, number, supplier's name, and brief particulars of the claim.

The work of the accounts department in connection with purchases will be to check and record the invoices, to arrange for payment of them, and to charge the cost to the appropriate trading or expense account.

The invoices are usually recorded in a purchase journal, ruled to provide columns for the date, supplier's name, order number, and supplier's invoice number. In most cases analysis columns, headed for the trading and expense accounts, are also provided, so that the postings to the impersonal ledgers may be made in monthly totals.

Treatment of Invoices.

The amount of each invoice will be posted from this journal to the credit of the supplier's account in the bought ledger, the supplier's account being paid on the basis of his statement after it has been checked with the ledger account.

In the offices of the larger companies the purchase journal and bought ledger are frequently replaced by a combined purchase journal and payments cash book, which may be called an invoice payment register.

It will be noticed from the illustration on pages 284–5 that this register is provided with the same columns as a purchase journal for recording particulars of the invoices and the allocation of the cost but, in addition to these, columns are provided for the voucher and cheque number (the cheque number is usually used in numbering the vouchers) the discount, and the net amount paid.

The Invoice Payment Register.

In order to reduce the number of cheques drawn and to facilitate reference, it is customary to write this book up once a month only. The invoices can then be entered in alphabetical order, with the result that the items due to each supplier appear in a group.

Credit notes are usually sorted in with the invoices, and entered in red, so that they will also be conveniently placed for reference and for deduction from the amount due to the supplier for the month. If there is no invoice against which it can be offset, a credit note must not be entered. It will be necessary either to carry it forward to the next month or to ask the supplier for a cheque in settlement.

Credit Notes.

In the illustration given, the invoices have been entered gross, and the discount deductions are shown in a special column. This is the general practice, but some firms prefer to enter the invoices

INVOICE PAY[illegible]ENT REGISTER

FEBRU[illegible]RY, 1926.

Voucher Cheque No.	Date of Invoice	Supplier.	Address.	Order No.	Description.	Cheque.			Discount.			Total.			Stores.			Office Expenses.			Works Expenses.		
						£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.						
	Feb.																						
2,560	2	Adams & Brown	Bristol	251	Timber							131	2	6	131	2	6						
2,561	9	Adams & Brown	Bristol	409	Timber							204	–	–	204	–	–						
2,562	16	Adams & Brown	Bristol	553	Timber							162	4	9	162	4	9						
2,563	23	Adams & Brown	Bristol	712	Timber	842	19	11	44	7	4	390	–	–	390	–	–						
2,564	3	Allen, F. J.	Avonmouth	284	Iron	24	10	–				24	10	–	24	10	–						
2,565	8	Ball Electric Co.	Birmingham	396	Motors							75	–	–	75	–	–						
2,566	15	Ball Electric Co.	Birmingham	547	Motors	128	5	–	6	15	–	60	–	–	60	–	–						
2,567	22	Bell, M. & Co.	Bristol	690	Stationery	3	1	9		3	3	3	5	–				3	5	–			
2,568	9	British Metal Co.	Sheffield	410	Steel	149	–	–				149	–	–	149	–	–						
2,569	17	British Timber Co.	Bristol	562	Timber	45	15	4	2	8	2	48	3	6	48	3	6						
2,570	9	Coventry Tool Co.	Coventry	411	Tools							32	7	–							32	7	–
2,571	23	Coventry Tool Co.	Coventry	699	Tools	45	18	8	2	8	4	16	–	–							16	–	–

net, and so give the benefit of the discounts to the trading and expense accounts.

The Settlement of Accounts.

When it is made a rule that all cheques be drawn by a cashier's department, independent of the accounts department, it is an advantage to have the invoice payment register in loose-leaf form, making it possible for each month's invoices to be entered on loose sheets and, when completed, sent to the cashier's department for the cheques to be drawn. When the cheques have been drawn, the sheets can be incorporated in a binder. The use of loose-leaf sheets gives the additional advantage that several clerks can be engaged upon the work of preparing the register at one time, enabling the monthly settlement to be accomplished quickly.

It will be readily understood that this method of paying accounts offers considerable economy. Not only is the amount of book-keeping work greatly reduced, but the best discounts for prompt settlement can be obtained, and there is less fear of accounts being paid in error or being paid twice if payment is made from the actual evidence of purchase.

Use of Voucher Cheques.

When there is no separate cashier's department, and the cheques must be prepared by the clerks who write up the invoice payment register, it will often be found an advantage to use voucher cheques, i.e. forms embodying the cheque, particulars of the items covered by the remittance, and the payee's receipt. A specimen voucher cheque is given on the next page.

The use of these forms will do away with the necessity for returning the invoices to the supplier, or sending covering letters

VOUCHER CHEQUE

1327 Euston Road.

.. *1st March* .... ..1926 . . . .

RUTLAND DEVELOPMENT CO, LTD.
Rutland House, Holborn,

have pleasure in making settlement of the following—

	£	s.	d.
Your Inv. No. 371	*90*	–	–
392	*27*	–	–
405	*188*	–	–
	£ *305*	–	–

J. P.

No. 3794

CENTRAL BANK LIMITED,
Euston Branch

STAMP

Pay to . . *Irish Produce Co* or order

the sum of . . *Three hundred and five pounds* . . . .

£*305—0—0* . ..

For and on behalf of
Rutland Development Co., Ltd.

. *R. Blake* . . . .. Director.

. . . . *C Collins* .. Secretary.

Received the above-named sum in settlement of the items specified in the margin.

This receipt, duly completed, will be accepted as the endorsement.

Stamp if £2 or over

. . . .

with the cheques, and will also ensure an acknowledgment being received for every amount paid.

When all accounts are paid regularly at monthly or more frequent intervals, this fact should be stated when applying for quotations, and the cash discount should be fixed by the purchase department and noted on the order form.

Settlement Terms.

The accounts department will have this information, as well as the terms of payment, on its copy of the order form, and care should be taken to keep to the bargain.

If suppliers feel that an extra discount or odd shillings and pence will be deducted in making payment, they may protect themselves by increasing prices, but, in any case, such deductions cause considerable annoyance to the suppliers, and are a reflection upon the character of the house.

CHAPTER XVIII

IMPORTING

IMPORTING is a method of supplementing the natural resources of a country, by making available to the natives of that country the products of other lands. The interchange of merchandise between countries gives each country the opportunity of specializing in the production of the commodities for which it has a natural proclivity.

Britain, with a dense population, and large areas naturally suited to manufacturing, in close proximity to the ports, has become a workshop for the world.

British Import Trade. Countries in all parts of the world send their cotton and wool to Britain to be made into fabrics, and purchase from Britain the cloths they require.

Countries rich in minerals send these to Britain to be smelted, buying back in indirect exchange the metal articles they need.

The activities of the British importer are, therefore, not confined to obtaining the necessities of the country. He also obtains materials for the exporting industries.

Importers can be divided into three main classes.

1. Traders, who may be called "professional" importers, whose business it is to buy on the overseas markets for resale in bulk to manufacturers or wholesalers.

2. Manufacturers or merchants who find it necessary or expedient to go abroad for supplies of some of their raw materials or trading lines.

3. Branches or agencies which are established by foreign firms for the express purpose of introducing goods into a country.

The "professional" importer will usually confine his activities to one particular class of goods, since a considerable technical knowledge is required. He will, in most cases, be represented at the local market or sale-rooms, and belong to a number of trade societies, obtaining his orders through these mediums.

Methods of the "Professional" Importer.

In the local produce market the importers show samples of the

lines they have to offer, at stands which are really branches of their main offices.

The advantage of this arrangement is that the purchaser can readily compare the samples offered and the prices asked by the various importers.

A stand in the market represents the sole selling and advertising campaign of the average importer, so that he can handle produce upon the basis of a very small margin of profit.

Market Auctions.

At some markets periodical auction sales are arranged, which enable the importer to dispose of his " remainders " or odd balances of stock. Outside brokers and merchants are usually admitted to these auctions, but it is a rule of a number of markets that importing members may not sell to non-members in any other way. The object of this is, of course, to force the importers to sell on the market, and so maintain the influence of the market as a body. Parcels will frequently change hands several times among the members of the market, especially when prices are fluctuating or money is tight.

The goods dealt with at the markets are mostly foodstuffs or raw materials, and there is, of course, a constant demand for these, at prices which are practically controlled by the market.

The importer, therefore, knows just what produce he can sell and the price which he can obtain for it, so that the whole science of his business lies in the purchasing.

He will usually have a circle of correspondents abroad—growers, merchants, and shipping agents—who will send samples and prices of all goods available.

Options to Purchase.

The goods may be offered to him subject to being unsold, or subject to orders being given within a certain number of days. In the second case, the importer is given an option which will enable him to offer the goods to his customers without fear of his being unable to obtain supplies.

With some classes of produce it is customary for options to be purchased. For example, an importer might pay £10 for the right to purchase a consignment of merchandise at any time within thirty days of paying for the option.

The importer must keep a perpetual inventory of his stock—a record that will show the quantity of each line on hand at any time—

for three important reasons. In the first place, this stock will be in warehouse or cold storage, probably some distance from the importer's office, and unless a careful record is kept merchandise might be overlooked and allowed to become unsaleable through deterioration. In the second place, it may not be possible to obtain further supplies of the exact lines offered, and there is danger of orders being accepted for a larger quantity of a particular line than the stock available. In the third place, warehouse or cold storage rent accounts will be payable, upon the basis of the quantity of goods deposited, and the stock record will be required in checking the charges made by the storage contractors.

Necessity for a Perpetual Stock Inventory.

The best medium for this record is a card index, in which a separate card is used for each "parcel" or consignment of a particular description of merchandise. These cards will give particulars of the weight, quantity, marks, and description of the "parcel," the name of the ship from which it was landed, and the address of the warehouse at which it is stored. Each sale made from the parcel will be noted on the card, and the balance of stock shown, so that there is no fear of overselling.

The Stock Record Card.

A specimen importer's stock record card is shown on the next page, In this case the cost of the sugar and the selling prices are given as a guide to the salesmen in making quotations.

To provide a check upon the storage contractors' accounts the date when the parcel was first warehoused is shown, and each payment of rent has been recorded by inserting the date to which the payment settles.

The cards would be kept in alphabetical order under the description of the parcel, and would be removed from the index when the parcel was completely disposed of.

The importer will obtain receipts from the storage companies for the goods entrusted to them. These receipts or "dock warrants" must be surrendered when the goods are removed, or submitted for adjustment whenever part of the parcel is taken away.

Dock Warrants.

In this class of business the goods will not need to be moved if they are sold to a merchant who buys them for resale and has no warehouse of his own. Ownership can be transferred by

endorsement of the dock warrant, or a new warrant can be obtained to cover a part of a parcel which changes hands, the original warrant being adjusted accordingly.

These warrants will show the amount of stock at warehouses, and should periodically be compared with the stock record cards.

When an importer is granted or purchases options on merchandise, he will include this merchandise in his index. In such cases, it will be necessary to record the name of the foreign exporter from whom the parcel is on offer, and the port at which it is lying, as quotations must be made for forward delivery in order to gain time for the purchase and conveyance to the importer's country.

IMPORTER'S STOCK RECORD

Merchandise . *Czecho Granulated* .... Marks .. ... *R* (3) *G*....

Ship . ... *Malsheim* . .

Quantity *10 tons* . Cost *25/- cwt.* ... Warehouse *Jordan's B* .

Date warehoused . *8/3/26* . . Rent paid to . *5/4/26* *19/4/26.*

SALES

Date		Price	Quantity		Balance		Date	Price	Quantity		Balance	
			T.	Cwt.	T.	Cwt.			T.	Cwt.	T.	Cwt.
1926												
Mar.	*15*	*27/6*	*1*	*0*	*9*	*0*						
,,	*18*	*27/3*	*1*	*10*	*7*	*10*						
,,	*22*	*27/6*	*1*	*0*	*6*	*10*						
Apr.	*1*	*27/3*	*2*	*0*	*4*	*10*						
,,	*6*	*27/6*	*1*	*0*	*3*	*10*						
,,	*8*	*27/6*	*2*	*0*	*1*	*10*						
,,	*13*	*27/-*	*1*	*10*	—	—						

Each card must give the price at which the merchandise is offered to the importer and the date upon which the option expires, and must be removed from the index on this date if the option is not taken up.

The importer will usually purchase his parcels either delivered to steamer at the exporter's port (f.o.b.), or *ex* steamer at his own port (c.i.f.).

Purchase Terms.

The latter arrangement is always preferable, because the importer will then only have to arrange and pay for the landing and delivery to warehouse, and will therefore have a more precise basis upon which to fix his selling prices. At the same time, it is not always possible to obtain c.i.f. quotations, and the difference between these and f.o.b. quotations is often considerably greater than the cost of freight and insurance.

The terms in this class of business are usually "cash against documents." The exporter will draw a sight draft upon the importer, and send this through his banker with the bill of lading and other shipping documents giving title to the goods. The importer can only obtain these shipping documents from the banker by paying the amount of the draft.

An importer who buys on these terms cannot afford to extend credit to his customers. At most markets weekly or fortnightly settlement days are fixed, upon which all accounts must be paid; a member being denounced as a defaulter and debarred from making further purchases if he fails to meet his obligations on settlement day.

The manufacturer who imports some of his raw materials and the wholesaler who imports some of his trading lines must, as a general rule, arrange for regular sources of supply.

Importing by Manufacturers.

There are very few firms which find it necessary to import their occasional requirements or side lines. Britain has become such a "dumping ground" that practically every kind of foreign produce can be purchased on the home markets.

The minor advantage of saving the "professional" importer's profit would not make it worth while for a manufacturer or wholesaler to import goods of this description, since the process of importing entails a fair amount of risk attendant upon transit by sea even in these days, and calls for a knowledge of shipping, landing,

and delivery procedure which would not be possessed by the purchasing staff of the average business house engaged in the home trade. Then there is the fact that the terms of payment are more stringent, the importer being called upon practically to pay in advance for his goods.

The manufacturer may, however, resort to importing in order to ensure a regular supply of raw materials for his principal trading lines, and to exercise supervision over the production and preparation of these materials. In such cases, the manufacturer will often arrange for the foreign exporter to ship regular consignments of material at monthly or other intervals, buying a season's or a year's supply in advance at special prices for what is called " forward delivery."

Buying for " Forward Delivery."

By this means the manufacturer may be enabled to fix his own selling prices for each season, and avoid having to adjust these prices continually with the rise or fall of the cost of raw material.

For example, a tyre manufacturer will order sixty tons of a particular brand of rubber for shipment in monthly consignments of five tons, spread over a year. Unless some unforeseen occurrence causes a severe fall in prices after the order is placed, the manufacturer will usually be able to obtain his rubber at a lower average price over the year than he would have to pay if he placed his orders monthly.

The actual purchases may be arranged in correspondence by buyers sent abroad or through buying agents.

With some classes of produce, sales in the foreign markets must be attended, in order to obtain supplies.

The benefits derived from this attendance will not always be worth the expense of sending a buyer from the home organization, so that buying agents or " indenting houses " are usually employed.

Buying Agents.

These buying agents are given precise instructions as to the merchandise required and undertake to obtain this on the best terms, working upon the basis of a commission on the amount of the purchases. They will usually finance the transactions they complete, settling with the producers and recovering the cost from the importers.

With a view to ensuring his supply of raw materials, or exercising control over its production, the manufacturer may subsidize

plantations or mines abroad, by buying crops or outputs at the commencement of the growing or mining season, or advancing money on the security of them. This procedure is somewhat in the nature of a gamble, and the importer will need to have a very intimate knowledge of the industries he is financing, and to be represented in the district so that his interests are protected.

Subsidizing Plantations and Mines.

Many manufacturers have established their own plantations or mines abroad, but this cannot always be regarded as a sound business policy. New plantation and mining areas are continually being developed and the manufacturer may find himself at a serious disadvantage in not being able to operate in these.

Very often the development of a new area results in a change in public taste, in the case of foodstuffs, or in manufacturing practice, in the case of other products, and the manufacturer who has invested capital in the old areas finds himself burdened with a " white elephant."

The manufacturer who imports goods may be able to obtain a certain amount of credit by giving bills of exchange, payable sixty or ninety days after the completion of the purchase, in exchange for the shipping documents.

In giving bills of this description, which are payable in a foreign currency, the importer may run the risk of a considerable loss through fluctuation in the rate of exchange—alternatively, he may make a profit.

Avoiding Loss on Exchange.

A manufacturer will not usually wish to speculate in foreign exchange and, this being the case, will be well advised to make each transaction the subject of a forward exchange contract with his banker.

Bills of exchange and forward exchange contracts are dealt with in the chapter on " Banking and Cash Control."

The branch or agency of a foreign firm, which is established to introduce goods into a country, can only be regarded as a factor of an exporting business, and has already been dealt with in the chapter on " Exporting."

Branches of Foreign Firms.

The activities of this class of importer are not restricted to wholesale business. Of recent years, large quantities of machinery have been brought into this country from abroad for sale directly to the user.

Motor-cars and commercial vehicles are typical examples of this.

In such cases the work of the importer usually includes the assembling of the machinery, and the consignments from the factory abroad may consist of supplies of component parts. The purchasing operations will then be confined to requisitions upon the factory for the purpose of replenishing stocks.

The branch has an alternative to importing in the shape of local manufacture, either in its own factories or by contractors.

It will usually be found that a number of component parts can be purchased locally at less cost than they can be obtained from the factory, but it may be no easy matter to decide on a policy in regard to this.

Problem of Local Manufacturing.

A French manufacturer, sending motor-cars into Britain, may find that one-third of the component parts can be manufactured in Britain at a saving in cost. If, however, the British market absorbs a considerable proportion of the manufacturer's output, it might be unwise to take the work of manufacturing these parts away from the French factory, since the production methods might have to be altered, and the unit costs of manufacture might be increased by the overhead charges having to be spread over a reduced output.

At the same time, most manufacturers engaging in this type of business will wish to make their foreign branches as self-supporting as possible, and will look upon local manufacturing as the best method of meeting the particular requirements of the country in which the branch is situated, thus building up permanent business.

With this end in view, the branch will commence with the manufacture of the parts required to meet the particular requirements of the local market, and gradually increase the number of component parts manufactured until the complete assembly is produced by the branch.

The best way to ascertain the cost of manufacturing articles in a foreign country is first to decide the size and organization of the projected factory, and then to place orders with a native factory of similar size and organization for the manufacture of a number of representative parts upon a cost plus percentage for profit basis.

Ascertaining the Cost of Local Manufacture.

In considering the figures obtained in this way allowance must be made for the fact that the parts produced may

be outside the ordinary range of the native factory, and that the number ordered may be small. These figures will, however, serve the purpose of comparison with the manufacturer's own cost of production. There is also the important fact that any local conditions affecting the manufacture of the component parts will be brought to light by this practical test.

The branch or agent will usually obtain the goods on " consignment " from the factory, the stocks remaining the property of the principal until they have been disposed of to the customers of the branch or agent. The procedure has been described in the chapter on " Consignment Sales."

Shipment of Imports.

The operations of arranging for the shipment of goods, obtaining them from the shipping companies, clearing them from the customs authorities, and placing them in suitable storage will be very much the same with all classes of importer.

When buying goods " free on board " at a foreign port the importer will have to make the shipping arrangements, unless he can authorize the seller to ship the goods and include the amount paid for freight and insurance in the drafts covering the transaction.

Forwarding Agents.

In the absence of such an arrangement the importer will usually employ forwarding agents in the foreign port. By doing this he will be sure of obtaining the most favourable freight and insurance terms, as the forwarding agent will be in close contact with the shipping and insurance contractors, and competition is very keen in both businesses.

It may, however, be to the importer's advantage to stipulate that a particular shipping line is to be employed, because it offers some special inducement in the shape of a rebate or because its service is better.

Special Quotations.

The relative positions of the warehouses used by the importer and the docks of the shipping line may be an important factor in this. The shipping companies will often make a special quotation for conveying goods from the foreign port to the importer's warehouse at a rate which shows the latter a considerable saving.

On the insurance question the importer will need to be satisfied as to the status of the company or broker employed by the forwarding agent.

An importer who frequently shipped goods over the same route would certainly find it an advantage to employ the same contractors regularly, since he should obtain better attention from people who have had more experience of his business, and there would be no time lost in haggling over rates and conditions.

The Shipowner's Lien.

According to law, freight is payable when the ship arrives in the port to which the goods are consigned. In practice, freight is often paid in advance or after the goods have been received by the consignee, according to the shipper's standing with the shipowners. The shipowner has a lien upon the goods he carries, entitling him to retain them until he has received the amount of the freight. If it were necessary to exercise this lien, the dock authorities would hold the goods on behalf of the shipowner until the freight was paid.

When buying goods on c.i.f. terms the importer will not take any active part in the shipping or insurance arrangements, but he may wish to make it a condition of the purchase that a particular shipping line or route be used, because of some advantage in landing arrangements or transit time. He should ask to be advised by cable of the name of the ship upon which the goods have been placed.

In respect of the average consignment the importer will receive one or more copies of the bill of lading, the insurance certificate, and the invoice.

The Bill of Lading.

The bill of lading is the shipowner's receipt for the goods, giving title to them, and is transferable by endorsement. When the importer receives it, it will already have been endorsed by the shipper. The importer will add his endorsement and hand the bill of lading to the delivery agent who is instructed to collect the goods from the dock and carry them to the importer's warehouse, or surrender it to the shipping company if they are to arrange for delivery.

The goods must be cleared from the dock in the shortest possible time, otherwise heavy demurrage charges may be incurred. The number of days allowed for removing the goods will be stated on the bill of lading.

When goods are shipped on fast steamers it frequently happens that the bill of lading does not arrive until some time after the steamer reaches port. In such cases the shipowner will give up possession of the goods without the surrender of the bill of lading,

provided that he receives a banker's indemnity protecting the shipowner from any consequence of his parting with possession of the goods without receiving the bill of lading.

The Banker's Indemnity.

The banker's indemnity is also resorted to when mistakes have been made in the bill of lading, for example, when descriptions, quantities, or weights are incorrectly stated.

Shipping companies will usually insist upon bankers' indemnities being given on their own printed forms. These must be signed by the importer as well as the banker, and must bear sixpenny Inland Revenue stamps.

An insurance certificate must be impressed with an Inland Revenue stamp within fourteen days of receipt, and must be produced in the event of any claims being made.

The goods should be inspected at the earliest opportunity for damage in transit, and if a claim is necessary a certificate of damage should be obtained from the dock or storage company.

Claims for Damage in Transit.

The shipper and the local office of the insurance contractors should be notified at once.

The insurance contractor will usually employ a surveyor to deal with the claim on his behalf, and to arrange the basis and method of compensation. The importer may be paid a certain amount in settlement of the damage and retain possession of the goods, or he may be paid their value and the goods be sold for the account of the insurance contractor.

Invoices will usually be furnished in sets, since they may be required for purposes other than to support entries in the importer's books. Copies will be required by the insurance surveyor in the event of a claim for damage being made, or may be called for by the customs authorities.

The importer will be required to submit to the customs authorities a " customs entry " form, giving full particulars of the goods, their value, the ship and route of transport, and a declaration as to whether the goods are dutiable or not. If they are dutiable he must calculate the amount of the duty, and pay this to the collector before the goods are required. In any case, the goods must be submitted to the customs officers for " clearance " before they can be removed from the docks.

Customs Formalities and Duty.

If the goods are dutiable the importer may defer payment of the duty by placing them in a " bonded warehouse." He will not then be called upon to pay duty unless and until he removes the goods inland.

Goods can be re-exported from bond without payment of any duty, and can be removed from bond for home consumption by instalments, duty being paid as each instalment is removed. This is a great advantage to the importer, as he need not pay duty on goods until he has sold them.

If goods upon which duty has been paid are re-exported a refund of duty or " drawback " can usually be obtained, provided that the necessary forms are submitted to the customs authorities, and they are satisfied as to the goods having been actually shipped to a port outside their jurisdiction.

CHAPTER XIX

HANDLING CUSTOMERS' ORDERS

GREAT care must be taken in planning the routine of the department handling customers' orders, and careful supervision must be exercised to ensure the smooth running of this integral part of the business machine.

No matter what class of merchandise a firm is dealing in, the offer made to the customer by the salesman, or in the advertising campaign, is an offer of service and every order received is a test of this service. The customers suffer for any mistake made, or any delay occurring, in the order department, and business will be lost if such mistakes and delays are common.

In every business house there should be an order department dealing exclusively with the work of receiving and recording orders, and preparing the necessary service instructions. It may be that the amount of work will only call for the employment of one or two clerks, but these should be carefully chosen, as they must be accurate workers with a proper regard for the goodwill of the business. Their work should be supervised by a manager who knows the lines sold, and who will be able to exercise judgment and discretion in dealing with the customers and with the other departments coming in contact with the order department.

Duties of the Order Department.

This last point is important, because it often happens that the selling and the accounting sides of the business are at variance regarding a question of policy or the treatment of a particular customer, and the order department is really a link between the two sides, although it is generally controlled by the accounting side

The order department has three important duties: first, to see that the customers are supplied with the goods they require in the shortest possible time; second, to see that all goods supplied are charged for; and third, to see that service upon a credit basis is only given to approved customers.

To take one example of the way in which these duties sometimes

clash : the sales department may wish to rush through an important order from a new customer, which order has been received upon the promise of prompt delivery, while the accounts department may not be willing to countenance credit being given until inquiries have been made as to the status of the prospective customer. A situation of this kind will need very tactful handling, and for this reason the order department should be in the hands of a man who can go into the facts of the case and endeavour to meet the wishes of all parties concerned.

The Need for Tact.

It is very important that it be made as easy as possible for the customer to order goods, and that he be given sufficient information to ensure his being able to express his wishes in a way that will be understood.

