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BUSINESS ORGANIZATION AND PRACTICE

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BUSINESS ORGANIZATION AND PRACTICE

BY

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Dedicated to

THE AMERICAN WAY OF LIFE

"A skilled personnel with able management, under good working conditions: quality products and service at a price within reach of all."

An Approach to the Study of Business Organization

1. *Objective:* To have at the finish more liquid financial assets (preferably in cash) than we had at the start. This may be called "making a profit."

2. *Method:* To render a service for which someone will pay us more than it will cost us to render.

3. *Procedure:*
   - *a.* Finding out what people want or need (market analysis)
   - *b.* Finding people who want or need it (market analysis)
   - *c.* Getting these people to order from us (selling)
   - *d.* Producing what has been sold (production)
   - *e.* Delivering it to the customer (delivery)
   - *f.* Recording the transaction (accounting)
   - *g.* Collecting the price (collecting)

4. *Involves:*
   - *a.* One or more *persons* to do the work (personnel)
   - *b.* *Facilities* with which to work (equipment and materials)
   - *c.* *Money* to pay for facilities and workers (treasury)

5. *Requires:*
   - *a.* Planning what is to be done (administration)
   - *b.* Planning how it is to be done (method)
   - *c.* Selecting and training personnel (employment)
   - *d.* Assigning duties to personnel (organization)
   - *e.* Directing the organization (executive)
   - *f.* Controlling the organization and the plan (administration)
   - *g.* Furnishing facilities (supply)
   - *h.* Getting the money (financing; money to make payments)

6. *Records necessary:*
   - *a.* Progress of all operations
   - *b.* Commitments (purchases, payroll, loans)
   - *c.* Charges against others (accounts and notes receivable)

7. *Facilitated* by any and all services of any nature which will supply facilities, services, and proper working conditions to those who are doing the work, at the times and places and in the manner needed. The principle involved is that the less time the one who is to do the actual work has to spend on getting ready and cleaning up, the more time and attention he can give to the accomplishment of his appointed task.

8. *Summarizing*, management comprises the attempt to accomplish definite objectives through an organization of some kind. The objectives are defined, a plan to carry them out is determined upon, and an organization is set up, directed, and controlled.

Preface

This is not a book on economics, or on economics of business, or on so-called "business principles." The purpose of the book is to show how business is organized and operated, from the standpoint of the operator (whether he be called "entrepreneur," "manager," "director," or "department head") who is responsible for the successful operation of the business (as measured by the results of its service to the community), and not from the external viewpoint of the economist or the politician or the outsider, or even of the investor (who is looking for a money return).

The book is a practical manual on how to organize and manage a business successfully, keeping in mind that in these days of attained social control no business can long endure that is predatory, or entirely selfish, or oppressive, or operated not to the best interests of the community or the nation, not forgetting that ideas as to what constitutes the best interests of the community or nation may be colored by the political complexion of the individual.

There are several ways to study business organization and management. The old traditional way was to start at the bottom of the business and work up. A very few old-line executives may still claim that this was the best way; they may still feel that since they went through such a period, everybody else should, too. In the early days, the only qualification, according to the help-wanted advertisements, was that the applicant should be a "bright young man, quick at figures."

At the other extreme is the school of thought that follows the plan of studying law by cases, on the theory—thoroughly proved in law schools, but not so satisfactorily worked out in business schools—that through the study of actual business

cases, the student develops a facility in analyzing and solving business problems which will stand him in good stead in actual business practice.

The theory is plausible; its weakness lies in two features: first—and probably more important—the average undergraduate has insufficient background to enable him to take part in an intelligent discussion of cases involving business policy. Second, if—as we are often told—business is constantly changing, then the case material is out of date before it is printed.

These two conditions have led to two attempts at minimizing their disadvantages: first, the case material is mimeographed in order to get it into the hands of the students before it is too old; second, the instructor must practically suggest solutions and coach the students. If the instructor himself is without actual business experience, this method may resolve itself into a situation of the blind leading the blind. Furthermore, it must be recognized that business problems are not law cases; since they cannot be adjudicated, they lack the force of authority and precedent inherent in law cases.

In the present book, the author has tried to help the student to get his feet firmly on the ground and keep them there. This desirable objective has been brought about by providing a background against which the student can see clearly the aims and objectives of business, thus becoming able to follow and understand the methods by which those objectives are attained. In short, the book gives a satisfying answer to the six questions What? Why? How? Who? Where? and When? What should be done and why? What is the best way to do it and who is the best person to do it? Where should it be done and when?

Every management problem brings up the foregoing questions; it is in the ability to answer those questions satisfactorily that the manager shows his mastery of and proficiency in management techniques. It is too much to expect that the right answer will be obtained every time; too many unknown and uncontrollable factors may be present. But the recognition of a problem as a management problem, the analysis of it into its component parts, the evaluation of the factors that affect the situation, the putting of one's finger on the vital spot, the

choice of the procedure to be applied toward the solution of the problem, the determination of the methods to be used, the selection of the individuals to carry out the procedures and methods, the training and direction of the individuals selected, the reporting and checking of results—just to the extent that the manager can progressively and intelligently use these techniques of management, just to that extent will he be likely to be successful in his job of management.

The author has tried to make clear what business is, how business is owned, and how a business is organized for work. A clear explanation of functions helps to clear away the complexities that are always present (but need not be confusing), just as the artist uses his airbrush to bring out the high lights of the picture before him by toning down the unwanted features; or as the anatomist dissects the cadaver, removing everything not pertinent to the detail he desires to reveal.

Too much emphasis cannot be laid on the importance and helpfulness of functional thinking, as explained in the text. Just because several conflicting factors are present in a situation is no reason why they should be permitted to complicate the study of it. The train dispatcher has before him an intricate tangle of tracks and switches, but he is concerned only with a particular track for a particular train, and he unerringly picks that track.

So does the trained and competent business manager contemplate his problems of management. Only when he allows the complexity to overwhelm him does he falter. Let him remember, as stated elsewhere in the text, that there is always a way through, over, under, or around *any* obstacle. This book is a guide to those ways.

EDWIN M. ROBINSON.

WEST ROXBURY, MASS.,
April, 1945.

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Editor's Introduction

Those who elect a business training program after acquiring a high-school education should do so with a business career as their ultimate objective. They should aim higher than the first-job employment level, even beyond those early promotions which raise one above the novice status. Routine business jobs are often the door to opportunity but are rarely sufficiently rewarding, in terms of either money or satisfaction, to justify their choice for a lifework.

For those who would make business a *career*, something more than training for the development of *clerical skills* is necessary, something more even than skills backed by much-stressed *related work*. It is not enough to be able to do well, with considerable understanding, the work of one's first business job. Nor will even the *highest* degree of skill serve as a passport to higher levels of employment unless it is accompanied by a good measure of accurate information about the whole structure of a business organization, with some comprehension of its functional units. This important basic knowledge can be obtained as a part of a sound business education at the post-high-school level. This book has been written to help provide it.

Once it was possible, indeed necessary, to acquire through experience much of what this course teaches. Under favorable conditions it still may be acquired by some workers in this way. It is certain, however, that this knowledge which is so essential to large and real success in business is not an inevitable outcome of experience. On this point there is an abundance of evidence in the form of workers who, despite years of experience, remain at a comparatively low level of occupational life. True, failure to advance is not always due to lack of understanding of the basic principles of business organization and management. But

certain things seem reasonably sure; they are (1) that real success rarely comes to those who lack this understanding, (2) that acquiring it through experience only is a hazardous undertaking at best, and (3) that conscientious study of business organization and practice before employment greatly facilitates the process of learning through experience.

Too often a course of this kind is what successful business men describe as "pure theory." Not so this course. Here sound theory is clarified and made meaningful through the inclusion of a wealth of intensely practical illustration of how underlying theory and sound principles actually work out in practice. Thus, the student is not left to his own resources in the difficult undertaking of applying in concrete situations the principles of business organization and practice that this course teaches. For this most valuable phase of such a course the author has not depended upon problems or exercises for study at the end of chapters but has woven most helpful illustrative cases into the textual material itself. Yet essential problems, and challenging questions to clinch the principles and practices studied, are provided in abundance.

In this country business organizations have grown ever bigger and bigger. But two things should be emphasized in this connection: (1) in the aggregate more business is done by relatively small businesses than is done by large business organizations, and (2) that a revival of interest in small business ownership has been observed for some time and is likely to be greatly accelerated in the near future. This is a wholesome trend and should be encouraged, but only where competence in business management is assured. There are many who lack what it takes to organize and manage a business successfully. But serious study of business organization and practice by those whose interests and talents run in this direction surely will reduce the number. The pitfalls in business management, and there are many, cannot be eliminated, but they can be avoided. To provide at least some small measure of protection against them is one of the primary purposes of this course.

Often business is referred to as a "great game." It does furnish to those who are intensely interested in it some of the

thrills usually associated with games. But it is more than a game; it is a great service agency through which the material wants and needs of society are met most completely and surely. It is a challenge to those who wish to serve their fellowmen, quite as much as, or even more than, it is to those who wish only to gain economic security for themselves. But in either case the chances of success are greatly enhanced by the mastery of those fundamentals of management and practice without the observance of which no business can be permanently successful, except by chance.

It may be concluded, therefore, that this course is something more than "just another course" or "background" for essential skill training or "related work" to enhance the value of acquired skills. It is something much more important. It is the substantial core of the whole business training program, the part that gives meaning to the skill courses and their related work. Without what it can provide, standing at the lower levels of business employment, if not complete failure, is much more likely to happen. Not a sentence in this text should be passed over lightly. Every chapter should be mastered. In the process of such mastery, a basis for clear thinking will be securely laid and more useful habits of thought will be developed. Without the habit of clear thinking about management problems no real success can be achieved in this important field of human endeavor.

There are few courses that every student of business should pursue. This is one of them. Students who have only a hazy understanding of what business really is will come to know it better. Those who have a rather clear but distorted view of the functions of a business enterprise in a society such as ours will have their views straightened out. Those who do not understand that there are more or less fixed laws in accordance with which permanently successful businesses are managed will come to realize this fact. Those who think that opportunity opened to them by a marketable skill or two may be taken advantage of without preparation are sure to be disillusioned. Finally, those who are seriously contemplating a business career will come to a fuller realization of the indisputable fact that the price of

success here as elsewhere is hard work, willingly undertaken, persistently continued, and intelligently directed. In this course lies your opportunity to lay a firm foundation of business knowledge upon which a successful career in business may be built. Don't miss it!

FREDERICK G. NICHOLS.

1

Introduction

THROUGHOUT this book certain features about business are constantly kept in mind. It is soon realized that although the making of a profit is one aim of business, it is not the only one. The rendering of a worth-while service to a community or a nation, the establishment of a permanent organization on a sound foundation, the continued consecutive employment of faithful, competent workers at wages which provide more than a mere subsistence, the scorning to stoop to underhanded practices which are antisocial in their effects, the building up of character, the attainment and maintenance of responsibility—all these, or any one of them, is well worth striving for, well worth preparing to spend one's life in attaining in good measure and with enduring satisfaction. Indeed, the extent to which an individual or an organization attains the above objectives may well measure the degree of success of that individual or that organization.

PEOPLE AND THINGS

We shall see how, by following certain clearly defined precepts, it is possible surely to obtain results that would otherwise be uncertain and speculative. We shall see that the business manager deals with only two factors—people and things—but that the variations in them present complexities that are sometimes baffling, yet must be met squarely and overcome. We shall see how the scientific analysis of a situation will reveal the elements of the situation and will suggest approaches to the solution of the problem or problems involved. We shall appreciate how important it is to define one's objectives clearly, so that one may direct his efforts toward those objectives with a minimum of wasted time and effort.

Principles Are Universally Applicable

The principles of organization and management, as stated and illustrated in this book, are applicable to every type and size of business enterprise, regardless of its nature. The methods of applying them may vary, but the principles themselves are unchanging. As some wise person has said, if you can swim in water six feet deep, you can swim in water a mile deep, if you do not lose your head. An individual who can manage a small business well can apply the same principles to the management of a larger business, if he does not lose his head. For that matter, since the principles of organization and successful management are the same in all businesses, an individual who can manage one type of business successfully can—if he will—apply these same principles to the management of any other.

What Do You Like to Do?

Since most individuals, however, have more or less pronounced inclinations toward some one type of activity in preference to any other, it is easily understood why a good merchant might not make a successful manufacturer, or vice versa. We do best that which we like best. A merchant likes to select merchandise and display it and sell it; the creation of a satisfied group of customers fascinates him more than the creation of a tangible article, as in manufacturing. The manufacturer, on the other hand, likes to create things, taking this material and that and bringing them together to create something else. Both the merchant and the manufacturer get more real pleasure out of their respective fields of activity than either would out of any other field.

Service That Is Service

The same reasoning is true of the service businesses. The laundry manager takes considerable satisfaction in seeing the clothes that came in soiled and limp transformed into billowy whiteness that will delight the heart of the housewife who entrusts them to his care. The barber starts his clippers on an unkempt, shaggy head, and produces in no time a quite different

looking person, well-groomed and attractive. Even the little tailor with his hole-in-the-wall shop has the satisfaction of knowing that someone is going to look better and hold his head higher because of the few minutes spent in smoothing out the wrinkled garment and restoring creases where creases should be.

What Are Your Chances for Success?

1. May a poor merchant succeed?
2. Can a poor doctor succeed?
3. Must a poor preacher succeed?
4. Might a poor teacher succeed?
5. Could a poor lawyer succeed?
6. Would a poor banker succeed?
7. Should a poor workman succeed?
8. In each of the first seven questions, substitute the word "good" for the word "poor" and see if your answers would be changed.
9. Substitute the word "incompetent" for the word "poor." How are your answers affected?
10. Substitute "hard-working" for the word "poor." How are your answers affected?

Who do you think gets greater satisfaction from his work—the barber who is improving the appearance of his customers or the dispenser of alcoholic beverages whose steadiest patrons are the bums on the streets? The money that the bartender takes in cannot make up for the broken hearts that result from the broken-down men he creates.

More Satisfying Than Money

In like manner, consider the innumerable small repair shops and service stations, where cars are put back on the road in running condition; where radios once stilled are restored to bring in the news and music of the world; where watches are cleaned and started again on their indispensable and never-

ending task of measuring the flight of time; where fountain pens have new sacks and pen points to write down the thoughts of those who use them. Who would not enjoy the privilege of having placed a repaired pen point in the hands of the writer of *Tristram and Isolde* or of some magnificent piece of legislation? What would we do without the technicians who bring back life and usefulness to things that without their magic touch would be of no value at all, except as junk? Even the junkman is running a business, on business principles, whether he knows it or not.

Build a Strong Foundation

Today no one can build an enduring business on the principle of "there's a sucker born every minute." Many men have tried and failed. The mills of the gods grind slow, but they grind exceeding fine. Sooner or later, any weakness in a vital spot, whether it is a weak man or spirit, a weak resolve or part, will weaken the entire structure, which will either collapse suddenly or slowly disintegrate into ruin. "A house built upon the sands cannot endure."

Analyzing the Problem

When a young man asks, "What business should I get into?" he is in real earnest. He is puzzled. Few young men have a clear idea of what their life work should be. And too few have a clear idea of what business really is, as will be brought out in the next chapter. Many men enter the same occupation as their fathers or their relatives, either because it is the only one they know about or because an "opening" is made for them. To be sure, the progress made in ability analysis, in aptitude testing, in vocational guidance and counseling, in directed training programs, has reduced to some extent the uncertainty of what an individual should take up as his life work. All these services are of inestimable value and should be used, taking care to distinguish charlatans from recognized authorities. When so important a decision is under consideration as one's life work, one cannot be too careful in the choice of advisers.

One of the first questions an individual should ask himself is "Do I want to work for someone else, or would I rather be on

my own?" As someone has wisely put it, "You must either be a boss or have one." There are advantages and disadvantages in either case.

What Happened to One Man

Two young men graduated from the same school under similar conditions, with practically the same educational qualifications. They were stenographers and began work in the same establishment at the same salary.

In three years one man was a good stenographer at a fair salary, but he was not likely to be promoted again soon. The other one was a department manager and was in line for further promotion.

The employment manager told the secret of the difference in their progress. The first was not interested in his work and never did anything more than he was required to do. The other one was always interested in his work and was never afraid to make improvements, or suggest them at least, as well as to go ahead and do things without being told. He was always looking for a harder job and trying to make himself more valuable to the company. That, after all, is really all there is to initiative—being a "self-starter," instead of waiting for somebody else to turn the crank or to push the button. The man with initiative does not have to be pushed.

Some men never get up until they are called. If no one happens to apply the stimulus, they are gunpowder without the spark, dough without the yeast, an engine without the steam. They have potential abilities but do not use them, not because they cannot, but because they will not.

Advantages of Working for Others

The advantages of working for someone else, at least at first, are that you have a chance to observe at first hand how other people do business. With a background such as this book will give you, you can compare what you have learned with what goes on around you. You can see where mistakes are made in

day-to-day practice and where performance might be improved. Indeed, probably your greatest difficulty at first will be to refrain from offering to show the owner how to run his business. Better wait a bit; maybe he has good reasons for doing as he does. You cannot lose anything by waiting, and you may learn something worth while. Meanwhile, you can be mastering the details of your own job—that you should do just as quickly and as thoroughly as you can. Find out all you can about it, including its past history and its present importance. Not until you can truthfully say that you know more about your job than any one else ever did or ever will, should you feel satisfied. Remember that technical excellence is one thing; complete mastery is much more.

Looking Ahead. When you have mastered your own job and understand it thoroughly—and it shouldn't take you very long to do that (if you can't do it in six months, better check up on yourself)—you can consider the next job ahead of yours and see what you can learn about that. By that time you will have determined your place in the organization and where your particular job fits in; you will know its relation to other jobs and its importance. You should know by that time what the next job ahead of yours really is. Bear in mind that there is very little in any business or in any organization that is secret. What you cannot get from people you can find in books and magazines, if you look hard enough.

Put Yourself beyond Competition. Don't ever lose sight of the fact that you have two objectives in view: mastery of the details of a business and the job at the top of the business, if you wish to stay with this company. Compared with these objectives, your present job and the pay you receive for it are *relatively* unimportant. It is the opportunity you are after. Others may place opportunity in your way, but only you can take advantage of it. If you follow the above advice, you will find very quickly that those higher up have their eyes on you. Ability and industry and intelligent application to work are so rare in the ranks of business that an individual who has all of them sticks out above the rest like a sore thumb. Such a man has practically no competition.

A Few Test Questions

Do you know

1. What a sales order is?
2. What is done to a sales order when it comes in?
3. How field salesmen are kept informed?
4. What steps to take in selling a product by mail?
5. Why records of returns from mailings are kept?
6. How to save postage in mailing circular letters?
7. What questions a credit man asks himself before approving a customer's order?
8. What a credit file is and how to build one?
9. What steps to take to follow collections?
10. How to trace a delayed shipment?
11. How properly to support a claim for damage to goods shipped?
12. Why the filing problem in the traffic department is important?
13. Why the purchasing of supplies should be centralized?
14. Why the buying of merchandise for resale should be decentralized?
15. What a purchase order should show?
16. How to follow up a supplier for delivery of goods purchased?
17. How to check an invoice for payment?
18. How to make sure that you will not run out of an item in stock?
19. How to arrange a stock room?
20. The main difference between the duties of a controller and those of a treasurer?
21. What sources of applicants for positions there are?
22. How to prepare a job specification and where you would get the information for it?
23. The purpose of the interview between the applicant and the employer and how to conduct such an interview?
24. How to break in a new employee?
25. How to set up and operate an interoffice mail service?
26. How to organize your desk work?
27. How you would know when you have control of any routine, department, or organization?
28. The essentials of a good organization?

On a Dead Level. To appreciate this, look around at the others and see how easily they are satisfied. Not that they grouse about their pay, about their lack of opportunity, and about the absence of appreciation of their work—nearly everybody does that—but observe how little they do to merit advancement. Where and how do they spend their hours off duty? How many of them know what the business is all about, anyway? How many of them care, as long as they receive their pay envelopes regularly? Two more sayings come to mind: "The man who never does any more than he gets paid for seldom gets paid for more than he does," and

> The heights by great men reached and kept
> Were not attained by sudden flight,
> But they, while their companions slept,
> Were toiling upward in the night.

Don't pay too much attention to stories of how "you can't get anywhere in this outfit without drag or pull." Maybe you can't, but you don't have to stay with the "outfit" after you have learned the ropes. In later years, you will be surprised to find how many of the associates in your early employment are still there, bewailing the lack of opportunity and their small pay.

This book now spreads out before you, in clear, plain language and in an interesting way, all you need to know about the fundamentals of good business organization and sound management practice. All you need to do is to study them earnestly, absorb them thoroughly, and apply them diligently and intelligently, in order to

PUT YOURSELF BEYOND COMPETITION

Questions for Discussion

1. What is a fair measure of the degree of success of an individual or an organization?
2. "If you can swim in water six feet deep, you can swim in water a mile deep." What has this statement to do with the principles of organization and management?
3. Why do most persons do better in one field than they would in an entirely different field?
4. What satisfactions does the merchant get out of his business, and the manufacturer out of his?
5. Name several satisfactions obtained by the managers of service businesses from the operation of their businesses.
6. What developments have reduced somewhat the uncertainty as to what an individual should take up for his life work?
7. "You must either be a boss or have one." Is this strictly true? Why or why not? What does it mean?
8. What are the advantages of working for someone else?
9. What are the disadvantages of working for someone else?
10. "Technical excellence on a job is one thing; complete mastery is much more." Explain and comment.
11. How long should it take a beginner to master his job? Why?
12. "There is very little in any business or in any organization that is secret." Do you believe this statement? Explain.
13. What two objectives should every beginner in business have? How may he attain them?
14. What is it that holds back so many employees?
15. Why do so many people "grouse" about their work?
16. Why are not all workers dependable?

2

The Nature of Business

MANY years ago, there was much discussion about the nature of business. One of the foremost economists of the time, a professor in Harvard University, was wont to dwell on the phenomenon. He mentioned the fact that many members of the senior class in Harvard College, when asked what they were going to do after graduation, said that they were "going into business." Commented Professor Taussig, "Probably not one in every ten of those men has any clear idea of what business is. All he knows, or thinks he knows, is that many men have made money in business, and that is what he wants to do."

It has been the custom in certain circles to decry "making money" as something evil and sinister—something that should be forbidden or controlled, or at least regulated. How often do we hear the utterance, "After all, money isn't everything." That expression is reminiscent of the college sophomore returning home on his Christmas recess and greeting his father with these words, "After all, Dad, grades aren't everything in college." To which his father replied, "What have you failed in now?"

One of Aesop's fables tells about the fox who was unable to reach the high vines on which hung the most luscious-looking grapes. After several futile attempts, the fox gave up and turned away with the sneer, "Oh, well, they're probably sour, anyway." The financially unsuccessful individual often falls back on "sour grapes" in an endeavor to alleviate this disappointment. Some psychologists term this an "escape mechanism," an endeavor to find some consolation in defeat; others call it "rationalizing." Evidently there is a psychological basis for sour grapes.

A Startling Condition

To be sure, financial success is only one measure of business accomplishment, and there is probably no doubt whatever about the fact that social service, in the long run, is the real criterion of business success. But it will probably also be found that such service cannot continue to be rendered by concerns that are not successful financially.

Now why should a business man fail? Why aren't more businesses financially successful? It is commonly known that 95 per cent of all the corporations in the United States fail to show any profit from their operations. One index of business conditions is the number of failures. The vice-president of the Cleveland Trust Company, Leonard P. Ayres, one of the outstanding statisticians in the country, states that every year three or four hundred thousand new businesses are started, and every year about the same number are discontinued.

Professor Taussig makes two additional enlightening comments. He says, "One of the most remarkable phenomena presented to the student of economics is the ignorance of all sorts of persons as to their place and function in the industrial world." Again, "Men . . . who are shrewd and watchful will make better bargains than those who are dull and unobservant."

There are two statements with entirely different connotations. One concerns the lack of knowledge and the other the lack of vigilance and native cleverness. May an ignorant but clever man succeed? Undoubtedly many have. Yet John D. Rockefeller, Sr., who was financially the most successful business man of his time, stated as the basis of his success, "I knew where I stood at the close of every business day. I charted my course by figures and nothing but figures." It is not necessary to call attention to the fact that Mr. Rockefeller's competitors never accused him of lacking in either vigilance or shrewdness.

Coming to the outstanding industrialist of the present, Henry Ford, we see a curious combination of qualities in a man who insists that he has now and always has had but a single idea, to build the best automobile possible at a price that everybody can afford to pay. This idea has not prevented Mr. Ford from making

the Lincoln, as fine a car as anyone could desire, at a price that relatively few can afford to pay. As for the figures that Mr. Rockefeller considered so important, Mr. Ford said, "We had been collecting tons of statistics because they were interesting. But statistics will not build automobiles. So out they went."

The Secret of Business Success

Many of Mr. Rockefeller's competitors went out of business, but not because his oil was better than theirs. Many of Mr. Ford's competitors have gone out of business, but not necessarily because the Ford car was better than theirs. Why should Henry Ford have succeeded so conspicuously while two hundred or more other automobile manufacturers, many of whom had better support at the start, failed? It wasn't money; it wasn't opportunity; it wasn't industry; it wasn't brains, important and vital as all of these are. The secret of the financial success of Mr. Rockefeller and Mr. Ford, and of the General Motors Company, and of the General Electric Company, and of thousands of other successful business men is *better management.* Successful business men are better managers; they know how to combine money and opportunity and brains to bring about a successful result.

Nor does it always make much difference what the business is. A store that has been limping along may suddenly leap ahead under new management. An airplane manufacturer may struggle for years to get a foothold and then soar with a change in management. Many a bank that has been "getting along" has found itself making progress when new management took hold. This phenomenon may be observed in every line of human endeavor, in every city, town, and village in the United States; and, fortunately or unfortunately, depending on the point of view, in the conduct of war the successful generals are invariably those who are the best managers.

What Is Business?

We still have not defined business, even though we have mentioned several. What is business? Is every money-making enterprise a business? If so, what about gambling? And what about an enterprise that loses money; is that a business?

The Principles of Management

A. Determine your objective.

1. Define your purpose.
2. What is it you want to accomplish?
3. What is it you are trying to do?
4. What is it you really want done?
5. What is your real object?

B. Consider ways of attaining your objective.

1. Analyze your problem.
2. Seek the facts through research and collection of data.
3. Classify, arrange, and combine facts
   - *a.* On basis of common relationships
   - *b.* To show significant points of agreement, difference, variation.

C. Select the one best way, and adopt it as standard.

1. Draw conclusions, or formulate a law.
2. Test the law
   - *a.* For exceptions
   - *b.* And modify it if desirable.
3. Determine what controls are necessary.

D. Plan arrangement and sequence of work in logical order.

E. Organize to carry out the standard method.

1. Personnel:
   - *a.* Determine what is needed.
   - *b.* Select persons best fitted.
   - *c.* Train them in the standard method.
2. Facilities:
   - *a.* Determine what is needed.
   - *b.* Select the best for the purpose.
   - *c.* Provide it.

F. Schedule times for performing all operations and activities according to the plan.

G. Coordinate, direct, dispatch, and supervise all factors.

H. Exercise control over all factors

1. Through adequate reports.
2. Through personal observation.

Could we say that every enterprise entered into for profit is a business? Is plumbing a business? Is an inventor a business man? What is it that distinguished Thomas A. Edison from Lee DeForest? One made millions and kept them; the other made millions and lost them. Is the corner bootblack in business? The farmer? The laborer? What is the difference between a man who works for another man, and a man who does the same work for himself? Is he in business in both cases? Why or why not?

It is obvious that there is probably no finely drawn dividing line between business and nonbusiness. Obviously, a merchant is a business man and a clergyman is not. Yet the merchant is expected to live up to certain precepts of the Ten Commandments and the golden rule if he would retain the respect of the community; while the clergyman may need so-called "business ability" in the conduct of church affairs. Two sisters may be stenographers of equal ability, both using the same system of shorthand and the same make of typewriter; one is secretary to an investment banker, and the other is secretary to a clergyman. Functionally, the work of each is the same—stenography; yet we say that one of the girls is in business and the other is not. A third sister is secretary in a large university. Is she in business? Suppose her work is for the deputy treasurer of the university, who spends his entire time investing and reinvesting the funds of the institution. Is she in business? She and her sister who works for the investment banker are concerned with the same details—stocks, bonds, incomes, yields. The employer of each is buying and selling securities. What is the difference, if any? Does it make any difference? The answer is, "probably not."

A Definition of Business

Suppose we limit our discussion still further. Suppose we say that we shall consider as business any lawful activity carried on continuously,[1] which involves buying and selling, or manufacturing, or transportation, or the rendering of a service for money. Such a definition might exclude the professions, such as

[1] Legally, a single isolated transaction is not business; a series of transactions would be. See "Business" in *Black's Law Dictionary*.

law, medicine, engineering, teaching, and possibly some others, since such activities are often entered into primarily because of a desire to render a personal service to others. Nevertheless, it is fair to say that, to the extent that any field of activity includes business activities, the same principles of good business organization and good business management apply with equal force to the conduct of the activities in that field, whether the field itself as a whole is considered to be business or nonbusiness, as we have seen above.

Is Profit Essential?

What is profit? A profit, generally speaking, is what is left over after all the bills have been paid. To make a profit requires that the concern sell its goods or services for more than it costs to produce and deliver them. In other words, the selling price must be high enough to pay all the costs of purchasing, transportation, manufacturing, selling, delivering, office work, and supervision. If the selling price is not high enough to include all the costs, then the concern suffers a loss; eventually, if the loss continues, the concern must go out of business. This throws out of work all the employees who depended upon the concern for their bread and butter. The selling price must, therefore, be high enough to cover all costs of doing business.

For example, the local butcher buys a live animal at a price, kills it, cuts it up, and sells the various parts of it for more than he paid. Not only must he get more than he paid for it, but he must also see that the selling price pays for his own labor, the labor of his men if he has any, the rent of his butcher shop, his light, heat, equipment, and, if he has borrowed money, interest on the borrowed money. Since he must also protect his shop from fire, the selling price must include the cost of the insurance.

One Result of High Prices

If the butcher bought and sold only one animal a year and paid all his bills once a year, he would need to include in the selling price of the meat from that one animal all his costs for that year. The result would, of course, be an absurdly high price for the meat. If the selling price is too high, there will be

few buyers, if any. No one is willing to pay a higher price than he thinks is reasonable or than he would have to pay elsewhere for the same thing.

The concern whose prices are too high will have to get them down or go out of business for lack of customers. The only way to get prices down is to cut costs; this is often most effectively brought about by increasing the efficiency of the workers. That is, if a person can be trained to do work in such a way that there is no waste time or motion, he can do more and better work in the same or less time without increased fatigue; he is more efficient.

Our butcher sells more than one animal a year. He may not sell the bones until he has a pile that may have come from 20 or 30 cattle. This pile of bones may have accumulated in five years, or it may have taken five weeks. In any case, it cost something, and the butcher must get that cost back.

How the butcher gets his costs back, what those costs are, how he determines what margin to add, how he determines when to buy cattle and when to sell, when to keep on accumulating bones and to dispose of them, where to keep his meat and to whom to sell it, whether to buy and sell for cash or on credit, whether to carry groceries in addition to meats, whether, in short, to do or not to do the thousand and one things that are continually coming up, day after day—all of these are determined by what are called "business policies."

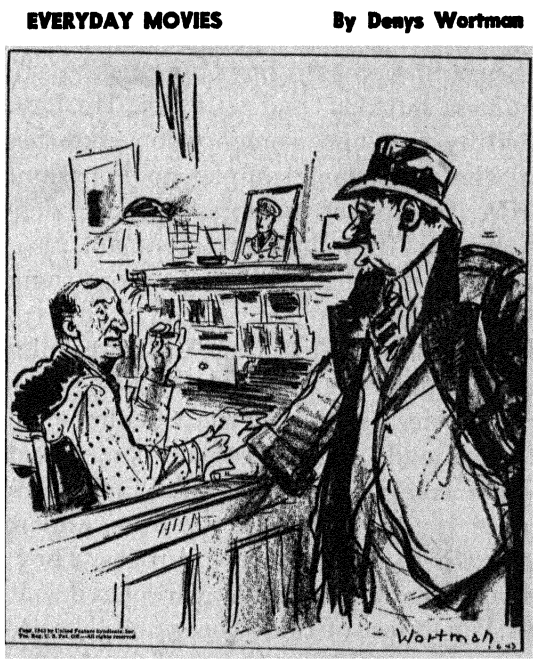
Kinds of Business

There are many kinds of businesses. One of the commonest is the trading business, where goods are bought and sold. The object is to sell at a price that covers not only the original purchase cost of the goods but also the expense of handling them and a fair margin besides.

Retail Trading Businesses. The retail store furnishes a good illustration of the activities of a trading business, whether the store is a corner grocery, a unit in a big chain-store system, or a huge department store like Marshall Field's in Chicago, Bullock's in Los Angeles, Macy's in New York, or Jordan's in Boston. All retail stores, whether large or small, perform the

same business activities concerned with buying and selling. Some retail stores specialize in one type of goods, such as groceries, drugs, clothing, jewelry. Others, like the department stores, carry many lines of goods. But they are all trading businesses—all are concerned with buying and selling merchandise.

Wholesale Trading Businesses. The establishments from which the retail stores buy their goods are also business concerns,



IN AND OUT OF THE RED WITH SAM
"I'm busy. But there's all kinds of busy. I should be busy shippin' goods and makin' a living—instead I'm busy acknowledging cancellations, wiring for money and checking off returns."

engaged in buying and selling. They may be wholesalers or "distributors," as they are sometimes termed. A wholesaler, according to the legal definition, buys and maintains at his place of business a stock of the lines of merchandise which he distributes and which he sells to retailers or to institutional, commercial, or industrial users, but does not sell in significant amounts to ultimate consumers. Like retailers, a wholesaler may carry full lines of goods or only special lines. He may sell in carlots or in relatively small quantities. Usually he sells from

samples carried by his salesmen or displayed in his store. Wholesalers are also sometimes called "jobbers," "commission merchants," "manufacturers' agents." They may be national, covering the country; sectional, covering a large section of the country; or local, covering only a few counties or part of a large city. But they are all trading businesses, concerned with buying and selling merchandise.

Manufacturing Businesses. The retail merchant may also buy direct from manufacturers. The dress manufacturer, from whom the retail merchant buys his stock, has to buy cloth, thread, trimmings, buttons, and so forth. He has sewing machines operated by men and women who make the dresses. He has salesmen who take their samples to the retail stores and bring back orders for dresses to be made up and delivered to the stores. Thus, we see that manufacturers are also engaged in business activities, even though they do more than merely buy and sell.

Service Businesses. Then there are companies that do not buy and sell merchandise or manufacture things. Their business is rendering a service; such are the telephone and telegraph companies, the railroads and express companies, and the taxicab companies. These companies have special facilities for rendering their services, such as wires, poles, conduits, apparatus; tracks, roadbed, rolling stock, stations; cabs, garages. They have to buy equipment, materials, and supplies; they have salesmen to sell their services. The object of these companies is to render a good service at a price that will leave them a fair margin after paying expenses.

Other illustrations of service businesses are the banks, the investment houses, and the insurance companies. They have nothing to sell but service. They must have offices and facilities and salesmen for this purpose, even though the salesmen may be disguised as "new business" representatives, sales "engineers," or even "assistants to the president."

From what has been said, it may be seen that business activities concerned with buying include procuring that which is to be sold, doing whatever is necessary to put it in shape for sale, and storing it until it is sold. Business activities concerned

with selling include finding persons to whom the product or the service can be sold, advertising to them, selling them, and making delivery. Business activities concerned with financing include the procurement of money, when and as needed, the conservation of it until needed, and the wise expenditure of it.

Activities That Facilitate Business

All the foregoing are facilitated by other activities which, although not in themselves business activities as such, are nevertheless closely related to them. These facilitating activities are included in what is known as "office work" and comprise bookkeeping (recording transactions and the results of transactions), correspondence (writing and answering letters), clerical work (typewriting, telephoning, filing papers, messenger work, duplicating, computing, carrying on office systems).

Two other related groups of activities are those concerned with the personnel (the employees), the place to work, and the facilities to work with. These groups of activities are found in every business, and their contribution to the success of the business often depends upon the effectiveness with which they are organized.

The Personnel Function. The personnel function, for example, includes determining what employees are necessary; finding, interviewing, selecting, and hiring applicants with the required ability; training employees; watching over their progress; and doing everything necessary to make each employee and group of employees an integral, loyal, industrious, and effective part of the concern.

Physical Facilities. The provision of working space involves the consideration of the most desirable and suitable location for the particular business, its cost and convenience, its upkeep and repair, the selection of suitable and adequate tools, machinery, and other equipment, their arrangement, and their maintenance in good working condition.

Social Significance of Business

Now we begin to realize the social and economical significance of business activities, since they affect all of us in some

way or other, directly or indirectly. We are all buyers of food, clothing, services, and we are all sellers of our own services. The merchant buys the merchandise that he believes his customers will like; he hires (*i.e.*, buys) the services of salesclerks to sell the goods for him. The salesclerks are selling not only goods but also their services to their employer. Employers depend upon their employees to do the work that needs to be done; employees depend upon their employers for their jobs—their means of livelihood. No employer wants to keep an employee who does not do his work well; and no employee wants to work for an employer who does not pay his workers a fair wage or treat them fairly. There are obligations on both sides: the employer wants competent and willing workers and the employees want fair pay, good treatment, and steady employment.

Why Business Is Attractive

What is it about business that attracts men of ability? Probably it is the hope of making a good profit. If a man felt that the best he could expect from hard work and long hours was a bare living, he would probably feel that the effort was not worth while. As the saying goes, "The game would not be worth the candle." So it is the hope of an adequate reward that makes men go into business. If the hope of that reward is taken away, capable men will not be willing to put into business the time and energy needed to make a success.

Basic Essentials of a Successful Business

To have a fair chance of success, a business must render a worth-while service or make a worth-while product that can be sold at a profit; and it must sell that product or service consistently, persistently, and continuously. Incompetence in business means inability to conduct a business along business lines, that is,

To buy right
To make correctly
To keep costs down
To sell

To keep records
To conserve resources
To get along with others

Questions for Discussion

1. Why should 95 per cent of all corporations in the United States fail to show any profit from their operations?

2. Why should anyone be ignorant of his place and function in the world?

3. Why are men who are shrewd and watchful likely to make better bargains than those who are dull and unobservant? (Look up the word "shrewd" in the dictionary.)

4. Do you believe that John D. Rockefeller's success was due solely to the fact that he knew where he stood at the close of every business day? Why or why not?

5. Do you believe that Henry Ford did not gather any figures at all? Explain.

6. Why did so many of Mr. Rockefeller's competitors go out of business? (See Ida M. Tarbell's *The History of the Standard Oil Company.*)

7. Why have so many of Mr. Ford's competitors gone out of business?

8. What is meant by the statement that better management is responsible for the success of most businesses? Do you believe it? Why or why not?

9. Does the size of a business necessarily mean that it is or will be successful? Why or why not?

10. If most large corporations were once small, how did they become large?

11. Can a small business be successful? If so, how? What do you mean by successful?

12. Do you know of any large businesses that have failed? If so, what do you think was the cause of their failure? Explain how that caused their failure.

13. Several large corporations limped along for years, after being considered successful. What was the reason?

14. The text states that many a business improves under new management. What can new management do that the old management could not?

15. How would you define business?

16. Would you say that an activity is a business activity because of its nature or because it is entered into for profit?

17. Which of the three sisters mentioned in the text is in business? Why? How would you know?

18. What is meant by a single, isolated transaction?

19. What distinguishes the professions from business?

20. In an address at the Harvard Business School, Owen D. Young of General Electric, quoting President Lowell of Harvard, referred to business as the "oldest of the arts and the newest of the professions." What did he mean?

21. Do you believe that the principles of good business organization and good business management apply with equal force to the conduct of all business activities in *any* field? Why and how?

22. Could these principles be applied to *all* activities in *any* field? Why or why not?

23. What is a profit?

24. Is a profit ever justified? Explain.

25. If eliminating profits would reduce prices, should they not be eliminated? Why or why not?

26. Why does increasing the efficiency of workers cut costs?

27. Would not wage cuts have the same effect? Why or why not?

28. What is your idea of an efficient worker?

29. What is your idea of an efficient manager?

30. Would increasing the efficiency of management cut costs? Why or why not?

31. How would you increase the efficiency of management?

32. In the light of your answers to questions 28 to 31, how would you define or explain efficiency?

33. Does efficiency result in greater fatigue? Why or why not?

34. Both retailers and wholesalers are in trading businesses. In what features are they alike, and in what ones are they different?

35. What is the difference between a retail specialty store and a retail department store?

36. Would you say that a general store is a specialty store or a department store? Explain.

37. Why does a wholesaler sell from samples?

38. By what other names might a wholesaler be called? Which do you prefer, if any? Why?

39. Would you say that manufacturers are retailers or wholesalers? Explain.

40. What is it about service companies that makes them businesses?

41. Should not every business be a service company? Explain.

42. What business activities are concerned with buying?

43. What business activities are concerned with selling?

44. What are facilitating activities?

45. Are facilitating activities business activities? Why or why not?

46. Why is the personnel function found in every business, large or small?

47. Is the personnel function found in a one-man business? Explain.

48. What does the provision of working space involve?

49. Why are business activities socially and economically significant?

50. Define or explain incompetence in business.

Topics for Special Reports

1. From the daily newspaper select five topics relating to business activities. Tell why you think these are concerned with business. With what aspect of business do you think each is concerned?

2. List at least five important public questions of the day. Do any of them involve business? If so, how? If not, why not?

3. The causes of business failures have been divided into two main classes: those due to the fault of the persons failing and those not due to the fault of the persons failing, as follows:

a. Due to the fault of those failing,
Incompetence (irrespective of other causes)
Inexperience (without other incompetence)
Lack of capital
Unwise credits
Speculation (outside regular business)
Neglect of business (due to doubtful habits)
Personal extravagance
Fraudulent disposition of property

b. Not due to the fault of those failing,
Specific conditions (disaster, war, floods, etc.)
Failures of others (apparently solvent debtors)
Competition

Each year the *Dun and Bradstreet Monthly Review* publishes the percentage of failures during the preceding year due to each of the above causes. Most banks and many libraries have a file of the review. Look up the figures for last year and then comment on what they show. If you wish to see how little the various causes of failure change from year to year in relation to each other, look up the figures for three or four years.

Problem

There are two kinds of preparation for business: business training and business experience. Define or explain each and then state which of the two you believe would be the more desirable for the success in business of a friend of yours who has come to you with this problem: His father, a professional man, has told him that he plans to retire within the next four years; that before he retires he would like to see his son started on a business career; that he is willing to do one of three things:

(1) To finance a course of business training in a college of business administration;

(2) To place the son as an employee in an established local business, well organized and well managed;

(3) To set his son up in business for himself, making available to the young man the same amount of money that the college course would cost.

Analyze this problem from all angles and then write a letter to your friend, stating your advice and giving your reasons.

and the corporation may thereupon begin to do business as a corporation.

Separate Corporate Existence. The first point to bear in mind about a corporation is that it is an artificial person, created by the state and endowed with certain definite powers. It is an artificial person, not a natural one, and has an actual legal existence, even though it is not flesh and blood. This artificial but actual person, without flesh and blood, has an

Courtesy of "Burroughs Clearing House"

The directors of a corporation meet at regular intervals to consider and act upon reports and plans.

existence entirely separate from its owners or managers. Owners or managers may die or change, but the corporation continues its separate existence. The corporation is not the stockholders, nor the managers, nor the employees, nor the creditors. It may sue and be sued in its own name, may act in its own name, may buy, hold, and sell property in its own name. A corporation is not a natural person, but an artificial one, created by the state under whose laws it was organized.

Must Act through Agents. With the fact of separate corporate existence recognized, the second point to remember is that a corporation can act only through its agents. The board of directors, elected by the stockholders, has the right and power

to manage the corporation's affairs as they see fit, in the absence of fraud. Frequently, especially where the board of directors is large, certain of the directors may be designated as an executive committee, with power and authority to carry on between meetings of the board and subject to the board's approval.

The directors appoint officers, through whom employees are hired to perform duties. The stockholders, as such, have no say in the management of the corporation; when they have elected the directors, they have done all they legally can. Hence comes the sinister meaning attached to the term "minority stockholder," designating one whose stock holdings, with those of others who think and vote as he does, constitute less than 50 per cent of the corporation's voting stock. The holders of more than 50 per cent of the stock of a corporation control the corporation, unless provision is made for preferential voting, which relatively few corporations have.

Charter Limits to Its Power. The third point to remember is that, except for certain general powers which all corporations organized in the same state have, no corporation has power to do anything not granted in its charter. For this reason, the drawing up of corporate purposes in the articles of organization is very important and requires considerable care and thought. It is desirable to have this done by an experienced corporation lawyer, if the corporation is important enough. The purposes of some charters are so drawn as to give the corporation permission to do practically anything and to enter into or conduct any business except public utilities, banking, and insurance, and to buy, sell, or hold an unlimited amount of property. Acts exercised by a corporation beyond those granted in its charter are called *ultra vires*, that is, beyond the powers of the corporation. When dealing with a corporation, therefore, one should know what it is chartered to do. Since the articles of organization are a public record and on file at the Statehouse, this is not difficult but may take some time.

Geographical Limits to Its Power. The fourth point about a corporation is that it has no rights outside of the state that created it, except by permission of other states in which it may wish to do business. This permission is usually granted as

a matter of course upon the filing of certain papers and the making of certain reports, accompanied by stated fees. These requirements are not, however, uniform in all the states.

A corporation is a domestic corporation in the state that created it. In all other states it is a "foreign" corporation. The penalties imposed upon a foreign corporation for doing business without permission are sometimes extremely severe and, since it is not entirely clear what constitutes "doing business," expert legal counsel is desirable, if trouble and unnecessary expense are to be avoided.

Compensating Advantages. It can readily be appreciated, from what has been said, that corporate ownership of a business is not exactly a bed of roses. Yet it has its advantages. Frequently, the handling of *corporate* matters[1] is placed in the hands of an officer who attends to nothing else, leaving the other officers relatively free to conduct the business as a business. Also, the freedom from personal liability, in the absence of fraud, gives the officers and directors the courage and boldness to take or attempt some steps that they might not, if they were to be held personally liable for resulting debts. Boldness in business is always a factor in success, provided it is tempered with discretion at appropriate times.

Corporate Securities. Although the corporate features of stocks and bonds have no relation to the business of the corporation, except to furnish needed funds, a brief description of them may not be out of place.