When salesmen are collecting orders the responsibility for this will rest with them, and it is essential that they be fully conversant, not only with the goods they are selling, and the descriptions, packings, uses, etc., but also with the routine of the order department, and the information that must be given in making out the order, so that no misunderstanding may arise or further reference to the customer be necessary.

Travellers should be supplied with order forms, numbered and printed in duplicate, and made up into books which can be carried in the pocket. A special order form for traveller's use is given on page 302, and it will be seen that this particular specimen is designed to carry the order right through to the dispatch department, and to form the draft from which the invoice will be made out.

The Traveller's Order Form.

With this order form, both the original sent to the office and the duplicate (a carbon copy) retained by the traveller, are printed alike, and are completed by the traveller in the customer's presence with the exception of the columns headed " for office use only." The illustration given provides for the customer's signature on the order. This is not a very common practice when travellers are employed, but it has distinct advantages—one being that the customer will scrutinize the order and there is, therefore, less chance of his wishes being incorrectly recorded, and another that it might be necessary to prove the giving of the order if a dispute arose.

Getting the Customer's Signature.

ORDER FORM FOR COMMERCIAL TRAVELLER'S USE

Customer's Name. ..... *R. H. Lines*..... . ... Date . *15th January, 1926* ...

Address for invoice .....*1340 Red Lion Avenue, S.W.2* Terms *Monthly* . .

Address for delivery..... .... *Red Lion Mews, S.W.2* . . Salesman *S. Mackenzie*

FOR OFFICE USE ONLY.

Order No. *C.4921*..

Date dispatched . *21/1/26*..... .....

Inspector . . . *T. Scott* . ....

Entered in Stock Records . *G. B.* ...

Invoice No. *3426* ...

√	Quantity.	Size.	Description of Goods Ordered.	Unit.			Extension.		
					s.	d.	£	s	d.
√	*2,000*	*10s*	*" Eleven Star " Virginia*	*100*	*3*	*4*	*3*	*6*	*8*
√	*2,000*	*10s*	*" Eleven Star " Turkish*	*100*	*5*	–	*5*	–	–
√	*1,000*	*20s*	*" Eleven Star " Turkish*	*100*	*4*	*6*	*2*	*5*	–
√	*14 lb.*	*1 oz.*	*" Nine Star " Mixture*	*lb.*	*12*	–	*8*	*8*	–
√	*7 lb.*	*loose*	*" Nine Star " Mixture*	*lb.*	*10*	*6*	*3*	*13*	*6*
√	*14 lb.*	*1 oz.*	*" Eleven Star " Mixture*	*lb.*	*15*	–	*10*	*10*	–
							33	*3*	*2*

Customer's Signature *Robt. H. Lines*

Before the orders are sent to the office the traveller working on commission will extend the prices, and calculate the value of the sale in the extreme right-hand column on his duplicate copy only. He will then send in with the orders a summary showing, in respect of each order, the name of the customer, the date of the order, and the value according to his calculation.

This summary will serve two purposes, first as a check upon the calculations made at the office in preparing the invoices, and second as a basis of the commission payments.

When a large number of customers send their orders in by post, it will be advisable to issue catalogues, price lists, and order forms.

Special Catalogues for Post Orders.

The catalogue issued for this purpose is essentially different from the literature issued solely for advertising purposes. If it is to be of use to the customer whose business has already been obtained, it must be clear and concise, and must give detailed descriptions and information regarding weights, packings, methods of sale, uses, prices, and trade discounts which would be excluded from advertising literature.

A number of firms have tried loose-leaf catalogues, but have, in most cases, been disappointed with the results. The advantage claimed for loose-leaf systems is that revision sheets can be issued to the customer, with the request that they be incorporated in his copy of the catalogue. It is found, however, that the customers will rarely take the trouble to do this, so that if the revisions are numerous a new catalogue has to be issued. In view of the fact that loose-leaf catalogues are much more expensive than the ordinary ones, they can hardly be said to represent an economy if they cannot be made a semi-permanent record in the customers' hands.

Inset Price Lists.

It will often be found an advantage to issue a price list, uniform with the catalogue, but prepared as a separate folder, so that it can be inserted, but not bound, in the catalogue. If this is done, a general fluctuation in prices will only necessitate the reprinting of the price list, and not of the whole catalogue.

A number should be allotted to each line, and these numbers should be given against each item in the price lists, with the number of the catalogue page upon which the line is described. Customers

may be encouraged to quote these numbers in addition to the description when ordering goods, but it must not be suggested that they order by number alone—except perhaps in the case of telegraph orders—as this is a frequent cause of confusion.

The separate price list will solve a problem of the firm dealing with several classes of customer, e.g. large wholesaler, small wholesaler, multiple shop company, small retailer, and institution, who buy in different quantities and packings and in all probability pay different prices, as separate price lists can be issued for each class of customer.

If the expense of printing several price lists is not justified, the distinction can be made by issuing the standard list, with maximum prices, to everyone, and allowing varying discounts according to the class of customer.

The Customer's Order Form.

It is always worth while to supply customers ordering directly with pads of printed order forms, as the special ruling can be made to draw attention to the information required, and there will be less fear of the customer forgetting some important specification, e.g. size, packing, grade or quality. The customer can be reminded of favourite lines by printing a list of them at the head of the form or, if the number of lines marketed is small, the form can be issued as a printed list of the lines, so that the customer has only to fill in against each description the quantities he requires.

The order form should provide a space for the customer's signature, and should state the settlement terms, that is to say, the period of credit allowed and the discount, if any, which will be given for payment within that period.

The fact that these terms appear on the signed order will be very helpful if it becomes necessary to press for payment.

Treatment of Standing Orders.

In some trades it is the practice for standing orders to be taken to supply certain quantities of goods at regular intervals until the arrangement is cancelled. These standing orders will need special treatment. Perhaps the best method of dealing with them is to keep a card index in which a separate card will be inserted for each standing order. These cards will be arranged under the dates on which the next delivery must be arranged for, so that each day the service instructions will be made out from the index, and the cards will

be moved on to the date when the next delivery must be arranged. The cards will be removed from the index when the orders are cancelled.

When the mail is opened, a list of the orders received will be prepared and sent with them to the order department. These lists must be carefully preserved, so that they can be compared at any time with the order record kept in the department.

Before the order is actually accepted as such, there are a number of formalities which must be observed, and reference will first be made to the list of customers to see that the order can safely be executed on credit terms.

The Customer's List and Index.

This list of customers must be kept in a convenient form, so that reference to it is simple and quick, and there is no excuse for guesswork. It need only give the name, address, and credit limit, with the ledger folio of the customer's account, which may have to be referred to for further information.

The best form of index for this purpose is the pillar index, a metal frame in which are inserted strips of cardboard just large enough to carry one line of typewriting. The strips can be arranged in alphabetical order, and re-arranged just as quickly as with any other form of index. They are easily prepared, being received from the suppliers in sheets with the strips perforated, and separated after the particulars have been typed in.

Cards of different colours may be used with advantage to distinguish between classes of customers—e.g. red for customers whose credit has been stopped, or who must pay in advance for any other reason ; blue for customers whose accounts are new or doubtful, as a sign that the credit limit must be watched ; white for the customers whose accounts are in order.

The frames carrying these strips can either be swung on hinges to a pillar, so that both sides of the frames can be used, the frames being turned over like the leaves of a book ; or hung upon the wall if space must be economized or if the customers are not numerous.

When it has been found that the customer's credit is good for the amount involved, the order must be scrutinized to see that it is sufficiently clear for the advice note to be prepared from it, and any further instructions necessary should be added.

It is not wise to alter the wording of a customer's order, and the advice note and invoice should describe the goods in the same way as the customer has described them. If a customer calls for "Five pounds of best graphite," and he receives an invoice for "5 lb. plumbago, grade fourteen," or "5 lb. P/G14," there is a danger that the purchase will not be recognized and delay will occur in paying the account. It is, therefore, always best to retain the customer's wording, adding the correct description, if necessary, as a footnote.

Keep to the Customer's Wording.

When an order is not clear and correspondence with the customer is necessary, this should be conducted by the order department, and on no account should an order of this kind be handed over to another department for attention. The order department should be in a position to attend to the customer's requirements and give any assistance called for, or, if necessary, to act as a medium between the customer and a department called upon for advice.

In most cases, the dispatch of the goods will be sufficient acknowledgment of the order. If for any reason the order cannot be executed at once, or must await a regular delivery in the customer's district, an acknowledgment should be sent—a printed post card will meet the case—and it will be helpful if an approximate date of delivery can be given, e.g.—

When Acknowledgment is Necessary.

"We thank you for your esteemed order of the 15th instant, which shall have our careful attention. We are arranging to deliver by our own van on Thursday next."

Few firms go to the trouble and expense of Inland Revenue stamping their customers' orders, but if the order is in the nature of an agreement this may be found necessary. Standing orders for a regular supply of a stated quantity of goods, orders for goods requiring special preparation, and orders for supplies which will be paid for in some unusual way—by instalments, for example—should certainly be stamped, and some firms make it a rule to take this precaution with all orders over a certain value.

As soon as an order has been found acceptable and explicit, it should be allotted and marked with a distinctive number (in practice this will usually be the advice note number) and entered in the order record. A specimen order record sheet is given on

ORDER RECORD

WEDNESDAY, 10TH FEBRUARY, 1926

Advice Note No.	Customer's Name.	Address.	Nature of Order.	Date of Order.	Customer's Order No.	Date of Dispatch.	Invoice No.	Shortages.	Shortage Advice Note No.
3136	*Davies, J. & Co.*	*Blackpool*	*Letter*	*8th*		*12th*	*D 534*		
3137	*Morgan, R. B.*	*Leeds*		*9th*	*B 376*	*17th*	*D 613*	*6 boxes No. 34 (Special)*	*3340*
3138	*Phillips, Leslie*	*Burnley*		*9th*	*1236*	*12th*	*D 537*		
3139	*Smith, Roberts & Co.*	*Burnley*		*9th*	*G.S. 1390*	*11th*	*D 508*		
3140	*Edwards, S.*	*Warrington*	*Letter*	*9th*		*11th*	*D 506*		
3141	*Lloyd, & Co.*	*Bolton*	*Post card*	*9th*		*11th*	*D 509*		
3142	*Griffiths, J. N.*	*St. Annes*	*Letter*	*8th*		*12th*	*D 535*	*15 boxes No. 126*	*3219*
3143	*Johnson, Fred*	*Lancaster*	*Phone*	*10th*		*10th*	*D 471*		
3144	*Matthews & Co.*	*Preston*	*Letter*	*9th*		*12th*	*D 540*		
3145	*Gordon, S. J.*	*Leeds*		*9th*	*11,263*	*12th*	*D 539*		

page 307, and it will be seen that columns are provided for the order number, customer's name and address, nature of order (letter, telephone, verbal, etc.), the customer's order number and the date of same, the date of dispatching the goods, the invoice number, particulars of any shortages, and the number of the advice note upon which the shortages have been entered.

The Order Record

A fresh page of this record is started for each day's orders, and a daily examination must be made to see that proper service is being given. The record will show at a glance the stage which has been reached in the execution of each order, and will enable customers' inquiries to be answered promptly.

The service instructions will usually be given upon an advice note, of which at least four copies must be prepared. In most cases four will be sufficient, as this provides one each for the customer, the stores department, the invoicing department, and the order department. All these copies can be printed alike, but four distinct colours should be used in each set, in order that they can readily be identified.

Advice Note Routine.

For the purpose of illustration it may be taken that the colours used are: customer's copy, white; stores copy, blue; invoicing copy, red; order department copy, yellow.

The order department will pass the white, blue, and red copies to the dispatch department, retaining the yellow copy, and attaching to it the original order and copies of any correspondence which may have passed in respect to it. These yellow copies will, for the time being, be kept in a file marked "orders on hand," in alphabetical order under the name of the customer, so that they can easily be found if any query arises.

The dispatch department will forward the white copy to the customer with the goods, give the blue copy to the stores department as a receipt for the goods, and will return the red copy to the order department. The three copies handled by the dispatch department should be signed by the packer and inspector when the goods have been forwarded. In this way they would formally accept the responsibility for the proper execution of the order. The date of dispatch should also be entered on each copy.

The stores department will use the blue copies in making the necessary adjustments in the stock records, and will file

them away in numerical order so that they can be referred to at any time.

When shortages occur, and it is not considered advisable to wait for the goods which are short to come into stock, the balance of the order should be sent forward under the white advice note, but details of the shortages should be given on this and on the blue and red copies. It may be considered necessary to provide a column on the advice note for recording the shortages, and in this event it is better to have three columns for the quantities, headed respectively, "short," "ordered," and "sent." If the columns are arranged in this order there will be less chance of a mistake being made by the dispatch clerks, as the centre column will be filled in before they receive the advice note, and the total of the other two columns must agree with this.

When Shortages Occur.

When carriage, packing material or other expenses are recoverable from the customer, a note of these will be made on the red copy of the advice note, this being the copy from which the charge to the customer is made.

The order department will take back the red copy and enter the date of dispatch in the order record, together with particulars of any shortages. A fresh advice note will be made out for the shortages, and this will be sent to the dispatch department in the usual way to await the goods coming into stock. As the two advice notes are covered by one order, they should be linked up in the order record by entering against the original advice note the number of the advice note covering the shortages, in the column provided for the purpose, and the number of the original advice note, with the word "shortage," should be entered in the "nature of order" column, against the entry of the advice note covering the shortage. Similar cross references should be given on the yellow copies of the two advice notes.

It is the general rule to apologize to a customer if his order is not completely executed, and some idea of the time required for completion should be given.

A printed post card is all that is required, and wording similar to the following will meet the case—

Apologizing for Shortages.

"*We regret that owing to a shortage of stock we have been compelled*

to forward the goods called for by your order No. 651 of yesterday, short of the following—

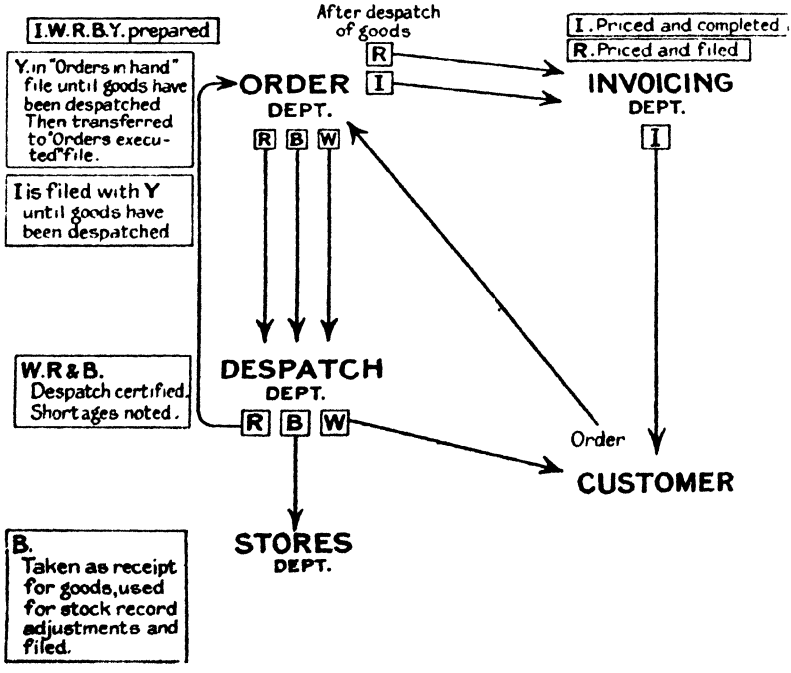
" 3 gross 8d. Croquettes, Chocolate, Nut Milk.

" We hope to forward these to you by the 25th instant, and trust that the delay will cause you no inconvenience."

It will now be necessary to remove the yellow copy from the " orders on hand " file, and place it in an " orders executed " file, which should also be arranged alphabetically. The reason for this arrangement being stipulated is that it will be possible to ascertain from the " orders executed " file the lines purchased by any customer—information which may be of value in elucidating future orders which are not clear, or in supplying the customer with showcards or other publicity matter.

The red copy will finally be passed to the invoicing department, where the unit prices will be entered and extended, all the information necessary for the preparation of the invoice being given on the one form.

COMBINED INVOICE AND ADVICE NOTE SYSTEM



INVOICE

No. S 761

GENERAL SALES COMPANY
3421 HIGH ROAD, LEEDS

Date.. *17th Feb., 1926* .

Sold to . *United Metal Co , United Mills, Bradford* .

Sent to *above*

Customer's Order *No. B 2918 of 16/1/26* ..

Short.	Ordered.	Sent.	Description.	Price.	Amount.
				£ s. d.	£ s. d.
2	*6 tons*	*4*	*Special metal composition, formula 329*	*30 10 0*	*122 0 0*
			S. 634		

I
Invoice.

ADVICE NOTE

No S 761

GENERAL SALES COMPANY
3421 HIGH ROAD, LEEDS

Date *17th Feb , 1926*

Sold to *United Metal Co , United Mills, Bradford*

Sent to *above*

Customer's Order *No. B 2918 of 16/1/26*

Short.	Ordered.	Sent.	Description.	Price.	Amount.
				£ s. d.	£ s. d.
2	*6 tons*	*4*	*Special metal composition, formula 329*		

Shortage to Advice Note No. — Shortage from Advice Note No. *S.634* — Packer *J.N.B.* — Inspector *S.L.* — Entered on Stock Records

W
White
Customer's Copy.

30 10 0 *122 0 0*

Shortage to Advice Note No. — Shortage from Advice Note No. *S.634* — Packer *J.N.B.* — Inspector *S.L.* — Entered on Stock Records

R
Red
Invoicing Copy.

Shortage to Advice Note No. — Shortage from Advice Note No. *S.634* — Packer *J.N.B.* — Inspector *S.L.* — Entered on Stock Records *R.H.*

B
Blue
Stores Copy.

Shortage to Advice Note No. *S.826* — Shortage from Advice Note No. *S.634* — Packer — Inspector — Entered on Stock Records

Y
Yellow
Order Dept Copy

In the absence of a printed price list the price record is best kept in a loose-leaf book with a sheet for each trading line. These sheets should give not only the present price, but the changes which have taken place for some time past, and the date of each change, in case a query in regard to a charge made should arise after a long interval.

A Record of Price Variations.

If goods are supplied at a specially reduced price or without charge, it will be the duty of the order department to record this upon the red copy, with the reason for the goods being supplied upon these conditions. The red copy should also bear the signature of the official who authorized the concession.

When making out the invoices care should be taken to give the full description of the goods, the date of the customer's order, and any reference number he may have given to it.

Invoicing.

In the event of shortages it is better to invoice the actual goods forwarded, and make no mention of the goods short. If the shortages are detailed on the invoice, even though they are not charged, the customer will often hold this up until he receives the balance of the order, so that payment is delayed.

A separate slip, giving particulars of the shortages, can be attached to the invoice, to enable the customer to check the items given on these two forms with the original order. He can then retain the shortage slip until the balance of the goods is delivered, and will have no excuse for withholding payment of the invoice.

The red copies, when finished with, can be filed in numerical order, and packed away in bundles when all the numbers in a series are accounted for. This will bring to light the fact of any copy being missing, and search must be made for this after a reasonable time has been allowed. It will be the duty of one member of the invoicing department to mark the invoices off with the order record, and so satisfy himself that every order executed has been charged for. This responsibility should not be given to members of the order department, as their close relationship with the customer allows scope for collusion.

When immediate delivery of all lines can be given from the address at which the orders are received, a combined invoice and advice note system can be used with advantage. With this

system the invoice is really an additional copy of the advice note, typed at the same time, the printed wording on this copy being altered to meet the case by substituting the heading "invoice" for "advice note," and omitting the words used to mark the spaces provided for purely departmental use.

Combined Invoice and Advice Note System.

The invoice will be filed with the yellow copy until the order is executed, and will then be sent to the invoice department with the red copy, the pricing and extensions on both copies being carried out at the same time.

Specimen forms of invoice and advice note, with a diagram illustrating the routine which has been described, are given on pages 310 and 311.

In some trades a large number of orders are presented at the counters, and the goods are taken away by the customers' messengers. Under these circumstances there will be no time to make out an advice note, and the order form must be used for the purpose. This can be done by marking it with a rubber stamp, giving an impression similar to that shown below. If the order form is small the stamp can be impressed on the back. Space is thus provided for entering

Counter Sales.

COUNTER ORDER

RUBBER STAMP IMPRESSION ON BACK OF CUSTOMER'S ORDER

Date *17th February, 1926* .. .. . No. .....*13976*.....

Credit authorized .. *F. L. H.* .. .

Supplied.	Price.			Amount.		
	£	s.	d.	£	s.	d.
One dozen Smith's Atlas		*3*	–	*1*	*16*	–

Inspector *B. R.*

Entered on Stock Records *L. S.* ....

Counter Book Folio . *6/271* . . . . .

Invoice No. . . . .*C. 6342* . . ..

the particulars necessary for the adjustment of the stock records, and the preparation of the invoice, and for the signatures of the persons who respectively authorize the goods being supplied on credit terms, make the entries in the stock record, and inspect the goods before they are handed to the customer's messenger.

Each order treated in this way must be given a number and be entered in a counter book giving the date, number, customer's name, and the messenger's signature for the goods.

After the invoices have been made out, the orders, bearing the invoice numbers, must be carefully filed in numerical order and on no account should anyone working at the counters be allowed access to them. Examination of this file will show whether all orders have been accounted for and charged to the customer—an additional check being effected by examination with the counter book. The precautions suggested are very necessary, because there is ample scope for both fraud and error in transactions of this kind, the close contact between the customer and the stores being a grave source of danger.

Precautions Against Fraud.

A system must be inaugurated to deal promptly with customers' claims for allowances in respect of goods returned, short weight, bad condition, etc. Each credit note given can be considered as a form of remittance to the customer, therefore the system must provide for full investigation to be made into the facts of the case, and for the allowance being authorized by officials who will take the responsibility for its being given.

Customer's Claims: Prompt Treatment Essential.

The customers' claims for allowances will be sent to the order department, where they will be allotted consecutive numbers, and will be entered in a claim record. A specimen claim record sheet is given on the next page, and it will be seen that columns are provided for the number, the name and address of the claimant, the date of claim, the nature of same (letter, telephone, etc.), and the customer's reference number, department referred to for confirmation, date confirmed, official referred to for sanction, date sanctioned, and number of credit note.

The Claim Record.

A fresh page of this record is started for each day's claims, and a daily examination must be made in order to see that every claim

CLAIM RECORD

WEDNESDAY, 10TH FEBRUARY, 1926

Claim No.	Customer's Name.	Address.	Nature of Claim	Date of Claim	Customer's Reference.	Department Referred to for Confirmation.	Date Confirmed.	Official Referred to for Sanction.	Date Sanctioned	Credit Note No.	Remarks.
1710	Fowler, Lea & Co.	Wakefield	Letter	9th	—	Sales	11th	Mr. Evans	12th	C 491	
1711	Grant, R. H	Sheffield	Letter	9th	—	Invoicing	12th	,	12th	503	
1712	James, Wm.	Sheffield	Letter	9th	—	Stores					Returns refused (bad condition
1713	Robinson & Co.	Pontefract	Post card	8th	R3761	Stores	11th	,,	12th	497	
1714	General Supply Co.	Barnsley	Return Slip	9th	3/271	Stores	11th	,,	12th	498	
1715	Lewis, B. J.	Leeds	Phone	10th	—	Sales	11th	,,	17th	522	
1716	Baxter & Co.	Bradford	Letter	9th	—	Invoicing	12th	,,	12th	500	
1717	Hammond, S.	Leeds	Return Slip	10th	R1074	Stores	11th	,	12th	501	
1718	Evans & Evans	Leeds	Return Slip	10th	RO 276	Stores	12th	,,	12th	499	
1719	Smith, W.	Sheffield	Letter	9th	—	Invoicing	12th	,,	12th	490	

is receiving attention. The record will show who is holding up the claim, and will guard against its being overlooked by the person to whom it has been referred.

Most firms will consider it necessary to send a post card acknowledgment of a customer's claim, e.g.—

" We have your letter of yesterday claiming allowance in respect of three chests tea alleged returned as not to sample. This matter will have our careful attention."

Credit Advice System.

If the number of claims dealt with is large, it will be necessary to use claim notes, or credit advices, similar to that illustrated below. These claim notes can be printed in red in triplicate, three differently tinted papers being used, e.g. blue for the department which is referred to for confirmation, pink for the invoicing department, and yellow for the order department.

CLAIM NOTE

Allowance claimed by— No. *3621*

Customer's Name .....*Premier Trading Co.* Date *17 Feb , 1926*

Address . *1329 Long Row, Bristol*

Customer's Reference *Letter of 15th.* *A.R./L W*

In respect of—	Claimed. £	s.	d.	Allowed. £	s.	d.
Return of 3 dozen fibre spur wheels 14 tooth Ordered in error	*5*	*8*	–	*4*	*10*	–

Claim confirmed

.. .. *H. Ellis* .
Stores Dept.

Remarks—

30 only returned

Credit sanctioned

R. Jones
Managing Director

Remarks—

Customer agrees six were kept— Phone 23/2/26.

Entered on Stock Records.... ... *E.B.* .. ..

Credit Note No.... ... *R....1296* . .. .

The yellow copy will be kept by the order department, being placed, for the time being, under the name of the customer, in a " claims outstanding " file, which will be arranged in alphabetical order. The letter embodying the original claim will be attached to the yellow copy.

The blue and pink copies will be sent to the department referred to for confirmation of the statements made by the customer ; for example, if the claim is in respect of goods returned, this will be the stores department, if in respect of an overcharge, it will be the invoicing department.

The department referred to will either deny or confirm the customer's statements, and will be called upon to write an explanation on both the blue and pink copies, unless of course the claim is in respect of goods returned in accordance with an arrangement made with the customer, in which case it will only be necessary to state the condition of the goods.