Ordinarily, a corporation is organized with capital stock totaling some stated sum in dollars, such as $100,000, or $1,000,000, or $50,000,000. This capital stock is divided into shares, which may be equal or unequal, as determined by the organizers of the corporation. For the sake of simplicity, let us assume that a corporation has a capital stock of $1,000,000, divided into 10,000 shares of $100 par value each. (Par value means face value and has no relation to the actual value of the stock, which

[1] Corporate matters are those concerned with the corporation *as a corporation* and include the issuance and transfer of stock certificates, sending out notices of stockholders' and directors' meetings, keeping the minutes of such meetings, making corporate reports to governmental authorities, and so on.

may be nearer the book value—*i.e.*, net worth— than the market value, or vice versa.) These shares are sold to investors, who thereby become stockholders in the corporation. Ordinarily, a stockholder has one vote for each share of stock he owns, but his voting powers and other rights depend entirely upon the charter provisions. Investors have been known to buy non-voting stock.

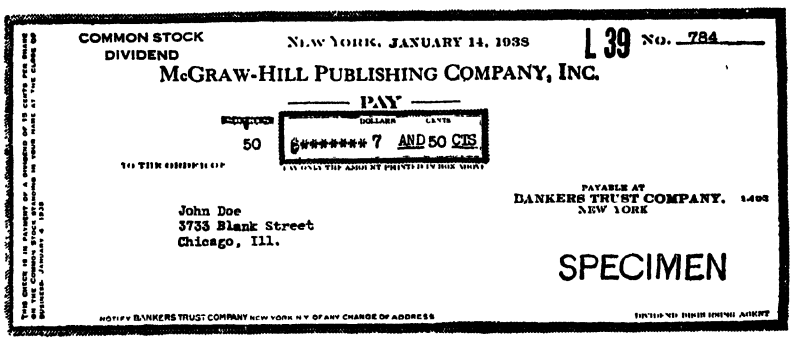
In the preceding paragraph we assumed one class of stock. Such stock is usually called "common stock," although one

Every stockholder in a corporation is entitled to a stock certificate showing how many shares he owns.

large corporation has only preferred stock outstanding, the directors having retired its common stock many, many years ago to prevent losing control of the corporation.

Common and Preferred Stock. Where there are two classes of stock, one class is usually common, and the other, preferred. The original differences between the two kinds were that preferred stock had a claim on both dividends and assets before the common stock, and that the common stock could receive unlimited dividends after the preferred stock was taken care of. In addition, the common stock had voting power, while the preferred did not. There have been so many variations and combinations of these privileges in recent years that the terms

"common" and "preferred" have lost some of their original meanings. Only by examining the charter provisions, which are usually printed or referred to on the stock certificate, can a stockholder know what he owns and what his rights as a stockholder are.


COMMON STOCK DIVIDEND

NEW YORK, JANUARY 14, 1938 L 39 No. 784

McGRAW-HILL PUBLISHING COMPANY, INC.

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NOTIFY BANKERS TRUST COMPANY NEW YORK N.Y. OF ANY CHANGE OF ADDRESS

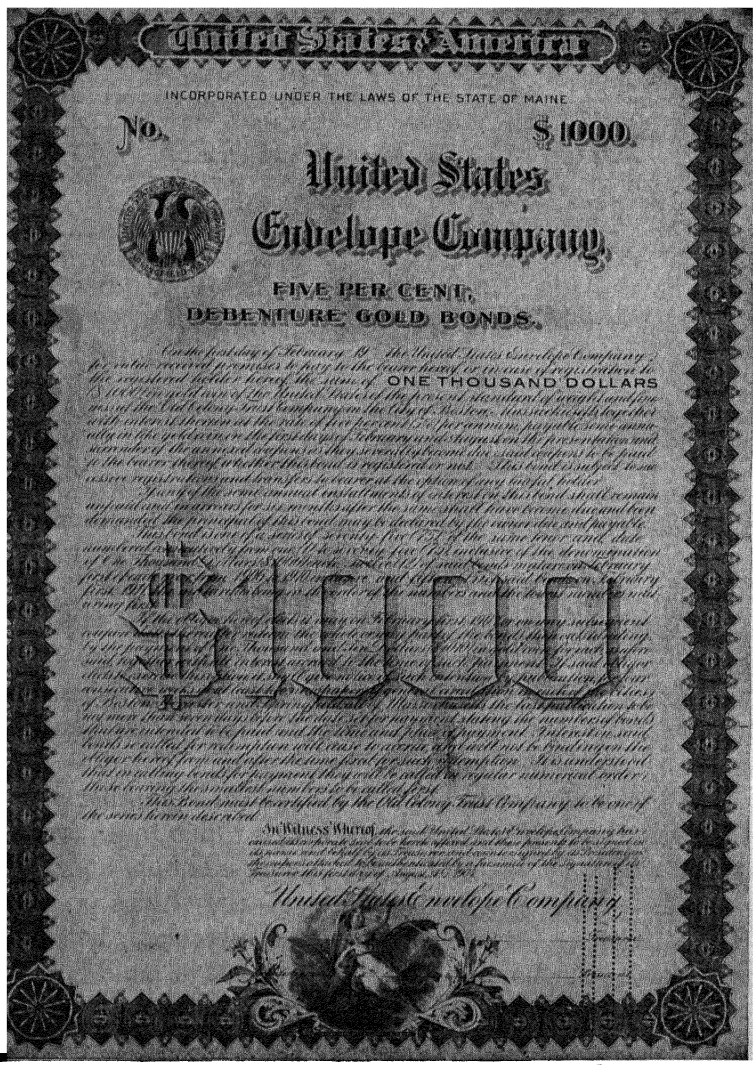
If the directors declare a dividend, each stockholder receives a dividend check based on the number of shares he owns.

Corporation Bonds. The owners of a corporation are called "stockholders"; their rights are limited. If a corporation issues bonds, the owners of them are called "bondholders." A bond represents a loan to the corporation. The bondholders are, therefore, creditors of the corporation and have all the usual rights of a creditor, subject to any restrictions or provisions under which the loan was made. These provisions usually appear or are referred to on the bond certificate.

Most bonds do not have to be repaid for a number of years. In this way they differ from bank loans, which must ordinarily be repaid within 90 days. After all, a bond is simply a promise to pay which is in writing and under seal. Sometimes property is put up as security for the payment of the bond; if the property is real estate, the bond is called a "mortgage bond"; if other stocks or bonds are put up as security, the bond is called a "collateral bond." In case of failure to pay principal and interest when due, the bondholder may foreclose the mortgage and take the property.

Loans usually carry interest. The only reason an investor buys bonds is to get the interest, unless he expects an appreciation in the market value. The interest on a bond may vary from

a fraction of 1 per cent to 6, 7, or 8 per cent, depending on the money market and the credit of the borrowing corporation.



Courtesy of Brooks Bank Note Company

The words "debenture bond" mean that there is no security back of this promise to pay other than the reputation of the borrower.

Interest is usually payable semiannually, either by check in the case of registered bonds, or by coupons in the case of coupon

bonds. As the interest date of a coupon bond approaches, the owner clips the coupon and deposits it with his bank for collection.

The Trust

Sometimes an enterprise is neither a corporation nor a partnership, but a trust. The usual method of forming a trust is to have the owners of the enterprise sign an agreement transferring their rights to one or more individuals, called "trustees," who then proceed to exercise these rights and conduct the affairs of the business for the period of time stated in the trust agreement.

The advantage of this arrangement is that the trustees can exercise full power during the term of the trust without fear of being unseated by disgruntled owners before they have had time to make a showing. Where two or more businesses are to be combined under one control, the trust device is effective. In order not to be subject to the antitrust laws, however, expert legal counsel is highly desirable. The trustees have responsibilities similar to those of directors within the limits of the trust agreement that creates the trust. Because the owners are thus giving up control of their business, the trust agreement should be very carefully drawn and should provide for regular reports to the owners, as well as a stated time for its termination. Trustee certificates are issued to owners as evidence of their participation in the trust; these certificates are quasi-negotiable, the same as stock certificates; that is, they may be transferred from one person to another.

Questions for Discussion

1. What does public ownership mean?
2. Name several publicly owned businesses and state, first, why they are businesses and, second, why they are publicly owned.
3. What would be the advantages and disadvantages of having public businesses privately owned?
4. What would be the advantages and disadvantages of having *all* businesses publicly owned?

5. Why do the basic principles of sound organization and management apply to all businesses, whether public or private? Or do they? Explain.

6. Should the owners of a private business suffer the losses resulting from the operation of their business? Why or why not?

7. Should a public business be operated at a profit? Why or why not?

8. If the profit earned by a publicly owned business helped to reduce taxes, would your answer to question 7 be the same?

9. Why is an individual proprietorship so called?

10. Does an individual proprietor necessarily have to manage his own business? Why or why not?

11. What are the advantages and disadvantages of the individual proprietorship form of business ownership?

12. In what business may an individual proprietor engage?

13. Are there any restrictions upon the individual proprietor's freedom of action?

14. Why do some businesses have to take out licenses?

15. What is the purpose of requiring licenses?

16. What is a prohibitory law?

17. What did the Supreme Judicial Court of Massachusetts declare about the right of contract?

18. What does this declaration mean, as stated?

19. Do you know of any happenings since 1929 that might have affected this freedom of the individual?

20. What is meant by *internal* operation of a business?

21. How would you define or explain *external* operation?

22. What is social legislation, and what is its purpose?

23. Why should the government wish to regulate the hiring, paying, and discharging of the employees of a private business?

24. Why should the government wish to regulate the maximum prices that a business may charge?

25. When is a business affected by a public interest?

26. What is the greatest advantage of an individual proprietorship?

27. What is the greatest disadvantage of an individual proprietorship?

28. What do you mean by impermanence?

29. Why should the employees of a private business be faithful to the owner but not necessarily to the heirs?

30. Can an individual direct a large business effectively? Why or why not?

31. Why is there a limit to the command of new capital by an individual proprietor?

32. How may an individual protect against loss someone who has lent him money? Who would pay the insurance premiums? Why?

33. Is it fair for a capable employee of an individual proprietorship to demand a share in the business under threat of withdrawing and starting a competing business? Explain.

34. If you were the capable employee mentioned in question 33, which would you prefer to do, become a partner or start a business of your own? Why?

35. Who benefits more when the individual proprietor takes a valuable employee into partnership with him? Why?

36. Why are creditors likely to favor a partnership over an individual proprietor? Is this attitude reasonable? Explain.

37. What are the two most significant features of a partnership?

38. Why should each partner have full power to act for the firm and bind it in matters relating to the firm's business?

39. Why should each partner be absolutely liable to the full extent of his personal fortune for all the debts of the partnership?

40. What law or laws govern the partnership relation?

41. Must there be an agreement between actual partners? Why or why not?

42. Must the agreement between partners, if any, be in writing?

43. What are articles of copartnership?

44. Why should the articles of copartnership be in writing?

45. If the state has not enacted the Uniform Partnership Act, what law governs partnership relations in that state? Can you explain what the law is?

46. How are profits and losses shared among partners? Is that fair?

47. If your answer to the second part of question 46 is No, what steps should have been taken to make the sharing fair? Why were they not taken?

48. To what extent does an agreement between the partners limiting the losses affect creditors? Why? Is this fair? Why or why not?

49. If one of the partners has to pay more than his fair share of the losses, what may he do? What success do you think he will have? What should he have done in the first place?

50. To what extent is an agreement between partners limiting the authority of a partner binding upon third parties?

51. How may disputes among partners be settled?

52. If one partner becomes incapacitated and the other carries on, may he claim additional compensation? Why or why not? Is this fair? Why or why not?

53. Is there an obligation of any kind on the part of the incapacitated partner to allow additional compensation to his partner who carried on?

54. Why is a partnership immediately dissolved when a partner dies?

55. What is meant by dissolved?

56. How may the burden of dissolution by death be alleviated? What precautions should be observed?

57. What effect, if any, does the death of a partner have upon his liability for partnership debts? Explain?

58. May a partnership engage in any business that is open to an individual proprietorship? Why or why not?

59. What are the two main advantages of a corporation as a form of business ownership? Are these really advantages? Why or why not?

60. What are the main disadvantages of a corporation as a form of business ownership? Are these really disadvantages? Why or why not?

61. Who are the owners of a corporation?

62. What is meant by the limited liability of stockholders?

63. What is meant by perpetual existence of the corporation?

64. In what ways may a corporation ordinarily be dissolved?

65. How may a corporation be created?

66. Outline the steps to take to form a corporation under Massachusetts laws.

67. "A corporation is an artificial person." Explain.

68. "A corporation exists separately from its owners or managers." Explain.

69. "A corporation has no soul." Why not?

70. Why can a corporation act only through agents?

71. Who manages a corporation? Why?

72. Who appoints the officers of a corporation? Why?

73. Who hires the employees of a corporation? Why?

74. How much say have the stockholders of a corporation in its management? Why?

75. What is a minority stockholder?

76. What limitations are there, if any, on what a corporation may do? Contrast your answer to this question with a partnership and an individual proprietorship.

77. What are *ultra vires* acts?

78. How would you know when something a corporation did is *ultra vires?*

79. How can you tell what a corporation is chartered to do?

80. Are there any geographical limits to the territory within which a corporation may do business? Explain.

81. What is the difference between a domestic corporation and a foreign one?

82. What is meant by doing business? How would you know?

83. What is meant by corporate matters?

84. Why is the handling of corporate matters usually placed in the hands of one man?

85. How does the step mentioned in question 84 help the officers who conduct the business of the corporation?

86. "Boldness in business is always a factor in success." Why?

87. Define or explain par value, book value, and market value of stocks and explain the relation, if any, of each to the others.

88. What are the differences between common stock and preferred stock? How would you know exactly?

89. Which class of stock would you rather own, common or preferred? Why?

90. Bondholders are creditors of the corporation. Why?

91. What is a bond?

92. What security is there for the payment of a bond?

93. How does the owner of a bond collect his interest?

94. What are the respective advantages and disadvantages of registered bonds and coupon bonds?

95. What is a trust?

96. What are the advantages and disadvantages of the trust form of business ownership?

Topics for Special Reports

1. Select a local business that is conducted as a partnership and ask one of the partners, preferably the senior partner, if he has a written partnership agreement. If he has, ask him if he would be willing to show it to you or to go over it with you. Make a list of the points the agreement covers, being especially careful to omit any confidential items such as names or figures. Ask the partner the reason for including any provision that may not be clear to you.

2. If there is no written partnership agreement, ask the partner if there is an oral agreement and why they did not put it in writing. Ask him also to explain to you any details of the oral agreement that he is willing to discuss. Be sure to respect carefully any restrictions he may place on confidential information.

Problems

1. Mr. Allen, owner of a furniture store, had a salaried buyer with authority to buy furniture for the store. While attending the annual exhibition for the trade, the buyer placed orders for $40,000 of various furniture lines. The usual purchases had been around $15,000. As the furniture was delivered to the store, it was received and accepted. The selling season for furniture was poor, and about half of the merchandise remained unsold. Because of the poor business and slow sales, the store had paid only half of its bill for the furniture. If Mr. Allen

refused to pay the remaining half of the bill, could the creditors collect it from the buyer, who owned considerable property in his own name? Why or why not?

2. In a partnership business, Mr. Brown owned $50,000 interest, Mr. Carr $25,000, and Mr. Dunn $1,000. The firm failed. All the partners were bankrupt except Mr. Dunn. If the debts were $38,000, how much could Mr. Dunn be compelled to pay? Why?

3. Mr. Barr, a member of the firm of Barr and Byrd, decided to withdraw from the firm. Mr. Byrd agreed to assume the firm indebtedness of $3,000 and to pay Mr. Barr $10,000 for his share of the business. Before any of these debts were paid, Mr. Byrd failed, paying off only 10 cents on the dollar. How much would Mr. Barr lose through the failure? Why?

4. When Mr. King bought an interest in the partnership business of Lloyd and May, the firm owed $1,000, which Mr. King did not agree to assume. Subsequently Mr. Lloyd gave a note for $300 in the name of the new firm to one of the creditors. Is Mr. King liable for any part of this note? Why or why not?

5. Mr. Burr of the real estate firm of Burr, Brown & Company bought for the firm a $10,000 property, without the consent of his partners. It proved to be a bad investment and was sold for $7,000. How much would Mr. Burr lose in case the three partners owned equal interests in the partnership? Why?

6. Mr. Carson and Mr. Dalton agreed to buy 4,500 bushels of wheat and divide it according to the amount each man put up. Mr. Carson furnished $3,000 and Mr. Dalton $1,500. Mr. Carson sold his share at a profit of 10 cents a bushel and Mr. Dalton sold at a loss of 10 cents a bushel. Is this a partnership? Why or why not? How much did each gain or lose?

7. Mr. Carr and Mr. Crown agreed to buy and sell 10,000 bushels of wheat, dividing the profits or losses according to the amount each put up. Mr. Carr put in $3,000 and Mr. Crown $9,000. Mr. Carr sold 4,000 bushels at a loss of 10 per cent. Mr. Crown sold 6,000 bushels at a gain of 10 per cent. How much did each gain or lose? Why? Is this a partnership? Why or why not?

8. When a corporation was organized, Mr. Nelson purchased 100 shares of stock for $1,000. The company failed, owing large sums of money. The par value of the stock was $100 a share. How much must Mr. Nelson pay? Why?

9. Mr. Rand bought $1,000 of stock at par in a newly organized corporation. The stock was nonassessable and fully paid. The corporation failed, owing $100,000. How much does Mr. Rand lose? Why?

10. The partnership of White & Black reorganized as a corporation with a capital of $50,000 in shares of $50 each, par value. White's share in the old firm was $12,500 and Black's was $18,000. How many shares should each receive, and how much stock would remain in the treasury? Why?

11. The Crown Piano Company, with a capital of $1,000,000 (shares $100 par value), declares a dividend of $125,000. How much would a stockholder owning 120 shares receive?

12. An assessment to meet a loss of $25,000 is levied by a corporation with a capital of $500,000. How much will Mr. Poole, who owns 500 shares of par value $100, be required to pay?

4

How Business Is Organized for Work

DURING the depression of the thirties, many men were thrown out of work. One man, whom we shall call Brown, casting about for something, hit upon an idea which others have also followed through to advantage. His wife was an excellent cook; but so are many other men's wives. It seems, however, that Mrs. Brown had a reputation for making delectable sausage meat which was the despair of all the other housewives in the church and community. Whenever it was announced that she was to serve some of her famous sausage at a church supper, the demand for tickets quickly exhausted the supply. Indeed, second and third tables were not at all uncommon.

The thought which came to Mr. Brown was this, "I wonder if I couldn't sell my wife's sausage meat and make at least a living. It won't do any harm to try."

So his wife made up a batch of the meat, and Brown started out with it, calling from house to house and ringing doorbells. For the first day or two he had only fair success. Some of his acquaintances on whom he had counted showed little of the expected enthusiasm. Some were even cool. "Isn't it too bad for a man like Brown to have to take up canvassing?" But a few bought the sausage, enough to warrant his keeping on a while longer, anyway.

On his second trip around, Brown found it a bit easier; many people who had been frankly skeptical were becoming convinced that Mrs. Brown's sausage was really all that it was reputed to be. They bought more. Some placed a standing order for delivery once a week.

Pretty soon Brown was selling all that his wife could make, and the demand was growing beyond their capacity to handle it. Evenings, Brown turned to and helped his wife make the meat; he mastered the art of sausage making. He bought additional equipment, and still they couldn't keep up with the demand. They finally determined that they would have to hire someone to help Mrs. Brown. Before they could look around for a good assistant, however, Mrs. Brown fell sick and passed away, leaving her husband alone with his sorrows and with the business.

Brown was now up against it in earnest. He had to swing the whole sausage business alone, calling on customers in the afternoon, taking orders, making up sausage at night, and making his deliveries the next morning. If he was rushed before, he was overwhelmed now. He had not one problem—how to take care of the business—he had three, as we shall see pretty soon.

Help Wanted

It was obvious that Brown could not keep on singlehanded. He just had to have some help. And right here Brown was confronted with the first problem that confronts all one-man businesses when they start to grow: not whom to hire, but for what part of the work should he engage someone?

Consider Brown's predicament for a moment.

He had a good product, the best sausage meat in the county. By helping his wife evenings, Brown had learned the secret of making a good product; and the sausage meat he turned out now was still the same Mrs. Brown's Fine Homemade Sausage that had started with nothing but a reputation. Had Mrs. Brown lived, they could have hired a good woman cook or a man, who could do part or all of the work under her direction and oversight. She could have supervised everything and made sure that quality was maintained up to her standard. But Mrs. Brown wasn't there to help, and she never would be again.

Quality Must Be Maintained

Of course, Brown could hire a good cook and show her the secret of making fine sausage meat, so that she could do that

The Responsibilities of Management

I. Analyzing and testing the possibilities for business (Is there some human need we can supply that is not already satisfactorily met?)
   - *A.* Market analysis (May be made by professional researchers)
     1. What is needed? (*i.e.*, What is the demand?)
        - *a.* What is the present supply? (competition)
        - *b.* How effectively is this need now supplied?
     2. Where is it needed? (The market)
     3. Methods of reaching this market
     4. Cost of reaching this market
        - *a.* Producing costs
        - *b.* Distribution costs
   - *B.* Product analysis (May be made by research organizations)
     1. Is there a real demand for this product or service?
     2. What is the best design? (*i.e.*, What form of the product or service will best meet the demand?)

II. Deciding what to make or sell
   - *A.* Selecting the line (product or service)
   - *B.* Modifying the product or service as customers' needs indicate

III. Determining what results are to be secured

IV. Planning how these results are to be secured

V. Managing the finances of the enterprise
   - *A.* Determining how much money is needed, and when it is needed
   - *B.* Ascertaining where money may be obtained, if not on hand
   - *C.* Seeing that money is available, when and as needed
     1. To start the business
     2. To keep the business going
     3. To expand when wise
   - *D.* Controlling the planning and expenditure of funds
     1. Preparing the budget
     2. Administering the budget
   - *E.* Keeping proper balance between capital and revenue expenditures

VI. Building or securing plant and equipment
   - *A.* Equipment
     1. Determining equipment needed
     2. Selecting type of equipment needed
     3. Providing adequate equipment
   - *B.* Plant
     1. Determining space needed
     2. Determining type of building needed
     3. Considering factors bearing upon location
     4. Building, buying, or renting the building or space needed

VII. Planning the organization, building the organization, and developing it
   - *A.* Determining what departments are required
     1. Personnel required
     2. Executives required

B. Formulating procedure based on practical and economical methods
1. Establishing efficient routines and processes
2. Determining what records shall be kept
3. Providing for keeping the necessary records
a. With maximum efficiency
b. At minimum cost

C. Selecting trained or capable executives and other personnel
D. Determining remuneration of executives and other personnel
E. Assigning functions logically, to competent individuals
F. Directing the organization
1. Assigning duties or responsibilities
a. By issuing orders or instructions to the individuals
(i) Who are to carry them out, *or*
(ii) Who are to see that they are carried out
2. Coordinating executive effort

G. Controlling the organization
1. Seeing that assignments are carried out properly
2. Securing cooperation within the organization
3. Eliminating undesirable tendencies

H. Procuring and maintaining a suitable supply of labor
1. Supervising and coordinating its efforts

I. Getting and sustaining proper relationships between owners, management, and workers

VIII. Producing the product or service
A. At a cost which will permit selling it
B. At a price which will show a margin after all expenses have been paid

IX. Making every effort to get and increase sales through
A. Advertising
B. Mail sales
C. Effective sales management
} and at the same time keeping sales costs within reasonable bounds

X. Balancing production with sales
A. Utilizing plant and equipment economically and effectively
1. Providing effective arrangement and layout
2. Planning, scheduling, and dispatching
3. Providing for maintenance, repair, and replacement

B. Stimulating the organization to sustained, cooperative effort
C. Procuring adequate supplies of raw materials
D. Keeping production costs at low level
E. Keeping quality of product up to standard
F. Keeping quality of service up to standard

XI. Establishing and maintaining sound business policies
XII. Keeping the management sold to the directors or owners

while he was out taking orders and making deliveries. But Brown was worried by one thought. He realized that the continued success of the business depended upon maintaining the quality of the sausage meat. His wife had had her pride in keeping up the quality; he himself had his pride in keeping up the quality. But would a hired hand have the same interest in maintaining their high standards? Here was a fine food product, eaten by many families. Suppose only one batch should be spoiled or be a little off? What would happen to his trade? Could he afford to take a chance? Or, even if the quality were maintained, what would prevent his cook, after learning the secret of making good sausage meat, from leaving him and starting a similar business of her own? Of course, he could marry her and keep her in the family that way; other men, confronted by a similar choice, have done just that. But Brown had been so happy with his wife and revered her memory so deeply that the very thought of marrying again nauseated him. No, he couldn't do that.