When this has been done the pink copy will be returned to the order department, and the blue copy kept for reference. If the department referred to is the stores department this blue copy will be needed for the adjustment of the stock records.

The order department will note the return of the pink copy in the claim record, take out of the " claims outstanding " file the customer's original letter of complaint and send this, with the pink copy of the claim note attached, to the official who is responsible for the sanction of allowances.

This is usually the sales manager or one of the directors—it should be someone in authority who is in close touch with the business. It is not wise to have more than one person give this sanction, as there is the danger of the same allowance being made twice. In addition to this, the claim may call for the reprimand of an employee, and if one official is called upon to sanction several claims which are in the nature of complaints, he will naturally investigate the matter.

The Responsibility for Sanctioning Allowances.

This is one reason for the customer's letter of complaint being kept by the order department until the report of the department referred to is ready for submission to the official called upon to deal with the claim. This letter may contain details which conflict with those given by the department referred to, and this comparison

will prevent a claim being confirmed without proper inquiry being made.

The pink copy, marked with the decision of the official to whom it has been submitted, and the actual amount, if any, to be credited, will be returned to the order department, which, after noting the return in the claim record, will pass this copy on to the invoicing department for the preparation of the credit note. The yellow copy will then be transferred from the " claims outstanding " file to a " claims dealt with " file, which will also be kept in alphabetical order. The customer's original application for credit can be filed away with this yellow copy if it is no longer required.

When the claim is in the nature of a complaint, it will be necessary to send a covering letter of apology with the credit note, unless the customer has already been written to by the official who sanctioned the credit.

Settlement of the Claim.

In the event of no allowance at all being made to the customer, the invoicing department will have no use for the pink copy, but it should be sent to that department in the ordinary way, to be filed with the other pink copies. These will be kept in numerical order, so that if any copy is missing attention will be drawn to the fact. The credit notes should be checked off with the claim record to see that every claim is dealt with—a procedure of especial importance at the end of a trading period, when a reserve to cover claims outstanding may have to be made.

The link between the invoices and credit notes and the customer's ledger account will usually be the sales journal, a book in which are recorded, in respect of each invoice or credit note, the number, customer's name and short address, and the amount of the charges or allowance.

This book gives an opportunity for the sales to be dissected between departments or classes of merchandise by the use of a separate analysis column for each division required.

Dissecting Sales in the Sales Journal.

The amount of each invoice will be allocated over these columns, so that at the end of the month the sales under each heading can be ascertained by finding the total of the column.

When travellers are paid upon a commission basis, analysis columns can be used to divide the sales between them. The

commission will usually be paid according to territory, and the address of the customer will give the clue to the traveller's name. If the commission is only paid upon orders actually taken by the traveller, his name will have to be mentioned on the advice note, and carried from this to the invoice so that the information is available to the clerk writing up the sales journal.

The sales ledgers are generally posted from the sales journal, folios being recorded in each book to enable the postings to be checked. The information given in the sales ledger in respect of each sale will generally be confined to the date of invoice, invoice number, purchase journal folio, and the amount.

The Sales Ledger.

In some cases, however, it is necessary for a short description of the goods sold to be given in the sales ledger ; for example, if it is the custom to send out monthly statements with details of each item charged.

Under these circumstances it will be necessary to post the ledgers directly from the invoices and, unless the sales are allocated over departments or dissected in any other way, the sales journal will be replaced by a list giving only the number and amount of each invoice, this list being used merely to find the total sales for the month.

CHAPTER XX

THE COLLECTION OF ACCOUNTS

IT is a matter of vital importance to every firm that the customers' accounts be collected as promptly and regularly as possible, for an overwhelming majority of bankruptcies are ascribed on the official records to failure to collect debts due, and often a firm of good standing which has neglected this matter will, in order to tide over a period of financial stress, be suddenly compelled to shorten its credit terms and press its customers in a way that will cost it many important accounts.

Long Credit as a Policy.

A few old-established firms with ample resources make it a business policy to give long credit, and by this means may retain customers against the competition of firms which are not in a position to be lenient in this respect. It will usually be found, however, that these old-established firms are very careful in opening new accounts, and one of the benefits of their long experience is a good knowledge of the financial strength of their customers. New firms coming into the business, on the other hand, are ready to deal with anyone who is prepared to open an account, and they have to rely upon information received through channels which may be none too dependable.

The Credit Application and Status Report.

Too much importance cannot be placed upon the inquiry made into the financial position of a firm applying for credit. The "application" will, in most cases, be a first order taken by a traveller, and this order should be accompanied by a report embodying all the information which the traveller could obtain from the new customer, and by local observation and inquiry.

This report will usually be made on a specially printed form, and the information given will include the full name and address of the customer, a brief description of the premises occupied and their condition, a note of the trade carried on and competitor's goods stocked, and also any references given by the customer.

In considering this report the credit department will take into

account their experience of the customers introduced previously by the same traveller. Salesmen who have been in business for themselves at any time, or in a position of responsibility for a number of years, can be relied upon to protect their firm against bad debts; but young men trained in the service of the larger companies are notoriously careless in this matter, and have very little respect for the accountancy side of the business.

Travellers should be asked to obtain trade references in preference to bankers' references, as far more reliance can usually be placed on the former. Bankers are naturally very chary of criticizing their clients, and their replies are generally vague and stereotyped.

Trade v. Banker's References.

Indeed, the modern banking system is so organized that the branch managers rarely know very much about their clients, and will in all probability be best acquainted with those who are the least sound and who for that reason "play up" to the banker.

On the other hand, a trade reference will generally bring a clear statement of the experience which the other house has had with the particular customer, and often valuable advice on the method of dealing with him.

For example, a customer may call for an account with special discount for settlement in seven days, and the trade houses referred to advise only the monthly settlement discount to be allowed, because of their experience that the customer, while perfectly sound, is not in a position to keep to the terms suggested.

In seeking information from another trade house it is a good plan to ask a series of definite questions, e.g. "How long have you served Smith & Co.?" "Do they regularly pay in time to obtain discount?" "What credit limit have you fixed in their case?"

Make Specific Inquiries.

Most firms will answer each question when approached in this way, but, on the other hand, a vague inquiry is almost sure to elicit a vague answer.

Apart from the value of the information gathered, the act of obtaining trade references has a moral advantage. A customer who gives a trade house as reference shows that he places a value upon his association with it, and is not likely to prejudice his reputation in that quarter by failing to meet his obligations to firms who have opened accounts on the recommendation of that house.

In employing inquiry agents it is advisable to give them as much information as possible, including the amount of credit suggested, the class of goods ordered, and particulars of any previous business experience with the subject of the inquiry. The reason for this is that the agents will usually have before them a mass of information on the firm concerned, and the particulars given by the subscriber will assist them in picking out the information most useful to him.

Inquiry Agents.

It is always worth while to employ more than one inquiry agent, as these people have many methods of obtaining information and are liable to be deceived, especially when, in the absence of information from other sources, they are obliged to interview the individual in question. There is, therefore, additional security in being able to compare several reports.

If the reports received still leave the subscriber in doubt as to the status of the firm under consideration, he can always obtain further information by calling upon or telephoning the agency. They will naturally be more communicative in making verbal reports, provided that they are satisfied as to the identity of the inquirer.

It often happens that a first order will be important, and at the same time too urgent to allow time for inquiries to be made. In view of this contingency, it is worth while to keep in the office a " trade black list " compiled from the financial notices in the trade journals. The services of a press cutting agency in supplying information of this kind are well worth the cost.

The Trade " Black List "

Of course, trade and other journals can say practically nothing about a shady concern until it has actually failed. The fear of being involved in action for damages, and the difficulty of proving any statement made, compel the journals to keep silent—an unfortunate state of affairs, because if it were not for this forced reticence, " long firm " frauds could never be perpetrated.

Whether it is wise for a firm which is doubtful of an account to warn its friends in the trade against the customer is a very difficult question. If the debtor really cannot pay at the moment it will be dangerous, as a general pressure may smash him ; but if the delinquent has the money and will not pay, his coming under general suspicion will teach him a lesson.

There are several instances in which it is becoming the custom to ask for a guarantee. Young people who have been set up in business by their parents will often be called upon to obtain the parents' guarantee that the obligations of the new business will be met.

Credit Guarantees.

When it is known that a business has been sold on terms which provide for the vendor leaving a certain amount of money in the business, upon the security of a bill of sale or other charge upon the assets, it is usual to ask the vendor—the firm's old customer—to guarantee the account of the purchaser until such time as the charge is paid off.

A simple letter from the person undertaking this responsibility will meet the case, but it must be stamped as an agreement. The guarantor will probably place a limit on his liability both as regards amount and time.

When a firm has satisfied itself that nothing derogatory is known in connection with an applicant for credit, it will usually take no further precautions, but will serve the new customer in the same way as the others.

Many firms, however, place a credit limit on each account as it is opened, fixing this limit according to the reports of the inquiry agencies until actual experience of the customer's business suggests a margin. This credit limit will be recorded at the head of each sales ledger account, so that the ledger clerk will be able to see that the amount is not exceeded.

Credit Limits.

When a new customer places orders which will carry his indebtedness beyond the limit, a letter must be sent to him calling for a payment on account; but care must be taken not to annoy the customer, whose business may be larger than the inquiry agents suggested. A suitable letter might read—

"We thank you for your order of yesterday, which will be executed at once. You will understand that we are bound to limit the credit given in order to keep our business upon a prompt cash basis and so keep down costs and prices, and we will ask you to let us have your cheque for £50 on account, so that we shall be in a position to execute your orders immediately, and at the same time keep to our standard regulations regarding credit."

It may be worth while to offer a special cash discount in such cases.

If a letter of this kind is ignored, further service should be delayed upon some excuse until the account outstanding is paid.

If the proper precautions are taken before opening an account, the blame for any avoidable bad debts incurred will rest with the sales ledger department, and the prompt collection of the amounts due will depend upon the way in which that department is managed.

Responsibility of the Sales Ledger Department.

There are many firms losing large sums every year through bad debts and ascribing this loss to dishonest debtors, hard times, careless salesmen or bad luck when really it is due to bad management on the financial side of the business ; for it often happens that a smaller firm will be in direct competition, serving the same customers, and will lose next to nothing through bad debts, simply because necessity compels it to pay closer attention to this matter.

The trouble seems to arise from the fact that so many large firms make the sales ledger department their staff training ground, so that the clerks on the ledgers have had little or no outside experience.

To these clerks is left the pressure, if any, placed upon customers whose accounts become overdue, and they will content themselves with affixing labels to the statements, or sending stereotyped covering letters, the intensity of these appeals being according to the age of the account and not to the facts of the case. Indeed, it could hardly be otherwise, for obtaining details of any kind would involve a long search, and would call for the assistance of officials who might resent the ledger clerks making such inquiries. When this state of affairs exists, it is only at the end of trading periods that the overdue accounts receive any attention from the executives. Then all the sales ledger balances are reviewed and some attempt may be made to settle queries which are known to exist. This will not mean that all the sales ledger accounts are perfectly clear claims against the customers, and there is still the danger of circular letters being written to customers who have a genuine grievance, which they may not feel inclined to bring forward until a more personal interest is taken in their case.

Neglectful Financial Methods.

Very soon after the annual balancing the interest of the executives is diverted to other matters, and for a further period the overdue accounts are left in the hands of subordinates.

Even when there is a " collection department " dealing exclusively with overdue accounts, the position shows very little improvement, for the very fact that this department exists seems to relieve the ledger clerks of the moral responsibility for their accounts, and there is even less evidence of that personal interest which makes for efficiency in this matter. The idea of varying the treatment of defaulters according to the age of their account is in itself a fallacy, because a debt may become uncollectable within a few days of the goods being delivered, while, on the other hand, a substantial dividend may be received on an account which has been considered absolutely bad for several years.

The remedy lies in placing a " live wire " in charge of the collections—a man able to treat each case individually and with authority to settle controversies—who will keep customers up to date in their payments, and at the same time retain their custom.

Collection Department.

It has been said that the art of selling lies in helping the purchaser to buy ; certainly the art of account collecting lies in helping the debtor to pay.

The first duty of the official in charge of collections is to see that the account is made quite clear to the customer, by the invoices and statements sent him. If an office earns a name amongst its customers for desultory charging or slip-shod book-keeping, it has lost all claim to prompt settlement, and all its figures will be treated with suspicion.

First Steps to Prompt Settlement.

In the preceding chapter, " Handling Customers' Orders," attention has been drawn to the importance of carefully wording advice notes and invoices in accordance with the customers' understanding, and also to the value of an explicit catalogue and price list.

It must be borne in mind that these points will have a very great effect upon the time taken by the customer in passing accounts, and the same care must be used in preparing statements.

If, for any reason, items appearing on the customer's account are not payable, e.g. goods loaned for advertising purposes, cases returnable, etc., it is advisable to show them on a separate statement from the account actually payable, and if a separate sales ledger account can be kept it will be worth the trouble.

Cases and other packings are a frequent cause of controversy, and very few firms will pay for them nowadays. It is usually found more satisfactory to send out "carriage forward" addressed return labels with each case, etc., and if the value warrants it, to keep an account, in quantities only, of the cases in each customer's hands.

Cases and Packages.

This quantities account will betray customers who fail to return their cases, and if they are unable to account for them a charge can always be made.

Another matter of great importance is the clear statement of the terms granted to each customer. If the account is opened by a traveller in the first place, the terms should be fixed between him and the customer before the first order is taken, and should then be confirmed by letter.

Make Terms Explicit.

These terms should be mentioned on every quotation, advice note, invoice, and statement sent out, in the clearest possible manner, e.g. "Statements are sent out on the 3rd of each month and are payable by the 15th." If a discount is offered, this should also be stated by adding, for example, "otherwise the cash discount of 5 per cent cannot be allowed."

It may be that some firms have so many different settlement and discount terms amongst their various classes of customers that they would find such statements of policy troublesome—the danger being that a customer might be quoted in error terms which are granted to more favoured customers.

It is for them to consider whether their inconsistency is not in itself a source of weakness. It is not suggested that all customers be placed upon one basis, although this would be a very great advantage, but it is important that the credits and discounts extended be clearly defined, and so arranged in groups that there can be no doubt in the minds of the staff in the sales, invoicing, and ledger departments as to the arrangement with any particular customer.

A Source of Weakness.

The heading of each sales ledger account should show the terms governing the transactions, and if a customer is granted special terms in respect of certain goods only, these items should be distinctly marked in the ledger or, if necessary, kept on a separate account.

Frequently, when associated companies have accounts between

themselves, these are left to run on indefinitely and become troublesome, a difficulty which can easily be obviated by a monthly reconciliation of all inter-company accounts. Terms of payment should be arranged just as though the companies were independent, and cheques should be exchanged rather than contras set off.

Inter-Company Accounts.

Other common sources of trouble are the accounts of the directors, employees, and their friends, who make purchases and resent being asked to pay cash—the accounts being more in the nature of loans. If these people must have unbusiness-like leniency, their debts should be kept separately from the other accounts, and a set of statements covering the balances submitted monthly to the secretary of the company, who is usually in a good position to deal with the people concerned.

It is imperative that customers' claims for credit allowances receive prompt and courteous attention. When an application for credit is just and reasonable, a credit note should be sent at once. Should the amount claimed be unreasonably high, a credit note should be sent promptly for the amount considered fair. Delay in dealing with an application for credit always works the customer into an aggrieved state, and he begins to attach more and more importance to his claim ; whereas he will usually accept a prompt credit without attaching much importance to the amount.

Send Credit Notes Promptly.

If, in claiming credit, a customer returns an invoice which bears no sign of having been entered in his books, it is better not to send his copy of the credit note to him, but to send instead a letter saying what adjustments have been made. The danger is that he will record the credit and not the original debit.

The customers' remittances must be carefully watched, and it may be necessary to employ some system of identifying the debit items covered. Although so many accountants are against it, the practice of ruling off a sales ledger account every time a customer makes a clear settlement is a very effective one.

Customers' Remittances.

The best alternative to this is to distinguish every separate set of debit and credit items included in settlements by the use of the letters of the alphabet, so that the balance can be traced at any time by taking out the entries not accompanied by letters.

It will be the duty of the cashiers, in checking remittances, to call the attention of the ledger clerks to any deduction from statements or invoices other than the agreed discount, and to investigate the nature of any remittance not accompanied by details of its computation.

Differences arising in this way should be taken up with the customer at once, otherwise he will consider his adjustments as accepted.

In flagrant cases of over-deduction of discount, or of allowances which cannot be agreed to, it may be helpful to refrain from sending any form of receipt until the balance is paid.

When it is noticed that a customer has passed over a particular invoice, without explanation, in making a settlement, a copy of the invoice in question should be sent to him. It is advisable to verify the charges made on this invoice before doing so, and to add every piece of information and reference that the customer might possibly need.

If customers have accounts in more than one ledger, or have several accounts in one ledger, it is customary to draw attention to this fact by noting all the folio numbers at the heading of each of their accounts. This will often be useful in tracing differences which may arise ; for example, a customer's deduction from a sales ledger account may be identified as the balance on a bought ledger account of the same firm.

When dealing with a large company it becomes necessary to keep in close touch with the official who has to supervise the handling of the goods, and who passes the accounts for payment. It will be very little use worrying the accounts department of the company, if the invoices have not been passed on to it.

Dealing with large Companies.

Care must be taken that in making personal appeals one does not place oneself too much in the hands of an official, or he may ask to be rewarded for his services. A very ugly problem then presents itself, especially when the buyer is also in charge of the payment of accounts, a position so often met with in provincial towns.

The fact that an account has become overdue will be first noticed by the clerks in making out monthly statements. When it is found that a customer has failed to meet his account, it is better to send a detailed statement, or, at least, one showing the date from which the account has been mounting up, rather than to describe the

balance as "account rendered." In either case attention should be drawn to the date of the first outstanding invoice by underlining or the use of red ink.

In order to distinguish between the ordinary accounts and those which have become overdue, statement forms of different colours can be used to advantage—red suggesting itself as a suitable colour for the latter. The "overdue account statement" should be so headed in bold type, and the special printing presents an opportunity to remind the customer of the terms and to add an appeal, for example: "This account is overdue. Please examine this statement and remit the balance or call our attention to any difference"; "Customers are asked to remit promptly to save us unnecessary expense and so enable us to keep down prices. If this statement does not agree with your books, please notify us of the difference."

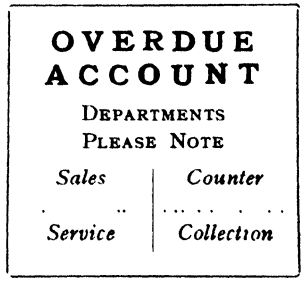
The "Overdue Account" Statement.

Some firms find that using a threat of interest charges, e.g. "5 per cent interest is charged on all accounts after one month," is effective in dealing with slow payers, although such threats have no legal value.

As soon as an account calls for special treatment, a metal tag should be fixed to the edge of the ledger sheet in such a way that it can be easily removed when the account is paid. If these tags are numbered and a separate consecutive number is used for each month, a glance will show the comparative age of each account, and will assist in arranging whatever precautions or methods of pressure are customary in the office.

Metal Signal Tags.

For instance, it may be usual to notify the sales, service, counter, collection or other departments when an account has been considered overdue for two months. This can be easily accomplished by marking each statement with a rubber stamp, giving an impression similar to the illustration, and circulating it round the departments interested. Each departmental manager will initial the statement in the space provided, acknowledging the notification, and it can then be sent to the customer in the usual way. Very often the stamp described is the means of



inducing the customer to pay his account, for there is a mute but effective threat of restricted service behind its use.

When the signal tag shows that an account has been overdue for several months, it will be time to commence writing collection letters, and, as a preliminary to this, particulars of the debt should be entered in an "overdue accounts record."

The "Overdue Accounts" Record.

The best medium for this record is a loose-leaf book, in which a separate sheet is given to each account, so that they can be kept in alphabetical order to facilitate reference.

A specimen sheet for this record is given on the next page, and it will be seen that it is intended to carry a summary of the account, including the collections made, and a précis of the correspondence which is carried on.

Here, again, numbered tags are helpful as they can be arranged to call attention to an account on the particular day on which further action is to be taken, so that applications may be regular and there is no fear of a debt being overlooked. As an illustration of this, if a debtor promises payment on the 15th of the month, a tag labelled 17th will be fixed to the sheet as a reminder to write a complaining letter on that day if the promise is not kept.

When the accounts are paid, the overdue account record sheets can be transferred to a binder where, still arranged alphabetically, they will be of service as a credit index. Reference will be made to this index whenever an old customer reopens an account, and the information available will be of great assistance in fixing terms and credit limits.

A Useful Credit Index.

The customer's sales ledger account will be posted as usual, but the sheet should be marked with the letters "O.R." and the date, to show that an overdue account record sheet has been made out. These marks should be enclosed in a bracket when the account is paid, and the same procedure should be adopted each time the account has to be treated in this way. The presence of these marks at the head of the ledger sheet will remind the clerk that the account is one that must be watched closely.

As an alternative to the keeping of this record, the accounts seriously overdue could be transferred to a separate ledger, where the sheets would be tagged to ensure regular attention and notes made in just the same way, although the advantages of having a

OVERDUE ACCOUNT RECORD SHEET

Name.....*A. Brown & Co., Ltd.*..... ....

Ledger Folio.....*B 137*.. ....

Address.. .....*2394 Hyde Park, W.* . . . .

Credit Limit.....*£30* ....

Salesman..... .....*Johnson*.....

Classed as overdue.....*31st January, 1926* . .....

Form Letters.....*A 2/2/26*. .. .... *B 1/3/26*..... ....*C 3/4/26*. .. ..

Date.		Dr.			Cr.			Balance.			Special Letters, Etc.	Results.
1925		£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*		
Nov.	*9*	*10*	*2*	*6*								
	16	*10*	*2*	*6*							*5/5/26 Mr. Johnson sent down.*	*2/3/26 Customer promised £10*
Dec.	*17*	*9*	*7*	*7*				*29*	*12*	*7*	*Brown's suffering heavily*	*per month.*
1926											*from competition.*	
Feb.	*12*	*3*	*10*	–				*33*	*2*	*7*	*31/5/26 Service stopped*	*2/6/26 Order for 3 cwt.*
Mar.	*2*				*10*	–	–	*23*	*2*	*7*		*(refused).*
Apr.	*2*				*10*	–	–	*13*	*2*	*7*		
,,	*9*	*6*	*1*	*5*				*19*	*4*	–	*3/6/26 " Cannot supply you unless*	*7/7/26 Promise to pay £5*
June	*8*				*5*	–	–	*14*	*4*	–	*account is paid."*	*per month.*
July	*7*				*5*	–	–	*9*	*4*	–		
Aug.	*6*				*5*	–	–	*4*	*4*	–	*4/7/26 Threat to employ solicitors.*	
Sept.	*8*				*4*	*4*	–					

sheet specially ruled for this purpose will amply repay the time occupied in its preparation.

Whatever procedure is decided upon should be made a standard throughout the business, and every ledger clerk should be given written instructions covering not only his work in connection with overdue accounts, but the precautions to be taken with a view to obviating them.

When writing to customers whose settlements are not seriously overdue, form letters can be used, provided the customers do not recognize them as such and precautions are taken to prevent the same form being sent more than once to the same debtor. Typists can prepare the body of these letters in their spare time and keep them in stock, so that when a letter is required it will only be necessary to insert the customer's name and address and the date.

Form Letters Signed by Directors.

The value of these appeals will be greatly enhanced if they can be signed by a director or other important officer of the company, as it gives the delinquent the impression that his account is being subjected to special observation. It is natural for a customer to be influenced in considering a debt by the importance which the creditor apparently attaches to it, and this point should be borne in mind in preparing every application for payment.

The first letter can usually be restricted to drawing the customer's attention to the terms he has agreed to, and the way in which he has failed to keep to his agreement, and to encouraging him to explain his non-compliance, in case he should have a valid excuse or a genuine grievance. The use of such a sentence as, " We trust that the account as rendered is in accordance with your records, but will be pleased to give you any further information you require," will meet the last suggestion.

A Wary Opening.

It will frequently be found an advantage to send out dunning letters at a different time from the statements, so that they do not arrive with the monthly batch of demands for money and, consequently, stand a better chance of receiving attention.

When writing to debtors whose disregard is believed to be wilful, it is often a good plan to address complaints to an individual, preferably the person who signed the order for the goods. If no particular person is known, a director or partner might be selected

from the notepaper heading, and subjected to this form of victimization.

The telephone is a very valuable debt collecting medium. By this means it is nearly always possible to get at the right man, although he would, in all probability, refuse to grant an interview, and there is a great advantage in being able to hear his version of the story. Telegrams can also be relied upon to bring an account forward effectively when the amount justifies the cost.

Use of the Telephone in Debt Collecting.

It is usually best to maintain a polite and injured tone throughout whatever conversation or correspondence is necessary. If it is believed that a debtor will ultimately pay his account without legal proceedings, and his custom is still considered desirable, it is unwise to annoy him with threats.

When it is obvious that more drastic action is necessary, the account should be handed over to a solicitor or an agency, and the threatening should be left to them. If this suggestion is adopted, the customer, after having settled his account, will be able to resume business relations without loss of dignity, and there is not so much fear of bad feeling spreading to other houses in the trade which may be associated with, or friendly to, the debtor.

When Drastic Action Becomes Necessary.

On the other hand, if it is thought that a debtor will have to be taken to court, it is advisable to have a summons issued without wasting time or money on disagreeable correspondence.

When a customer fails to meet his obligations in due time, the traveller's position becomes very uncomfortable. He will be pressed by his firm to obtain payment, and at the same time be called upon to find out as much as possible regarding the customer's difficulties. If he has been given instructions to accept no further orders, the salesman working on commission will consider his calling to worry for money a waste of time, and unless the particular salesman is responsible for the debt having been incurred, a commission upon any amount collected should be offered as an inducement.