Customers Must Be Kept

Perhaps the best thing to do would be for him to keep on with the cooking and hire somebody to call on his customers. He could hire an assistant cook, as he and his wife had been about to do when she died, and Brown himself could exercise supervision of the sausage making, just as his wife had planned to do. In this way he could be sure that there would be no letdown in the quality of the sausage.

Brown's problem, then, was to hire someone who could call on his customers, take their orders, deliver the sausage, and extend the trade to new customers.

Now Brown himself had a very pleasant personality; he could make himself agreeable to customers, passing the time of day with them, discussing the current news, and perhaps occasionally sharing a bit of local gossip. They liked him and looked forward to his calls. They knew Brown, and they knew his sausage. They knew that any complaints would be immediately taken care of.

Brown turned over all these points in his mind as he considered whom he could hire to take his place as outside man. What would happen when a stranger started calling on his customers? How could they be sure that it was the same sausage meat and not a substitute? What would happen to the tremendously valuable good will he had built up? Would it be possible to find someone who could handle the trade just as satisfactorily as he could and on whom he could depend for loyalty and good service? Could he buy those traits and characteristics?

Brown began to wonder. He was now really between two fires. If he hired a cook to make the sausage, he couldn't be sure of the quality; if he hired a salesman to call on the customers, they might not care for him. In either case he stood to lose. What to do?

A Universal Problem

Brown's problem is one that every business man faces when he finds the day isn't long enough to do all the work that has to be done. It is the same problem, regardless of the size of the business. The huge corporation has exactly the same problem as the one-man business that is rapidly becoming bigger than one man can handle. It is the same problem, but the exact problem is not always understood. And it is important to see it clearly, in order to understand it.

The problem is not, as so many might think, "Where can I hire a good man?" It is, "Where can I hire a man who is as good as I am for this particular work?" In other words, "I want to duplicate my ability. Why should I be satisfied with less ability, if I can duplicate my own?" Some very successful business men have not been satisfied with duplicating their own ability; they want men with more ability. It takes a big man to carry out a policy like that. Andrew Carnegie was such a man. On his tombstone is the epitaph "Here lies a man who knew how to get around him men who were cleverer than himself."

A Captain of Industry

The founder of a successful business is usually many-sided. He is likely to be a good salesman. He is a good manufacturer,

if the business is manufacturing. He has money sense. He is a good judge of men and knows how to handle them. He is a captain of industry.

To expect to find all these characteristics in every individual is asking too much. Undoubtedly many more persons possess these characteristics than use them, perhaps because of a lack of industry or of incentive. The captain of industry drives himself

How to Get Work Done

1. Make a list of what is to be done
   a. Include everything
   b. Determine who can do these tasks best
2. Assign tasks to those persons who are best fitted to do the work that is to be done
3. Determine how long each step will take
4. Make a schedule, working backward from the final completion date. This gives the starting times for each task
5. See that each person who is to do something starts his or her task at the scheduled time
6. Check up on the progress of the work, from time to time

and is inclined to drive others. He expects and often demands that his associates display the same industry and interest that he does. Ordinarily, also, he provides an incentive—he makes it worth while to put forth the effort to get the desired results. That he gets the results, no one will deny.

Although, as has been said, it is unreasonable to expect every individual, or even any considerable number of individuals, to possess all the characteristics listed above, there is every reason for believing that most men possess one or more of these characteristics. The employer's problem, then, is to find

the particular individual whose specialty he needs, plus the desirable personal traits of loyalty and industry.

Now that we have analyzed the problem that confronted Mr. Brown, let's get back to him.

The Final Decision

Mr. Brown decided to hire someone to help him make the sausage meat. The problems of sources of applicants, interviewing, and selection are covered adequately in Chap. 7 and need not be repeated here. It might be desirable, however, to see what Mr. Brown did when he hired Emma Smith as his assistant.

Emma had a good home background; she had a thorough training in cookery and in the chemistry of foods; she was robust and industrious; and she had a reputation for honesty and loyalty. Mr. Brown considered himself fortunate to make such a find.

Build a Good Foundation

Did Mr. Brown immediately turn the sausage making over to Emma Smith, with all her good qualities? Hardly. The first thing he did was to tell her how he and his wife had started the business and built it up. He described some of his experiences and gave Emma something of the vision that he had. He created in her a realization of the fact that her job was not simply to mix some ingredients together in a certain way and then apply heat. No; Emma was made to realize that she was not merely making sausage meat; she was establishing one reputation and upholding another. Her responsibility was to convince Mr. Brown that she could follow his directions without the slightest deviation, that she could apply the same tests that he did, and that by doing so she could get the same results. At one and the same time she was establishing her own reputation for ability and reliability and also upholding the reputation of Mrs. Brown's Fine Homemade Sausage as the finest and most wholesome product of the kind to be had at any price anywhere.

Trifles Make Perfection, but Perfection Is No Trifle

Next Brown started to show Emma the care and skill that went into his sausage making. All this time he had had to carry

on the preparation and delivery, to take care of his customers. Gradually he let Emma take first this step and then that, until he finally felt sure that she could and would do as good a job as he had. But he still insisted on testing the result before taking it out for delivery. One might think that Emma would have been peeved at this seeming lack of confidence in her. But Mr. Brown had a way with him, as has already been told, and she was not offended. Rather was she proud that no fault could be found with the result of her efforts to satisfy her employer. She realized that if anything was wrong, it was better for Mr. Brown to find it out before the customers did.

It was surely a relief to Brown to have that load off his mind. Before long, he hired an assistant to Emma, following the same procedure that he had before and giving Emma the responsibility for results. He knew now that he could trust her.

The Next Step

The business continued to grow. During the transition period, customers sent in orders by mail and telephone, requiring more or less office work and detail. Also, certain restaurants and hotels were placing generous orders for the sausage meat, and this detail took up quite a lot of time. Brown saw that he would have to make still another addition to his organization. He went through the same process of reasoning as before and finally decided to hire a young woman with office training.

Alice Kenyon, the successful applicant, was a college graduate, a fair stenographer, a good typist, had a substantial mastery of bookkeeping and accounting theory, an attractive personality although she was no beauty, and a well-modulated voice which sounded pleasant over the telephone. She liked people and got along with others admirably. She also liked detail and was industrious, not afraid of doing a good day's work, and not satisfied with a half-baked job. She was fascinated by Brown's story of the founding of the business and often thought about it. She and Emma took to each other at once, and again Brown congratulated himself on his good luck, as he called it. We would call it good sense.

An Intelligent Boss

Well, things kept on and Brown gradually found himself hiring more and more assistants and turning more and more of his own work over to others. In each case, he followed the same procedure which he had before and which he had found worked so well. Eventually, he found that he was not selling or calling on customers any more, or making deliveries, or making sausage meat, or buying materials, or handling orders or the mail or receipts or credits, or doing any of the many things that he used to do. He found that he now had more time to give counsel and encouragement to the people who were helping him in the business. He helped them work out better ways of doing things. He encouraged the purchase and installation of new and improved machinery for both office and factory; he improved the working conditions. With the help of his assistants he planned and built a model kitchen-factory for making the sausage meat. He printed a picture of the plant on the package and encouraged visitors.

MANPOWER—MATERIALS—
MACHINERY

—all are essential—

BUT

The results produced through their use will depend upon the kind of organization created for them to function in

(Courtesy of Harry Arthur Hopf.)

And the people working for him? Did they stick, and did they like working for Mr. Brown? They did, and the reason they did is obvious. He first used every care in selecting his people, then trained them thoroughly, supervised them ade-

quately, and paid them well. He made it worth while for folks who worked with him to keep on doing so. Their spirit was exemplified by their attitude toward the product. It wasn't Brown's sausage meat to them; it was "our" sausage meat. It wasn't "his" office or "his" plant; it was "our" office and "our" plant.

Let's pause for a moment and see how Brown brought these things to pass. Perhaps others can put to work the same plans that Brown used in building a small house-to-house sausage business into a business that now covers the country and whose product is a household word.

Brown's Four Secrets

Just how did Brown organize for work? Is there anything he did that could not be done in any other business, regardless of its nature? What was the secret of his success?

As we look back over the history of Brown's business, the first point that strikes us is Brown's insistence upon *quality*—quality of product, quality of people, quality of work, quality of plant and equipment.

The second point is *thoroughness*, even in the smallest details. Nothing was allowed to go by default. Each new employee was carefully selected, thoroughly trained, adequately supervised, well paid.

The third point is *industry*. Everybody worked. There were no loafers, no deadheads, no riders. Everybody worked.

The fourth point is *esprit de corps*, the high morale. No feeling that "no one gets anywhere here," or "after all, we're only wage slaves." Brown's people worked for him because they liked to do so. He made it pleasant and worth their while, and they repaid him many times over.

Let's look at the negative side of the picture and see what might have happened.

Is This Intelligent Management?

Brown could have hired a woman for less than he paid Emma, and the product might have deteriorated. He could have

obtained an office girl who was more interested in her social activities than in her work; the resulting mistakes in bills and accounts and records would have been annoying and expensive; and she and Emma might have been at loggerheads most of the time. It is surprising what people can find to quarrel about without half trying.

Brown could have cut corners in buying his materials; "a little more spice would take care of that." When he began to get the hotel and restaurant trade, he could have cut off his early customers as not worth bothering with. (Perhaps you have seen articles in business magazines about orders under a certain amount being too expensive to handle.) He could have made his terms cash, instead of credit. He could have boosted his prices beyond a reasonable point, figuring that perhaps the loss of a few customers would be more than offset by the increased income from others. He could have done lots of things that many businesses do and, when things started to slip, he could have wondered why.

But Brown did none of these things. He followed consistently and persistently the principles already indicated.

What about other concerns?

Shortly after the First World War, the president of a famous large men's clothing house was importuned by his salesmen to get the price of the garments down, even if he had to cheapen the materials and tailoring. "When the time comes," said the president, "that we have to put out a garment that we are ashamed to put our name on, we shall close and lock the doors."

The president of another national manufacturing company, in discussing the effects of various considered steps, made this blunt remark, "When a concern as large as ours starts to side-slip, it slips awfully fast."

Someone else, whose name is forgotten, uttered this wise remark, "The person or firm who starts to slip downward finds the ways all greased."

Let's try to reduce what we have been thinking about to a few simple points and principles.

Organization, Responsibility, Authority

1. Definite and clean-cut responsibilities should be assigned to each executive and to each employee.

2. Responsibility should always be accompanied by corresponding authority.

3. No change should be made in the scope or responsibilities of a position without a definite understanding to that effect on the part of all persons concerned.

4. No executive or employee who is occupying a *single* position in the organization should be subject to definite orders from more than one source.

5. Orders should never be given to subordinates over the head of a responsible executive.

6. Criticisms of subordinates should, whenever possible, be made privately; in no case should a subordinate be criticized in the presence of executives or employees of equal or lower rank.

7. No dispute between executives or between employees as to authority or responsibility should be considered too trivial for prompt and careful adjudication.

8. Promotions, wage changes, and disciplinary action should always be approved by the executive immediately superior to the one directly responsible.

9. No executive or employee should ever be required, or expected, to be, at one and the same time, an assistant to and critic of another.

(*Adapted from Col. M. C. Rorty, "Ten Commandments of Good Organization," published by American Management Association.*)

the group he is supervising, as well as for the effectiveness of the work of each individual member of the group.

Properly to discharge these responsibilities, the supervisor must understand what is required of his group, he must know how to get it, and he must know when he is getting it. He must know how to give orders and instructions so they will be understood and followed. It is highly desirable that supervisors themselves be carefully and thoroughly trained for their jobs, since it is unreasonable to expect anyone to exercise the technique of supervision without being shown what is expected of him and how to go about discharging his responsibilities. The function of supervision is one of the most important in the entire business. Good supervision will pay handsome dividends; poor or inadequate supervision is an expensive luxury.

Control

Since control is covered more in detail in Chap. 10, little need be added here to what has already been said about it previously in this chapter. Control combines knowledge with power—the knowledge that one's plans and directions are or are not being followed, and the power to compel compliance with those orders and instructions; in short, authority.

In our discussion of how business is organized for work, we have seen how an idea can be built up into a money-making business. We have followed the fortunes of a man who had a big idea and made it pay. We have watched the development of an organization for carrying out the big idea. We have seen how people were selected, trained, and supervised.

Large Businesses and Small

Many businesses have been in existence for years. Not all started from scratch, as Brown's did. The combination and consolidation of two or more businesses result in a third business, whose features may appear more complicated than the apparently simple setup that Mr. Brown had. Actually, the functions of a huge corporation are the same as those of a small one-man business. The heads of both the large and small

SHEET A—DEPARTMENT ORGANIZATION

Department: Office Management

Department Head: Henry J. Smith

Title, if any: Office Manager

Officer to Whom Dept. Head Reports: Albert F. Brown

Title, if any: Vice-president

This department is divided into the following divisions:

Division	*In Charge of*	*Title, if any*
Purchasing	Louis B. Joyce	Purchasing Agent
Correspondence	E. G. Halpert	Corresp. Supervisor
Messengers	T. F. Redmond	Head Messenger
Service	G. Van Pelt	Service Manager
Telephone	A. M. Carroll	Chief Operator

SHEET B—DIVISION ORGANIZATION

Department: Office Management *Division:* Purchasing

In Charge of: Louis B. Joyce Title, if any: Purchasing Agent

Assistant, if any: John M. White Title, if any: None

This division is divided into the following sections:

Section	*In Charge of*	*Title, if any*
Order	Louis B. Joyce	Purchasing Agent
Invoice	J. MacLennan	Secretary
Receiving	William Wall	Receiving Clerk
Stock	John M. White	Stock Clerk

SHEET C—SECTION ORGANIZATION

Department: Office Management

In Charge of: Louis B. Joyce *Division:* Purchasing

Title, if any: Purchasing Agent *Section:* Order

Assistant, if any: None Title, if any:

Personnel of this section, and their duties:

Name	*Work (brief description)*
Louis B. Joyce	Examining requisitions
	Determining specifications
	Selecting source of supply
J. MacLennan	Checking orders against requisitions
	Certain special follow-ups

Why Departments Vary in Size

The number of people in a department depends on the volume of work going through it. Some departments may have only one or two persons; others may have several hundred. Even in concerns of about the same size, the size of departments varies. In the credit department of one company, for instance, there are nearly 60 persons; while in the credit department of another company doing about the same volume of business, there are only 4. This variation is explained by the fact that the first company is handling a large number of small orders, while the second is handling a small number of large orders. It takes a larger department to handle 100 orders of $50 each than to handle 2 orders of $2,500 each.

The Department Head

In charge of each department is a man or woman called the "department head." Frequently that person bears a title such as credit manager or purchasing agent. A large department is usually divided into divisions, and divisions into sections, each section being in charge of a section head, who may be called a "supervisor," a "chief clerk," or a "foreman" or "forewoman."

The General Officers

Over all departments are one or more general officers, such as vice-presidents. In one company, for instance, one vice-president is in charge of all sales activities; under him are the sales manager, the advertising manager, and the branch managers. Another vice-president is responsible for all manufacturing activities; under him are the plant superintendent, the purchasing agent, the storeskeeper, and the traffic manager. The treasurer handles all financial and money matters, including the credit department, the cashiers, the voucher section, and so on.

At the top of the concern is the president and general manager, who is held responsible for the success or failure of the business. He it is who must see that the business functions smoothly,

that all departments do their work properly and promptly in cooperation with each other.

In an individual proprietorship the president is usually the owner of the business. In a partnership one member may be president and another, treasurer. In large partnerships there may be several partners, each with his special responsibilities, which may or may not be indicated by his title.

If the business is a corporation, there will be a board of directors to whom the president is responsible for the results he gets or fails to get and from whom he takes his orders. The board of directors is elected by the stockholders at the annual meeting and has full power and authority over the affairs of the corporation from one annual meeting to the next.

Always Remember This Point

We can sum up our discussion by stating that business activities are carried on largely by persons who work under the direction and supervision of other persons. Generally speaking, those who do the work are called "workers" (salesmen, clerks, employees), while those who direct and supervise the workers are called "managers" (supervisors, department heads, employers). For example, the sales manager directs and supervises the work of his salesmen; the credit manager directs and supervises the work of the credit department; the office manager directs and supervises the office work; the foreman directs and supervises the work of the people in his unit.[1] The workers are responsible for doing the work; the managers are responsible for seeing that the work is done and that it is done correctly and promptly.

Formerly there were no uniform methods of doing work. Each person did his work about as he pleased. As long as he did his work, no questions was raised as to how he did it. Gradually, it was found that there is a best way of doing any kind of work. A good manager makes a point of finding that best way and teaching it to his workers, making sure that they not only

[1] The word "unit" is often used to indicate any group that is one of a number of groups. For example, if a department has four divisions, each division is a unit; if a division has five sections, each section is a unit; and so on.

understand what work they are to do and how to do it but that they do it in the way specified.

Why Managers Are Needed

If people could work without supervision, managers would not be needed. But most people do not work well of their own accord; they need someone to show them what to do, how to do it, and to see that they do it. Furthermore, if the responsibility for making decisions were left to the workers, each person would have a different idea from every other; there would be a lack of agreement, resulting in discord, dissatisfaction, and lack of accomplishment. No one would get anywhere. Leadership is necessary.

Leadership in Business

The manifestation of executive leadership in the individual business organization will be indicated in the following manner:

1. Intelligent assignment of tasks
2. Noninterference in their execution
3. Comparison of results with established standards
4. Adequate reward for satisfactory or extraordinary performance
5. Readiness to assist in the solution of perplexing problems
6. Thorough and demonstrated belief in the soundness of the business, the product, the personnel, and the methods
7. Instilling enthusiasm throughout the organization, particularly with respect to key executives
8. Possession of an unfailing sense of values and of proportion
9. Focusing of attention on the major phases of management and planning for the future, leaving all operating problems and other details to those entrusted with their execution

It's All in the Management

Mr. Harry Arthur Hopf, an outstanding management engineer, who made the foregoing statement, is also responsible for the next one. He has said,

> No matter how good or bad general business is at any given time,
>
> Some institutions will fail
> Others will manage to hold their own
> While still others will forge ahead and prosper.
>
> The difference between the success of one organization and the failure of another—both engaged in the same business at the same time—is, all factors concerned, the difference in the quality of their management.

In other words, no business is better than the *individuals* who manage it. This is true, whether the business is a huge corporation like General Motors or a small corner store or service station run by one man. The individual who knows how to manage well, *and applies his knowledge*, can always do a better job than one who does not know how or who does not apply intelligently the knowledge he does have.

The main structure of every business is the same as that of every other business: employees to do the work, directed by a manager who is held responsible for the success or failure of the business.

This structure holds good for every enterprise of any kind. There must be people to do the work and managers or supervisors to direct their efforts. The only differences between the various kinds of businesses are in the nature of the work done, the services rendered, or the products made or sold. A retail store sells merchandise, whether from a 2 by 4 cigar counter in the lobby of an office building or in a huge establishment like Macy's in New York. In each case merchandise must be bought, displayed, and sold. Some retail stores specialize in certain lines: one may handle only men's wear; another, men's clothing; another, shoes; another, drygoods; another, groceries; another, fruit; another, meats; another, drugs; and so on. But they all have to buy merchandise, display it, and sell it.

Chain Stores

Retail store chains buy merchandise, display it, and sell it. Granted that their larger buying power may give them a definite price advantage over the small independent store (although the Robinson-Patman Act has something to say about that), the real advantage that a chain store has over an independent is in the quality of its management. Chain-store managers are trained. They do not have to guess what is best to do—they know; the answers are all in the book. An independent merchant, who knows the technique of merchandising, can meet chain-store competition on its own ground. The independent who relies upon a monopoly or location finds himself at a disadvantage

when a chain store moves in next door and starts to give his customers service and goods.

Success in retail merchandising depends upon many factors. Location is important, but not everything. Reasonable prices are important, but not everything. Attractive merchandise is

Additional Points on Organization

1. Authority to make decisions should be vested as near as possible to the point of original action.
2. Responsibility for action and authority to act should be placed at as low a level of the organization's structure as is possible.
3. There should be a clear statement of the functions at each level of authority and a clear statement of the responsibility and authority of every person in the executive, managerial, and supervisory levels.
4. Competent persons should be placed in all key[1] positions at all levels of authority.
5. The span of an executive's authority[2] should be limited to the number of subordinates whose activities he can effectively direct, coordinate, and control.
6. Policy with respect to all phases of operation should be definite and clear-cut and worded in standard terms.
7. Definite objectives and suitable measurements of accomplishment should be established for each department and subdivision.

(*From "Organization Patterns and Principles," by Harry J. Volk, Second Vice-president of The Prudential Insurance Company of America*)

[1] Webster defines "keyman" as a person doing such work in an organization that his services are indispensable.

[2] This is often called "the span of control."

vital, but not everything. A store with the best location in town, displaying the finest merchandise on the latest style of fixture, can fail quickly and will fail if the manager does not know how to buy what will sell, how to deal with customers to build up good will, and how to select and direct employees who are competent, courteous, and efficient. The control of merchan-

dise inventories is not a theory but an accomplished fact. Knowledge in retail merchandising is vitally important; without it, the business just drifts, downstream.

A large retail establishment will have buyers whose function it is to obtain merchandise that will sell. This involves watching trends of styles, if style is a factor, keeping in touch with sources of supply, pricing merchandise, constantly reconciling stock with sales to see that the store is not overstocked on some items and out of stock on others. Goods not in stock cannot be sold; neither can shelfworn or obsolete merchandise. Merchandising is a fine art.

A retail store requires salesclerks who know the fine points of the merchandise they are selling, and who know how to meet customers. Careful and thorough training of salesclerks is necessary if the results desired are to be realized.

If the store has charge accounts, it must have a credit manager who knows how to extend credit wisely and how to collect accounts without offending customers.

The office work of a retail store includes the bookkeeping, correspondence, and files, together with any special records that may be considered desirable.

Wholesale Houses

Wholesale houses perform three useful functions: first, they act as middlemen between the manufacturer and the retailer; second, they perform, to some extent, a banking function for the retailer, through the extension of credit; and third, they make it possible for the retailer to replenish his stock quickly in relatively small "fill-in" lots.

The wholesaler's function as middleman is a benefit to the manufacturer, since it makes unnecessary the employment and direction of a large force of salesmen, with the consequent selling expense. The manufacturer can concentrate on manufacturing, not, however, to the exclusion of realizing the importance of advertising in keeping his product well known.

The longer credit terms extended by wholesalers to retailers are intended to make it possible for the retailer to get his goods and sell them before the bill comes due, thus making the goods

self-liquidating. The extent to which this ideal is attained depends upon the wholesaler's credit man, who must know not only credits but also retail merchandising, since all the firm's customers will not be A-1 merchandisers, and many of them will need help and coaching, encouragement as well as restraint.

Wholesalers usually sell from samples, which are always displayed in their sample rooms and which their salesmen may take with them to show the retail merchants on whom they call. Orders are taken to be filled later, depending upon the type of merchandise. Style merchandise is seasonal, and the "season's order" will be taken from 4 to 12 months in advance of the selling season. Staple merchandise may require prompt delivery —a matter of days. One food distributor has his salesmen call in the morning and deliver in the afternoon; another carries the stock with him in the truck and makes deliveries as he takes the order. One handicap under which wholesalers struggle is the expectation of their customers that a telephone order for an item will be promptly filled. To do this means that the wholesaler must carry the stock that the retailer otherwise would. In one sense, this is another way in which the wholesaler finances the retailer.

Service Businesses

Service businesses such as laundries, filling stations, hotels, restaurants, and garages, have their peculiar problems, which are complicated by the fact that the customers are inclined to be critical and employees indifferent. Small wonder that the manager of a service business sometimes feels as if he were walking a tightrope. His balancing act includes trying to satisfy customers, to keep employees interested and on their toes, and withal to keep expenses down or at least within reasonable limits. Sometimes he succeeds.

Governmental Enterprises

The administration of governmental enterprises is not the hit-or-miss affair that it perhaps was once. Between the Brookings Institution and the American Council on Public Affairs, considerable attention has been given to the functions, the

organization, and the management of governmental enterprises. Many excellent manuals have been prepared by administrative analysts, which could well serve as models for private businesses. Definite objectives are set up, and an organization established to carry them out, with written standard practice instructions.

One of the advantageous features of governmental administrative work is at the same time, perhaps, a disadvantage. Each year there is set up a budget for carrying on the work of the unit concerned. Once the budget is established and approved,

A Smoothly Operating Organization
will have

1. All functions and departments—
closely meshed
2. All activities—
properly coordinated
3. Duties of individuals—
clearly set forth
4. Reporting relationships—
unmistakably defined
5. Supervision—
adequately provided for

(*From "Net Results," published by H. A. Hopf and Company, Management Engineers*)

the work can be planned and carried on without let or hindrance. But since the size of the budget and its approval are affected to some extent by political considerations, there is not always assurance that work carefully done during one budget period will not be undone in some later period. There is not the same incentive in public administration that there is in private business; at least it is of a different kind. The continuance of any feature in a private business depends upon the value contributed by it to the business. The continuance of a feature in public affairs depends more upon the political weather than upon the intrinsic merit of the work and its contribution to the welfare

of the people whom it serves. This is unfortunate, but too often true, and is seen in governmental operations of all kinds and sizes, from a small town-owned public utility to huge Federal bureaus in Washington.

The Main Features Are the Same

To appreciate all the differences in the organization structure of all types of enterprise, one would need to examine the excellent compilations and studies of organization charts that have been made by competent analysts. The complications of some organization structures are amazing; the simplicity of others is equally so. But in the final analysis the whole problem of organization structure simmers down to the plain facts stated earlier in this chapter: employees to do the work, supervised and directed by a manager who is held responsible for the success or failure of the function of his unit.

Questions for Discussion

1. Do you think Brown's idea was a good one? Why or why not?
2. Why do you suppose Brown did not do so well on his first trip canvassing?
3. Why do you think he was soon selling more than he could make?
4. What did he and Mrs. Brown plan to do?
5. What happened to disrupt his plans?
6. When Brown decided he just had to hire someone to help him, what was his first problem?
7. What was the main objection to hiring someone to make the sausage while Brown called on customers? Comment on this situation.
8. What was the main objection to hiring someone to call on customers while Brown stayed home and made the sausage? Comment on this situation.
9. Do you believe that a large business has the same hiring problem in this respect as a small business? Why or why not?
10. What is this problem?

11. "The founder of a successful business is usually many-sided." Explain.

12. How does a captain of industry get results?

13. What did Brown finally decide to do?

14. How did he go about breaking in Emma Smith? Explain in full detail, step by step, and give the reasons for each step.

15. Why do you think Brown was so successful in the way Emma turned out?

16. What do you think was back of Alice Kenyon's success in the office?

17. How did Brown gradually work himself out of a job?

18. Why did Brown's employees like to work for him?

19. The text mentions four points that contributed to Brown's success. Name them and comment briefly on each.

20. What might Brown have done instead of what he did do? With what results?

21. What was back of the clothing manufacturer's statement about closing his doors?

22. What four points summarize our discussion of organization for work in this chapter? What is the significance of each point?

23. Define or explain organization.

24. When is good organization present?

25. Define or explain supervision.

26. Why should supervisors be trained?

27. Define or explain control.

28. Do you really believe that a man who can run a small business successfully can manage a large one equally well? Explain.

29. Do you believe that the principles of organization and management are the same for the large business as for the small one? Explain.

30. Explain departmental organization.

31. Why are not all departments of a business the same size?

32. Comment on the department head and his responsibilities.

33. What do the general officers of a business do?

34. "Business activities are carried on largely by persons who work under the direction and supervision of other persons." Comment on this statement.

35. "There is a best way of doing any kind of work." Comment.

36. Why are managers needed in a business? or in any kind of work?

37. In what nine ways may executive leadership be manifested?

38. Comment briefly on each of the nine items given in your answer to question 37.

39. To what may the difference between the success of one organization and the failure of another, both in the same business, be ascribed? Comment briefly on this.

40. "The main structure of every business is the same as that of every other business." What is meant by this statement? Do you believe it? Why or why not?

41. If the above statement is true, what are the main differences, if any, between different businesses? Illustrate your answer.

42. "An independent merchant, who knows the technique of merchandising, can meet chain-store competition on its own ground." Do you believe this statement? Why or why not?

43. Why are chain stores usually successful? Or are they?

44. What is the Robinson-Patman Act?

45. Upon what factors does success in retail merchandising depend? Illustrate your answer.

46. What are the three functions of a wholesale house?

47. Which of the three functions mentioned in your answer to question 46 do you think is the most important? Why?

48. Why should the wholesale credit manager know retail merchandising as well as credits?

49. Comment on the methods used by wholesalers in different lines to sell their goods.

50. What are some of the problems of service businesses? Can you give some illustrations of these problems, selected from some service business with which you may have had some contact?

51. Why has the administration of governmental enterprises improved?

52. Compare the effect of a budget upon governmental enterprises, with its effect upon private enterprises.

Topics for Special Reports

The following suggestions for carrying out student assignments will be found helpful in two ways: first, they show the students how to apply to their own problems of organization the same principles of organization for work that apply to all management problems: second, they may well be used in carrying out many of the assignments in the other chapters in this book.

1. Let five students work together on this problem, each student being held responsible for some definite part of it. In determining which five students shall work together, select those whose interests are similar. Let the group meet as a Committee on Office Jobs and organize by selecting a chairman and a secretary. The chairman's duties are to call meetings of the committee, to preside over them, and to assign to each member of the committee the part of the work that he is to do. The duties of the secretary are to take minutes of the meetings and to receive and hold the material collected by the members until it is finally turned over to the instructor. Both chairman and secretary are to carry out assignments, the same as any other member of the committee.

The object of the committee is to find out and make a report on the office jobs that exist in the locality (not only those that may be open, but *all* office jobs).

To get this information, determine in a committee meeting which concerns shall be visited and then assign to each member of the committee the offices that he is to visit.

Have it clearly understood by each member the information he is to get, as follows:

Name and address of the concern
Name of the office manager
Name of the employment manager
Approximate number of office workers now employed

Titles of all the office positions in the office. (Some concerns may be willing to state the salary of each job, but it must not be expected that every concern will do this.)

Approximate ages of the workers in each job listed (at the time the survey is made).

When the complete assignment has been given to each member of the committee, set a day and time for the next meeting, when each member will report what he has done.

After all the information has been collected, then it should be analyzed and tabulated in three ways:

First, by companies, alphabetically arranged by company names;

Second, by companies, alphabetically arranged by the kinds of business;

Third, by jobs, alphabetically arranged by job name and showing for each job how many jobs there are in each company.

a. What is the object of this problem? (To determine the object of any procedure, consider what you are expected to have accomplished when the work is all done.)

b. What organization is set up to attain this object? Why?

c. Notice that the principal functions of sound organization methods are brought out in this problem. Four of these organization functions are

(1) Determining the object to be accomplished

(2) Selecting the people who are to do the work

(3) Assigning a definite task to each member of the group

(4) Following up the individual assignments

Question: Show how each of these four functions is to be carried out in this problem.

d. What obstacles to the collection of the desired information are the members of the committee likely to encounter?

e. How would you meet these obstacles to try to overcome them? (Remember that there is always a way over, under, through, or around any obstacle.)

2. The preceding assignment covers office positions only. There are also many employees in other positions, such as sales, factory, or service. Separate committees may be appointed to secure for these positions the same information as for office

positions in topic 1. If more than one committee is appointed, care should be exercised to see that the committees do not work at cross purposes; that is, their efforts must be coordinated. This may involve having a "coordinating committee" made up of, say, one member from each committee and one student who is not on any of the other committees and who will act as chairman of the coordinating committee.

3. Select a local concern with a reputation for being well organized and well managed. Call upon the general manager and ask him how he keeps things running so smoothly. A good way to prepare for such an interview is to jot down ahead of time the points that are to be covered, in case the manager should overlook some. Calls are best made by two students together, each supplementing the other. Their report to the class should be a joint report, with such additional statements as each might like to make, with which the other is not necessarily in agreement. After the report has been made to the class, the class should have the privilege of questioning the reporters. A comparison of findings on a number of concerns may be made by assigning as many two-student groups as is desired. Students should remember that what they are trying to do is not so much to get the "low-down" on each concern as it is to ascertain the principles and methods of the concerns visited.

4. The report on topic 3 is concerned with entire businesses. The range can be reduced by limiting the report to a department in a business. Ask a general manager to let the two-student committee interview one of his department heads who he thinks has his unit well organized for work.

5. *a.* Find out how many chain-store organizations there are in the United States and how many units (*i.e.*, stores) are thus operated.

b. Divide the number of chain-store organizations into fields, such as foods, automotive, and dry goods, showing how many organizations are operating in each field and the number of units thus operated. Why should there be so many more of one kind than of the others?

6. See if you can find any fields of distribution in which there are no wholesalers. What explanation can you give for what you find? Be sure to give your sources of information.

7. Make a comprehensive list of all the service businesses you can find. Ascertain how many of these are owned by individuals, partnerships, or small corporations, and how many are owned by chains or by large operators. From these figures, what reasonable conclusions would you draw as to

a. The size of service businesses generally?

b. The geographical distribution of service businesses?

c. The number of individuals owning, operating, or employed by service businesses?

d. The possibilities of service business for an individual to enter?

8. List as many businesses as you can find that are owned or operated by the United States government, directly or indirectly. Examine the list carefully, and then state why you think the government is operating these businesses instead of letting them be operated as private enterprises.

Problems

1. In a certain medium-sized corporation, the controller is independent of everyone except the board of directors, to whom he is directly responsible. Steps are being taken to make him responsible to the treasurer, who is responsible to the president, who is in turn responsible to the directors. A number of considerations present themselves, such as the advisability of the proposed changes, whether some other arrangement might not be better, and how to bring about whatever change is ultimately decided upon. Let one student represent the treasurer, another the president, and a third the controller himself. Let each draw up a statement, setting forth the reasons why the change should or should not be made, as the case may be. That is, the president and the treasurer want the change made, while the controller does not. When all the participants have their statements ready, let a fourth student act as chairman of the board of directors, to preside impartially and to keep peace while the interested parties present their arguments. The rest

of the class may act as the board of directors, with the privilege of asking questions of each participant, *after* he has presented his formal statement.

2. After 12:00 P.M. in a certain building there are only two men; the night telephone operator and a watchman. The watchman is required to keep the fires going, stoke out clinkers, carry coal, and carry out ashes on a hoist, besides making his rounds as watchman. He frequently misses his rounds because of the other duties. The company subscribes to a protective service, which calls the operator when the watchman fails to punch his clocks on time. If the operator cannot reach the watchman, the detectives race out to the plant from the city and start an investigation which is not very pleasant. What should be done? There are at least three possible solutions to the problem; there may be more.

3. In a small, family-owned and-operated neighborhood grocery store, the father, mother, and son tend store. The father gets along well with the older customers but not so well with the little children. The mother and son get along all right with the children who come in to the store to buy. What suggestions can you make that will help ensure all customers being properly served? Give your reasons.

4. A garage owned by two partners provides live storage for its customers' automobiles, which it also services. The garage sells gasoline, oil, tires, and accessories to the public, and advertises a repair service for all makes of cars. Besides the two partners, both of whom are skilled automotive mechanics, there are four competent mechanics, one porter, and two helpers who dispense gas and oil and check tires and water. In their anxiety to give the best possible service to their customers, each partner feels responsible for everything that is done. As a result, there are frequent disagreements, each partner issuing orders that often conflict and are embarrassing to both customers and workmen. What steps would you suggest to organize this garage for work without conflict? Give your reasons.

5. In a large retail department store which does a credit business, the money is slow in coming in because the bills do not go out promptly. Each department of the store is responsible

for its own billing. What suggestions would you make to remedy the situation? Give your reasons.

6. The sales department and the credit department of a manufacturing company are continually disagreeing with each other. The sales department claims that its lessened sales are due to the slowness of the credit department in passing on orders. What do you suggest should be done? Why?

5

Organization for Finance

IN ORDER to continue operation, a business must take in enough money to pay expenses and to replace worn-out or obsolete plant and equipment. If it is also able to show more money received than was paid out, it will be able to increase the scope of the business as such increase is justified or called for, and it can reimburse those persons who put their money into the original venture in the hope of getting a greater return on it than they would from ordinary savings-bank interest. The usual term for this kind of money is "venture capital," without which many businesses would never be launched, for lack of financial support.

From what has just been said, it is easy to see that the money management of a business is pretty important, whether it be called "finance," "money economy," or "financial management." The main idea is to see that money is available for the actual current requirements of the business and that at the end of the fiscal year there is on hand money which represents the earnings of the business and which, depending upon the form of ownership organization of the business, may be withdrawn from the business by the proprietor, divided among the partners of a firm, or distributed as dividends to the stockholders of a corporation.

Money Has Wings

The advantage of using the term "money economy" lies in the connotation of the term "economy," which implies conservation. Anyone who has been treasurer of any organization, business or otherwise, is keenly aware of the incessant demand for money and of the necessity for extreme care lest

the organization's funds be dissipated. One dollar bill looks like every other dollar bill and has exactly the same purchasing power, but once it is spent it cannot be spent again; it is gone. This does not mean that money should not be spent, but that it should not be spent foolishly, carelessly, or unwisely. In business, the purpose of spending money is to bring about certain results; unless there is a pretty fair assurance that the results expected will be attained by the proposed expenditure, it were better perhaps to keep the money. It is not necessary to adopt the traditional policy of a certain New England Yankee, of whom it was said that he never let go of a dollar unless he knew it would come back bringing another dollar with it. And yet there is the germ of an important idea in the story.

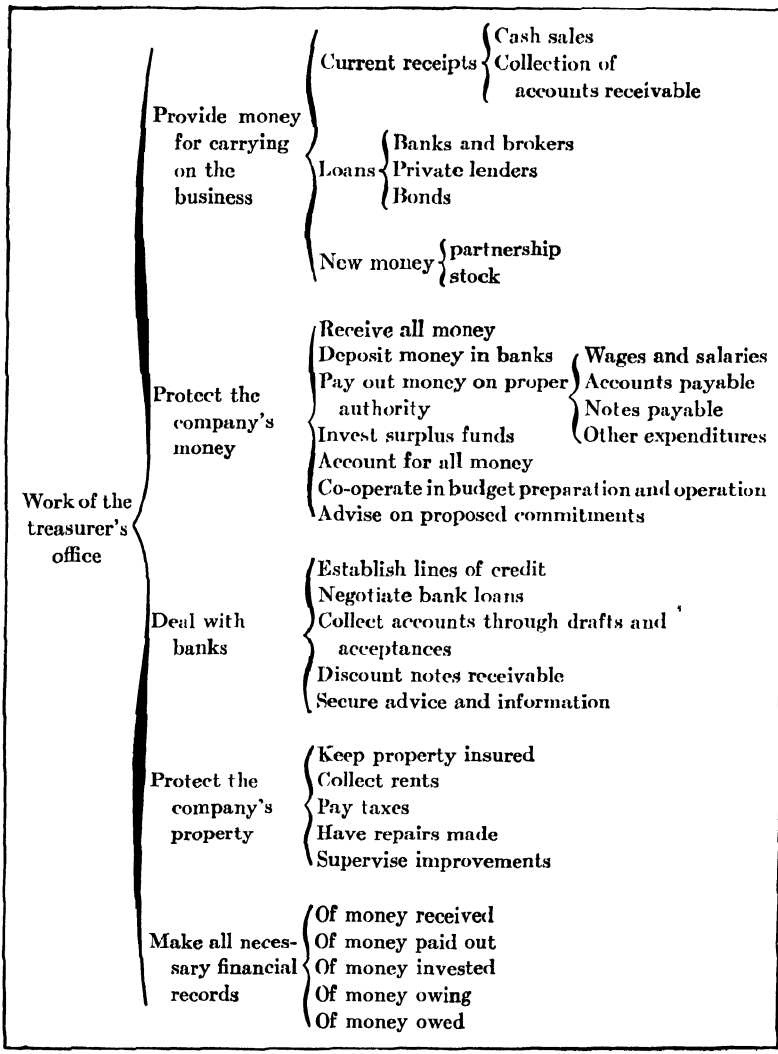
Benjamin Franklin, through his mouthpiece, Poor Richard, had this to say about the value of money, after stating that the road to wealth was as plain as the road to market: There are three ways to learn the value of a dollar: earn it and see what you give for it; spend it and see what you get for it; borrow it and see what you pay for it.

What Financial Management Involves

Financial management, obviously, is not a single function. It involves the procurement of money; the custody of money, to conserve it; and also the use of money to make money. All three functions are important. In a large company they are seldom combined in one man. As the burden is too great for one individual, it is divided. In a smaller concern, of course, one man carries the responsibility.

The treasurer's function is primarily the collection of money owing the company, the custody of the company's funds and other property, and the disbursement of money on proper authority. Functionally, none of these duties includes borrowing or budgeting or money management; yet, as the man who is responsible for the protection of the company's money, the treasurer is usually in on all conferences involving money. That is probably why the corporation laws of some states require that the treasurer be elected by the stockholders, although the president and other officers are elected by the directors.

In a small concern, the treasurer may be responsible for all the functions mentioned in the preceding paragraph. In a large



All the functions shown here are present in every concern—whether the concern be large or small.

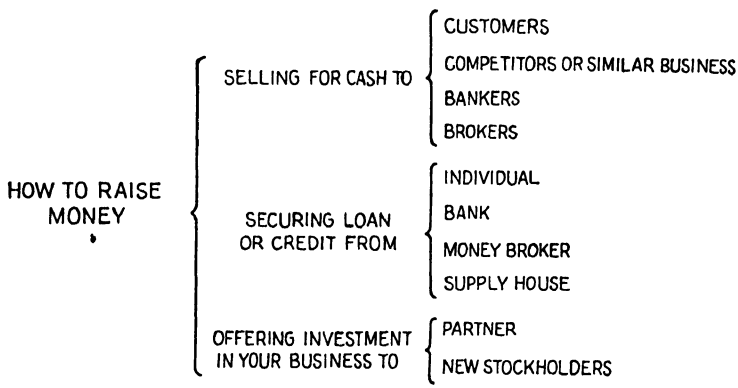
corporation, a finance committee of three or more members of the board of directors takes the responsibility for money

procurement and money management. Sometimes the executive committee of the board handles this responsibility.

Let us consider the procurement of money first.

Money Procurement

Without money a business cannot run. This fact seems so obvious that it should not need to be stated, but it is surprising how many concerns start business with insufficient capital and are handicapped for lack of money, although there are outstanding exceptions to this experience, as stated later. Hence, the first step in starting business is to provide the capital; as the business expands, new capital may be necessary, unless the expansion can be financed out of profits or surplus, which is almost always the soundest, even if the slowest, way.



The original capital of a corporation is always provided by the sale of stock or bonds or shares. In a partnership the partners furnish the capital. One partner may furnish the money and the other the experience. The partner who furnishes the money often acts as treasurer, so that he may see that the money is spent for the purpose for which it was obtained.

Stocks vs. Bonds

The differences between stocks and bonds have been explained in Chap. 3. Our present concern is with the choice of stocks or bonds for providing capital. A number of considerations should be taken into account. First, probably, is the "market," that is, which of the two is easier to sell at the time.

There are times when investors prefer stocks, and times when they want bonds. The treasurer or finance committee is expected to keep continually posted on the market, so as to know what to do.

Another consideration is the resulting relationship to the company of the purchasers of its securities. A stockholder, though an owner of the corporation, has no voice in the management, except a vote at the stockholders' meeting. In addition, the company is under no obligation to repurchase the stock of a stockholder. Furthermore, unless the charter provisions for the stock to be sold provide for a stated dividend, the corporation need not pay dividends if they are not earned; even if they are earned, dividends need not be paid if the directors decide not to. The judgment of the directors as to the declaration of dividends is final, and there is little that minority stockholders can do about it, although there have been a few instances in which the courts have ordered the payment of dividends where the directors were proposing to spend the large earnings in ways that would benefit neither the corporation nor the stockholders. Many years ago, for example, the directors of the Ford Motor Company, out of a profit of some $60,000,000 on a capitalization of $2,000,000, declared a dividend of 60 per cent, or $1,200,000, leaving $58,000,000 which the directors proposed to reinvest in the business. The court ordered the payment of a dividend of some $19,000,000, declaring that what the directors proposed to do was not an "act of discretion" on their part, but an "arbitrary refusal to do what the circumstances required to be done."

Consider Dividend Requirements

The advantage of selling stock on which dividends need not be declared regularly is that the funds of the company will not be depleted by the payment of dividends when it is desirable to conserve the company's cash because of uncertain or unfavorable business conditions. On the other hand, the lack of assurance of regular dividends may make the sale of the stock difficult.

The issuance of stock bearing a stated dividend rate, as most stocks do, and especially if the dividend is cumulative as

many preferred stocks are, calls for the regular payment of dividends, if earned, usually four times a year. Since such payments bear no relation to the irregular money requirements of the business for the purposes of the business, they merely serve to complicate the task of providing enough money to take care of both requirements. With many preferred stocks, even when the dividend is cumulative, the dividend need not be paid if not earned, the amount of the unpaid dividends simply accruing from one period to the next. There have been cases where the accrued dividends on preferred stock have amounted to more than the par value of the stock itself.

How to Stabilize Financing

1. Determine requirements for a period ahead by long-term planning
   a. Working capital for labor and material
   b. Business capital for development and expansion
2. Do not depend permanently upon bank credit for purposes other than short-term loans for current working capital
3. Raise needed fixed capital requirements by stock or bond issues, whenever reasonably advantageous
4. Invest surplus in short-term commercial paper or good bonds, rather than as call money or for purely speculative purposes

(*Adapted from the McGraw-Hill Platform for American Business*)

The disadvantages of issuing stock with a fixed dividend are augmented with bond issues. Although bonds do not have to be repaid for a number of years, the interest does, and a default in the payment of interest, which is customarily due semiannually at a fixed rate, gives the bondholders certain stated rights of action against the corporation, depending upon the terms of the indenture. If the bond is a collateral bond (so called

because it is secured by the deposit of "collateral," *i.e.*, other stocks and bonds), or if it is a mortgage bond, the bondholders may be able to foreclose on the corporation's property that was mortgaged to provide security for the payment of principal and interest. Furthermore, the principal of the bond must be repaid at some definite time, when the bondholders can demand payment under penalty of foreclosure.