When a salesman reports that a customer who persistently breaks his promises has promised payment for a certain day, it is a good plan to draw a bill of exchange on the customer, payable at the time he has mentioned. He cannot very consistently refuse to back

up his promise in this way, and he can be relied upon to give this bill preference over ordinary debts when the due date comes.

The Useful Bill of Exchange.

Customers will have two good reasons for not wishing to dishonour a bill; first, it cannot be done without the banker's knowledge, and this will affect credit reports; second, in an action to recover on a dishonoured bill the holder need not prove delivery or any other point in connection with the goods supplied which might be disputed.

In dealing with firms in seasonal trades—perhaps the most troublesome kind of debtors—bills are particularly useful, and an acceptance to be met at the end of the season can be fairly easily obtained.

It is rarely wise to refuse service to a customer who is behind with his payments. A better way is to send a *pro forma* invoice against each order received. He cannot seriously complain of this, and will usually pay up his old account as quickly as he can, in order to save himself the trouble of paying in advance.

Pro Forma Invoices.

If a firm in trouble with its account offers to give back some of the goods, there should be no hesitation in accepting this return, even if the action appears to result in a book loss. Some firms will not take back goods under any circumstances, fearing to establish a precedent of "sale or return," but that would appear to be better than to have the goods sold under the hammer for practically nothing by a liquidator or receiver, and to lose most of the value.

Taking Goods Back.

Of course, if goods can be purchased from the debtor to a little over the value of the account, and the balance paid, it is an even better way out of the difficulty; but care must be taken to clear the account properly and to obtain the debtor's written acknowledgment that this has been done; otherwise, if the firm goes into liquidation or becomes bankrupt, the setting off of the original debt might not be allowed.

When outside assistance has to be resorted to, a trade collection agency will, in most cases, be more helpful than a solicitor, for the delinquent knows that while he has nothing to fear from the latter until a summons is taken out, ignoring the appeals of the former will affect his credit reports.

The Trade Collection Agency.

Very full and precise information must be given to the legal advisers regarding the circumstances and the extent of the debts, while every attempt should be made to ascertain the customer's real reason for non-payment, and to investigate any claim or complaint he may have made.

Whether solicitors or agencies are employed, it will usually be left entirely to them to take what legal steps are necessary to recover the amount due, but they should not be allowed to commence or settle any legal action without first referring to the client for sanction.

CHAPTER XXI

BANKING AND CASH CONTROL

THE cashier's department of a business, whether that business is large or small, stands aloof from the other departments by reason of its more intimate relations with the management, and the fact that a greater responsibility is borne by each individual assistant.

Apart from this responsibility, which attaches to the handling of cash and readily negotiable documents, there is a need for secrecy in connection with a great deal of the cashier's work. This department cannot be made subject to re-organization to meet the ideas of any particular manager. Its duties call for a strict routine and hard and fast rules, which must be well known not only to the staff of cashiers, but to all those who have dealings with them. No departure from these rules can be tolerated, and for this reason it is imperative that the cashiers be protected from any interference or prying at the hands of other departments, and from the influence of directors and managers who may wish to exercise their authority in a way which threatens the established system, though not necessarily for personal or ulterior motives.

Conduct and Functions of the Cashier's Department.

The chief functions of the cashier's department will be—

Receiving and recording of cash,
Banking,
Paying and recording of disbursements,
Paying and recording of salaries and wages,
Safe keeping of cash and instruments of credit,
Preparation of cash statements and estimates,
Transmission of money.

The recording of incoming cash and instruments of credit is the first point to be considered. Great importance must be attached to the prompt recording of the receipts. Remittances received through the post should be entered in a permanent record as the post is opened, and a list of these handed to the cashiers, together with the cheques, etc. Cheques, postal orders, and money orders should be crossed

Recording of Cash Receipts.

immediately they are received, a fully protective wording being used, for example—

" Southern Bank, Kingsway Branch."

" A/c—Eastern Sales, Ltd."

Cash receipts should be similarly recorded, and cash register machines used if there is sufficient work for them. In using these machines great care must be taken that the nature, as well as the source, of each cash receipt is recorded. In this way a check on the entries in the cash book is always available, and there is no fear of incoming cash being unidentified or incorrectly recorded.

The cash books themselves should be arranged with careful regard to the office routine. In most offices it is advisable to record daily totals only in the general cash book, and to enter the details of receipts and payments in separate cash receipts and cash payments books. Specimen rulings of these three books are given on pages 338–9–40.

The Cash Books.

The use of separate cash receipts and cash payments books will allow for columnar allocation ; thereby effecting a great saving of posting, as only the monthly total under each heading will need to be carried to the impersonal ledgers. The practice of having two sets of these books for use on alternate days is a great advantage in large offices ; for, during the whole of the following day, each day's entries are available for posting and the preparation of statistics. In too many offices, hours of valuable time are wasted by the ledger staff waiting for the cash books, and mistakes are constantly being made through guesswork owing to the records not being available.

Sorting to Save Time.

Remittances received should be sorted into alphabetical order before they are entered in the cash receipts book. This sorting will only take a few moments, and will save a considerable amount of time in tracing payments. Where the sales ledgers are arranged alphabetically, it will also save time on the posting, as each ledger clerk will have the items which require to be posted by him grouped together in the order in which the accounts affected appear in his ledger.

In the same way, the work of the bought ledger clerks will be expedited if the accounts for payment are arranged in alphabetical order before the cheques are drawn.

GENERAL CASH BOOK

Date.		Receipts.												Date.		Payments.				
		Town.		Country.		Scottish.		Irish.		Cash.		Sundries.	Description.	Folio.					Description.	Folio.	
		£ s. d.		£ s. d.		£ s. d.		£ s. d.		£ s. d		£ s. d			£ s. d.						£ s. d.
1925 Nov.	1												B. fwd.		1,001 10 6	1925 Nov.	1	C.P.B.	113	701 3 4
	1	75	3 2	178	2 9	35	2 7	96	– 8	66	1 –		C.R.B.	76	450 10 2		2	C.P.B.	117	302 9 –
	1											2,000 – –	B.R.B.	34	2,000 – –		3	C.P.B.	120	1,017 3 6
	2	126	1 9	348	7 –	200	– –	34	2 7	17	4 –		C.R.B.	77	725 15 4		4	C.P.B.	124	624 9 –
	3	204	3 6	197	– –	172	4 1	110	2 –	38	9 –		C.R.B	79	721 18 7		6	C.P.B.	128	305 1 7
	4	80	10 –	100	10 6	34	6 2	91	– 7	18	3 6		C.R.B.	81	324 10 9		7	C.P.B.	132	297 6 –
	6	110	3 2	209	– –	62	5 6	100	3 –	14	– –		C.R.B.	84	495 11 8		8	C.P.B.	135	409 2 6
	7	92	– 10	163	1 7	59	7 –	81	2 6	36	13 6		C.R.B.	86	432 5 5		9	C.P.B.	138	216 4 3
	8	65	9 9	236	– 9	195	– –	132	3 4	70	10 –		C R.B.	88	699 3 10		10	C P.B.	144	1,217 10 –
	8											671 5 –	B R.B.	35	671 5 –					
	9	172	– –	61	12 6	39	2 7	101	6 –	30	– –		C.R B.	90	404 1 1					
	10	94	3 7	109	6 2	64	1 –	76	4 9	15	2 6		C.R.B.	93	358 18 –					

CASH RECEIPTS BOOK

Date.		Rcpt. No.	Name.	Folio.	Bank.	Discount.	Sales Ledgers.					Counter.	Sundries.	
							A–K	K–M	N–R	S–Z	Export.		Description.	
					£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.
1925														
Nov	1	329	*Ames, I.*	A 7	35 2 7	2 18 4	38 – 11							
		330	*Beale, J.*	B 6	7 3 4	8 4	7 11 8							
		331	*Mahony, R.*	M 3	110 – –			110 – –						
		117	*Means, H.*	M 5	1 2 6			1 2 6						
		332	*Nevill Pntg.*	N 6	22 10 –	3 – –			25 10 –					
		333	*Powell, S.*	P 9	30 – –	3 10 –			33 10 –					
		334	*Savage, R.*	S 2	117 – –					117 – –				
		118	*True, A.*	T 14	1 18 –					1 18 –				
		335	*Graphite*	G 19	40 – –							40 – –		
		—	*Counter*	41	35 2 6						35 2 6			
		336	*G. S. Rly*	104	2 9 7								*Carriage repaid*	2 9 7
	2	337	*Allan, B. E.*	A 3	15 7 –	13 –	16 – –							
		338	*B.M.P Co*	B 2	2 10 –		2 10 –							
		339	*Coles, S.*	C 8	60 10 –	1 10 –	62 – –							
		340	*George, L.*	G 11	2 11 6	1 6	2 13 –							
		341	*Mears, Ltd*	M 6	9 10 –	10 –		10 – –						

CASH PAYMENTS BOOK

Date		Vch. No.	Name.	Folio.	Bank.	Discount.	BOUGHT LEDGERS.					Wages.	Petty Cash.	SUNDRIES.	
							A-E	F-K	L-N	O-S	T-Z			Description	
					£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		£ s. d.
1925															
Nov.	1	202	*Bales, Pckg.*	B 2	35 – –		35 – –								
		203	*Hatch, C. L.*	H 9	43 2 6	2 1 8		45 4 2							
		204	*James, E. S.*	J 2	20 – –			20 – –							
		205	*King, F.*	K11	2 3 6			2 3 6							
		206	*Munro, A.*	M 7	93 2 7	4 17 1			97 19 8						
		207	*Neale Ltd.*	N12	111 – 10	5 3 1			116 3 11						
		208	*Palmer, A. F.*	P 3	62 – –	3 – –				65 – –					
		209	*Prince, K. W.*	P10	75 – –					75 – –					
		210	*Thames Coy.*	T 4	120 – –	7 10 –					127 10 –				
		211	*P. Cash*	116	50 – –								50 – –	*Directors' Fees*	75 –
		212	*Clark, A. S.*	207	75 – –										
	2	213	*Anglo-Latin*	A10	6 – –		6 – –								
		214	*Baker, S.*	B 1	3 10 –		3 10 –								
		215	*Collins, M.*	C 3	1 11 7		1 11 7								
		216	*Dunn, H. J.*	D 6	4 15 –	5 –	5 – –								
		217	*Fowler, R.*	F 9	6 13 –	7 –		7 – –							

Receipt forms play a very important part in the routine, and the form of acknowledgment should be carefully considered. In most cases either a carbon copy or a counterfoil of the receipt form is kept. It is generally accepted that the former method is the better, because it gives a faithful reproduction of the actual acknowledgment; while with the other method there is the danger of the counterfoil not agreeing with the receipt. The receipt form should always be printed and should be numbered by the printer, the number being repeated on the copy or counterfoil.

Receipt Forms.

When the number of receipts given is considerable, two sets of books should be used—one set impressed with the Inland Revenue stamp—and if for this or any other reason more than one receipt book is in use, the number of the receipt should be recorded in the cash receipts book.

In the majority of cases it will only be necessary for the printed and numbered receipt form to be completed with the name and address of the payer; the date; the form of remittance, e.g. "cheque," "postal order," "cash"; the amount of the payment; the amount of discount (if any), and the signature of the authorized official, who should state his position, e.g. treasurer, secretary, cashier.

The mere use of initials over the printed name of the company or firm is a great source of danger, although it is so often employed. To the dishonest mind, the scribbling of hieroglyphics is a very different thing from forging a name, and tracing the culprit becomes a much more difficult matter.

Beware of Initials.

All the information required can easily be given on the small gummed receipts which are so commonly used, and these have the advantage that they can be readily affixed to statements or invoices.

The great increase in the number of firms using voucher cheques —with the use of which receipt forms become unnecessary— threatens to interfere with this routine; but by preparing the official receipt in the usual way, and attaching this to the back of the cheque, the acknowledgment can be given in such a way that it will meet the requirements of both payer and payee.

Voucher Cheques.

When the customer does not return a statement or invoice with

his remittance, showing that his payment is correct in amount, his account should be referred to before any acknowledgment is prepared. If the remittance is found to be insufficient, the words "on account" must be written on the receipt.

Branch and Travellers' Collections.

Branch collections and travellers' collections call for special treatment, and it will often be found necessary to keep a specially ruled memorandum book, which will show at a glance any collections which have not come to hand. A suitable form for this purpose is given on the next page.

Payments into the Bank

In most cases the travellers or branches will send in a counterfoil paying-in slip bearing the acknowledgment of the bank, together with a list of the collections. It is imperative that each day's collections be banked in total, and under no circumstances should expenses be deducted from or set off against such collections. If the travellers or branches have this method of obtaining money at their disposal, the authority of the department supervising their expenditure will be seriously undermined.

In the same way the full daily receipts of the head office should be paid into the bank at the earliest opportunity, and on no account should cash received be used for the payment of expenses.

The practice of cashing cheques for members of the staff should be discouraged, and when it cannot be avoided the exchange should be made the subject of careful record.

Paying into the bank account should present no difficulty, provided careful attention is given to segregating the town, country, Irish, and Scottish cheques, and sufficient description is given on the counterfoil of the paying-in book to enable the pass book reconciliation to be easily effected. Amounts received in cash, money orders, postal orders, and stamps should be earmarked as such in the cash receipts book.

It will be noticed that the form of general cash book shown on page 338, is provided with analysis columns, so that the payments into the bank can be allocated under the headings used by the banker, i.e. cash, town cheques, country cheques, etc.

With this information available in the general cash book, it will not be necessary to refer to the cash receipts book in reconciling the pass book.

BRANCH REMITTANCES

Week ended.. *7th....November, 1925*

Branch.	Mon. *2nd.*				Tues. *3rd.*				Wed. *4th.*				Thurs. *5th.*				Fri. *6th.*				Sat. *7th.*				Remarks.
	C.R.B Folio.	£	s.	d.	C.R.B Folio.	£	s.	d.	C.R.B Folio.	£	s.	d.	C.R.B Folio.	£	s.	d.	C.R.B. Folio.	£	s.	d.	C.R.B. Folio.	£	s.	d.	
Belfast	*121*	*60*	*3*	*7*	*122*	*50*	*1*	–	*124*	*72*	*5*	–	*125*	*64*	*3*	*6*	*126*	*51*	*4*	*9*	*128*	*19*	*10*	*7*	
Birmingham	*121*	*50*	*9*	–	*122*	*46*	*2*	*2*	*124*	*36*	*4*	*9*	*125*	*40*	*10*	–	*127*	*52*	*7*	–	*128*	*26*	*4*	–	
Dublin	*122*	*27*	*6*	*2*	*123*	*30*	*6*	*3*	—		*nil*		*125*	*35*	*3*	*8*	*126*	*31*	*6*	*8*	*128*	*15*	*3*	*6*	*Closed on 4th*
Glasgow	*120*	*47*	*10*	–	*121*	*52*	*10*	*6*	*122*	*43*	*6*	*2*	*124*	*50*	*6*	*10*	*126*	*42*	*5*	–	*127*	*20*	*6*	*7*	
Edinburgh	*120*	*36*	*5*	–	*121*	*31*	*2*	*8*	*123*	*32*	*1*	*7*	*124*	*35*	*2*	*9*	*126*	*40*	*6*	*10*	*127*	*17*	–	*9*	
Liverpool	*119*	*120*	*7*	*6*	*121*	*107*	*3*	*4*	*122*	*131*	*9*	*6*	*124*	*102*	*7*	–	*125*	*126*	*9*	*7*	*127*	*75*	*10*	–	*"Sale" all week*
Swansea	*120*	*34*	*2*	*6*	*122*	*25*	*10*	–	*123*	*32*	*4*	*9*	*124*	*31*	*3*	*7*	*126*	*25*	*6*	*3*	*127*	*12*	*6*	*3*	
	£	*376*	*3*	*9*	£	*342*	*15*	*11*	£	*347*	*11*	*9*	£	*358*	*17*	*4*	£	*369*	*6*	*1*	£	*186*	*1*	*8*	

		£	s.	d.
Total	£	*1,980*	*16*	*6*
Outstandings, Sat.		*238*	*8*	*8*
		1,742	*7*	*10*
Outstandings, Mon.		*327*	*5*	–
Cash Receipts Book	£	*2,069*	*12*	*10*

The agreement of the cash book with the bank pass book is a very important duty which should be carried out at regular and frequent intervals, preferably by an assistant who takes no part in the writing up of the cash books.

When the transactions on the account include travellers' or branch remittances, collection of bills of exchange and promissory notes, or remittances and collections in foreign currencies, the pass book should be examined at least once a week. These are often sources of difficulty, not only because it is necessary in each case to know promptly that the transactions have been completed, but also because a cash book with a volume of items under these headings will never give a true idea of the balance available at the bank, and the pass book must be consulted before cash estimates can be prepared.

Pass Book Reconciliation.

When there are a large number of payments by cheque, it will be found a convenience to have the bank enter the cheque numbers in the pass book, instead of the payee's name, and also to record the cheque numbers in the cash book. These cheque numbers may be used in numbering the vouchers, so that there will be no confusion.

Use of Cheque Numbers.

This method saves a great deal of time in checking the pass book, as the cheques will be entered in the cash book in numerical order and there will be no need to search for names as interpreted by the bank clerks. When regular payments of an equal amount are made to one person, the use of names may be very misleading.

The value of using separate banking accounts, in order to keep certain classes of receipts and payments distinct, should not be overlooked. By this method subsidiary cash books can be made self-contained, and the volume of transactions on the main banking account substantially reduced.

Value of Separate Banking Accounts.

Most large companies use separate banking accounts for salaries, dividends, and petty expenses, and the nature of many businesses suggests groups of cash operations which can be segregated to advantage in this way. For example, builders and engineers would use separate accounts for each large contract; newspapers for payments to contributors; insurance companies for annuities; and land companies for rents received.

Companies maintaining their accounts, or sections of their

accounts, on a cash basis will find that the use of separate banking accounts greatly facilitates the preparation of figures for purposes of comparison.

Turning to the method of paying accounts, the most important rule to enforce is that no payment be made without the sanction of the official responsible for the purchase, who must be in no way connected with the cashier's department. After this sanction has been given it should be left for the cashiers to determine the best method of discharging the debt; but a definite time-table should be kept to, so that payments are made regularly at weekly, monthly, or such other intervals as the case may require. No deviation should be made from this time-table without the authority of the official who has sanctioned the payment.

Payment of Accounts.

It will usually be found that it is best to pay even the smallest ledger account by cheque, as the extra work entailed in using postal orders easily offsets any saving in poundage as against stamp duty. In any case, payment by cheque is a safeguard against dishonesty in the payee's or payer's offices, and the endorsement gives the payer an acknowledgment which may be the only one obtained.

Every cheque should be backed by the supporting vouchers when it is submitted for signature, and it is a good practice to stamp all these vouchers with a rubber stamp bearing the word "paid," the date of payment, and a distinctive number which will be recorded in the cash payments book.

Vouchers.

When voucher cheques are used, care must be taken to give the payee sufficient information to show him just what the remittance is intended to cover. It must be borne in mind that, legally, his receipt on the cheque does not constitute an agreement to accept that sum in settlement of any particular claim—however the receipt may be worded.

The cash vouchers should be carefully filed in the same order as the payments appear in the cash payments book, and it should be the duty of a responsible official to go through these vouchers to see that there is sufficient evidence obtained in each case, and that this evidence agrees in every way with the cash book entries. Checking the vouchers in this way will ensure the evidence of payment being readily available to the auditors, whose examination

might be made so long after the transaction that it would be a very difficult matter to collect the necessary vouchers at that time.

The use of bills of exchange in settling accounts offers considerable benefit to both parties, especially when transactions are made in series and a definite term of credit—say, sixty or ninety days—is allowed, and it is a surprising thing that they are not more generally used in inland business.

Advantages of Bills of Exchange.

When a transaction has been completed by the giving of a bill, the seller has the advantage of being able to obtain his money by discounting the bill, if he so wishes; while the purchaser has determined his liability and is in a position to clear his records.

When it is the practice of an office to give bills in settlement of all purchases, other than those made on a prompt cash basis, the books will reveal not only the amount of the accounts payable, but also the dates on which payments have to be made; so that forward business obligations can be undertaken with greater confidence, and the fear of a sudden shortage of funds through unintentional overtrading is lessened.

A form of bills payable book is given below. It will be seen from this that the bills are entered as they are accepted, and the amount of the liability is spread over the columns according to the months in which the bills fall due.

At the end of each month the column for that month is closed, and the total is posted to the general cash book in order to cover the bills being presented by creditors.

The Bills Payable Book.

The bills payable book will have to be reconciled with the pass book, as the individual bills will not be recorded in the cash books.

Firms using bills extensively in meeting their obligations will usually fix one settlement day in each month upon which all bills will become due, and arrange the payment terms of their purchase contracts accordingly.

The preparation of dividend and debenture interest warrants is usually carried out by the registrar's or secretarial department; but the warrants should be checked by the cashier's department before they are posted, and the returning warrants should be handled by the cashier's department. Misappropriation of dividend warrants is a very common offence, and shareholders should be encouraged to give their

Dividend Warrants.

BILLS PAYABLE BOOK

No.	Date Accptd	By Whom Drawn.	Folio	Due Date.	Total £	s.	d.	March. £	s.	d	April. £	s.	d	May. £	s.	d.	June £	s.	d.	July. £	s.	d.	August £	s.	d.	September. £	s.	d.	October. £	s	d.
	1926																														
1237	Jan 1	London Sundries Co.	L 41	3 Mar. 26	60	–	–	60	–	–																					
1238	1	Grant & Smith	G 17	3 Apr. 26	135	2	6				135	2	6																		
1239	1	United Produce	U 34	3 Mar to Oct 26	800	–	–	100	–	–	100	–	–	100	–	–	100	–	–	100	–	–	100	–	–	100	–	–	100	–	–
—46																															
1247	2	Brown Plantations	B 6	3 June 26	620	–	–										620	–	–												
1248	2	Robinson Stores	R 16	3 Aug. to Oct. 26	150	–	–																50	–	–	50	–	–	50	–	–
—50																															
1251	3	Henry & James	H 20	3 Apr 26	50	–	–				50	–	–																		
1252	3	General Stores	G 10	3 Mar. 26	25	8	–	25	8	–																					
1253	4	Harding, B S.	H 19	3 Aug. 26	50	–	–																50	–	–						
1254	4	Amery & Jones	A 7	3 Mar. to Oct. 26	400	–	–	50	–	–	50	–	–	50	–	–	50	–	–	50	–	–	50	–	–	50	–	–	50	–	–
—61																															
1262	4	Gordon, M. H.	G 3	3 July 26	100	–	–													100	–	–									
1263	4	Wells, Arthur	W 1	3 July 26	75	–	–													75	–	–									
1264	4	Brown Bros.	B 2	3 July 26	22	6	6													22	6	6									

banker's name and address so that protective crossings can be used. Dividend warrants paid after an unusual lapse of time should be carefully scrutinized, and the signature of the shareholder compared with the specimens available.

When a shareholder has failed to cash a warrant within a reasonable time, inquiry should be made and further payments withheld unless some explanation is obtained.

On no account should dividend warrants be sent out uncrossed, and returning warrants should be scrutinized for any irregular endorsement, or reopening of the crossing by use of the words " pay cash," and the necessary signature.

The payment of salaries and wages to the staff, other than manual workers, presents little difficulty, as they will usually be paid at a fixed rate per week or per annum.

A little consideration should be given to the question of the intervals at which employees are to be paid. In some offices it is usual to pay all clerical workers monthly. This inflicts hardship on the younger employees, and causes some of the less responsible members of the staff to vary between comparative affluence and poverty throughout each month, a predicament which may lead to borrowing and dishonesty.

Payment of Salaries and Wages.

A satisfactory arrangement would be to keep the majority of the staff on a weekly basis, with monthly payment optional to the employee, but the point must not be overlooked that, in the absence of any agreement or trade custom, the period of payment governs the period of notice.

The monthly salaries are best paid by giving a separate cheque to each individual, and the endorsement of this cheque is usually the only acknowledgment expected.

It is, however, the practice in some offices to draw all salary cheques to " bearer," " salaries," or some other description which will not disclose the name of the recipient, and to obtain a formal receipt. With this system in operation, the salaries paid need only be known to the one official who keeps the salaries' record and obtains the receipts.

Wages paid in cash on a fixed weekly basis will need to be more carefully handled, and here it is imperative that more than one employee deal with the matter.

The risks of dishonesty and error can be minimized by one clerk preparing the wages lists and receipt forms, and another preparing the pay envelopes and paying the staff. The sheets should be signed by both clerks and countersigned by a responsible official.

Necessary Precautions.

The wages records must be ruled to provide columns for details of National Health and Unemployment insurances, both workers' and employers' contributions, and a column showing the actual cash payable. The record illustrated on the next page will cover the needs of most businesses, and this can be obtained in book form with four weeks at an opening, and with leaves cut to allow a whole year to be recorded without rewriting the name, department, or position.

The Wages Records.

An adjustment column is provided in order that overtime, stoppages, holiday pay, etc., can be recorded, and the use of this will at once direct attention to adjustments made under these headings in any particular week—an important matter when figures are being taken out for statistical or comparative purposes.

Advances on account of wages should be discouraged, but it is difficult to make a hard and fast rule against them. In a case of special hardship a request for an advance cannot be refused, and in some instances, with dock workers, for example, the practice is very common and must be provided for in the wages system and records. Advances should not be left to the discretion of the cashiers, but should be duly authorized by the official in charge of the claimant's department.

Advances on Account of Wages.

Some firms use printed forms for applications for wages advances, but this would appear to encourage applications being made and advances being treated by the employees as a matter of course.