Must Follow Government Regulations

A third consideration in determining how to provide capital for a corporation must take into account the regulations of the Securities and Exchange Commission, a federal body authorized by Congress to regulate the issuance and trading in of stocks and bonds. These regulations set forth certain very definite requirements which must be rigidly complied with in order to avoid personal criminal liability.

Bank loans are generally considered unwise as sources of original and additional permanent capital, for reasons to be disclosed shortly.

As a side comment, it may not be out of place to mention the fact that many businesses that are now substantial started with very little and apparently inadequate initial capital. Among these may be mentioned Eastman Kodak Company, Ford Motor Company, Standard Oil Company, Carnegie Steel Company, Marshall Field & Company, Gimbel Brothers, R. H. Macy & Co., and many others in various fields. Apparently this initial disadvantage seemed to develop the initiative and resourcefulness of the founders and taught them the real value of capital and credit. Even so, it should not be forgotten that of all the business failures in the United States, just as many—nearly one-third—are due as much to the lack of capital as to incompetence in management.

Money for Current Requirements

After a company has started business, its money requirements are continuous for goods, wages, and the other expenditures of a going concern. Everything a business does results in money coming in or going out and in property being bought or

sold; the sales department is trying to sell all the goods it can, and the purchasing department is trying to buy what is needed when it is needed. The treasurer must pay the bills incurred by the purchasing agent, must protect the materials the purchasing agent has bought, and through the credit department must collect the money for the goods the sales department has sold.

These numerous transactions require proper records and constant supervision, lest money be wasted and property dissipated. The accounting department handles most of the bookkeeping connected with some of these duties, and the cashier handles the cash, acting for the treasurer in doing so. But the responsibility rests with the treasurer, who is constantly on the watch to see that the company's property is at all times conserved.

Since many of the treasurer's duties are usually outlined in the by-laws of the company, it may help you to get a set of corporation by-laws and study them carefully.

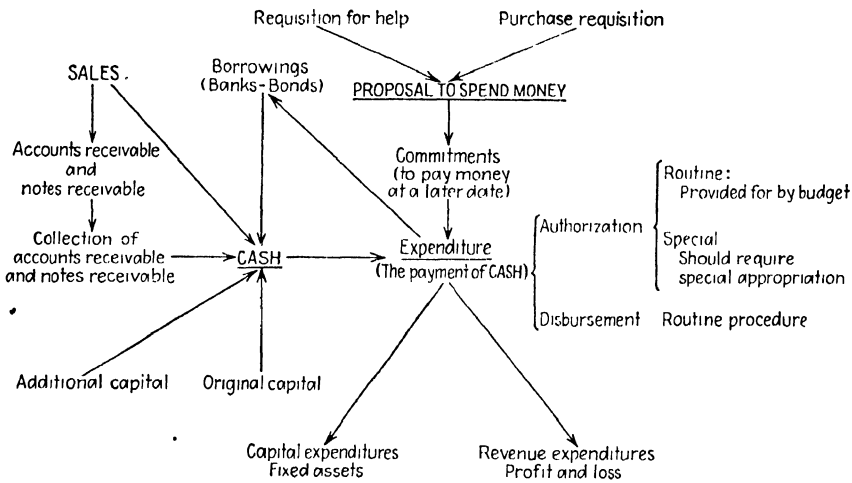
An Important Point

The treasurer or finance committee is expected to see that enough money is available to pay every obligation when it is due. This money, except for initial capital and subsequent expansion—and sometimes even for these—should come from cash sales and from the collection of accounts receivable, which result from charge sales. This reliance upon cash received from sales shows how important it is to make enough sales so that money from that source will be coming in all the time. It also shows the necessity of keeping expenditures within the cash received from sales.

Why Cash Position Is Important

Under the Uniform Sales Act, which is a state law governing sales of personal property over a stated amount, a concern that is no longer able to pay its bills in the ordinary course of business or as its debts become due, is said to be "insolvent," a situation which may lead to bankruptcy if money is not quickly forthcoming. If insolvency continues for even a very short time, the concern will probably go out of business, since its employees

cannot be expected to work for nothing, and other concerns will not sell it goods for which they are not paid. A treasurer, therefore, who can keep his "cash position" good, that is, have money for the requirements of the business and for emergencies as well, is said to be a good money manager.

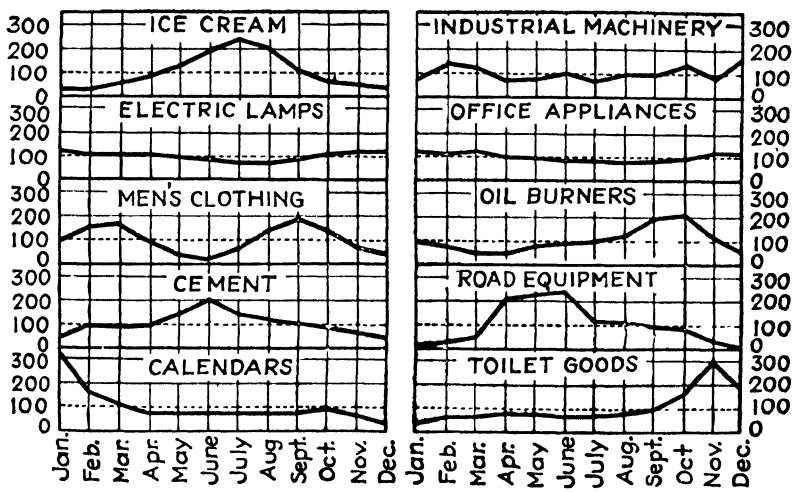


Although there is no limit to the ways in which money may be spent, there is a very definite limit to the sources of money—hence the necessity for control. Control of expenditures does not begin and end with the assurance that the expenditure was properly authorized. Rather does it go clear back to the request for the authority—to the time when some department head asked for an additional clerk or someone wanted to buy a new gadget. To the treasurer, these are all the same: *proposals to spend money.* The time to control expenditures is when the "proposal to spend money" is made. Afterward is too late; the commitment has been made. The main source of cash should always be from sales; all other sources should be regarded as temporary expedients to be resorted to only when income from sales is at the moment insufficient for immediate cash requirements, and not even then without thoughtful consideration of the consequences. Money borrowed must be repaid. Capital should not be wasted but conserved. Whenever a proposal to spend money is presented to the treasurer, his first question is, "Is it necessary?" followed by, "Can we spare the money?" and then, "If we make this commitment, what shall we have to do without?" That is why we have treasurers—to look after our money.

A few concerns have steady business throughout the year; that is, their sales are about the same month after month. If such concerns have prudent financial management, their cash receipts will take care of all normal requirements, and it will seldom be necessary to seek new capital.

Seasonal Fluctuations and the Treasurer

The business of most concerns, however, is seasonal. A summer hotel, for instance, is a highly seasonal business, concentrated into a few summer months. Such a hotel does no business in the winter at all. The ice business is seasonal, with a lively demand in the hot season and little, if any, in the cold months. Coal and other fuels are in demand in the winter and



Courtesy of Sales Managemen

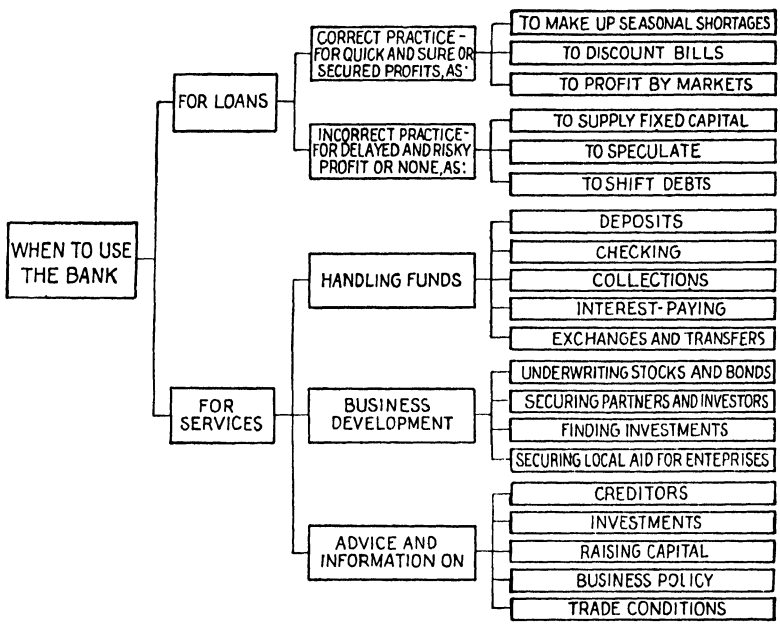
This chart, showing average sales of certain manufacturers by months, reveals when their busy seasons are.

not in the summer. That is why you often see the iceman selling coal in winter.

The businesses just mentioned are highly seasonal. Other concerns may also be seasonal, though not to the same extent. The men's clothing business formerly had two seasons, spring and fall; summer and winter were dull. Easter was the big season; it still is, but the growing custom of wearing lightweight suits in summer is helping to create a third season in the clothing business.

The significance of seasonal business to the treasurer is that during the dull season his concern may not be doing enough business to bring in much money. Yet the trained employees have to be carried through the dull season, and materials have

to be purchased. Builders of apartment houses and office buildings have to buy materials and pay their help, sometimes as long as a year before the building is finished and rented.



BORROWING FROM A BANK

To provide money during the dull seasons, the treasurer resorts to borrowing. He or the finance committee arranges with the bank to lend the company as much money as is likely to be needed. Suppose, for example, the treasurer thinks $50,000 will be enough; a "line of credit" is arranged with the bank up to $50,000. That is, the bank will lend the company up to that amount, usually in a number of smaller loans ranging from $5,000 to $15,000 each, as the treasurer requires the money. The total of the loans made in this way might average $35,000; at times it will be down to $5,000 or entirely cleared up; at other times the total may reach the limit of $50,000. All the treasurer does is to borrow what he needs from time to time.

Three requirements, however, the bank usually imposes. The first is that no loan shall ordinarily run for more than 90 days; that is, the treasurer is expected to pay every note within

90 days from its date, even though, as often happens, he pays it by giving another note. The second requirement is that once

$ 3000.00 CAMBRIDGE, MASS. March 6 1940

Ninety days after date, for value received, we promise to pay to the **Harvard Trust Company,** or order, at its place of business Three Thousand Dollars, with interest at the rate of 5 per cent per annum, payable in advance; having deposited with said bank as general collateral security for the payment of this and any other liability, direct or indirect, joint or several, of the undersigned already existing or which may hereafter arise in favor of said Bank or the holder hereof the following, viz.:-

Fifty shares American Tel. and Tel. Co.

We hereby certify that we have full right to pledge said collateral, and we agree that we will not substitute or deposit other collateral unless we have full right to do so. Full power and authority is hereby given on the non performance of this agreement or on the non payment of this or any other liability due to said Bank or to the holder hereof, or at any time or times after such non-performance or non payment to sell, assign, transfer and deliver all or any part of said property or any property added to or substituted for the same or any part thereof, at any Brokers' Board, or at public auction or private sale without notice to the undersigned or any other person, and the said Bank or any holder hereof may purchase at any such sale and thereafter hold the securities so purchased as the purchaser's own property absolutely free from any claim by us.

SAMPLE

Should the market value of the securities hereby pledged or which may hereafter be pledged for this loan depreciate in the opinion of the said Bank or of its President, any one of its Vice-Presidents, or Treasurer, or of any holder hereof, the undersigned hereby agree to deposit forthwith such satisfactory additional security as that the market value of the collateral according to the public quotations, in the opinion of said Bank or its President, or any one of its Vice-Presidents, or Treasurer, or any holder hereof, shall always be at least 20 per cent more than the amount of this note.

In case we fail to deposit such additional security, or in case a petition in bankruptcy is filed by or against us, or in case a receiver is applied for to take charge of our business, or in case we make a general assignment for the benefit of our creditors, or in case we sell out our business, or any one of our partners withdraws from our firm, or in case our authority to pledge any of the securities held as collateral be denied, or in case of the non performance of any of the promises or obligations herein set forth, this note shall become due and payable immediately without notice, anything hereinbefore expressed to the contrary notwithstanding, and said Bank or the holder hereof may immediately sell the collateral as herein authorized.

Said Bank or any holder hereof may pay all taxes, charges, assessments, liens or insurance upon any or all of the said collateral and may otherwise protect the value of said collateral or any of it and may charge against us and against the collateral or any of it, all the expenditures so incurred, but the said Bank or any holder hereof shall be under no duty or liability with respect to the protection or collection of any security held hereunder or of any income thereon or with respect to the protection or preservation of any rights pertaining thereto beyond the safe custody of said collateral.

No delay on the part of the said Bank or any holder hereof in exercising any rights hereunder shall operate as a waiver of any right under this note.

In case of any sale or other disposition of the whole or any part of the securities held as collateral, the Bank, its President, any one of its Vice Presidents, or Treasurer, or any holder hereof, shall have the right to apply the proceeds of such sale or disposition to the payment of all legal or other cost and expenses of collection, sale and making good delivery, and of all expenses incurred in protecting the security or the value thereof, or of the rights of the said Bank or holder hereof, including attorney's fees incurred in the exercise of any authority, power or right; and may apply the residue of such proceeds to the payment of this note, or of any then existing liability, to the said Bank or any holder hereof whether then payable or not, returning the overplus to us or to our legal representatives; and in case of any deficiency we agree to pay the said Bank or any holder hereof the amount thereof forthwith.

John H. Lind

309 Newbury Street
Boston, Mass.

Due June 4, 1940

CMC-5-35-2M Form 28

Courtesy of Harvard Trust Company

This is a collateral note, so called because stock is deposited as security. See how carefully the note is worded.

a year, at least, every note must be "cleaned up," so that the concern owes the bank nothing. To be able to do this may require making a loan at another bank, but that is common

Elementary Principles of Finance

1. Bank loans ordinarily are made for short periods of time, such as 30, 60, or 90 days, seldom for more than 4 or 6 months. Capital for permanent use is usually provided by the sale of stocks and bonds.

2. Loans that run for a stated time are called "time loans."

3. When a bank lends money on demand, no definite time for repayment is fixed, but the note must be paid upon demand.

4. Banks usually expect a borrower to deposit marketable stocks or bonds as security for the repayment of a loan; the security thus deposited is called "collateral," and the loan is called a "collateral loan."

5. If a collateral loan is not paid when due, the lender may sell the security.

6. On collateral loans only one signature is usually required by the lender.

7. On loans without collateral, the bank often requires two or more signatures.

8. The signer of a note is called the "maker."

9. If two persons sign a note, each is held liable for the full amount. If, however, one man signs the note and another man endorses it, the endorser is liable only in case the maker does not pay.

10. Each additional endorser on a note is responsible only in case the maker and preceding endorsers fail to pay.

11. A note signed by a partnership firm may be collected from any partner.

12 A note signed by a minor cannot be enforced against him.

13 If a man carelessly signs a note which he thinks is some other paper, he is liable, in the absence of fraud.

14. A man who cannot write can sign a note by making his mark.

15. A note given by a man who cannot write should be witnessed.

16. A note written with a pencil on a scrap of paper is good, but few people would care to take a chance with it, since it is easy to alter.

17. A note with a forged signature cannot be collected from the maker named, even if it is in the hands of an innocent purchaser.

18 If partial payments are made on a note, they should be noted on the back of the note, with the dates of payment.

19. If neither interest nor principal is paid for several years, the note may be outlawed. The time for outlawing a note varies according to the state laws; it is usually 6 years after the due date.

20 If a note is not canceled and delivered to the person paying it, he might be forced to pay it a second time.

21. A note does not carry interest before maturity, unless it so states on the face of the note.

22. The legal rate of interest varies from state to state, ranging from 5 to 8 per cent. Some states permit higher rates, especially on loans under $300 where repayment is to be made in installments; usury is charging a higher rate of interest than the state law permits.

23. In some states the interest is forfeited if usury is proved.

24. In some states both principal and interest are forfeited by usury.

25. Some states have no usury laws and no penalty for usury.

business practice. Seldom is a business that borrows entirely cleaned up at all banks at the same time. The third requirement is that the treasurer shall leave 20 per cent of the amount of the loan on deposit in the bank as a daily balance.

Always Take All Cash Discounts

Bank loans are often made to permit a concern to take cash discounts on its purchase invoices. Suppose that a concern, by paying an invoice for $3,000, can take 2 per cent cash discount on that invoice; this would amount to $60. If the treasurer hasn't $3,000 readily available for that purpose but will have

Cash Discount Rates and Equivalent Annual Interest Rates

½%	10 days—net 30 days	= 9% per annum
1%	10 days—net 30 days	= 18% per annum
1½%	10 days—net 30 days	= 27% per annum
2%	30 days—net 1 months	= 8% per annum
2%	10 days—net 60 days	= 14% per annum
2%	30 days—net 60 days	= 24% per annum
2%	10 days—net 30 days	= 36% per annum
2%	40 days—net 60 days	= 36% per annum
2%	70 days—net 90 days	= 36% per annum
2%	10, 30X days—net 60 days	= 36% per annum
2%	10, 60X days—net 90 days	= 36% per annum
3%	10 days—net 4 months	= 10% per annum
3%	30 days—net 60 days	= 36% per annum
3%	10 days—net 30 days	= 54% per annum
4%	10 days—net 4 months	= 13% per annum
4%	10 days—net 60 days	= 29% per annum
5%	10 days—net 4 months	= 16% per annum
5%	10 days—net 60 days	= 36% per annum
5%	10 days—net 30 days	= 90% per annum
6%	10 days—net 4 months	= 20% per annum
6%	10 days—net 60 days	= 43% per annum
7%	10 days—net 4 months	= 23% per annum
8%	10 days—net 4 months	= 26% per annum

(Courtesy of National Association of Credit Men)

This table definitely answers any question as to the desirability of taking cash discounts.

it within the next month, say, he borrows that amount from the bank for 30 days at the prevailing rate of interest. When the 30 days are up, the treasurer pays the note, and the company has a clear profit of the difference between the discount on the invoice and the interest paid the bank. That the taking of cash discounts on all purchases is an important indication of good money management, as well as good business management, can be appreciated when it is realized that a cash discount of 2 per cent 10 days is the equivalent of 36 per cent a year.

In the course of the year a concern may secure several loans from its banks; the treasurer is usually the man who negotiates them and watches the due dates to see that each loan is repaid promptly. Either he or the members of the finance committee keep the firm on cordial relations with the bank.

Cash from Notes Receivable

In some lines of business, and occasionally in all lines, a customer may pay his bill by giving his promissory note for 30, 60, or 90 days. Where goods are sold on the installment plan, notes may run for 2, 3, or even 5 years in the absence of statutory limitations. If the treasurer waited until all these notes were due, the company would have a tremendous investment tied up in "notes receivable," as they are called. Instead, the treasurer may take the notes to the company's bank, or to a finance company or acceptance banker, and discount them. The bank lends the amount each note calls for, less the interest for the period stated. As the maturity date approaches, the bank notifies the maker of the note that his note is coming due and that he should be prepared to pay it on the due date. Of course, if the maker dishonors his note by refusing to pay it, then the treasurer will be under obligation to make good to the bank from his company's funds. Some concerns, with whom the closing of an account receivable by a promissory note is incidental and not usual, do not discount notes thus received but hold them until maturity, although they may still arrange to have notes collected through the bank as a routine procedure.

The Handling of Money

All money paid to a company passes through the hands of the treasurer or his assistants. A person whose duty it is to receive money is called a "cashier." If money is received at several points, the treasurer may have a cashier at each place, as in some retail stores and in branch offices.

For our purposes we shall consider that there is one cashier to whom all incoming payments are made, whether by mail or in person. Payments made in person are usually in currency, that is, bills and coins, although a few checks may be received. Payments made by mail are usually in the form of checks and money orders. Although currency is sometimes received in the mail, it is not a safe way to send money. Some concerns encourage the payment of small amounts by postage stamps, although the government frowns upon that practice.

Duties of a Cashier

In any case, the cashier has certain definite responsibilities in connection with every remittance received. The very first is to count the money to see that it agrees with the amount the customer says he is paying. The cashier notes this amount in pencil on the customer's bill or letter; many offices use a printing cash register. If there is a discrepancy, the customer should be notified at once, so that he may correct the error. Most underpayments are caused by the customer's deducting a discount to which he is not entitled; in such cases the cashier notifies the credit manager, who takes it up with the customer.

If the amount of money agrees with what the customer says he is paying, the cashier stamps the bill PAID with a rubber stamp and enters the amount of the payment on his cash received sheet, unless he uses the printing cash register, which lists each item as it is registered. If the customer did not enclose any memorandum with his remittance, the cashier makes out a remittance slip showing the customer's name and the amount paid. After the cash has all been entered, the cashier hands the remittance slips to the bookkeeper, who enters the payments in the accounts receivable ledger. The cashier then proceeds to

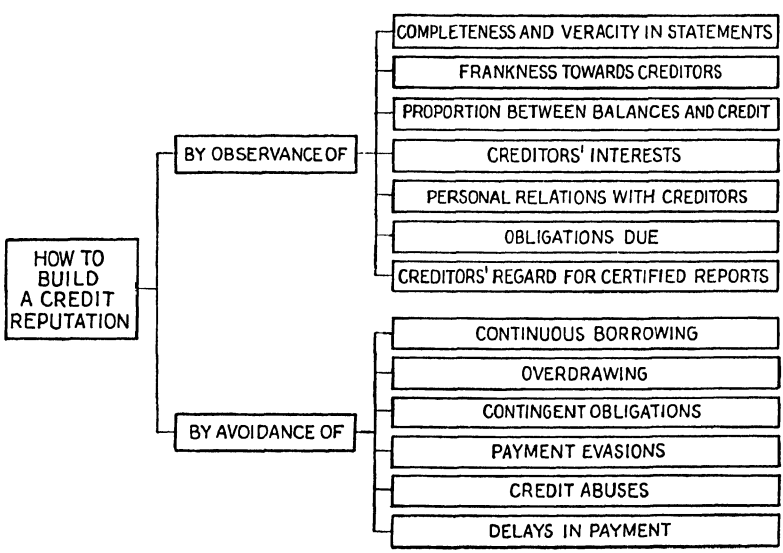
prepare the money for deposit in the bank, after which he or a messenger takes the deposit to the bank, where the teller enters the amount in a passbook, or, as preferred by some concerns, stamps a duplicate deposit slip and returns it to the cashier or messenger.

Petty Cash

In addition to the receipt and deposit of remittances, the cashier has to make occasional small payments from a petty cash fund upon presentation of a properly authorized order to pay. This order to pay is really a cash requisition, somewhat like a stock requisition. It has various names, such as currency voucher, cash charge slip, or petty cash voucher. The cashier is responsible to the treasurer for the safety and correct use of the petty cash fund.

Check Invoices before Paying

When a firm buys goods from others, it receives a bill or invoice for the goods purchased. This is checked to make sure



that the goods have been received and are what was ordered. The prices, extensions, and footings are checked for accuracy, the cash discount is computed and noted, and the bill is approved

How to Use Checks

1. Each month the bank renders a statement of your account, showing deposits made, checks paid, and the balance. Your canceled checks are returned to you at the same time.

2. A canceled check, when returned, bears the endorsement of the payee and should be saved as a receipt for the payment.

3. Personal checks are very satisfactory for making remittances, since they are easy to draw, easy to send, and the canceled check is a receipt.