Payments in advance on account of holidays cause a good deal of inconvenience in a large office. The usual practice is for the advance money to be drawn with the wages for the week preceding the holiday, but some firms prefer to establish a holiday pay fund. The holiday advances are all paid from this fund, and are recovered later as each week's wages are drawn. With this system in force, the holidays will not affect, and need not appear on, the ordinary pay

Holiday Advances.

WAGES BOOK

Week ended . .. . . *19th December, 1925* .....

Name.	Position.	Dept.	Rate	Adjustments.		Wages.	Employee's Insurance Contribns.	Net Amount Payable	Employer's Contribns.	
									N. H. I.	U. I.
			£ s. d.		£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Allan, J. B.	*Clerk*	*A/cs*	5 – –	*O T.*	10 –	5 10 –	1 2	5 8 10	5	10
Baxter, A. H.	*Clerk*	*A/cs*	4 10 –	*O.T.*	8 6	4 18 6	1 2	4 17 4	5	10
Charles, S.	*Typist*	*A/cs*	4 – –	—		4 – –	11	3 19 1	5	8
Graves, G.	*Typist*	*A/cs*	3 – –	*3 days Left*	1 10 –	1 10 –	11	1 9 1	5	8
Tanner, B.	*Typist*	*A/cs*	2 10 –	*3 days New*	1 5 –	1 5 –	11	1 4 1	5	8
Turner, S. L.	*Typist*	*Sales*	3 – –	—		3 – –	11	2 19 1	5	8
Turner, C. B.	*Typist*	*Sales*	3 – –	—		3 – –	11	2 19 1	5	8
Williams, J.	*Clerk*	*Filing*	2 – –	—		2 – –	11	1 19 1	5	8
Witney, R.	*Boy*	*Post*	1 – –	*O.T.*	2 6	1 2 6	9½	1 1 8½	5	5
Young, C.	*Boy*	*Post*	15 –	—		15 –	—	15 –	—	—

records. This is a great advantage when weekly expense figures are prepared for comparison or costing purposes.

A carefully arranged system should be used in notifying the cashiers of changes in wages payable, and the use of a specially printed form, similar to that given below, is recommended. This form should be made out by the foreman or departmental manager, and handed in to the wages office for comparison with the existing records of the employee in question. It should then be submitted to the staff superintendent, accompanied, if an alteration or termination, by the employee's staff record card ; or, if a new appointment, by the employee's references and the necessary information, i.e. age, married or single, etc., for the staff records.

Notification of Wages Variations

It is an important matter that the termination of an employee's engagement be treated in this way, although in practice this formality is often neglected. Whether the employee resigns or is dismissed, the deletion from the wages records should be properly authorized, as this is an effective safeguard against employees being

NOTIFICATION OF WAGES ALTERATION

To CASHIER'S DEPARTMENT— No. *3247*. . .

Please note the following alteration in Wages Record.

~~Appointment~~ Increase ~~Decrease~~ ~~Termination~~

(Cross out words not applicable.)

Name *Jackson, John* .	Alteration to be made as at—
Address . *3 Union Street, W.6*	*7th Dec., 1925* .
Grade . *Improver*	Subject to notice *Seven days*
Department *Foundry* .	Remarks—
Present Rate of Pay £ *1* : *15* : *0* d	*Has completed one year's*
Rate to be paid £ *2* : *0* : *0* d.	. *satisfactory service* . . .
Recommended by— *H. S. Bailey, Works Supt.*	Authorized by— *W. H. Brown, Secretary.*
	Wages Records altered by. *A.E.J.*
Date. . . . *1st Dec., 1925* .	Staff Records altered by *L.S.C.*

left on the pay records after they have gone—a very common form of fraud.

Formal receipts should be obtained in acknowledgment of every payment of salary or wages.

When the money is handed to the staff in separate envelopes, it is a good plan to use a small receipt form, which can be given out with the money and collected later.

If it is not convenient for the paying cashier to collect the receipts personally, a locked box fitted with a slot can be set up in the office, and the staff may deposit their receipts in this.

When it is more convenient for the staff to call at the pay office for their salaries, a receipt book giving a separate page to each employee can be used with great advantage. This method will ensure the rates of pay being kept as much a secret as is possible, because it does away with the danger of loose receipt forms being left about the office.

From the auditor's point of view the receipt book has three important recommendations—

1. Signatures can be readily compared—a valuable safeguard against impersonation.

2. There can be no excuse for a missing receipt with this method in operation.

3. The vouching of the salaries books is greatly accelerated, and a test will usually satisfy the requirements of the audit.

When wages are paid on a time basis a very efficient system of record is called for, and the prime factor in this system—the time clock—must not be relied upon to too great an extent.

Time Basis of Payment.

In order to prevent an employee idling away his time after "clocking in," the time cards bearing the hours spent in the works should be inspected daily by the foreman. A time summary should be made out giving not only the hours worked, but also a brief description of the work on which each employee was engaged. This time summary should bear the signatures of the time-keeper and the foreman, but on no account should either of them assist in its preparation.

Frequent tests should be made to guard against employees "clocking in" and "clocking out" for each other, and instant dismissal should be advertised as the penalty for this offence.

Wages receipts can be dispensed with by using a form of time card upon which the amount of wages and insurance is stated, and a space for the employee's signature is provided. These cards can be handed to the employee with his wages, and subsequently returned by him to the office. Apart from the saving of time which would be spent in preparing separate receipt forms, this method avoids disputes, and gives the worker an opportunity of checking the calculations of his earnings for the week.

Methods of Payment.

A specimen time card is given below.

If there should be any fear of impersonation, or if the staff is too large to be known by the cashiers, it is a good practice to have the wages ready sealed in separate envelopes, and to pay the employees while they are at work in their places, rather than have them call at the pay office. This plan also saves a considerable amount of working time, and avoids that "pay-day" confusion which disorganizes many works for several hours on wages days, through the staff leaving their places or stopping work before the usual hour.

TIME CARD

(FRONT)

No. *230*

Week ending *23rd Nov., 1925*

Name . *Smith, John*

Department *Assembly*

Grade *Improver*

Day.	On.	Off.	On.	Off.	Hours Worked
M.	*8 0*	*12 0*	*1.0*	*5.0*	*8*
Tu.	*8 0*	*12 0*	*1 0*	*5.30*	*8½*
W.	*8.30*	*12.0*	*1.0*	*5.0*	*7½*
Th.	*8.0*	*12.0*	*1.0*	*9.0*	*12*
F.	*8 0*	*12.0*	*1.0*	*5.0*	*8*
S.	*8.0*	*12.0*	- -		*4*
		Total Hours			*48*

Foreman *S. Wright*

(BACK)

No. *230*

Total hours worked *48*

Rate *2/-*

	£	s	d
Amount . . .	*4*	*16*	–
Bonus . . .		*4*	–
Overtime premium—			
1 Hours at *6d*		*2*	–
	5	*2*	–
Less insurance . .		*1*	*2*
	£*5*	–	*10*

Received—
J. Smith

Allocation—
Assembly *5* – *10*

£*5* - *10*

The complete system necessary for payment of wages on a piece basis is considerably more involved, but the cashier's routine is very similar to that connected with payment on a time basis.

Payment on Piece Work Basis

The wages cashiers make their basis of payment the piece work tickets prepared by the workers and signed by the foreman and inspectors.

Specimen piece tickets are given on the opposite page.

The particulars given on these tickets will be entered on the wages list, and the quantities produced shown in such a way that totals are available for checking with the parts taken into stores. As a safeguard against collusion between the employees and overseers, this comparison should be made at frequent intervals.

An additional safeguard will be provided by using time clocks, and recording the hours worked on the wages list against the record of each employee's output. Where a time bonus, rewarding the worker for speedy production, is in operation, these figures are essential and should be entered from the piece cards.

It is the practice in most factories to return to the worker with his wages the piece card completed to show the total earnings. The employee then signs the card, which is subsequently collected and retained as the receipt.

Where the same piece card is used for both wages payment and costing purposes, it will be a better plan to provide a counterfoil to the piece card on which the worker can record a summary of his production and earnings, and this counterfoil will be detached and retained by him.

It need hardly be said that time and piece workers should on no account be allowed to work together, and that when a firm pays wages under both these systems the records should be kept separately and by different clerks.

A word must be said about National Health and Unemployment Insurance, for the amounts payable by a large firm under this heading are considerable, and there is ample scope for fraud in the disposal of the money contributed by the employer and by the workers.

Health and Unemployment Insurance.

The actual stamps should be purchased at the direction of the clerk who keeps the wages record—not the clerk who does the actual paying—and these stamps should be affixed

PIECE CARD

No .... *207* ....

Week ending .. ..*23rd November, 1925* ....

Name *Howard, Fredk*.. . . . .

Operation .. . . . *Machining* .. . .

Part.... . . .*V. 298* ....

Output . . .	*1460*
Spoils	*5*
Passed . . .	*1455*

Foreman . . .. *A. Ball* . . .. ..

Inspector. . .. . . . *J. Cotter* .. . .

Rate per *100* . ..... *5/–*. .

	£	s.	d.
Due	*3*	*12*	*9*
Less Insurance . .		*1*	*2*
	£3	*11*	*7*

Received . *F. Howard* . ...

PIECE CARD

(WITH TIME BONUS)

No.... ... *376*. ..... .

Week ending. .... *23rd November, 1925*.. ....

Name . *Jackson, Robert* . . . .

Operation . *Finishing*..... ... . Part. .... *S. 22*.....

Output . . .	*2091*	Time allowed . .	*52*
Spoils	*3*	Hours worked . .	*44*
Passed . . .	*2088*	Hours saved . .	*8*
Rate per *100*.. . *4/–* .		Bonus at .. *1/–* . . per hour	
Due £ *4 : 3 : 6* ... d.		Due £.. *– : 8 : 0*.. ....d.	

Inspector . . *S. Thompson*. . . . .. .

Foreman .. .. . *B. Forbes*. . .. .

	£	s.	d.
Total amount . . .	*4*	*11*	*6*
Less insurance. . .		*1*	*2*
Due	*£4*	*10*	*4*

Received *R. Jackson* ..... .

by an assistant who has no other connection with the payment of the wages. This assistant must, of course, be provided with lists of the staff and be notified promptly of changes, so that he can properly complete the cards; but it should not be necessary for him to have access to the wages records.

This method of dealing with insurance contributions will operate as an effective check upon the wages cashiers, and will further minimize the risk of collusion; for it would be a very difficult matter to procure false insurance cards in support of a name fraudulently added to the wages records. The cards should be taken in from, and given out to, the employees personally by the assistant who stamps them, and not through the medium of the wages clerks.

Careful provision must be made for the safe keeping of such cash and securities as it is necessary to retain in the office.

Safe Keeping of Cash and Securities.

For an office of any size, the ideal plan is to have a strong room, and in this room to provide small safes or deed boxes for each clerk in charge of valuable property. This method identifies very clearly the employee responsible for each class of cash or security, and lays the blame for any loss upon one person only. Many firms will object to the suggestion that the staff be allowed to lock away securities and retain the keys, but this difficulty can be met by a duplicate of each key being kept, under seal, by one of the executives.

When bills of exchange or promissory notes are kept in the office until they mature, a very careful system of filing must be used. Bills made payable "six months after date," "ninety days after date," and so on, should be clearly marked with the actual due date, and it should be made the duty of one clerk to go through the bill files and the bills receivable book each day, so that there is no fear of an acceptance being overlooked.

The Bills Receivable Book.

The form of bills receivable book in general use is provided with columns representing each month of the year, and the record is completed by inserting the day of the month on which the bills fall due in the column for that month; so that to trace the bills due on, say, 15th January, it will only be necessary to run the finger down the January column and look for the figure 15.

The bills receivable book should also give the name of the drawer

BILLS RECEIVABLE BOOK

No.	Date Received.	From Whom Received.	By Whom Drawn.	On Whom Drawn.	Where Payable.
	1925				
635	*Dec. 1*	*Cattle Trust*	*Ourselves*	*Venice Cattle Co*	*Southern Bk, Leeds*
636	*1*	*L. Stevens, Ltd.*	*Ourselves*	*L. Stevens, Ltd.*	*Central Bk., Holborn*
637	*2*	*Morgan & Edwards*	*Prom. Note*		*Union Bk, Cardiff*
638	*2*	*M. Smith & Co.*	*Ourselves*	*M. Smith & Co.*	*Central Bk., Borough*
639	*2*	*Graham & Jones*	*Ourselves*	*Graham & Jones*	*Union Bk., Leeds*
640	*2*	*Merton, H.*	*Merton, H.*	*Lane, E. S.*	*Central Bk., York*
641	*2*	*Luton Bag Co.*	*Prom. Note*		*East Bk., Leeds*
642	*2*	*Junior, L.*	*Ourselves*	*Junior, L.*	*Union Bk., Leeds*

Date.	Term.	Amount. £	s.	d.	Folio.	Due Date. *1926* Jan	Feb.	Mar.	Apr	May	June	July	How Disposed Of.
1925													
Nov. 30	*3 mths.*	*125*	–	–	*C 42*			*3*					*Bank 1/3/26*
Nov. 30	*6 mths.*	*230*	–	–	*S. 9*						*3*		*Bank 30/5/26*
Dec. 1	*3 mths.*	*1,000*	–	–	*M.16*			*4*					*Bank 1/3/26 Dishonoured, Re-presented, and Paid, 1/4/26*
Nov. 30	*3 mths.*	*276*	*3*	*6*	*S. 20*			*3*					*Bank 1/3/26*
Nov. 30	*6 mths.*	*100*	–	–	*G. 12*						*3*		*Bank 1/6/26*
Nov. 15	*6 mths.*	*37*	*1*	*9*	*M. 7*					*18*			*Bank 14/5/26*
Dec. 1	*6 mths.*	*391*	*7*	–	*L. 9*						*4*		*Bank 1/6/26*
Dec. 1	*3 mths.*	*150*	–	–	*J. 2*			*4*					*Exchanged for Cheque 1/3/26*

and acceptor of the bill, the name and address of the banker who will make payment, and any other information which would be required in the event of the bill being lost, mislaid or held up after presentation to the bankers.

A column should be provided in which renewals, discounting, interest or other operations can be recorded.

This form of bills receivable book is merely a journal, a control account being kept in the ledgers. The control account must be referred to when it is necessary to ascertain the total value of the bills on hand.

A specimen ruling is given on pages 356–7.

If the bulk of a firm's collections is made through the medium of bills of exchange, it may be an advantage to use a book ruled in the same way as the bills payable book illustrated on pages 346–7. This, in practice, becomes a subsidiary cash book. With this class of book, the actual value of the bills is allocated over the months of the year, and the monthly totals are posted in one amount to the general cash book to cover the bills presented to the bank.

It will be necessary, of course, to reconcile the bills receivable book itself with the pass book, and bills dishonoured or renewed must be carried back to the bills book by a contra entry in the general cash book; the dishonoured bills being carried forward each month until they are met, and the renewed bills being carried to the month to which payment has been deferred. It will be understood that there is far less danger of dishonoured or renewed bills being lost sight of when this type of record is used.

Treatment of Dishonoured Bills

The value of the bills on hand at the end of every month can be verified by adding together the totals for all succeeding months.

When a bill of exchange or promissory note is dishonoured, it is advisable to have it " noted," that is to say, to have a notary public attest the fact that it has been presented and returned unpaid.

Most bankers require specific instructions as to whether or not acceptances should be noted. Small adhesive labels worded " If unpaid, please note," or alternatively, " Incur no charges," are commonly used for this purpose.

With regard to petty cash, it is a very important thing that the cash floats in the office—however many there may be, and for

whatever purpose they may be maintained—should be kept up to an established sum, and the use of the imprest system is the simplest way of achieving this.

Petty Cash: The Imprest System

The petty cashier should submit his statement of expenditure, supported by vouchers, at frequent intervals, and be reimbursed by precisely the amount he has spent. This system should be extended to the subsidiary floats, e.g. postage cash, carmen's cash, branch cash, works cash. It is advisable that these subsidiary accounts be reimbursed by cheque so that the persons responsible account to the head cashier and not to the petty cashier. This will throw a greater moral responsibility on the employees in charge of the subsidiary accounts and at the same time reduce the risk of defalcation, as collusion between several employees would be necessary before a fraud of any consequence could be perpetrated on an expense account with a comparatively small turnover.

The petty cashier should be armed with authority to refuse payment of any demand which is not evidenced by a voucher bearing the signature of the recipient and of an official authorized to sanction expenditure.

Vouchers for Petty Cash

It is the general practice to use specially printed forms for these vouchers, and any receipts obtained can be attached to the relative vouchers as further evidence. If these vouchers are punched ready for insertion in a loose-leaf binder, they can be filed quickly and there will be less danger of their being lost. At the same time it should be made a strict rule that all payments be entered in the proper books as the cash is given out, and the vouchers should be numbered consecutively and filed in that order.

It is as well to arrange definite times at which employees shall render their claims for expenses, and to stipulate the period to be covered. If, for example, salesmen render their accounts for the previous week on each Monday morning, the checking and paying will be greatly facilitated.

The petty cash book will be provided with analysis columns, so that the payments are readily allocated, and, if this book is in the hands of a junior, these allocations should be carefully checked in order to see that the analysis employed is uniform with the other books of prime entry.

Petty Cash Analysis.

To give an illustration of the necessity for this, it will often be

found that the petty cashier is charging expense items to "stationery" which should be charged to "advertising," and items to "works expenses" which are really purchases of goods for stock, or materials for a particular contract. Such errors will have a serious effect on a costing system, and lead to actual loss when work is being carried out on a cost plus percentage basis.

In a smaller office the petty cashier would be called upon to undertake numerous other duties, and care should be taken that these duties do not jeopardize the correct handling of the more responsible work.

Generally speaking, a clerk can combine the duties of petty cashier and ledger clerk without any difficulty, but it is hardly fair to give this responsibility to a shorthand-typist whose volume of work will fluctuate considerably. A rush of correspondence will make it difficult for the clerk to keep the clear head necessary for dealing with figures and cash, and mistakes become inevitable.

The preparation of a daily or weekly cash summary is usually one important duty of the head cashier.

The form of this statement will vary according to the nature of the business, but an example which will suffice for general purposes is given on the opposite page.

The Cash Summary. This summary commences with the current account balance brought forward from the previous statement. To this figure are added the payments into the bank which should have become available for use, allowing sufficient time for collection to be made.

The total cheques drawn and any incoming cheques returned by the bank as dishonoured are then deducted, together with a reserve for "acceptances due." The last mentioned item is intended to cover bills of exchange and promissory notes accrued due or payable on presentation, and it may be considered necessary to show how this figure is arrived at, by bringing forward the previous reserve and stating the value of the bills paid, the time bills accrued, and the sight bills accepted.

The balance after making these deductions will represent the amount available to meet immediate payments, and this figure will be used by the cashier's department in arranging to liquidate the firm's liabilities or in adjusting the deposit account.

To this will now be added the value of the payments into the

bank which are not yet cleared, and any amount standing on deposit account subject to the usual three days' notice of withdrawal.

The total after these additions have been made will be used in considering the purchase of Treasury bills, or other investments which necessitate the tying up for any length of time of the capital disposed of.

The statement is completed by the incorporation of the subsidiary banking accounts, the temporary investments, and the various cash floats so that the total liquid assets will be ascertained. This grand total, of course, is only a book figure incorporating funds which cannot be drawn upon, and will only serve the purpose of record in the accountant's department.

The cash summary outlined is merely a statement of fact, and could only be taken as the basis for making investments or the

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DAILY CASH SUMMARY

....*28th November, 1925* . ...

	£	s.	d.	£	s.	d.
CURRENT ACCOUNT						
Cash Balance as per last Statement				*20,101*	*2*	*2*
Payments into Bank now presumed to be cleared—						
25/11/25 . . .				*1,301*	*2*	*7*
26/11/25 . . .				*137*	*8*	*9*
27/11/25 . . .				*217*	*4*	*3*
				21,756	*17*	*9*
Cheques drawn to-day . . .	*1,632*	*5*	*4*			
Payments in reported dishonoured	*17*	*12*	*5*			
Acceptances due	*3,125*	–	–			
				4,774	*17*	*9*
AVAILABLE AGAINST SIGHT DRAFTS . . .				*16,982*	–	–
Payments into Bank not yet cleared . . .				*4,398*	*12*	*1*
Deposit Account subject to ..... *3* ..... days' notice .				*40,000*	–	–
AVAILABLE FOR FORWARD COMMITMENTS . .				*61,380*	*12*	*1*
Dividend Accounts : *Pref. No. 49*				*727*	*3*	*9*
Ord. No. 35				*109*	–	–
Pref. No. 50				*2,330*	*1*	*6*
Ord. No. 36				*1,302*	*4*	*8*
Treasury Bills				*153,271*	*16*	*3*
Cash Floats : Office				*82*	*9*	*6*
Works				*31*	*7*	*2*
Cartmen				*9*	*8*	*4*
GRAND TOTAL . . . . . £				*219,241*	*3*	*3*

declaration of dividends in cases where the business is fully established and the turnover is steady.

With new or extending businesses or seasonal trades, it will be necessary to go beyond the existing records; in the first case, by obtaining estimates from each department of the expenditure to be incurred in the period under consideration, and in the second case by ascertaining the production contemplated, and making the necessary estimates on the basis of previous experience.

Departmental Estimates of Expenditure and Production.

For example, a motor-car manufacturer may contemplate the production of 1,000 cars in excess of the previous year's figures, and in all probability the whole of the additional manufacturing cost and selling expenses must be provided for in advance, in order to allow sufficient time for a market to be found for the increased output.

An executive responsible for conducting import or export business will need to have a sound knowledge of the alternative methods of remitting cash, and their particular advantages.

The quickest method, of course, is the cable transfer, and this method is extensively used at the present time because it does away with the necessity for pre-arranging remittances, and gives the payer the use of the money until the last moment. The instruction to the banker may take the form of a simple letter, for example, " Please transfer by cable Ten Thousand Pounds Sterling (£10,000) to the Boston Branch of the New American Bank for the use of the United Sales Corporation, charging our account with the sum remitted and the cost of the cable."

Cable Transfers.

The bank draft payable on demand comes next in order of common usage. Bankers issue drafts either payable to their customer, so that he can endorse them over to his creditor, or made out in favour of the ultimate recipient.

Bank Drafts

These drafts can be obtained in any currency, and the rate of exchange governing the transaction thus ascertained before the payment is recorded.

They are usually issued in duplicate, and the two documents are sent to the payee by alternative routes. He cashes the one which first comes to hand and the other thereupon becomes valueless.

The bank issuing the draft immediately advises the bank to

which the draft will be presented, so that no delay can take place in meeting it.

Bankers' drafts, payable at a stated time after sight, can be obtained to meet the requirements of any transaction, and serve a useful purpose in enabling the debtor to ascertain the extent of his liability when the question of foreign exchange has to be considered.

These drafts are merely bills of exchange drawn by one banker upon another, and the banker, apart from the commission he may charge—this is usually only asked for on inland drafts—or the margin on exchange which he obtains, enjoys the use of the money for the period of the drafts. It must be kept in mind that the period of three days' grace is peculiar to British law.

When arrangements are being made to remit sterling to foreign countries where the local currency is subject to severe fluctuation, the payee will often call for a sterling draft payable on demand, so that he can hold this until he considers the rate of exchange favourable.

Sterling Drafts Payable Abroad.

In exporting produce against payment in a foreign currency, or in purchasing foreign produce for import into this country on the basis of a foreign currency, it is often advisable to enter into a forward contract with a banker, so that losses or profits on exchange are avoided.

Bankers will always enter into a contract to buy from or sell to their customer a certain amount in foreign currency on a certain date or during a certain month.

Forward Exchange Contracts.

Of course, future exchange is often at a premium over present exchange, and this premium will increase according to the length of time involved. So far as this premium is concerned, it is generally to the advantage of the contractor to fix the purchase or sale for as near a definite date as possible, although in doing this he may easily lose some of the benefit he has derived from the contract. For example, if a hitch in the transaction which is the subject of the remittance defers or precipitates the date of payment, the question of difference on exchange will again have to be faced.

In selling forward, the bank will usually reserve the right to call for a partial payment in the event of a decline in the market value of the currency they have contracted to sell.

Similarly, in buying forward, the bank will reserve the right to call for a marginal payment in the event of an appreciation in the market value of the currency they agreed to purchase.

The bank does not speculate in entering into these transactions. Each contract to purchase or to sell is covered by an offsetting sale or purchase.

These future contracts are not " options " but definite agreements binding on both banker and customer, although, of course, they are frequently varied in term or conditions by mutual agreement.

In many cases the commercial letter of credit will be found to be the best method of financing the importation of goods. These commercial letters of credit are issued under an agreement in which the banker undertakes, in consideration of a commission, to meet the customer's obligations in respect of an import transaction, by paying sight or time drafts against the bills of lading, insurance policies, consular and commercial invoices and other documents, if any, evidencing the shipment.

Commercial Letters of Credit.

The customer undertakes to pay to the banker the value of the drafts, one day before they become due, and agrees to the goods remaining the property of the bank until such time as these payments have been made.

The commercial letter of credit itself is merely a statement addressed to the vendor of the goods, giving details of the goods, of the method of shipment, and the terms of payment, and the necessary instructions regarding the preparation and presentation of the drafts and shipping documents.

The benefit of these letters of credit to the exporter will naturally raise the question of whether this method of payment cannot be insisted upon in exporting goods abroad.

The advantages of receiving the banker's draft immediately the goods have been consigned will often permit of some special inducement being offered to the purchaser willing to make payment in this way, but it will be understood that bankers can only conduct this class of business on behalf of customers whose standing is considerable, so that this method of payment cannot very well be made a general condition of business.

An equally important operation is the financing of representatives sent abroad. When the banker's assistance is called upon in this

matter he will offer the choice of a circular letter of credit or travellers' cheques.

Travellers' Cheques.

The letter of credit is, in effect, the authority of the bank enabling the person named therein to draw cheques upon the bank up to the amount of the credit, and to cash these cheques at any branch or correspondent of the bank. Each cheque cashed is made the subject of an endorsement on the letter of credit, so that the balance available is readily ascertained and the traveller has a record of his drawings.

A traveller's cheque is really a banker's draft for a fixed amount, say, £10 or £25, payable at any branch or corresponding office of the issuing bank. While these cheques cannot be considered as safe as letters of credit, a certain amount of security is given by the fact that the holder has to sign the cheque at the time of issue, and again in front of the person making payment.

Hotels, railway, and steamship offices will usually cash these cheques, and this is a great advantage in view of the fact that the traveller is free from bank hours and holidays.

Throughout this chapter a number of precautions have been suggested which are intended to protect the employer against dishonesty on the part of the clerical staff.

It will be readily understood that the need for these precautions will depend to a great extent on the nature of the business, and on the class of cashier it is possible to recruit. The usual methods of staff selection are not sufficiently exacting to ensure that the applicant is suitable for a position of trust, as testimonials are given by some firms in a very generous manner, and the statements made by the applicant regarding the responsibility he has previously shouldered are not easily verified.

Many firms make it a practice to obtain fidelity bonds in respect of each employee holding a position of trust, and in this way place the onus of investigation upon the insurance company, which can be relied upon to make careful inquiry into the applicant's business experience and personal status. The cost of this form of insurance is very small, the premiums varying in accordance with the class of work undertaken by the employee.

Fidelity Bonds.

It must not be overlooked, however, that this cover will only

enable losses to be recouped when the culprit can be identified, so that a carefully planned system of internal audit affords a much greater security.

Precautions Against Fraud.

The greatest importance attaches to the way in which the duties are divided among the clerical staff. On no account should a cashier be allowed to keep a personal ledger or record of any description, e.g. bought ledger, sales ledger, rent ledger, salaries book or wages book, and no authority for a payment of any description should originate in the cashier's office.

Surprise visits by the auditors for the purpose of checking cash floats, and attending the paying of wages, can be relied upon to have a good influence upon the clerks, not only in preventing systematic defalcations, but in ensuring that the work is being carried out in the prescribed manner.

CHAPTER XXII

BOOK-KEEPING AND ACCOUNTS

THE books of prime entry have been described in the chapters dealing with the various trading operations, and it now remains to consider the general book-keeping system, the precautions to be taken to localize errors, the methods employed to arrive at the trading results, and the way in which these trading results will be published.

In arranging a system of book-keeping, care must be taken to prevent records overlapping and unimportant details being carried from one book to another.

All books of prime entry, from which postings must be made to a number of impersonal accounts, should be provided with analysis columns, so that the items can be allocated to the appropriate accounts as they are made.

Books of Prime Entry.

These books will be ruled off at the end of each month, and the totals of the columns posted to the impersonal ledger accounts, after cross-casting the figures to prove their correctness.

The number of impersonal accounts should be reduced to a minimum. For example, it might be possible to divide the expenses of the average office under a large number of headings —stationery, postages, telephone, lighting, cables, bank charges, rent, water, etc.—but in actual practice it will be found adequate to maintain only one or two accounts to cover these items.

Avoiding Unnecessary Accounts.

In the same way, the number of accounts covering overhead expenses in the works can be reduced to a minimum with advantage.

The test should be the value, for purposes of comparison, of the figures obtained. It is important that the disbursements be divided under sufficient headings to enable any excessive expenditure to be detected and the cause for this ascertained; but this division must be made to distinguish between the expenses of the various departments, rather than the various classes of expenditure covered by the disbursements of the business as a whole.

Similarly, the trading accounts should be arranged according to the natural divisions of the business, and it should be possible to compare each sales account with an account showing the cost of the goods sold.

Comparison of Sales with Costs.

With manufacturers, the cost of sales will usually be ascertained by a system of costing, which embraces the whole of the factory operations.

Merchants who purchase their goods ready for resale will have no need for a costing system, and will find their cost of sales figure for any period by adding to the value of the stock at the beginning of the period the purchases made during the period, and deducting the value of the stock at the end of the period.

When separate sales accounts are kept for various departments or sections of the business, the purchases must be divided in the same way, and it will be necessary to ascertain the value of the stock belonging to each department or section.

Any expenses incurred in preparing or altering the goods for resale should be charged to the various cost of sales accounts, either according to the actual relative cost—if this can be calculated—or in proportion to the sales made by each department.

Turning to the question of the actual books of account; in addition to the books of prime entry, i.e. cash books, day books, etc., a "general journal" will be necessary to carry the adjustments between accounts, and the entries in this book must be carefully supervised.

The "General Journal."

It very often happens that a clerk, in endeavouring to adjust a mistake he has made, will make a journal entry which gives him the adjustment he requires to correct his ledger, but which causes a serious error to be made in another section of the records. This may be done through ignorance or through a desire to conceal the error.

As an illustration of this danger, a sales ledger clerk credits an allowance for "bad condition" to the wrong customer's account. The customer takes advantage of this error in making a settlement, so that his account is closed off.

Treatment of Errors.

The customer whose account should have been credited also deducts the amount in making settlement, and the clerk then discovers his error. In order to conceal this, he might make a journal entry crediting the second customer and debiting

" allowances account." Such an error would be difficult to discover, as several accounts are involved, and the house would lose the amount in question.

To guard against this the clerks working on the ledgers should not be allowed to make entries in the general journal, but should be compelled to apply to the chief accountant for permission to adjust an account.

The application should be made upon a " journal voucher " form similar to that illustrated below, and a detailed statement should be given of the adjustment required, and the reason for its being made. If these forms are also used for adjustments made in the ordinary course of business, every journal entry will be supported by a voucher. The vouchers should be initialed by the chief accountant and numbered consecutively before the journal entries are made. They can afterwards be filed away in numerical order, so that they are available to the auditors.

Use of " Journal Vouchers."

JOURNAL VOUCHER

Date *31st March 1926* No. *26/141*

Particulars.	Debit.			Credit.		
	£	s.	d.	£	s.	d.
Office Establishment Expenses. . . .	*83*	*15*	–			
Dr. to Insurance				*83*	*15*	–
Ladyday rent of Eastcheap office paid to Southern Insurance Co.						
Charged to Insurance account in error. . .						
See Cash Payments Book, fo. 196, 26/3/26 .						

Voucher prepared by	Sanctioned by	Journal entry made by	Journal folio
.....*R. Banks*.....	.....*A. L. James*..... Chief Accountant.	.....*E. G.*	.....*3/248* ....

These vouchers are preferable to departmental journals, as the latter do not draw the attention of the executives to the adjustments made, and may only be available to them for a short time each month.

When several journals are in use there is always the danger of an adjustment being entered in more than one of them, and a casual inspection of the journals would not disclose an error of this kind.

In arranging a book-keeping system the actual form in which the records will be kept must be considered. There is a choice of three systems—bound books, loose-leaf books, and cards.

Form of Book-keeping Records

Bound books are usually considered best for the cash books, purchase journals, sales journals, and other books of prime entry, as in these cases security is the objective, and there is no need for flexibility or indexing.

The sales ledgers and bought ledgers may be kept upon either the loose-leaf or card index system. The chief advantages of the latter system are great flexibility, permitting of speedy re-arrangement or expansion and exact alphabetical order, and the fact that a large number of clerks can work upon the same record.

There are, however, many disadvantages attaching to the card index system, among them being the following—

The cabinets in which the cards must be kept are expensive and unwieldy and occupy considerable space.

The number of accounts contained in a ledger of average size will occupy several drawers of a card cabinet, and these drawers are heavy. It is impracticable for the clerk to have his complete "ledger" on his table by removing the drawers from the cabinets, and this cannot be done without risk of the cards being spilled. Therefore, the clerk must get up from his desk and walk to the cabinet each time he requires a card—a serious waste of time.

Disadvantages of the Card Index System.

Every posting made necessitates the card being taken out of the cabinet and replaced in order, and the very loose nature of the record is a danger, as cards can easily be filed out of order or mislaid.

At balance times a missing card will mean a difference on the trial balance, and it is difficult to ensure the completeness of the indexes.

The cards cannot be kept so neatly as books, and they wear badly. Dirty and damaged cards, with writing rendered indistinct by constant fingering, are far too common in offices using card ledgers.

Generally speaking, loose-leaf books are more suitable for ledger work. They are flexible enough for the purpose, and at the same time are easily handled and offer all the security of a bound book.

Loose-Leaf Ledgers

Loose-leaf ledgers can be obtained with locks on the binders so that, if necessary, the chief accountant can keep the keys, and it will be impossible for the ledger clerks to remove or replace sheets without his knowledge.

The system adopted should be made uniform throughout the office, and sheets or cards of standard size should be used.

The personal ledgers should not be made to contain too many accounts. It is far better to give a clerk two or three small ledgers to keep than one large one, as it will then be possible for other clerks to assist him if necessary, and the re-arrangement of the ledgers between clerks, when changes are made in the staff or at holiday times, is easily effected.

In order to localize errors, and so reduce the time occupied in looking for differences on trial balances, it is advisable to make the personal ledgers self-balancing by keeping a control account for each of them in the general ledger.

Separate columns must be provided in the cash books and day books for the items posted to each ledger, and the monthly totals of these columns will be posted to the respective ledger control accounts. Each control account is a summary of the accounts in the ledger which it represents, and the balance of the control account must agree with the total of the ledger balances.

Personal Ledger Control Accounts.

Loose-leaf books are also the most suitable medium for the impersonal and private ledgers, as in these cases security must be coupled with a certain amount of flexibility. It will generally be considered advisable to fit locks to all impersonal ledgers and other books containing vital statistics or private information.

When this is done the clerks are continually reminded that the contents of the books for which they are responsible are private, and they are not likely to divulge information through thoughtlessness.

The fact that the clerks can lock their books, instead of having to put them away in a safe each time they leave their desks, is also an advantage.

An excuse often given by clerks who do not take proper precautions to ensure secrecy, is that junior clerks could not understand the records. This may be true, but there is always the danger of a junior clerk misunderstanding some entry, and circulating a false rumour which may seriously affect the status of the firm or the goodwill of its employees.

Necessity for Secrecy.

When the transactions of a business run into large figures, it will be found helpful to have the pounds (£) columns in all books ruled feint to separate units, tens, hundreds, thousands, etc. This will greatly facilitate the addition of the columns and reduce the risk of errors being made in posting.

The book-keeping system should be arranged in a way that will ensure all transactions being recorded as soon as they are completed, and the books should be closed off at regular and frequent intervals, one month being suggested as the minimum, so that an account showing the position of the company's affairs can be taken out at the end of these intervals.

Advantages of Monthly Interim Accounts.

There are two important advantages in having monthly accounts prepared, or sufficient information available to prepare such accounts if they should be found necessary.

In the first place the executives will be fully conversant with the state of the company's affairs, and with the results of the recent trading operations, so that they are in a position to use the resources of the company to the best advantage, and to take steps to check any adverse condition which may arise.

In the second place the company will be able to produce evidence as to the state of its affairs at the end of any month in its history, which may prove of inestimable value in the event of points being raised in connection with litigation, insurance claims, reconstructions or amalgamations, which bear upon the financial position or trading results of the company at any time in the past.

The period of one year between the accounts produced for statutory purposes is far too long for a company to go without a survey of the financial position, especially if the results are not known until several months after the end of the financial year, as is often the case.

The interim accounts produced for the information of the executives will not need to be as precise as those prepared for submission to the auditors at the end of the year, but they will need to be presented in a way which will allow the progress made for the period under review to be readily ascertained, and in all probability statistics will be given which would not be necessary for the purposes of a statutory account. For example, a manufacturing company will incorporate in its monthly account figures showing the quantities produced, the unit costs, and other information derived from the costing system.

Composition of Monthly Account.

If a monthly account is to be of real service to the executives, it must be in their hands within a few days of the end of the month ; so that in planning to prepare monthly accounts special attention must be given to those questions which delay the production of the annual account.

In the majority of cases the work which takes most time at the end of a financial period will be—

The valuation of the stock.

The examination of the accounts receivable.

The adjustment of outstanding liabilities and payments in advance.

The reserves made to cover contingencies, taxation, depreciation of plant and equipment, and the writing down of other assets.

If the business calls for a trading stock to be carried, it will be necessary to know at least the approximate value of this at the end of each month. If a perpetual inventory is kept for costing or other purposes, this information will be readily available. It is customary to keep a stores control account in the general ledger, the balance of which will represent the total balances on the stock ledger accounts, and this balance will meet the purpose of the monthly account.

Ascertaining Stock Values.

In the absence of a perpetual inventory or physical stock-taking, the stock figure will generally be arrived at by adding to the value placed upon the stock at the end of the previous month, the purchases for the month, and deducting the estimated value of the stock sold during the month.

The traders who will need to estimate the value of their stock in this way will, in most instances, be merchants who do not alter

the nature of the goods by any manufacturing process, and in the majority of such cases the selling prices will be arrived at by adding a percentage to the cost.

It will be an easy matter for them to write back the profit margin on the goods sold, in order to estimate the cost ; for example, if the percentage added to the cost in arriving at the selling prices is 33⅓ per cent, the percentage deducted from the total sales to arrive at the cost figure will be 25 per cent.

Whatever system is adopted in valuing the stock, the figures should be checked by a physical stock-taking as often as possible

Importance of Frequent Stock-taking.

Although it must be admitted that stock-taking entails a great deal of work, the benefits derived amply repay the trouble and expense.

In the event of a fire, a firm would experience serious difficulty in settling an insurance claim if evidence could not be produced as to the value of the stock, and if some time had elapsed since the last stock-taking, there would be no reliable basis upon which to go.

Apart from this, the stock-taking calls attention to surplus, unsaleable and damaged stock, and the more frequently the stocks are reviewed the less likelihood there is of loss arising from these conditions.

A stock-taking should be properly organized, and the staff engaged should be carefully selected. With a large number of

Methods of Stocktaking.

firms, stock-taking is nothing better than a farce ; assistants who have no qualification for the job are pressed into service for the checking ; they consider the work onerous, and do not carry out their duties in the proper spirit.

In these circumstances many errors may be made ; stocks may be overlooked or counted more than once ; damaged or unsaleable stocks may be taken in at full value ; items of plant, equipment, and furniture standing on capital accounts may be taken into stock, and goods invoiced to customers, or returned without allowance being made, or purchases not yet credited to the suppliers, may be included.

The risks of such errors being made will be reduced if the stock is reviewed at more frequent intervals, for the staff will be more experienced in the work, and a comparison of a set of stock sheets

with the corresponding sheets for the previous stock-taking will be more effective if a shorter period of time has elapsed, as there will be less margin for error.

It will often be found beneficial to separate the stocks into groups, so that one section can be checked each month and the estimates for that section revised. In most businesses certain classes of stock will need to be examined more frequently than others, and this necessity for closer attention should be borne in mind when the grouping is arranged.

The fact that the stocks must be more frequently reviewed is one of the indirect benefits attending the adoption of a system of monthly accounting, and the fact that the accounts receivable must also be more closely watched is another distinct advantage.

It will not be advisable to wait for the sales ledger balances to be taken out each month before the monthly account is prepared, so that it will be absolutely necessary to keep sales ledger control accounts which will show the amount of the accounts receivable.

If an overdue account record, a form of index which has been described in the chapter on " The Collection of Accounts," is kept there will be no need to search the ledgers for the doubtful balances.

The total of the balances on the accounts in the overdue account record will be taken as the basis of the reserve for bad debts, and the reserve should represent a substantial proportion of this total.

Reserve for Bad Debts.

Firms rapidly increasing their outstanding accounts, or suffering considerably from losses through bad debts, will often set aside a percentage of each month's sales in order to build up a substantial reserve.

If purchase ledgers are kept, each of them should be represented by a control account in the general ledger, so that the amount of the accounts payable can be quickly ascertained.

The adjustment of the outstanding liabilities and payments in advance as at the end of each month will need careful attention, because if a large item were overlooked it would cause the figures for several months to be wrong.

Adjustments

The items given in the general ledger will usually be totals from the books of first entry, so that it is impossible for the outstandings to be traced by reference to this ledger. The onus of drawing attention to any item which will necessitate an

adjustment for the purpose of the monthly account should, therefore, be placed upon the clerks who keep the books of first entry. These clerks will usually be able to ascertain exactly what period an item refers to from the voucher forming the basis of the entry in their books.

"Outstanding Vouchers."

It should be a duty of these clerks to make out an "outstanding voucher," giving the date of entering the item which will call for an adjustment, the voucher number, brief particulars of the item, and the months over which it must be allocated; e.g.—

No. 26/391

OUTSTANDING VOUCHER

Paid 17th April, 1926 . . . Voucher cheque B1235
Rates of City Warehouse £509 3s. 2d.
6 months to 30th September, 1926 R.F.P.

It may not be worth while to have slips printed for this purpose, as some of the vouchers may be foolscap sheets covered with calculations—a quarterly insurance settlement, for example. The clerks should, however, be instructed to head every voucher with the words "outstanding voucher," so that it is easily recognizable as such.

These vouchers should be initialed by the clerks and handed to the chief accountant as soon as they are made out. He should have them numbered consecutively and filed in numerical order, so that they will be available at the end of the month.

By this means all payments in advance will be disclosed, but it will be understood that the clerks working on the cash books and journals cannot be relied upon to draw attention to outstanding liabilities.

When an annual account is being prepared, and several weeks are devoted to its preparation, they can draw attention to the items which must be reserved for, e.g. if a balance sheet were being prepared as at the 31st December, 1925, they would, in making their entries for January, 1926, watch for items referring to the year 1925, and make out an outstanding voucher in respect of each of these items.

With the preparation of the monthly account, however, there is no time to wait for these items to be disclosed, and it will be necessary for the accountant to keep an "outstanding book," in which

he will make notes of the adjustments made on the expense accounts each month. A loose-leaf book, with a separate sheet for each expense account, is suggested as the best medium for this purpose.

The "Outstanding Book."

The advantage of having these figures on record is that the accountant will know what outstandings to look for each month. In dealing with such items as rents, rates, property tax, and insurance it is very useful to have the figures for the corresponding month of the previous year as a basis to work upon.

It is not usual to close off the books every time a monthly account is prepared, and, under these circumstances, the outstanding book becomes a very necessary link between the items on the monthly accounts and the corresponding ledger accounts.

In preparing a monthly account, reserves for contingencies, taxation, depreciation, and the writing down of wasting assets should be made in the same conservative way as with the annual accounts.

Treatment of Reserves in the Monthly Accounts.

If a reserve must be made to cover a risk which cannot be insured against in connection with any transaction, the whole amount which it is necessary to reserve should be set aside in the same month as the transaction is taken into account. Such reserves should be deducted from the total sales of the section of the business to which they relate.

The liability for income tax can be reserved against by setting aside an amount equivalent to tax at the current rate on the month's profits. Any reserves which are not chargeable against profits, for purposes of assessment of taxes, should be added to the profits before making this calculation.

If any fixed interest or dividend is payable on debentures or any class of shares, and tax will be deducted in making such payments, the monthly proportion of the tax recoverable in this way may be deducted from the reserve.

When a reserve for taxation (Income Tax Schedule D) has been established, and the trading for any month results in a loss, it will be quite in order to deduct an amount equivalent to the tax at the current rate from that loss, reducing the reserve for taxation by that amount.

Calculation of Taxation Reserves : A Pitfall Illustrated.

It is a very common practice to calculate the reserve for taxation for any year upon the basis of the average profits for the three years prior to the date of the balance sheet. Although the amount thus reserved will meet the payment to be made to the authorities in respect of the year in question, it does not cover the liability attached to profits which must be taken into the average in calculating the assessments for future years.

The following simplified example will illustrate the point in question—

A company makes a regular profit which is adjusted for income tax purposes to £5,000 per annum.

In the eighth year of its existence the company makes an additional profit of £6,000, bringing the total for that year to £11,000.

If the reserve were made according to the three years' average the figures would be as follows—

	£
6th year	5,000
7th year	5,000
8th year	11,000
	3)21,000
	£7,000

Reserve for tax at 4/- in the £ = £1,400

In this way the tax on only one-third of the additional profit would be reserved for

If the company for the ninth and tenth years reverts to the regular profit of £5,000, the reserves will have to be made as follows—

Basis for Ninth Year.

	£
7th year . .	5,000
8th year . .	11,000
9th year . .	5,000
	3)21,000
	£7,000

Reserve for tax at 4/- in the £, £1,400

Basis for Tenth Year.

	£
8th year . .	11,000
9th year . .	5,000
10th year . .	5,000
	3)21,000
	£7,000

Reserve £1,400

It is obvious that a company making an adjusted profit of £5,000 per annum should pay £1,000 income tax at 4s. in the £, and that an actual liability of £800 was not provided for in the accounts for the eighth year.

A reserve for taxation should always cover, apart from the actual amount accrued due, the profit which must be brought into the averages for the ensuing years. In the absence of such a provision a reserve might have to be made for taxation at the end of a year in which a loss had been made; for example—

		£
Profit	1924/25	8,000
Profit	1925/26	10,000
		18,000
Loss	1926/27	6,000
		3)12,000
Average for the three years, subject to taxation		£4,000

Another liability that is often reserved for inadequately is property tax (Income Tax Schedule A).

Reserving for Property Tax.

It is incorrect to go by the dates when the instalments become due in reserving for this tax. There is, in effect, three months' " credit " given, but this does not affect the liability of the owner for tax on the whole period of possession.

For example, in preparing a balance sheet as at the 31st December, 1925, it will not be sufficient to reserve the first instalment for the year 1925–26, payable 1st January, 1926.

The assessment for 1925–26 is in respect of the year ending 5th April, 1926, so that the reserve for the liability at 31st December, 1925, should be approximately three-quarters of the total annual amount payable in respect of 1925–26 (first and second instalments).

Methods of Depreciation.

There are two methods of providing for the depreciation of plant and equipment. With the first method, the one most frequently adopted, a percentage of the balance on the plant and equipment account at the end of each year is written off.

For example, if depreciation on a machine costing £1,000 were calculated at 10 per cent on the diminishing balance, the depreciation for the first year would be £100 and for the second £90 At the end of twenty years the machine

would be valued at over £120, and it would, strictly speaking, never be completely written off.

With the second method, which is certainly the most effective, the machine or equipment is given a " life " of so many years, so that a uniform amount is written off each year. If a machine costing £1,000 were given a life of twenty years the depreciation would be £50 per annum, and it would be completely written off at the end of that time.

A " plant and equipment record," similar to that illustrated on the opposite page, is usually kept, the cost of each purchase being spread over columns representing the years which it is expected to last.

The Plant and Equipment Record.

A separate section of the record is devoted to each year's additions, and the figures relating to productive machinery are kept apart from the figures relating to non-productive equipment. The amounts written off the productive machinery will be taken into the " factory overhead expenses," so that they are charged indirectly to the job or process accounts.

It is customary to calculate the life of each item of equipment from the beginning of the financial year following the date of purchase, so that odd periods are avoided. If this is done the amount of depreciation for a year will be known at the beginning of the year, and one-twelfth of this amount can be charged in each monthly account.

When this method is adopted the book value of any item of equipment can be readily ascertained, and the " plant and equipment record " itself constitutes a valuable inventory.

When leasehold property is held, it is customary to write off the cost of the lease in equal amounts over the term of years for which it is granted.

In some cases the amortization of a leasehold will be so arranged that the " rent charge " will completely write off the cost of the lease several years before the end of the term. During these last few years the rent charge will still be made with the object of building up a reserve for " dilapidations," or the cost of reinstating the property.

Amortization of Leaseholds.

A lessee very often gives up possession of property a few years before his lease has expired instead of paying for dilapidations, a compromise which will fit in very well with the above arrangement.

PLANT AND EQUIPMENT RECORD

ADDITIONS FOR YEAR TO 31ST DECEMBER, 1926

Date of Purchase.	Description.	Cost.			Life. Years	Depreciation to be written off											
						1927			1928			1929			1930		
1926	NON-PRODUCTIVE	£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 20	1 Typewriter, " Fleet "	25	–	–	5	5	–	–	5	–	–	5	–	–	5	–	–
,, 28	2 Desks, Pedestal	38	–	–	20	1	18	–	1	18	–	1	18	–	1	18	–
Feb. 8	1 Adding Machine, " Edwards "	64	10	–	10	6	9	–	6	9	–	6	9	–	6	9	–
,, 15	1 Table, Office	12	7	6	20		12	5		12	5		12	5		12	5
,, 15	6 Chairs, Typists'	15	–	–	20		15	–		15	–		15	–		15	–
March 30	1 Addressing Machine	29	10	–	10	2	19	–	2	19	–	2	19	–	2	19	–
May 25	1 Cabinet, Filing, Steel	7	10	9	15		10	1		10	1		10	1		10	1
June 21	2 Cabinets, Filing, Steel	15	1	6	15	1	–	2	1	–	2	1	–	2	1	–	1
Aug. 17	3 Typewriters, " Fleet "	75	–	–	5	15	–	–	15	–	–	15	–	–	15	–	–
Sept. 14	1 Stove, Slow Combustion	14	8	–	10	1	8	10	1	8	10	1	8	10	1	8	10
Nov. 12	3 Desks, Pedestal	45	–	–	20	2	5	–	2	5	–	2	5	–	2	5	–
,, 12	2 Tables, Office	24	15	–	20	1	4	9	1	4	9	1	4	9	1	4	9
,, 12	5 Chairs, Office	9	10	–	20		9	6		9	6		9	6		9	6
Dec. 24	1 Cabinet, Filing, Steel	7	10	9	15		10	1		10	1		10	1		10	1
	Total	£383	3	6		40	1	10	40	1	10	40	1	10	40	1	

The above illustration shows only the left-hand side of the record. The complete record would carry sufficient analysis column to show the full life of each item of equipment.