4. For out-of-town remittances, however, some banks charge exchange on personal checks.

5. It is well, therefore, in sending or receiving out-of-town remittances, to use a check upon a New York bank.

6. Nearly every bank has connections, either directly or indirectly through other banks, with some New York bank. Your bank can therefore ordinarily accommodate you with a "New York draft," as it is called.

7. Another advantage in using bank drafts for out-of-town remittances is the avoidance of any possible delay in holding up an order until the check is collected.

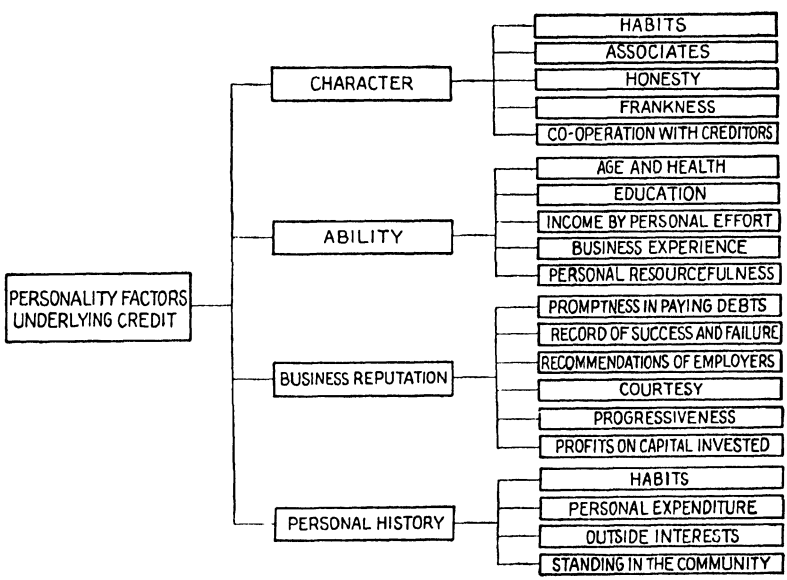
8. A certified check is a personal check which the bank has certified. It is good for the amount for which it is certified.

9. In dealing, therefore, with anyone whose credit or character may not be good or who is a stranger to you, you are justified in asking him to give you a certified check.

10. The maker of a certified check cannot have payment stopped on that check without going to considerable trouble.

for payment. Appropriate entries are made in the voucher register and the accounts payable ledger. The bill is either paid then and there or filed for later payment, depending upon the due date or the custom of the company.

Some concerns pay each invoice as the discount date approaches; others pay their bills at stated times each month, arranging with their suppliers to take the discounts accordingly. For example, if a concern pays on the tenth of each month all invoices received since the twenty-fifth of the preceding month, and on the twenty-fifth all invoices received since the tenth, it will deduct its cash discount of 2 per cent 10 days (or whatever the cash discount may be), even though bills dated from the twenty-fifth to the first are more than 10 days old, and those since the first less than 10 days old.



All bills of the concern are paid by or through the treasurer or his assistants, by checks on the bank. The treasurer is responsible for seeing that no payment is made that has not been properly checked, verified, and approved, and that checks are carefully drawn and duly recorded. Many companies require checks to be signed by two officers, frequently the president and the treasurer. Proper steps should be taken to see that the

How to Write a Check

1. A check is an order on a bank to pay out money on demand.

2. The one who signs the check is called the "maker" or "drawer."

3. The one to whom the check is payable is called the "payee."

4. Checks are usually made out on regular printed forms, but they may be written on any kind of paper if a blank check is not handy

5. Checks written in lead pencil are good, but it is safer to use ink.

6. Before writing the check, fill in the stub, showing the date, the amount, to whom payable, and for what the check is in payment

7. Then fill in the check with care, writing or printing plainly.

8. You may make the check payable to a named person, to bearer, to yourself, or to cash.

9 A check payable to bearer could be cashed by anyone holding it. If it were lost, the finder could cash it. The same is true of a check with the payee's name left blank.

10. Make your check payable to cash or to yourself if you wish to draw money from your own account.

11. The amount is stated in two places, once in figures and once in writing Write the amount plainly and carefully so that it cannot be changed in any way, shape, or manner

12 Do not change the amount, if you make an error Write a new check.

13. Make your figures plain and see that they agree with the written amount. If the written amount does not agree with the figures, the writing is considered correct.

14 If you write a check with gross carelessness and it is raised, you lose.

15. A check protector will help to prevent altering of the amount Large firms and banks always use check protectors.

16. Some check protectors perforate the check; others penetrate the paper, others use an indelible ink. The use of colored checks on prepared papers is an aid in detecting erasures or alterations.

17. Write your signature plainly, and write it the same way on all checks

18. After writing a check, see that it agrees with the stub in every way

19 Forgery is the alteration of any written instrument without the authority of the maker It is a serious crime and is always heavily punished.

20 If someone successfully forged your signature, the bank would be the loser if it cashed the check, unless you were grossly negligent

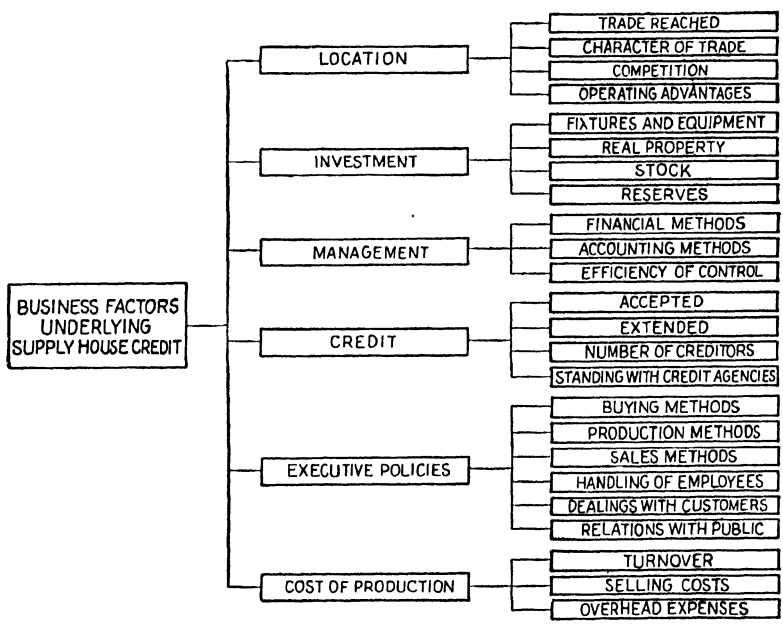
21 To draw a check on a bank when you are overdrawn is bad business, in some states it is a crime.

22 It is fraud to draw a check on a bank where you never had any deposit; in some states it is a crime.

same bill is not paid more than once—something that has happened in many concerns where the proper safeguards were not taken.

Bank Balance Requirements

Care must be used to see not only that the bank account is not overdrawn but that the daily balance is maintained at the minimum required by the bank. This minimum ranges from $200 in small cities to $50,000 in certain large New York banks. One bank, where the depositor kept a daily balance of $100,000 asked the depositor to increase the balance to $200,000, stating that the volume of the company's deposits and checks drawn was so great that although the daily balance showed $100,000, the time lag between the deposit of checks and their collection reduced the actual available balance to only a few thousand dollars, making the account unprofitable to the bank.



Many banks are doing away with the minimum balance requirement, substituting for it a service charge based on the activity of the account, Upon a fixed charge of 35 to 50 cents per month, called an "activity charge," there is built a total service

How to Cash a Check

1. Before the bank will pay a check, the check must be endorsed by the person to whom it is payable. He does this by signing his name on the back of the check exactly as it appears on the face of the check.

2. Endorsements are properly written across the left end of the back of the check.

3. If other names are endorsed on the back when you receive the check, write your name below the other endorsements; it is wise not to endorse a check until you are ready to dispose of it.

4. The safest way to endorse a check is to write the words: "Pay to the order of John Smith," across the left end of the check on the back, and then sign your name. This is an "endorsement in full."

5. The bank holds endorsers of checks liable just as endorsers of notes are liable.

6. You can escape part of this liability by writing "without recourse" above your endorsement. This is called a "qualified endorsement."

7. If endorsed to "John Smith for deposit," it is a "restricted endorsement."

8. If endorsed "Pay to John Smith," it is a "limited endorsement."

9. You should deposit all checks or cash them within 24 hours after you receive them.

10. If you hold checks longer than 24 hours, you will be the loser in case of the failure of the bank or the drawer.

11. You may hold the check as long as you please if you are willing to take the chances of losing.

12. A check cannot be cashed before the date, if it is dated ahead.

13. If a check is dated Sunday, it can be cashed on Monday.

14. If the date is omitted, the check can be cashed whenever it is presented.

15. You can cash a check in a strange bank if you have credentials to identify you to the bank.

16. If a man who knows you will O.K. your signature, you can cash a check wherever his signature is known.

17. A bank cannot refuse to pay a check if the maker of the check has sufficient funds on deposit in the bank.

18. If, however, the maker has ordered the bank to stop payment on the check, the bank will refuse to pay it.

19. If the maker's account is overdrawn or there are not sufficient funds on deposit, the bank may refuse to pay the check.

20. If a check is stolen and cashed, the man from whom it was stolen would not be the loser unless he had already endorsed it.

21. If you endorse a check that is protested, you are responsible.

22. If you endorse a forged check and cash it, you are responsible.

23. If the bank cashes the check on a forged endorsement, the bank is the loser, unless it can find the person who cashed the check.

charge made up of, for example, 5 cents for each deposit plus 2 cents for each item in the deposit, and 5 cents for each check drawn; against this total is credited, say 10 cents for each $100 of balance on deposits in the account. If the balance is high enough to offset the total of service charges, no charge will be made for that month.

Anticipating Money Needs

How does the treasurer know how much money is going to be required at any stated time, so that he may have the funds available? The budget, described later, is a real help in this, as we shall see, but there are other devices or mechanisms that are often of more immediate help.

Meeting the Payroll. Consider, first, the regular routine expenditures of the company. Payrolls have to be met every week. Since their preparation is described in Chap. 11, we shall not repeat what is said there. But the treasurer knows that here is one item that he has to have money for without fail. "Meeting the payroll" is the biggest bugbear in business. Although not traditionally as certain as death and taxes, payday comes around with a regularity that, however slow it may seem to an employee, is altogether too fast for the person who has to meet it with money so that the company's employees will be paid in full without delay. The payroll is one of the most important routines in any company. Not until an individual has had the responsibility of meeting one can he possibly appreciate to the utmost the reason why employers are reluctant to take on more help than they absolutely have to. It is hard enough to have to meet the present payroll without adding to it.

From the standpoint of providing the money, the payroll may be divided into three parts: the regular salary list, the hourly wage list, and the piece-rate list. The regular salary list may be weekly, biweekly, or monthly, or all three, depending on the custom of the company or the requirements of local laws. In any case it does not fluctuate very much and should remain about the same from period to period, possibly declining in off-business periods and rising in periods of good business. Both

The Financial Routine

Includes the steps necessary to take to see that

A. Necessary records are made and made properly;

B. No money is paid out
  1. Without proper authority for the payment, and
  2. Without the proper account being charged;
     a. Who is responsible for the expenditure?

  (See that all bills are paid and all discounts taken)

C. No commitments are entered into
  1. Unless they are necessary;
  2. Unless they are duly authorized;

D. Money received is
  1. Properly credited;
  2. Carefully handled;
  3. Promptly deposited;

E. Money owing is collected when due;

F. Money due is collected;
  1. Progress on collections closely followed;

G. The company's property is looked after;

H. The company's property is kept up (maintenance, repairs)

I. Insurance is not allowed to expire;

J. Insurance policies are known to
  1. Cover the risk you want covered, adequately;

K. Taxes are paid when due, without default.

movements may be anticipated. It is stable enough to provide a stated amount for cash requirements.

The hourly wage list will depend upon the current degree of activity of the business, dropping severely in times of poor business and soaring in times of good business. Enough time should be allowed between the end of the pay period and the payday for that period to reckon up the individual items and make up the payroll. The same is true of the piece-rate list, if there is one. The accounting system must be set up to tally, compute, and total all the items involved in the quickest possible time.

Watching Utility Charges. Then there are the usual regular utility services—telephone, telegraph, light, power—which are billed and paid monthly. Even where these fluctuate considerably, all four may be reckoned, from the meters in the case of light and power, from the number of trunk and extension lines and listed toll calls in the case of the telephone, and from the duplicate telegrams in the case of the telegraph service. As set forth in Chap. 10, the regular watching of these items provides a control against their abuse or extravagant use.

Paying for Current Purchases. Next are the invoices for current purchases. If, as suggested below, the treasurer is consulted before proposed purchases are consummated, he will know in advance when the invoices will be due and can plan accordingly. Many companies forbid making any commitments without the treasurer's approval. A "commitment" is any undertaking that will require the payment of money at a later time and includes the making of purchases, the hiring of new employees, and the incurring of expenses of any kind. Since the treasurer is the one who has to provide the cash to pay the bills, it is only fair and reasonable that he should know ahead of time what payments he may be called upon to meet; he is in better position than anyone else to know whether money is likely to be available at the time the proposed expenditure would come due.

Nonroutine Expenditures. Unusual expenditures, such as the purchase of special equipment, or items that may amount to more than a stated sum—$50 in some companies and $500

in others—may have to be approved by the finance committee or by the executive committee, according to the corporation's custom, or by one of the partners, if a firm.

The Commitment Sheet

As commitments are made, they are entered on a commitment sheet, which shows the treasurer at all times how much money is to be paid out and when. In some companies this sheet covers the whole year ahead and is always consulted before additional commitments are approved. Since budget approval is often considered as sufficient warrant for expenditures, it is obvious that the commitment sheet will reflect budgeted items also and afford a comparison of expected expenditures with actual ones.

Budgeting

Carefully managed businesses are usually operated under a budget plan, by which a careful estimate of the expected income and expenditures of the company is drawn up in detail, showing where the money is coming from and for what payments will be made. Some concerns prepare this budget in great detail so that each department head and branch manager knows exactly for which part of the income and expenditure of the company he will be responsible during the coming year. Each month actual results are checked with the budget, which thus serves as a guide to the profitable operation of the business.

If the budget were used only to compare actual results with estimated figures, a large part of its value would not be realized. To get the greatest value from it, constant reference is necessary, not merely for the purpose of seeing if operations are kept within the budget figures but also to follow progress and see that the plans covered in the budget are carried out.

Flexibility Is Desirable

The budget is not a rigid, hard and fast rule. Rather is it a plan and a guide for carrying out a plan. If properly and carefully prepared and administered, it should be possible at the beginning of any period to make up a balance sheet showing the condition as of the end of that period. Constant reference during

the period makes it possible to know where the plan is falling down and to indicate points at which pressure must be applied.

The fact that an expense item is in the budget does not mean that that amount must be spent. Nor does it mean that, if it is not spent, it is a good sign. The real question is, "If the amount had been spent, would the company have received the benefits expected when the item was put in the budget?"

MASTER OPERATING BUDGET FOR JUNE[1]
26 working days

Income and Expense Accounts	Forecast	Budget	Actual	Variation
Sales at List Price.....	$150,000	$160,000	$160,000	0
Income	$150,000	$160,000	$160,000	0
Manufacturing Cost of Goods Sold.....	$ 97,500	$104,000	$103,500	−$ 500
General Administration.	6,800	7,120	7,300	+ 180
Finance.....	6,550	7,040	7,500	+ 460
Records.....	1,500	1,600	1,650	+ 50
Purchases.....	900	960	1,000	+ 40
Sales	24,564	25,480	24,800	− 680
Receiving and Delivering	1,950	2,080	2,200	+ 120
Expense	$139,764	$148,280	$147,950	−$ 330
Operating Profit	$ 10,236	$ 11,720	$ 12,050	+$ 330
Manufacturing Profit...	650	362	1,280	+ 918
Other Income.....	1,500	1,000	1,000	0
Profit for month	$ 12,386	$ 13,082	$ 14,330	+$ 1,248
Five preceding months	27,500	39,870	49,260	+ 9,390
Six months to date ...	39,886	52,952	63,590	+ 10,638

[1] WILLIAMS, J. H., *The Flexible Budget*, p. 264, McGraw-Hill Book Company, Inc., New York, 1934.

Usually the controller and the treasurer cooperate in making the budget, but the controller is responsible for administering it after it has been drawn up and approved. The best results under a budget plan are secured when all concerned—department heads, branch managers, salesmen—contribute their share

DAILY REPORT OF COMMITMENTS MADE TODAY, AND MONTHS IN WHICH DELIVERY IS TO BE MADE DATE_____

Dept.	Items	Summary of commitments	October	November	December	January	February	March	April	May	June	July	August	September
Advtg.	Previous total Today's purchase Total to date													
App.	Previous total Today's purchase Total to date													
Auto T.	Previous total Today's purchase Total to date													
Extract	Previous total Today's purchase Total to date													
F. & S.	Previous total Today's purchase Total to date													
Gas Pl.	Previous total Today's purchase Total to date													
Lab.	Previous total Today's purchase Total to date													

Dept.	Items	Summary of commitments	October	November	December	January	February	March	April	May	June	July	August	September
Machy.	Previous total Today's purchase Total to date													
Misc.	Previous total Today's purchase Total to date													
P. & M.	Previous total Today's purchase Total to date													
P. & S.	Previous total Today's purchase Total to date													
Purch.	Previous total Today's purchase Total to date													
Soda F.	Previous total Today's purchase Total to date													
Traffic	Previous total Today's purchase Total to date													
Total all depts.	Previous total Today's purchase Total to date													

toward making up the budget estimates. Everyone is naturally more interested in making his own estimate come true than in trying to carry out a plan in the making of which he had no share.

How to Balance the Budget

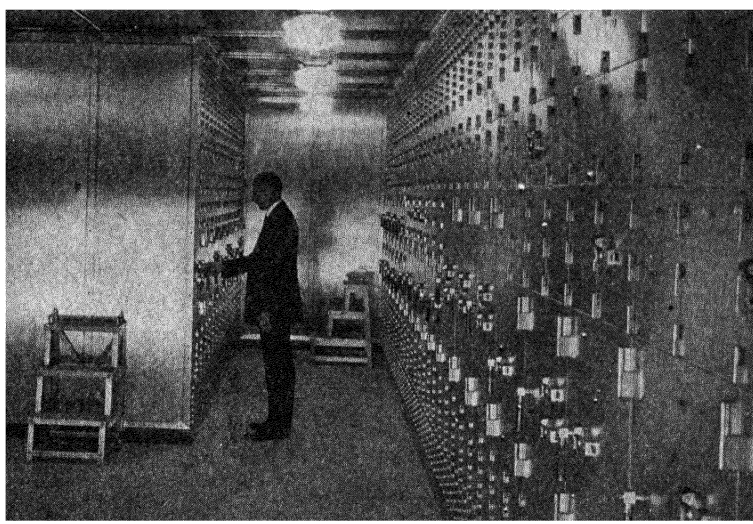
1. Analyze all sources of income to determine whether they are likely to increase, decrease, or disappear entirely.
2. Study all classes of disbursements with a view to effecting the reductions necessary to keep expenditures within probable income, while at the same time providing for all activities essential to successful operation.
3. In depression times, certain types of expenditures must be eliminated and others curtailed; methods of doing the work must be simplified, and some activities must be combined; adjustments must be made to meet changing conditions; provision must be made for revising standards. (Helpful in normal times, too.)
4. Bend every effort toward finding new sources of income and adopting improved sales and production programs.

(From "Net Results," published by H. A. Hopf and Company, Management Engineers)

Safekeeping of Securities

Protection of the company's property is another function of the treasurer. The securities owned by a company may be kept in the company's own vault, if it is burglarproof as well as fireproof, but probably the safest place to keep all securities is in the safe-deposit vaults of a bank. Steel boxes of various sizes may be rented for a sum ranging from $5 per year for the smallest size to several hundred dollars for a large vault. The treasurer or any authorized assistant (called a "deputy") may have access to the safe-deposit vaults at any time during the day up

to 3:00 or 4:00 P.M. Armed guards are in constant attendance, and papers may be examined in the privacy of locked booths. Some banks even provide conference rooms adjacent to their safe-deposit vaults. No one but the treasurer or his deputies has access to the box or knows what is in it. The compartment in which the box is kept can be opened only by using two different keys at the same time, one key being kept by the bank and the



Courtesy of Chase National Bank

other by the company treasurer. That is, two persons are required to open the compartment; neither person can open it alone without having both keys, something that the bank does not permit.

Protection of Real Estate

Money and securities are not the only property of the company that the treasurer must protect. If the company owns real estate and buildings, the treasurer must see that the taxes are paid when they are due, the rents collected if there are tenants, repairs made where necessary, insurance taken out and renewed, and the making of improvements properly supervised.

Taxes. Properly to carry out these responsibilities calls for setting up routines or systems that will mechanically bring to the treasurer's attention any detail needing it. For example, at

a stated time each year, the company is billed for local taxes on its property. Tax bills (as well as other bills) have been lost in the mails or missent. The nonreceipt of a bill is no excuse for not paying it. If any bill is not received when it should be, inquiry should be made—in the case of purchase invoices so that the bill may be paid in time to take the cash discount, and in the case of tax bills so that the company will not be liable to penalties for nonpayment of taxes when due. In Massachusetts, for instance, property taxes are due July 1, but the taxpayer has until Nov. 1 to make payment. If the payment is not made by that date, interest starts *on Oct.* 1 at a stated rate. The longer the bill remains unpaid, the higher the interest *rate*, up to a stated maximum. Beyond that are penalty charges and the possible sale of the property for taxes. Often, however, the tax bills are not received before September, two months after the legal due date. This delay is distinctly unbusinesslike, as well as unnecessary, since property assessments are made as of January 1.

Collecting Rents. Again, the collection of rents from tenants of company-owned real estate requires a "watertight" routine and system for following collections and getting in the money. Even though most tenants may pay promptly on the due date, there are usually those who delay for some reason or other. Every experienced credit manager knows that the longer a debt remains unpaid, the harder it is to collect. This fact seems particularly true in the case of rents. It is not sufficient to know that the tenant can be dispossessed for nonpayment of rent; after all, the purpose of renting property is not to eject tenants who do not pay their rent but to get an income from the property. The landlord who gets around promptly on the first of the month will have fewer unpaid rents than the one who is lax in his collections.

Leases. The making of leases of company-owned property is another responsibility of the treasurer. If there is a lot of such property, an assistant treasurer or a real-estate manager may give his full time to it; but the treasurer himself is still responsible. It is necessary to see that leases are properly drawn, that they protect the company's interests, and that, if the property is leased only until the company is ready to use it for company

purposes, adequate provision to that end is made in the leases. The renewal or termination of leases may involve notice within a stated time. If not attended to at that time, embarrassing complications may ensue. A proper routine will see that such dates are not overlooked.

Repairs and Maintenance. The making of repairs is another responsibility of the treasurer as conservator of the

Courtesy of Remington Rand, Inc.

Until this fire occurred, the fifteen-story office building at the right had been considered a model fireproof structure.

company's property. When repairs are necessary, they should be promptly made, lest either or both of two happenings result: if the property used in company operations needs repair, there is the possibility of accidents to employees or damage to other property; in addition there is the lost time due to the inability to use the impaired property. If the property is occupied by a tenant, injuries resulting from the failure to repair may lead to damage suits. Incidentally, a properly drawn lease will refer specifically to repairs and place responsibility for them.

In many cases adequate and timely maintenance of property will obviate the necessity of extensive and expensive repairs.

Properly kept records of each piece of company property will be found a real help in seeing that it does not depreciate for lack of attention.