"Brown's Plant Food" Company, Limited

BALANCE SHEET

	1926 31st May.			1926 30th April.			Increase. *Decrease.*		
ASSETS.	£	s.	d.	£	s.	d.	£	s.	d.
Cash	3,128	17	2	4,476	8	4	*1,347*	*11*	*2*
Accounts Receivable, less Provision for Bad Debts	12,174	6	3	12,035	2	7	139	3	8
Stock	5,073	18	–	4,309	7	7	764	10	5
Expenses Prepaid	727	6	6	830	14	1	*103*	*7*	*7*
Machinery and Equipment, less Depreciation	11,034	10	3	11,107	6	11	*72*	*16*	*8*
Freehold Land and Buildings, less Mortgages	23,500	–	–	23,500	–	–			
Total Assets	55,638	18	2	56,258	19	6	*620*	*1*	*4*
LIABILITIES AND CAPITAL.	£	s.	d.	£	s.	d.	£	s.	d.
Accounts Payable	8,172	3	5	9,643	8	2	*1,471*	*4*	*9*
Reserves	4,375	18	6	4,205	13	10	170	4	8
Share Capital	35,000	–	–	35,000	–	–			
Profit and Loss Account—									
Balance at 31st December, 1925	5,799	9	1	5,799	9	1			
Current financial year	2,291	7	2	1,610	8	5	680	18	9
Total Liabilities and Capital	55,638	18	2	56,258	19	6	*620*	*1*	*4*

"Brown's Plant Food" Company, Limited

PROFIT AND LOSS ACCOUNT

	1926 Month of May.					1926 5 months to 31st May.				1925 Month of May.				
	Lb.	Pence per lb.	£	s.	d.	£	s.	d.	Lb.	Pence per lb.	£	s.	d.
SALES—														
Wholesale	54,000	9	2,025	–	–	8,763	12	–	45,000	9	1,687	10	–
Retail	20,350	12	1,017	10	–	4,632	17	–	16,740	12	837	–	–
Export	36,500	7·48	1,137	9	4	5,109	12	6	31,200	7·86	1,022	14	2
	110,850	9·05	4,179	19	4	18,506	1	6	92,940	9·16	3,547	4	2
COST OF SALES—														
Factory Cost	110,850	4·18	1,930	12	8	9,627	15	4	92,940	4·29	1,661	6	–
Selling Expenses, Sc. 1		1·76	812	18	–	3,214	11	5		1·79	693	3	8
Administrative Expenses, Sched. 2		1·32	609	13	1	2,939	2	3		1·29	499	11	–
Reserves, Sched. 3		·44	203	5	–	725	19	–		·46	178	2	8
	110,850	7·7	3,556	8	9	16,507	8	–	92,940	7·83	3,032	3	4
Trading Profit		1·35	623	10	7	1,998	13	6		1·33	515	–	10
Miscellaneous Income			31	9	6	176	3	8			25	8	–
Interest			25	18	8	116	10	–			18	19	11
Total Profit			680	18	9	2,291	7	2			559	8	9

"Brown's Plant Food" Company, Limited

SCHEDULE 1

SELLING EXPENSES

	1926 Month of May.				1926 5 months to 31st May.			1925 Month of May.			
	Pence per lb.	£	s.	d.	£	s.	d.	Pence per lb.	£	s.	d.
Salesmen's Salaries	·38	175	10	3	862	15	–	·41	158	15	–
Salesmen's Commission	·19	87	15	2	417	16	10	·18	69	5	6
Agents' Commission	·22	101	12	3	483	17	8	·2	77	19	–
Sales Travelling and other Expenses	·09	41	11	4	182	3	6	·11	42	11	8
Advertising	·51	235	11	2	1,097	–	7	·47	182	–	–
Exhibition Expenses	·37	170	17	10	170	17	10	·42	162	12	6
	1·76	812	18	–	3,214	11	5	1·79	693	3	8

SCHEDULE 2

ADMINISTRATIVE EXPENSES

	1926 Month of May.				1926 5 Months to 31st May.			1925 Month of May.			
	Pence per lb.	£	s.	d.	£	s.	d.	Pence per lb.	£	s.	d.
Directors' Fees	·11	50	–	–	250	–	–	·13	50	–	–
Administrative Salaries	·41	189	7	6	903	15	–	·32	124	8	4
Office Salaries	·24	110	17	–	553	10	–	·23	89	3	–
Office Establishment Expenses	·17	78	10	3	401	2	10	·19	73	11	6
Office General Expenses	·09	41	11	5	173	13	8	·08	28	16	10
Professional Fees	·13	60	–	–	300	–	–	·15	60	–	–
Insurance	·06	27	14	8	125	9	6	·07	27	2	1
Cash Discount	·11	51	12	3	231	11	3	·12	46	9	3
	1·32	609	13	1	2,939	2	3	1·29	499	11	–

SCHEDULE 3

RESERVES

	1926 Month of May.				1926 5 Months to 31st May.			1925 Month of May.			
	Pence per lb.	£	s.	d.	£	s.	d.	Pence per lb.	£	s.	d.
Bad Debts	·04	20	18	–	92	10	7	·05	17	14	9
Taxation	·37	170	4	8	572	16	9	·36	139	17	2
Depreciation	·03	12	2	4	60	11	8	·05	20	10	9
	·44	203	5	–	725	19	–	·46	178	2	8

For the purpose of a monthly account, the amount written off the book value of a leasehold will usually be treated as rent.

The preliminary expenses of a company, the cost of patents, and, in some cases, goodwill, will have to be written off, and the items will have to be dealt with in a different way from the tangible assets. The amounts written off will generally be in the nature of an allocation of accumulated profits, and not a charge against current trading profits.

Writing off Intangible Assets.

The expenses of forming a company will usually be written off before any other allocation of profit is made, as these can only be considered as " fictitious " assets.

The cost of purchasing an established patent right will need to be written off, at the earliest, by the time the patent right will have expired. The expenses of taking out new patents, and all annual patent fees, should be charged off against profit in the year of payment.

It is unusual for a firm or company to write down the book value of its goodwill, but there are circumstances in which this will be considered necessary. As an instance of this, if a large business absorbs a smaller one and has to pay a certain amount for goodwill, it is the general practice to endeavour to write off this amount by the time the smaller business will have lost its separate identity, unless the larger business has set a book value on its own goodwill, and it is considered that this goodwill has been increased by the acquisition of the smaller business.

Goodwill.

A specimen set of accounts covering one month's trading operations of a manufacturer is given on the preceding pages.

Taking the balance sheet first, it will be noticed that against each item the corresponding figure at the beginning of the month under review (May, 1926) is given, with notes of the increases and decreases, to facilitate comparison.

In order to reduce the volume of the balance sheet, the details of the share capital (essential in the case of a statutory balance sheet) have been omitted, and reserves and charges have been set off the corresponding assets where such exist. The item " reserves" shown under the liabilities would include general or specific reserves for contingencies, for taxation, or for staff pensions.

Specimen Monthly Accounts Explained.

The profit for the expired portion of the current financial year has been kept apart from the balance of profit and loss account at the end of the last financial year.

Turning to the profit and loss account, it will be seen that the quantity of produce sold is given, with the average price per pound and the cost of sales and profit per pound, worked out to two decimal places of a penny. In order to simplify the profit and loss account, the details of the selling expenses, administrative expenses, and reserves have been shown on three separate schedules.

The company is engaged in a business which is subject to seasonal influence, so that the figures given for the purpose of comparison are those of the corresponding month of the previous year. A company with a steady turnover throughout the year would be more likely to use the previous month's figures in making a comparison.

The corresponding amounts for the expired portion of the current financial year are given in the centre columns. In this way the figures which will form the basis of the annual accounts are built up from month to month.

The number of accounts under which the expenses are divided has been reduced to a minimum on the schedules; for example, " office establishment expenses " would cover all office rent, rates, lighting and heating, and similar expenses, while " office general expenses " would cover postages, telephone expenses, cables, stationery, bank charges, etc.

On the other hand, " exhibition expenses " have been shown separately in the first schedule—this being an item of an exceptional nature.

In some cases exhibition expenses, or the cost of advertising in a new territory, will be temporarily capitalized, and written off over the number of months for which it is considered that the benefits should be felt.

The cash discount allowed has been treated as an office expense. Trade discount would be treated as a sales allowance and deducted from the " sales " figures before these were entered on the profit and loss account.

The reserve for bad debts represents ½ per cent of the amount of the sales for the month, and the reserve for taxation 4s. in the £ on the profit, this being taken as the rate of income tax payable in respect of the period.

The reserve for depreciation, shown on Schedule 3, would cover only " non-productive " equipment, i.e. furniture, office machines, etc. All depreciation in respect of productive machinery would be included in the factory cost.

Branch Accounts.

When the trading accounts of branches must be incorporated in those of the headquarters, care must be taken that the branch returns are prepared in such a way that they will readily fit in with the general scheme of accounts, otherwise the number of expense accounts may be unnecessarily increased, and these expense accounts may overlap.

For example, a branch might carry a " showroom expenses account " and charge to this account items which should be allocated, according to the principle adopted at headquarters, to " advertising," " salesmen's salaries," or " sales expenses."

The branch will usually carry a " headquarters account " in its books, which corresponds to a " branch account " in the books of the headquarters. The balances on these two accounts should offset one another, and enable the branch figures to be incorporated in the headquarters accounts, it being only necessary to adjust any charges made between the two offices which have not yet been recorded in both sets of books, e.g. a remittance made by the branch on the last day of the month or a consignment of goods in transit to the branch at the end of the month.

Foreign Branch Accounts : Treatment of Exchange Fluctuations.

When the branches are situated in foreign countries, and the branch accounts are consequently rendered in the local currency, the question of difference in exchange must be considered. If the exchange is comparatively stable, it may be safe to adopt a flat rate of exchange to be used for the conversion of all charges between the two offices, the actual market rate being ignored.

When considerable fluctuations are taking place, however, this practice might seriously affect the correctness of the accounts, and, in such cases, it is safer to take the branch figures into the headquarters books at the rate of exchange for the day to which the branch account is made up, treating the difference in exchange as a branch expense or a deduction from branch expenses, according to whether it is a loss or a profit. The difference in exchange will not arise from the local transactions, but from the difference between the rate of exchange at the end of the period

and the rates at which the balance at the beginning of the period, and the transactions between headquarters and branch during the period, were converted.

The accounts covering the fixed assets of the foreign branch, i.e. land and buildings, plant and equipment, etc., should be kept on the headquarters books, so that these assets stand at the actual cost and their value is not affected by the fluctuation in exchange.

The following illustration shows the way in which a foreign branch account would be adjusted for incorporation in the headquarters accounts—

Incorporating Foreign Branch Accounts.

The " Paris branch account " on the London headquarters books of a certain company shows a debit balance, at the 30th June, 1926, of £1,325.

The following account is received from the Paris office—

PROFIT AND LOSS ACCOUNT
MONTH OF JUNE, 1926

				£
Sales	francs	78285·00	@ 85·00	921
Cost of Sales		41140·00		484
Expenses		23205·00		273
	francs	64345·00		
Profit for month	francs	13940·00		164

BALANCE SHEET
30TH JUNE, 1926

				£
Cash	francs	17765·00		209
Debtors		75395·00		887
Stock		47685·00		561
	francs	140845·00		
Creditors		16660·00		196
London office	110245·00			1,297
Add month's profit	13940·00	124185·00		164
	francs	140845·00		

The marginal notes are the conversions at the rate of exchange at the date of the account—for this purpose the rate has been taken as francs 85.00 to the £.

It will be seen that a loss on exchange amounting to £28 has been made, as the amount due to the London office according to the Paris books is only equivalent to £1,297 (before adding the month's

profit), as against the corresponding figure of £1,325 in the London books.

The loss of £28 will be added to the Paris office expenses for the month, increasing the amount of these expenses to £301.

The Paris figures will then be incorporated in the London accounts from the following trial balance—

	Dr. £	*Cr.* £
Sales		921
Cost of Sales	484	
Expenses	301	
Cash	209	
Debtors	887	
Stock	561	
Creditors		196
Paris Branch Account		1,325
	£2,442	£2,442

The last item on this trial balance will offset the debit balance already standing on the Paris branch account.

It will be noticed that in the above example the branch stock has been taken into the headquarters accounts at the equivalent of its value on the branch books.

Branch Stocks.

This can only be done when the goods sent from headquarters to the branches are charged for at cost.

Frequently, in order that the branches may not know how much profit they are making, goods sent to them will be invoiced at a figure which is considerably above the actual cost price, or at the selling price less a discount.

In such cases the branch stock must be written down to its value at the actual cost prices before it can be included in the headquarters accounts.

When two associated companies are supplying one another with goods, the rate at which these goods are to be charged must be carefully considered.

If the charges are not high in proportion to the turnover of the companies, it will be the fairest practice for each company to charge for goods supplied to the other company at the same rate as similar goods are charged to outsiders.

Inter-company Accounts: Basis of Charges.

It will be understood, however, that if the transactions are large in proportion to the turnover of either company,

this practice would result in profits being taken into account which had not been earned, as the relation of the companies may be very little different from that of headquarters and branch.

For example, if a company is mainly engaged in supplying material costing 5s. per yard to an associated company, and this material is invoiced at 7s. per yard, the stock held by the purchasing company might be valued at 7s. per yard. In this way a fictitious profit of 2s. per yard would be taken into account.

It is better in such cases to invoice the material at the cost price, plus a percentage to cover the expenses of the supplying company.

The question of the profits made by each company in a group is purely an internal one, provided, of course, that there is a "holding" company, acting as a medium between the associated companies and the shareholders, so that no individual shareholder is injured by the ratio in which the profits are divided.

Tax Position.

Groups of associated companies have the right to consolidate their accounts for purposes of income tax assessment, and will usually avail themselves of this privilege. Therefore the question of taxation need not be considered in deciding upon the division, between the companies, of the profits made.

A firm with a number of branches, or a company with a number of subsidiaries which can be considered as branches, will usually consider it necessary to establish a system of internal audit. The nature of the audit will, of course, depend upon the class of business and the extent of the branch manager's responsibility.

Internal Audits.

In some cases the branches will send weekly returns of all transactions to headquarters, supported by vouchers, and will keep no books of account. Under these circumstances the "audits" would be surprise visits by a general inspector, who would satisfy himself that the business at the branch was being conducted in the proper fashion, and follow up any query which may have arisen from a return made by the branch.

An inspector engaged on this class of work would look after the interests of the selling and service as well as the accounting sections of the business, and would not need to have more than a superficial knowledge of book-keeping or accountancy.

On the other hand, when the branches keep self-balancing sets of

books, and merely render periodical trading accounts to headquarters, it will be necessary for the records and vouchers at each branch to be examined at regular intervals by a skilled accountant.

The programme of an audit carried out under these conditions would usually include the following items—

Cash. Vouch all expenditure and watch allocations. Reconcile cash books with pass books covering banking accounts. Agree cash in office.

Debtors. Check ledger balances. Scrutinize accounts for overdue items, and see that pressure is being exerted on delinquents.

Creditors. Check ledger balances. Scrutinize accounts and see that all transactions are genuine, and in respect of the firm's business.

Wages. Vouch all payments. See that all names on wages lists represent people actually present, and wholly engaged upon the firm's business.

Stock. See that all stock is in good condition and properly recorded.

When an audit of this nature is necessary, the auditor will usually represent only the accounting section of the business: the selling and service sections will arrange their own system of supervision.

CHAPTER XXIII

COMPANY FINANCE AND SECRETARIAL WORK

THE word " company " is commonly used to describe a company incorporated by the registration of a " memorandum of association " with the Registrar of Joint Stock Companies.

The memorandum of association is a formal document setting out the name of the company, the country (England, Scotland, or Ireland) in which the registered office will be situated, the objects for which the company is formed, the fact that the liability of the members is limited, and the amount and division of the share capital.

The Memorandum of Association.

This document is signed by the first subscribers who, in the words of the statutory declaration, " are desirous of being formed into a company." It entirely governs the existence of the company, and cannot be altered in any way without the express sanction of the Court.

This means that, without such official sanction, the company cannot change its name, engage in any business which is not covered by the declared objects of the company, issue shares in excess of the authorized share capital, or alter the fixed amount of each share.

The managers of a company have less freedom of action than the managers of a partnership, since the scope of the operations of the former is defined by the memorandum of association.

The Company Manager's Limited Freedom of Action.

A serious position would arise if the manager of a company entered into an undertaking which could not be considered as one of the objects for which the company was formed, since the company could not be held responsible for his action.

In actual practice the objects stated in the memorandums of companies are made as comprehensive as possible, so as to cover not only every aspect of the main business of the company, but every business operation which it might be found necessary to transact.

Objects of a Company as Defined in the Memorandum.

For example, a company formed to operate a cinematograph theatre would obtain power to conduct any form

of entertainment, in order to be able to cope with any change in the public taste; to buy and sell any class of merchandise, in order to be able to sell confectionery and tobacco in the auditorium; to undertake the business of caterers, in order to be able to serve patrons with refreshments; and to act as advertising contractors, in order to be able to let advertising spaces on the programmes, screen, and walls.

A statement made, in the memorandum, to the effect that the liability of the members is limited, restricts the liability of the members to the amount which they undertake to subscribe for their shares. In the event of the failure of the company, they cannot be called upon to make good any deficit, except that they must, if necessary, pay up any sums which may be unpaid on their shares.

Limited Liability.

A shareholder in an unsuccessful limited company is, therefore, in a much better position than is a partner in an unsuccessful firm, since the latter is bound to apply the whole of his assets, if necessary, to satisfying the claims of the firm's creditors.

With the memorandum of association the subscribers to a company must register "articles of association."

These articles outline the constitution of the company and set up the machinery for the conduct of its affairs, by establishing the relations between the individual shareholders and the company as a body, and between the shareholders and the directors whom they appoint to manage the business.

The Articles of Association.

Among the matters dealt with by the articles are the issue and transfer of shares, the procedure to be adopted in the event of a shareholder failing to meet his obligations to the company, the number and qualification of the directors and their powers, duties, remuneration and term of office, the conduct of meetings, the preparation and audit of accounts, and the payment of dividends.

A specimen set of articles of association, known as "Table A," is given in the Companies Act of 1908, and many companies adopt these as their articles, either as a whole or so far as they are found to be acceptable.

The articles of association of a company can be altered by the special resolution of a general meeting of shareholders, so that the provisions of the articles are not binding upon the company

to the same extent as those of the memorandum. In view of this, points which can be dealt with either in the memorandum or in the articles are usually dealt with in the latter.

For example a company is not bound to distinguish between various classes of shares in stating its share capital in the memorandum.

Share Capital.

The authorized capital of a company may be stated in its memorandum to be " 200,000 shares of £1 each," but in the articles the capital may be stated as " 100,000 preference shares of £1 each, 50,000 ordinary shares of £1 each, and 50,000 deferred shares of £1 each."

The company, in general meeting, will then be free to adjust the division of the shares, and to alter the rights of the various classes of shareholder without applying to the Court.

It will be understood that in forming a company very careful consideration must be given to the division of the share capital, and the rights and privileges attaching to each class of share.

This is particularly the case when an established business is converted into a public limited company, in order to obtain additional working capital.

The founders of a business will often endeavour to secure a higher return for the capital they invest in the company, by giving the other investors a class of share which is entitled to only a fixed dividend of moderate percentage, retaining for themselves the balance of profit after the fixed dividend is paid.

Preference Shares.

In order to make the shares attractive to the other investors, the shares offered to them usually carry the right to the first participation in the profits of the company, and in the assets of the company in the event of a winding up. Such shares are commonly called " preference " or " preferred."

If the company were only moderately successful or a failure, the founders might suffer heavily for their action in creating " preference " shares, since if the profits of the company were only sufficient to meet the fixed dividends on the preference shares, the ordinary shareholders would receive no return on their investment, and if, in the event of a winding up, the surplus assets of the company were only sufficient to meet the claims of the preference shareholders, the ordinary shareholders would lose the whole of their capital.

It may be advisable to mention that sometimes the shares entitled to preferential treatment are called " ordinary," and the founders' shares are called " deferred," " management " or " founders'."

There is no legal signification attaching to the name of a class of share, and the promoters of a company, in drawing up the articles of association, are free to attach whatever rights they may think fit to each class of share.

Rights of Preference Shareholders.

A preference share may secure the holder preferential treatment in the distribution of the profits, but not in the event of a winding up, and vice versa.

It may give the holder a right to a proportion of the profits remaining after the payment of the fixed preference dividend, in which case it is usually called a " participating preference share."

Preference shares may entitle the holder to " cumulative dividends," in which case, should the profits for any year be insufficient to meet the full preference dividend, the amount remaining due would be carried forward as an arrear, and would have to be paid before any distribution could be made on the ordinary shares.

The same diversity of practice exists with regard to voting; preference shareholders may not be entitled to vote at meetings of the company so long as the full dividend is paid on their shares.

Shareholders' Voice in the Control of a Company.

In this way the great majority of the shareholders in a company are often deprived of any voice in the conduct of the business.

When votes are given with every class of share, they need not be equal in number or value. For example, every preference share may carry the right to one vote, and every ordinary share the right to five votes.

If a company is prepared to limit the number of its shareholders to fifty (excluding persons who become shareholders while in the direct employ of the company), to refrain from appealing to the public for capital, and to restrict the right to transfer its shares, it may be registered as a " private company," in which case it will be free from many of the statutory obligations imposed upon " public companies."

The Private Company.

The most important of these obligations are the following—

A public company must determine, in its memorandum of

association, the minimum number of shares which must be subscribed for if it is to be able to carry on business, and it cannot commence business unless this number of shares is subscribed for.

Statutory Obligations of a Public Company.

A public company must file with the Registrar of Joint Stock Companies a prospectus or statement giving full particulars of the share capital and its division, of the persons who have consented to act as directors, of the contracts already entered into by the promoters of the company acting on its behalf, and other information regarding the progress made in the formation of the company.

A public company must file, with the Registrar of Joint Stock Companies, balance sheets showing the position of the company's affairs at the end of each financial year. In this connection it must be pointed out that when documents are filed with the Registrar of Joint Stock Companies, the contents are disclosed to the public. Anyone may inspect the file of an incorporated company upon paying a small fee.

A public company cannot commence business until it has received a certificate from the Registrar of Joint Stock Companies authorizing it to do so, whereas a private company may commence business immediately it has been incorporated.

From the viewpoint of the shareholder who takes no active part in the business, an investment in a private company is, generally speaking, not so satisfactory as one in a public company, because he cannot dispose of his shares without the approval of the directors, and because they will have no market price. When shares in a private company are transferred it is customary to have the shares valued by an independent authority, usually the auditor of the company.

Position of the Shareholders in a Private Company.

On the other hand, the shareholder in a private company who takes no part in the management is in a safer position than a sleeping partner in a firm.

Apart from the fact that his liability is limited to the extent of his investment, there is the important point that a company is a corporate body free to carry on business no matter what changes may take place in the membership, whereas a partnership automatically comes to an end upon the death or retirement of any

partner and, if the business is to be carried on, a new partnership must be created.

Many companies obtain part of their working capital by issuing debentures. Debentures are not shares, but documents evidencing a charge upon the company's assets in favour of the holders.

Debentures.

It is usual for a company to secure power to issue debentures by making the borrowing of money, by mortgaging all or any of the company's assets, one of the " objects " stated in the memorandum of association.

If this precaution is taken the company will be free to borrow as much money as it can obtain by the issue of debentures, but it must be borne in mind that every mortgage or charge given upon the company's assets, whether covered by debentures or not, must be notified to the Registrar of Joint Stock Companies within twenty-one days of its execution.

It is also necessary for full particulars of all mortgages or charges upon the company's assets to be entered in a register kept at the registered offices of the company.

If a debenture represents a mortgage upon a particular asset or group of assets of the company, the holder will, in the event of a winding up, be entitled to repayment before the ordinary creditors, but if a debenture represents a floating charge upon the business as a whole, the holder will rank after the creditors and before the shareholders.

Rights of Debenture Holders.

Because a debenture and the interest upon it are prior charges upon the assets of a company, the rate of interest payable is lower than the rate of dividend upon any class of share.

This feature, and the fact that the debenture holder cannot expect a voice in the management of the company, so long as his interest is paid and his capital is not endangered, make the debenture a very attractive method of raising money.

A company must pay interest on its debentures, whether it earns profits or not, whereas no dividend may be paid upon any class of share unless it can be met out of profits.

In arranging the terms and conditions of an issue of debentures, the founders of a company have much more freedom than in arranging an issue of shares, and there is a great diversity of practice.

Debentures may be issued at a discount (for example, £95 may be payable for each £100 debenture), and be redeemable at any time by the company upon giving the holder a pre-arranged notice and paying the face value, or they may be issued at face value and be redeemable at a premium, say, £105 for each £100 debenture.

Issue of Debentures: Terms and Conditions.

In some cases the debentures are issued for a definite term of years, the company undertaking to repay them in full at the end of the term.

It will be understood that unless the amount of the debentures is small in comparison with the company's total resources, an undertaking to repay the total amount of the debentures in one sum will be an embarrassing obligation.

The usual practice is, therefore, for the debentures to be redeemed by instalments over a number of years, the particular debentures to be redeemed in each year being selected by the drawing of lots.

Redemption of Debentures.

For example, a company might issue £100,000 worth of debentures in 1926 and redeem them in equal instalments of £10,000 during the years 1936 to 1945.

A company is at liberty to deal in its own debentures, unless this is forbidden by the terms of the issue, and it can, therefore, redeem its debentures by buying them on the Stock Exchange and cancelling them.

If the debentures were selling at a discount the company might make a substantial profit upon such a transaction.

It may be advisable to repeat that the position of a company in relation to its debenture holders is entirely different from its position in relation to its shareholders.

Position of a Company in Relation to Debenture Holders and Shareholders.

A company may not deal in its own shares or issue its shares at a discount, but it is free to buy and sell its debentures and to issue them at par, at a premium or at a discount. In fact, a debenture holder is merely a creditor more or less secured, according to the terms of the debenture and the financial position of the company, and the amount which he pays for his debenture need have no relation to its face value or redemption value.

With a public company of any size there is a considerable amount of work in connection with the meetings of directors and

shareholders, the registration of members, the transfer of shares, the payment of dividends, and the preparation of the statutory returns.

The Company Secretary and His Duties.

This is called the " secretarial work," and it is usually carried out under the direction of an official who is described as " secretary."

The term " secretary " is somewhat vague. With some companies the secretary is a general manager, who puts into operation the decisions of a board of directors who do not come into personal contact with the business. With other companies the secretary acts as a link between the shareholders and the management, and does nothing else but look after the shareholders' interests, taking no part in the trading operations.

In the case of private companies, there is very little secretarial work and the secretary's position is somewhat obscure Indeed, the secretary is often a junior clerk who is made a scapegoat for the more important officers of the company, being called upon to undertake responsibilities out of all proportion to his powers.

It is a common practice for a public company to appoint a " registrar " who is responsible to the secretary for the keeping of the register of members, and for making the adjustments necessary upon the transfer of shares.

The Register of Members.

The register of members of a public company is a very important record. The Companies (Consolidation) Act, 1908, stipulates that a company register the name, address, and occupation of every member, with the amount of his holding, the distinctive numbers of the shares, and the amount paid on each share, also the date of his becoming a member and of his ceasing to be a member.

The register of members usually takes the form of a personal ledger with an account for each member, which account is credited with all shares acquired by the member, and debited with all shares disposed of by him.

The total of the balances shown on the register must, of course, correspond exactly with the share capital as shown by the books of account.

Share Transfer Routine.

The register of members is posted from the register of transfers, a book which gives, in respect of each transfer of shares, the date of lodgment and of registration, the name, address, and occupation of both the transferor and transferee, the number of the transferor's certificate, which has

been surrendered to the company with the transfer form, and of the new certificate issued to the transferee, the quantity of shares transferred, and their distinctive numbers.

The transfer form itself is a document signed by both the transferor and transferee, in which the former assigns his interest in the shares, and the latter accepts the conditions attaching to their ownership, that is to say, the regulations laid down in the company's articles of association.

Transfer forms are retained by the company, and should be numbered consecutively and filed away in numerical order so that they can be referred to in the event of any query arising.

Apart from transfers, the company will receive from time to time probates, letters of administration, marriage certificates, deed polls on change of name, powers of attorney, and other documents which necessitate alterations in the register of members.

Probates, Letters of Administration, etc.

Such documents cannot be retained by the company, but they should be carefully recorded, either in a section of the register of transfers or in a separate register or registers.

The methods of recording debentures and transfers of debentures are the same as those of recording shares and transfers of shares.

One important matter which usually engages the personal attention of the secretary is the preparation of minutes showing the business discussed and the decisions made at every meeting of directors and of shareholders.

The directors or shareholders, as the case may be, should be advised in advance of the business which will be dealt with at the meeting, by the distribution of forms of agenda.

It is for the secretary to see that the meetings are conducted in an organized and business-like manner under the presidency of a chairman, that full and precise information is available to the meeting regarding any point covered by the agenda, and that the record made of the proceedings is complete without being verbose.

The Conduct of Shareholders' and Directors' Meetings.

With the larger public companies, the proceedings are taken down in shorthand and typed out verbatim. The secretary uses this record in preparing the minutes, and in giving effect to the decisions arrived at, and it is then filed away for future reference.

It is always to the advantage of the managers of a company to keep in close touch with its shareholders.

The Company's Relations with its Shareholders.

The shares of some of the largest companies are distributed between hundreds of thousands of members. They change hands as readily as Treasury notes, and have a market value which is almost as stable. In such cases the managers see very little of the shareholders except at the annual general meetings, and even then the proceedings are usually too formal to permit of the free exchange of views on the subjects under consideration.

Methods of Encouraging Co-operation.

When, however, the shareholders of a company are potential customers, or can be of assistance in advertising the company's products, they should be advised of the company's movements by the issue of circulars and, if possible, some co-operation scheme should be arranged. A shareholder, unless he holds some position with the company, is not empowered to enter into contracts on its behalf, but it will be understood that he can often be of considerable assistance to the company without disclosing the fact that he is financially interested in it.

In some cases shareholders are given a special discount on all purchases from the company, and a slight reward for every customer introduced. In other cases they are entitled to a free parcel of the company's products at regular intervals, and are asked to distribute samples among their friends.

It is a sound business policy for a company offering shares to the public to make a special appeal to its customers.

A customer-shareholder may be expected to place as much business as he can with the company, even if his holding is trivial in amount.

Employee-Shareholders.

In the same way, an employee-shareholder can be expected to study the interests of the company and use what influence he has on its behalf, so that the employees should always be encouraged to apply for shares when an issue is made, or be assisted to purchase shares on the market.

Many companies offer their employees the benefit of a profit-sharing system, in the operation of which a predetermined percentage of the profits of each trading period is distributed amongst the staff.

When the number of persons benefiting by the scheme is small, as is the case when only the most important executive officers are included, each person will be accorded a percentage of the profits, or a proportion of a percentage of the profits. **Profit-Sharing Methods.**

For example, the amount allocated to the officers might be 5 per cent of the profits, divisible in the following manner: one-third to the general manager, one-third between the departmental managers in equal proportions, and one-third between the minor executive officers in equal proportions.

It is usually more satisfactory to divide the executives into classes or grades, and allocate a proportion of the percentage to each grade for equal distribution, than to grant each individual employee a definite percentage of the profits.

With the first method, changes in personnel during the period will make no difference to the amount which the company pays; whereas, with the second method, they may cause considerable variation and controversies may arise, especially if the business is a growing one.

As an instance of this—a company commences business with eight executive officers, and grants to each of them ½ per cent of the profits, i.e. 4 per cent in all.

As the business progresses the number of executive officers gradually increases. The new officers will call for the same percentage as the original ones, and the original ones will consider themselves injured if they are asked to accept less than ½ per cent.

After a few years' trading the company may have twenty executive officers entitled to ½ per cent of the profits, so that 10 per cent is required to cover the payments under the scheme.

If the executives know that they must divide a certain percentage of the profits equally between themselves, and that any new executive brought into the business will take a share of their percentage, they will have an incentive to do as much work as they can, and so keep down the number of executives, which is, of course, greatly to the benefit of the company.

When the number of employees entitled to benefit is large, it is usual to create a special class of share, forming part of the authorized capital of the company, which can either be sold to the employees or be given to them as a reward for their services.

Some companies grant a number of shares free to each employee as a bonus for each year's service, so that an employee who had been in the company's service for a long time would have a considerable holding in the company.

Employees' Bonus Shares.

A scheme of this kind can be considered as in the nature of a pension fund.

The shares are usually given in accordance with a sliding scale, based upon the salaries of the recipients.

For example, shares might be given in accordance with the following table—

	Employees earning per annum—	Shares given
For each year's service completed	£100 and under	10
	£101 to £200	20
	£201 to £300	30
	£301 to £400	40
	£401 and over	50

The most difficult question which arises in connection with such schemes is the adjustment to be made when an employee is dismissed, or leaves to work for another employer.

A Difficult Problem.

The dividends paid on employees' shares are usually very generous, and a company cannot be expected to continue to pay such dividends to an employee who has left their employ after having been given a number of shares, unless he has retired after long service.

On the other hand, it is rather unfair to an employee to cancel shares, which he has been given for services rendered, merely because he leaves the company's employ.

In actual practice, most companies do cancel the bonus shares of an employee who leaves their service, although some of them pay the employee a small cash bonus in respect of each share cancelled.

Such " shares " are mere scraps of paper, carrying no legal rights or privileges, and the holders soon become aware of this fact. Almost invariably the scheme fails to achieve the object which is desired, that is, to give the worker the impression that he has a stake in the company.

The problem of cancellation need not arise if the employee is called upon to pay for his shares in the first place, and the shares are preference ones, carrying a fixed dividend, with a right to a

further participation in the profits so long as the holder is employed by the company.

The Solution: Preference Shares with Special Rights.

For example, the employees might be invited to subscribe for 6 per cent preference shares in the company on the understanding that so long as they remain in the company's employ each share will bring them, as additional dividend, an appropriate proportion of the amount set aside out of the profits for distribution to the staff.

If an employee leaves the company's employ he is free to retain his shares and draw his 6 per cent dividend regularly, while if he wishes to dispose of his shares, either during or after his service with the company, he will receive a fair price for them.

The practice of making the employee pay for his shares is a good one for several reasons.

Why Employees' Shares should be Paid for.

Profit-sharing schemes are originated with the object of giving the employees an interest in the business and so encouraging them to increase their activities. It is, however, a well-known fact that such schemes only inspire one class of worker—the thrifty type of man, who is endeavouring to build up an income from investments, and who consequently appreciates the value of shares and dividends. This type of man is quite prepared to pay for his shares, provided that the investment is made attractive to him, and the company should certainly be able to do this.

In many cases companies waste money in giving bonus shares to every employee, because they are not appreciated.

Optional, Not Compulsory, Profit Sharing.

If it is felt that the employees cannot afford to pay for their shares in full, there is no reason why they should not be asked to pay something towards them, if it is only a nominal amount. The object is to make the scheme optional to the workers and not compulsory.

If the profit-sharing scheme is optional it will not clash with any other scheme of payment by results which may be in operation ; for example, the commission scheme of the salesmen, or the production bonus scheme of the manual workers.

Should the shares be given free, as a reward of service, it might be necessary to exclude from the scheme those workers who already participated in the profits under other schemes, so as to give the

workers who did not already do so no cause for complaint. At the same time this exclusion might lead to controversies which would jeopardize the success of the scheme.

When employees are asked to pay for their shares the investment must be made more attractive to them than any outside investment giving the same security. It will, therefore, be necessary to restrict the number of shares which may be held by any one employee, so that the holding of the more affluent employees is not out of proportion to their service to the company.

CHAPTER XXIV

THE COMMERCIAL MANAGER'S TRAINING

MANAGEMENT is a complete science in itself, and one that must be closely studied by the aspirant to an important position in the commercial world.

To many people, management appears to be the mere giving of orders, and subordinates who are accustomed to taking orders are inclined to think that they could just as easily give them.

The manager, however, must not only know precisely which order to give, but also when to give it, to whom to give it, and how to give it. In controlling even the smallest organization each instruction given by the manager must be carefully premeditated. There is nothing automatic in management.

The Responsibilities of Management.

Some orders must be given well in advance, others must be given at the last moment. Some quite good workers can only undertake a very limited range of work, while others need to be given their instructions in a special form.

The manager must accept responsibility not only for the routine operations which he directs, but also for decisions made to meet contingencies and emergencies arising from circumstances over which he has no control. He must be possessed of a wide knowledge and experience of the policies and practices of the industry in which he is operating, and must be fully conversant with the capabilities and limitations of the organization which he controls, and of the individual men and machines whose services are at his disposal.

The man who can organize and control a sales force, works or office is in great demand, and it is a significant fact that there is, and always has been, a pronounced shortage of such men. Although there is severe competition for the minor positions in the commercial world, " there is plenty of room at the top," in spite of the fact that there are now an appreciable number of institutions giving a sound education in commercial management.

The Shortage of Managers.

It is common knowledge that only a small percentage of the adult students of commercial colleges make good use of the education received, and turn to account the honours gained.

" 'Tis not in mortals to command success, but to deserve it," yet the commercial manager must do more than deserve success.

How to Become a Manager.

He must first equip himself for the position to which he aspires, and then take full advantage of every opportunity which may help him to attain it, even if a certain amount of sacrifice or risk is attendant upon his action in this respect.

The man who sets out to become an executive and advertises the fact, either by his conversation, actions or bearing, is likely to meet with jealousy from some of his fellow workers and antagonism from some of his superiors, and he must be prepared to contend with this. When a man begins to put his heart into his work and to strive for promotion, his colleagues will usually sit back and look on quite complacently. It is when he begins to reap the rewards of his increased activity that he must expect opposition.

Many men are afraid to disclose their ambitions, and keep secret the progress they make in their studies, and the successes they achieve in examinations and tests outside their place of employment.

Necessary Self-Advertisement.

By doing so they lose a great deal of the value of the education which they gain outside their work, and it is only by sheer good luck that they can become successful.

It is not suggested that a man should take his colleagues into his confidence and acquaint them with his intentions and aspirations, but that he should advertise his achievements. He must not hide his light under a bushel.

Marriage is very often a bar to what may be called the practice of ambition. The student of management who marries may feel that it is advisable to play for safety and not risk annoying his employer with his ambitions, or changing his employer.

Many men deliberately seek a " dead end " job under these circumstances.

The responsibilities attaching to marriage must certainly make a man more cautious in his actions, and in working for promotion he must play his cards with greater care, but he should not give up his studies.

Marriage not Necessarily a Handicap to Ambition.

In many organizations a married man has an advantage in the race for promotion, inasmuch as the employers prefer to appoint married men to the more important

posts. This preference is due to the fact that married men are generally more reliable and steady than single men.

In striving to develop his ability a man can usually rely upon the sympathy and support of his employer, provided that he acts in a straightforward and honourable manner, and he should certainly acquaint his employer with the progress he makes in equipping himself for a better position.

Gaining the Employer's Sympathy.

Tact must be exercised in approaching the employer, particularly if he is not readily accessible to the staff, otherwise such confidences might appear to be clumsy applications for increases in salary and be accorded a cold reception.

The average employer will consider assistance given to an ambitious employee as in the nature of an investment, and will seek a return for this investment by giving the employee in question more important duties whenever the opportunity arises. Employers naturally give more attention to the employees who confide in them.

As an example, it may be considered that a post of some importance becomes vacant in an engineering works, and that two engineers apply for the post. The employers know that one of these engineers has been training for some time to occupy the post. The other engineer's application comes as a surprise to the employers, as they did not know that he was studying. Under these circumstances, the second engineer would have very little chance of obtaining the position, whatever testimonials he might be able to produce.

A great many men fail to realize their ambitions because they hesitate to accept responsibility. It may be that they are self-conscious and are afraid to stand out from their fellows. Shyness has deprived many men of success.

Accepting Responsibility.

On the other hand, it may be that the responsibility is first thrust upon them in the form of minor additional duties, which are irksome to them because they restrict their liberty. When the men complain that they are being put upon, or carry out such additional duties with a bad grace, they may be sacrificing their chances of promotion.

The position which calls for a little extra work from the employee is often a stepping-stone to an executive post. Employers know well enough that they cannot afford to place a man in a position of

man who works in an office or factory in a large town sees little opportunity for the development of commerce. Every stick and stone around him belongs to somebody, and every job is being done by somebody.

He need only travel a little about the world to find that mankind has made little impression upon the surface of the earth, and that there are still vast natural resources waiting to be developed.

Travel and Commercial Geography.

It is not every man that can afford to travel. The majority must be content to obtain their knowledge by the study of commercial geography.

The sales manager who must define his assistants' territories, the purchase manager who must seek raw materials, and the transport manager who must arrange delivery routes, all have a practical use for a knowledge of geography, and must certainly be conversant with that of their own country.

A good memory is a great asset to a manager, and the man whose memory is weak will be well advised to take a course of memory training.

Memory Training.

There are a number of old-established institutions which issue correspondence courses in memory training. The methods are simple and can be practised at odd moments. Such a course will greatly assist the study of commercial subjects.

The prospective commercial manager must see that the knowledge he acquires is up to date.

On the technical side of his education, the knowledge which is of the greatest service to him is that of present conditions. The works manager must be acquainted with the latest inventions applied in his industry, the accountant must be conversant with the current taxation laws, and the sales manager must follow the market movements from day to day.

Technical Knowledge.

Textbooks do not, as a general rule, give this current information, and they must be supplemented by trade journals and business magazines.

These publications are the debating ground of the captains of industry. They will show the aspirant to management the questions which are engaging the attention of the managers, and greatly assist him in preparing himself for an executive post.

The young business executive will need to consider the advisability of taking examinations in the subjects he studies.

Examinations serve two purposes. In the first place they give the student an opportunity of testing his knowledge, they disclose the weak spots in his education, and divide that education into stages so that he can gauge the progress which he is making.

The Value of Examinations.

In the second place they bring him evidence of his progress which he can use in applying for positions, and they give him a status which will form a basis for the authority which his employers vest in him.

Many men occupying important posts in the commercial world were trained in professional offices. The varied experience which can be gained in the offices of solicitors, surveyors, accountants, etc., who deal with commercial work is of very great value to the business executive.

The man who enters a professional office with the object of gaining experience for use in the commercial world, must be careful not to bind himself too much to the profession, or to stay too long in the office. In many cases it would not pay for the commercial student to strive to become qualified as a professional man, since to do so he must undertake to serve a definite number of years in the profession, an undertaking which may debar him from seizing opportunities which present themselves.

Acquiring Experience.

There is also the point that when he has obtained his qualification his activities may be so restricted, by the rules and customs of the profession, that he is hampered in his commercial work.

The prospective commercial manager must exercise great care in choosing his positions and employers. Once he has started to climb the ladder which leads to the position he desires, he must not willingly step off the ladder by taking up a position which is not likely to assist him to gain his ultimate objective.

The Choice of Employers: Dual Policies.

Some men ascribe their success to the fact that they changed their employer frequently in order to gain experience and better themselves. Others ascribe their success to the fact that they stayed with one employer.

It is impossible to say which of these policies a man should

adopt without knowing something of his temperament. There are men who can go from employer to employer, adapting themselves readily to the conditions they meet in each position, and acquiring a varied practical experience which is invaluable to them.

On the other hand, there are men who find it very difficult to adapt themselves to new conditions, and who consequently lose ground each time they change their employer. This class of man must forget the methods of his previous employer before he can learn those of his new employer and, therefore, gains nothing in experience.

This question is also affected to a considerable extent by the size of the business in which the man is employed. Although the larger business offers the greater prospect of promotion, and gives a man a better chance to work his way up within the organization, the smaller business offers a wider experience, and is, generally speaking, a better training ground for the commercial manager.

Large v. Small Businesses.

In many large organizations the duties are spread over so many minor executives that not one of them has a general knowledge of the business. These executives would be at a serious disadvantage if they went into business for themselves, or took up a managership with a smaller concern.

There are several classes of business which the ambitious young man would be well advised to avoid.

Types of Business to Avoid.

Firstly, there is the business which is of a shady character, or which has a reputation for being badly managed. There is a stigma attaching to the employees of such businesses, which deprives them of credit for any progress they may make.

Secondly, there is the business which is unsuccessful or in a decadent industry. A man cannot hope to prosper unless the industry in which he works is prosperous.

Thirdly, there is the corporation or public body, which is of little assistance to the man who wishes ultimately to enter the commercial world, because the policies and practices and the working atmosphere are all entirely different.

Fourthly, there is the isolated business which is the only one carrying on a certain class of work. In the service of such a concern an executive would have to acquire knowledge of no use

in any other industry, and would have to start at the bottom again if he changed his employer.

Fifthly, there is the family business, where it is obviously the intention of the principals to keep the control within the family circle. The fact that the highest positions are not available to the employees causes a general stagnation, and the executive positions are in the nature of dead-end jobs.

Sixthly, there is the business which is conducted abroad. The man who goes abroad for several years is at a serious disadvantage upon his return, and may require a considerable amount of time to get into his stride again. In most cases he will have to take up a position of less importance than that which he held upon leaving the country.

The young man entering the business world is not always in a position to choose his employer; in fact, he often has to commence by answering newspaper advertisements in which the identity of the advertiser is concealed under a box number.

Applying for a Position.

If, however, he feels that his accomplishments equip him for the service of a particular employer, there is no harm in his writing to the employer and telling him so.

Many men hesitate to apply for a position unless an actual vacancy is advertised, but the fact remains that some of the largest concerns, which are known to consider the welfare of their staff, never find it necessary to advertise for employees.

An uninvited application for a position, provided that it gives full particulars of the applicant and these particulars are satisfactory, will rarely be ignored and will often lead to an appointment, although the applicant may have to wait for a vacancy.

Correspondence schools say that the measure of success which a man achieves depends to a large extent upon the way in which he spends his spare time.

Spare Time Study and Work.

There is a great deal of truth in this, but a man may have to do more than study in his spare time; it may be necessary for him to undertake work during the hours in which he is free from his regular employment.

When a man finds that he can make no progress in the service of his employer, and therefore cannot derive any material benefit from his studies, he may be able to obtain spare-time work which

will give him practice in the crafts or sciences which he has studied.

If he does this he will be able to use his spare-time employment as a stepping stone to a better position, because, when he has an opportunity of changing his employer to advantage, his experience and practical knowledge will be greater than that acquired in his regular employment.

Experience is, after all, the most valuable training a manager can have. Capable management calls for the application of knowledge in quick and unwavering decisions, and the knowledge most easily applied in this way is that based upon experience.

Of recent years most of the larger firms have adopted the practice of giving titles to their executives, even to those of minor importance.

Executives and Their Titles.

There is, however, little uniformity of practice as between firms. One firm will call a man a " dispatch manager," while another firm would call him a " forwarding clerk." Nevertheless, this giving of titles is a good policy, because it defines a man's responsibility and rank, and emphasizes the fact that his employer has entrusted him with certain duties and has vested certain authority in him.

These titles cause a considerable amount of tribulation to the young man who is meeting with his first successes, because he will often have to take up the work of an executive officer without being given the appropriate title, at least until he has proved his ability to occupy the post.

The probationer should not mind this caution on the part of his employer, and should appreciate the fact that this makes the title of greater value.

There are firms which give all of their executives high-sounding titles indiscriminately, for the sole purpose of making their organization appear to outsiders larger than it really is.

This practice, however, cannot deceive other employers in the same industry, and a man will gain no respect by virtue of such a title.

In any case, the young business executive cannot haggle with his employer over titles or even salaries. He is out to gain experience, and if he does the work of a manager he is a manager, whether or not he is described and remunerated accordingly.

The greatest mistake which a man can make is to endeavour to become indispensable to his employer.

Folly of the Attempt to Become Indispensable.

Yet many men attempt to do this by working entirely from memory, keeping no records which would show how their work was done, and some even forgo their annual holidays rather than train an understudy.

When a man places himself in such a position that no other man can do his work, he forfeits all chances of promotion. If he cannot be replaced he must stay where he is, and other men will be appointed to the positions above him.

Apart from this, by closely defining his position he is losing experience, and if he does have to change his employer he will be at a serious disadvantage.

When a man is offered an understudy he is given an opportunity to delegate the routine jobs to the understudy, and so free himself for more important work. The executive who voluntarily loads himself with detail work, in order to avoid having an understudy or assistant, behaves very foolishly If he is hampered by routine work, he cannot take his place among the other executives and devote his attention to the more important questions which arise.

The young business executive must be careful what associations he makes, both inside and outside his place of employment.

Business Associates.

" A man is known by his friends," and therefore a man joining a staff must learn something of his colleagues before beginning to make friends. He cannot afford to jeopardize his chances of success by identifying himself in the eyes of his employers with men who are disloyal or bad workers.

If he finds that the staff is divided into factions or " cliques," as is so often the case, he will do well to remain aloof, refraining from engaging in any controversy or taking the part of either side.

At the same time a man cannot ignore his colleagues, whatever they may be, and he will often benefit by studying them ; noting the way they work, the positions they hold, and the progress they make.

In taking up work with a new employer a man can often forecast his own prospects by making such observations.

The man who is striving for a big position must behave as a big man from the very first, refraining from pettiness, jealousy, favouritism or victimization, and maintaining his self-respect at all costs. He cannot indulge in trickery or deception, either in his personal relations with his employers and colleagues or in acting for his employers.

Maintaining Self-Respect.

Some men endeavour to gain favour with their employers by indulging in sharp practice for the latter's benefit, but the employers know well enough that if a man will steal or lie readily for his employer's benefit, he will do so even more readily for his own.

Whatever the rules of the organization may be, the business executive's hours are fixed by his work.

Punctuality in an executive means more than arriving when the office or works opens, and leaving when it closes. It means that he must be there when he is first wanted in the morning, and must not leave until his day's work is done, and also that when he makes an appointment, or promises to do something at or by a certain time, he must keep to his arrangement.

True Punctuality.

It is in this way that an executive can induce his employers to place their confidence and trust in him.

A man cannot be capable and reliable at his place of employment if he is worried over his private affairs. Obviously, there are many instances in which a man's efficiency would be adversely affected by circumstances beyond his control, but he is under an obligation to his employer to take every reasonable precaution.

Private Affairs : The Employee's Duty.

He must safeguard his health in every way possible, live within his income so as to keep out of debt, choose his acquaintances with discrimination, and refrain from undertaking social responsibilities which clash with his responsibilities to his employer.

The young commercial executive must keep up as good an appearance as he can afford, particularly if he is called upon to interview outsiders on his employer's behalf. Employers will hesitate to bring into prominence men who are untidy or careless in regard to their appearance.

It will be gathered from the statements made in this chapter that the man who sets out to become a commercial manager must be prepared to make many minor sacrifices in order to gain his objective.

Minor Sacrifices.

Looking at it from one point of view, he may have to give his employers more than they pay him for, he may have voluntarily to make his conditions of employment less congenial than they might be, and he may have to restrict his liberty and allow his work to govern his leisure.

The majority of men are not prepared to make these sacrifices —hence the shortage of commercial executives—and because of this any able man who is prepared to do so is practically assured of success.

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