Insurance Protection. The responsibility of the treasurer with respect to insurance is often a headache. Companies with an appreciably large amount of complicated insurance are wise if they employ an insurance manager, who will, of course, report to the treasurer. There are so many different kinds of insurance, even on property, that for any individual to attempt to handle this problem on a part-time basis may result in an unanticipated expense or loss. The company may pay too much for the insurance protection it is receiving, or certain contingencies may not be insured against. Whether such a situation arises from ignorance or neglect, it is inexcusable. Insurance protection is not incidental to the operation of a business; it may be vital.

> NO ONE is immune from fire. Fire, striking without warning, trades smoking ruins for the going business it devours. In North America alone, there is an average of *one fire every minute.*
>
> (*Courtesy of Remington Rand, Inc.*)

First is the survey of the risks the company faces; second, the possibility of reducing those risks by decreasing the fire or accident hazard, for instance; third, the analysis of the insurance available; fourth, the procuring of policies that cover the risks against which protection is desired; and last, but by no means least, the renewal of insurance policies before their expiration leaves the company unprotected. It is not generally realized, for example, that all fire-insurance policies take effect and expire at noon. What would be the position of an insured whose policy expired at noon of a day, in the afternoon of which a

General Facts about Insurance

1. You can insure against financial loss from death, fire, theft, accident, ill health, burglary, tornado, loss of business, lawsuits, and almost anything that is liable to affect you or your family, your business or your property.

2. Statistics are said to show that the farmer is more liable to accident than is the traveling man.

3. The employee in a machine shop is more liable to accident than the office worker.

4. Pianists insure their fingers against injury.

5. Vocalists insure their voices against injury.

6. Farmers insure their crops against hail.

7. Fruit growers insure crops against frost.

8. Automobile owners insure their cars against theft, fire, collision, property damage, and injury to other persons.

9. Employers insure themselves against loss due to the possible dishonesty of their cashiers.

10. Merchants may insure their business against bad debts.

11. Factories insure against accidents to their employees.

12. Business men insure against business depression.

13. Compulsory insurance against sickness, accident, and old age is now enforced by the Federal government.

14. To take out insurance on anything, you must make application to the insurance company, giving whatever information is required.

15. If the insurance company accepts your application, it will issue a policy to you for the amount of the insurance.

16. An insurance policy is a contract between you and the insurance company. You agree to pay the premiums, and the company agrees to pay you the insurance in case of loss.

17. An insurance premium is what you pay to the insurance company for the insurance. Premiums are paid regularly, usually once a year.

18. The amount for which the company insures you or your property is called "the face of the policy."

19. The amount of the premium depends largely on the nature and extent of the risk.

20. Some risks cannot be insured at all.

21. Always read your insurance policies carefully. If they contain anything you don't understand, ask the company to explain.

22. Do not take anything for granted. Make sure that everything is as it should be.

23. Insurance policies should be kept in a safe place where they cannot be lost, stolen, or destroyed.

Facts about Fire Insurance

1. Fire insurance is comparatively inexpensive, since the loss may be very slight, and the insurance company pays only for the actual damage.

2. The premium for a fire-insurance policy would be higher for a wooden building than for a brick one.

3. A brick building beside a railroad track might cost more to insure than the same building near a lake.

4. Some locations are so dangerous that the buildings cannot be insured.

5. The owner of a powder mill would probably have difficulty in getting insurance on his building. He might also find it difficult to get his own life insured.

6. Insurance rates in the city are lower than in the country because the fire protection is better.

7. The more fireproof the building, the lower the rate of insurance that may be obtained.

8. The higher the building, the greater the risk and the higher the rate.

9. The business handling explosives or combustibles must pay a higher rate.

10. Lower rates may be obtained if the policy contains the 80 per cent coinsurance clause.

11. Under the 80 per cent clause the owner agrees to keep the property insured up to 80 per cent of its value.

12. Otherwise, he can recover only the ratio that the amount of insurance carried bears to 80 per cent of the value of the property.

13. If you do not comply with the insurance rules, you may find that you cannot collect the insurance.

14. If alterations are made in the building, the company should be notified.

15. In case the surrounding buildings are changed, the company should be notified.

16. In case a new member is admitted to a partnership, the policies should be changed accordingly.

17. If the property is sold, the company should be asked to transfer the insurance.

18. Two or more persons can get insurance on the same property if they have an insurable interest.

19. The company always reserves the right to replace the lost property instead of paying the face of the policy.

20. The insurance is usually void if the property is vacated without permission from the insurance company.

serious fire occurred? For that matter, when is "noon"? The revised New York State fire-insurance policy reads "noon, Standard Time, at the location of the property involved." Standard time seems clear enough until one reads the following explanation offered by an insurance manager who was interpreting the new policy before a group meeting of insurance managers from all parts of the United States under the auspices of the American Management Association: "Standard time is intended to mean standard time as fixed under the international formula and obviates the possibility of disputes over interpretation where daylight saving time or some other deviation from standard time exists." A fair question would be whether standard war time is standard time as above interpreted. Who knows?

Where many policies are carried, some attempt should be made to stagger their expiration dates, so that a large number will not come due at the same time, requiring the payment of a

INSURANCE EXPIRATION RECORD Expires_____

Property or risk_____

Location_____

Kind of insurance_____ Term_____mos. yrs.

Company_____ Agent, Broker_____

Amount $_____ Rate_____ Premium $_____

Consult the following:

Divd. Rfd. $_____

_____

Net Prem. $_____

_____

Courtesy of National Electrical Manufacturers Association Insurance Committee

substantial premium for their renewal. Often expirations may be arranged so that some policies expire every month; this only emphasizes the necessity of some mechanical method of watching the expiration dates and providing for the renewal of the insurance.

Investment of Surplus Funds

One of the duties of the treasurer is the investing of the surplus funds of the company. By "surplus funds" is meant

Facts about Life Insurance

1. The purpose of life insurance is to lessen the financial loss that might be caused by the death of a person.

2. As a rule, anyone who might suffer a financial loss by the death of another person may take out life insurance on that other person.

3. A creditor may insure the life of a man who owes him money, for an amount not more than the sum owed at the time the policy is taken out.

4. A partnership may insure the lives of the partners.

5. A corporation may insure the life of any officer or employee.

6. A wife may insure her husband's life, since his death would deprive her of his financial support.

7. A dependent daughter may insure her father's life, since his death would deprive her of his financial support.

8. A niece who depends on her uncle for her support may insure his life.

9. Generally, immediate members of a family may insure the lives of other members of the immediate family, even though each may be financially independent of the others.

10. Although a person may not ordinarily insure the life of another person in whom he has no financial interest, anybody may insure his own life and may name anyone he chooses as his beneficiary, regardless of the relationship, provided, or course, that the the insurance company is willing to write the policy.

11. An applicant for life insurance must pass a satisfactory medical examination before the insurance company will insure him.

12. The insurance company also investigates the applicant's character, to ascertain if there is a moral hazard.

13. The beneficiary of a life-insurance policy is the person or estate to whom the face amount of the policy would be payable if insured should die while the policy is in force.

14. After a policy has been issued by the insurance company, it is kept in force by the payment of premiums.

15. If a life-insurance policy lapses for nonpayment of premiums, the insurance company may refuse to reinstate the policy without another medical examination of the policyholder.

16. If the insured enters the military or naval service in time of war, the insurance company will make an adjustment as provided by the policy.

17. If the insured commits suicide before the period stated in the policy (one to three years), the insurance company will pay only the premiums received.

18. After the period stated in the policy, the policy is incontestable for any reason except nonpayment of premiums.

the money that the firm is not using or is not likely to use in the near future. If these funds were allowed to lie idle, the company would lose interest on its money, and it does not take long for interest to amount to a respectable sum, whatever the rate. Although interest rates vary according to the money market and other factors, including risk, the interest on a large amount of money at any given rate is surprising, even for only a day; hence the problem of investing surplus funds is important. A huge life-insurance company like the Metropolitan must invest more than two million dollars *every day*. Interest on that sum at 3 per cent is $166.67 a day.

In deciding just how he shall invest the company's surplus funds, the treasurer considers three factors, in this order: marketability, safety, and yield. Marketability comes first because, if the concern should need money in a hurry, one of the first places to turn to would be its investments; the treasurer wants something he can sell or borrow on quickly. Marketability alone, however, is not enough; safety is important, even if not to the same extent as in nonbusiness investments. A business man can afford to take chances that another person could not. He can watch market prices closely and, if he sees values decline, he can "switch" his investments into other securities or take his money out entirely until he is ready to invest it again.

Third comes the yield on the investment. With most people not in business, yield is second in importance only to safety; marketability is not so important. Safety is of primary concern, then yield. With the business man, yield on surplus funds is subordinate to marketability and safety. Anybody can get 2 per cent at a savings bank in normal times; some savings banks pay 3 and even 4 per cent. Bonds can be bought to yield from 3 to 8 per cent; stocks yield from 5 to 25 per cent. The higher the yield, the less the safety; but the treasurer watches the stock market very, very closely, and if an opportunity comes along to buy a stock paying 8 to 15 per cent with a good market, he may buy it, first making sure that the stock to be purchased really has a good market and may be easily sold if necessary.

Or he may get a chance to buy a bond yielding up to 8 per cent. Some concerns prefer to buy bonds instead of stocks, because the market values of bonds vary slightly compared with the sometimes violent changes in stock prices; in normal times high-grade bonds can be sold for very nearly what was paid for them. Especially is this true of United States government Bonds, which many business concerns consider the most satisfactory investment in the world in every respect. Of course, this is all a matter of judgment, and the treasurer must be on the job every minute of the day. Sometimes he is aided by the finance committee, or even by a special investment committee of two or three members of the board of directors.

Questions for Discussion

1. Why should a business take in more money than it pays out? Or should it?
2. Define or explain venture capital, and explain its importance.
3. What becomes of the surplus earnings of a business?
4. Explain money economy.
5. How did Benjamin Franklin say one could learn the value of money?
6. What does financial management involve?
7. Who is responsible for the financial management of a business concern?
8. What is the treasurer's function?
9. "Without money a business cannot run." Comment.
10. How can a business get money?
11. If a corporation proposed to issue stocks or bonds to procure capital, what factors would determine the choice of one or the other?
12. Do you know the difference between capital and capitalization? Find out before trying to answer the next question.
13. How do you suppose the Ford Motor Company could make a profit of $60,000,000 on a capitalization of only $2,000,000?
14. What is meant by cumulative dividends?

15. What is the objection to issuing stock with a fixed dividend rate?

16. Does the same objection apply to the issue of bonds? Comment.

17. What is a collateral bond, and why is it so called?

18. What is a mortgage bond, and why is it so called?

19. How may bondholders protect themselves in case of default?

20. What is the Securities and Exchange Commission?

21. Why are banks generally considered unwise as a source of original and additional permanent capital?

22. Can a successful business start with little capital? How do you know?

23. Is it wise to start with less capital than is adequate? Why or why not?

24. "After a company has started business, its money requirements are continuous." For what and why?

25. Who handles the bookkeeping and the cash?

26. To what extent should a company rely upon the money received from its sales? Why?

27. When is a concern insolvent, according to the Uniform Sales Act?

28. What do you understand cash position to mean?

29. Why should a treasurer try to keep his cash position good?

30. What financial problems do seasonal businesses face?

31. How are these problems solved?

32. What is a line of credit?

33. How is a line of credit established at a bank, and how does it operate?

34. What three requirements does a bank usually impose upon borrowers? Why?

35. Should a concern always borrow in order to discount its bills? Why or why not?

36. Why is the taking of cash discounts on all purchases an indication of good management?

37. What are installment notes?

38. How does a concern get its money out of installment notes?

39. Can you think of any advantages to a concern in collecting its notes receivable through a bank?

40. What is a cashier, and what does he do?

41. What is the purpose of a petty cash fund, and how is it used?

42. Explain how purchase invoices are checked and paid.

43. Why should all bills of a concern be paid by check? What might happen if some bills were paid in other ways?

44. Contrast the minimum bank balance with the bank's service charges. Which do you think is preferable, from the bank's standpoint and from the depositor's standpoint? Why?

45. How does the treasurer know how much money is going to be required at any stated time?

46. Why is meeting the payroll the biggest bugbear in business? Or is it?

47. Comment on the analysis of the payroll.

48. Why should the treasurer be consulted before any proposed expenditure is consummated?

49. Explain what a commitment is and comment on it, stating how the treasurer watches commitments.

50. How may unusual expenditures be controlled?

51. What is a budget, what does it show, what is its purpose, who prepares it, and who administers it?

52. Explain the use of vaults.

53. Explain the responsibilities of the treasurer with respect to property of the company other than money and securities.

54. Comment on the payment of taxes.

55. Comment on the collection of rents.

56. Why is the treasurer interested in leases of the company's property?

57. What are some of the complications of insurance management?

58. How may the necessity of paying one large insurance premium every year or so be avoided?

59. Explain the treasurer's responsibility with respect to the investment of the company's surplus funds.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Call on the treasurers of two concerns in your town or city and ask them to explain to you what they do.

2. Ask the treasurer of the largest concern in your town or city whether he delegates much of his responsibility to his assistants. If he does, ask him how he keeps in touch with the way things are going.

3. Ask the local banker what his bank does when it makes a loan and what requirements it imposes upon the borrower.

4. Make a list of the seasonal businesses in your town or city and draw up a chart showing what the owners of those seasonal businesses do in the off season.

5. If there is an investment house in your town, ask the manager to explain to you the difference between bonds and stocks.

6. Visit the nearest safe-deposit vaults and ask the manager to show you through the vault and explain the service rendered to its patrons.

7. Call on the treasurer of some local concern and ask him to show you the company's vault and explain what he keeps in it and why.

Problems

1. Banks lend money to business concerns, to individuals in business for themselves, and to private individuals not in business for themselves. Prepare a statement showing the following information for each of the three types of borrowers mentioned:

a. Reasons for borrowing.

b. Where is the money coming from to repay the loan?

c. Should the bank make the loan? Why or why not?

d. If the bank refuses the loan, what should the borrower do, and why?

2. For payment in full within 10 days after the date of the bill, many concerns allow a cash discount of 2 per cent.

a. What is the purpose of the cash discount?

b. When a concern takes 2 per cent cash discount for paying its bill within 10 days, what rate of interest would that be by the year?

c. A certain concern has a bill for $500, on which it wishes to take the cash discount of 2 per cent 10 days. To get the money, it must borrow from the bank at the going rate of interest. How much interest would the concern have to pay the bank for a 60-day loan of $500, assuming the going rate to be 6 per cent? 5 per cent? 4 per cent? 4½ per cent? 5½ per cent?

d. How much cash discount would the concern get by paying its bill within 10 days?

e. Should the concern try to borrow the money? Why or why not?

3. Mr. Ames gave a promissory note to Mr. Dennison for $600, payable in 3 months at 6 per cent. One month after date the note was paid by Ames but was not returned to him as it should have been and as he should have insisted upon. In some way Mr. Dennison lost the note and it appeared in the hands of an innocent purchaser for value, who presented the note on the due date. Could the purchaser collect from Ames? Why or why not? If he could, how much could he collect?

4. Mr. Barr gave his note to Mr. Lord on Jan. 2, 1946, for $200, payable on demand at 6 per cent interest. Barr paid the interest at the end of one year and again at the end of a second year, but nothing was paid on the principal. Mr. Lord brought suit at the end of the fifth year for collection. Barr refused payment, stating that the note was outlawed, as the statute of limitation was 5 years in his state. How much could Lord collect, if anything? Why or why not?

5. Mr. Bain has $5,500 to invest in bonds or mortgages. He can purchase a 4 per cent mortgage at par, or 6 per cent bonds at 125. If the security is equally good in both cases, which should he buy? Why? What is the difference in the income?

6. In a concern operating a small fleet of trucks, the question has arisen whether it would be better to rent space in a garage and have repairs done by outside mechanics, or to acquire a small garage and have its own mechanics. If you were the treasurer of this company, what would you suggest? Why?

Financial Problems Involving Checks

1. A, with a checking account of $1,500, gave to B a signed check in which the amount was left blank, with the understanding that B was to purchase between $300 and $400 worth of goods and insert in the check the amount of the purchase. B purchased $1,000 worth of goods from C and filled in that amount. In case A could not prove the restrictions placed on B, how much would he lose?

2. Mr. Hay gave his check for $200 payable to the order of Mr. Crawford. The check was indorsed in blank by Mr. Crawford but was lost before it could be deposited in the bank. It was found by a thief, who cashed it before the payment could be stopped. Who was the loser and how much did he lose?

3. The First National Bank refused payment for want of funds of a check for $200 drawn on it by Mr Roe in favor of Mr. Drake. Mr. Drake did not present the check for payment until nearly 2 months after it was drawn and did not give the drawee the notice of dishonor until about 2 weeks after that. From whom can Mr. Drake collect? Why?

4. Mr. Baley owed Mr. Avery $25 and gave him a check. When Mr. Avery presented the check at the bank, he noticed that although the written amount was correct the figures stated only 25 cents. How much could Mr. Avery get on the check?

5. Mr. Gates, who has a checking account of about $12,000 writes a check for $600 payable to the order of Mr. Bates, who lives in the same town. Two days later, while the check was still in the possession of Mr. Bates, the bank failed and paid 25 cents on the dollar. How much can Mr. Bates collect from Mr. Gates and how much can he collect from the bank?

6. Mr. Green wrote a check for $9, which was easily raised to $99 by a forger. It finally appeared in the possession of Mr. White, who was an innocent purchaser for value, and was cashed by him at the bank. How much would Mr. Green lose? Why?

7. A forger signed George P. Brown's name so perfectly to a check for $150 that it was accepted in the usual course of business by Mr. Black and finally cashed by him at the bank. Who was the loser and how much was the loss? Why?

8. Mr. Swan was accustomed to paying his rent by check on the first of each month, receiving a regular rent receipt. On the first of May the landlord presented a bill for 2 months' rent, claiming Mr. Swan had never paid the rent for April. Since Mr. Swan can't find his rent receipt for April, he will have to pay the rent again unless he can prove he did pay it. How can he do this?

Financial Problems Involving Insurance

1. Mr. Edwards insured his life for $20,000. Three years later he shot himself. How much could his beneficiary collect? Why. Suppose he had killed himself 3 days after taking out the policy. Why? Suppose he was shot while committing a burglary. Why? Suppose he was shot as a spy. Why?

2. Mr. Brown owned some property on which he carried $5,000 insurance. He sold the property to Mr. White for $6,000. Mr. White, knowing about the insurance, paid no further attention to it. The property was destroyed by fire. For how much is the company liable, either to White or Brown? Why or why not?

3. Mr. Dale insured for $5,000 a property worth $4,000. In case of total loss, how much can Mr. Dale collect? Why?

4. Under the 80 per cent clause, Mr. Earl insured for $4,000 his house valued at $5,000. How much can he collect in case of a total loss? Why?

5. Mr. Gee lent Mr. Maxwell $2,000 and took a mortgage for that amount on his property valued at $5,000. As an additional security Gee insured the property for $4,000. It was totally destroyed by fire. How much can Mr. Gee collect from the company? Why?

6. Mr. Hoy insured for $5,000 a stock of goods which invoiced at $6,000. On Oct. 15, Hoy moved $500 worth of goods to an adjacent building. On Oct. 17, a fire completely destroyed both buildings. How much can Mr. Hoy collect? Why?

7. Mrs. True was injured in a railroad accident. As the injury seemed very slight at the time, she settled for $50. Later she was out of work for 3 months at an expense of $3,000 as a direct result of the injury. How much can she collect from the company? Why?

8. Mr. New insured a stock of dry goods for $8,000. Subsequently he removed the stock into a building which was much better protected from fire. How much can he collect in case of total loss by fire? Why?

9. Mr. Ray, who holds a mortgage on Mr. Thompson's property for $2,000, takes out a fire-insurance policy of $2,000 in his name and pays the premium. The house is valued at $4,000. If the house burns before the mortgage is paid, how much can Mr. Ray collect? Why?

10. In case Mr. Thompson pays the mortgage before the fire, how much can Ray collect? Why?

11. In case Mr. Thompson insured his house for full value, how much would the company pay him? Why?

12. In case Mr. Thompson took out a $2,000 policy in favor of Mr. Ray, how much could Mr. Ray collect? Why?

13. In case Mr. Ray takes out a life-insurance policy on Mr. Thompson for $2,000 and continues to pay the premiums until Mr. Thompson dies, although the mortgage has been paid, how much can Mr. Ray collect from the insurance company on the policy? Why?

14. Mr. Coe insured the life of his neighbor, Mr. Matthews, for $5,000, making himself the beneficiary, because Matthews did not have the money at the time to pay the premium. Coe continued to pay the premiums until the death of Matthews. How much can he collect? Why?

15. When Mr. White made his will, he gave his daughter a $5,000 life-insurance policy which he had taken out payable to his son. How much can the daughter collect? Why?

6

Organization of Physical Facilities

"If a man build a better mousetrap than his neighbors, though he bury his hut in the woods, the world will beat a path to his door."

This statement, attributed by some to Ralph Waldo Emerson and by others to Elbert Hubbard, has some truth in it. We all know of successful businesses that have no apparent reason for their location other than the whim of the founder. If the statement were entirely true, then a lot of time has been wasted in trying to find the best location for a business. That is, "If your product is better than anyone else's, forget everything except how to make the product. Don't worry about location; it doesn't matter where you locate." It is quite possible, however, that many inventors of "better" products have followed the philosopher's advice and then wondered why they were not swamped with business.

How Important Is Location?

We can probably agree that if a man really has a better product, for which there is a demand, either actual or potential, he can, through persistent and well-directed advertising and sales efforts, build up a very satisfactory business, regardless of his location. After all, few customers care where a product is made if it serves their purposes better than anything else, and if the price is right. With a monopoly product, price may bear no relation to the intrinsic worth of the item; it frequently is fixed on the principle of charging "all the traffic will bear."

Of course, we should not lose sight of the fact that hygienic values associated with the location and conditions under which a product is prepared may have a very real bearing on consumer acceptance and demand. We may also agree that, although the location of the manufacturer may or may not interest his customers, there are some operating advantages and disadvantages that may affect the economical manufacture and distribution of the product.

In determining the best location for any business, several factors may be considered. Not all of them are of equal importance, nor is it reasonable to expect that the advantages accruing to some can always be fully realized from all. Probably the best we can hope for is a balancing of the factors so that we may get all the advantages possible.

Consider These Location Factors

Four of the following six factors are concerned with the convenience of location:

1. Nearness to customers and prospective customers;
2. Nearness to transportation facilities;
3. Nearness to raw materials;
4. Nearness to labor supply;
5. Attractive or less expensive location;
6. Political aspects.

The sixth factor really has nothing to do intrinsically with business operation, but it may have an external influence on taxes, restrictive regulations, and so on.

Nearness to Customers. Let us consider the other five factors in order. First is nearness to customers. Only when customers must come to us, as in a retail store, is this factor important. There, its importance is very, very great, as indicated by the preliminary surveys and analyses made by the great chain stores before locating a new unit; and even they have made mistakes of location. There are familiar instances of large empty buildings, formerly occupied by department stores or specialty stores, and unsuccessful because they were out of the beaten path, even though in some cases by only a block or two.

It has been said that even the side of the street on which a store is located affects its trade. In any case, a technique for determining the best location for any kind of store has been developed and is available for all who wish to use it.

The tendency of wholesale houses in similar lines to group together is allied to the factor of nearness to customers, although not so directly as with retail stores. The idea here is to make it easy for buyers while in the wholesale district to inspect all offerings in the market.

Nearness to Transportation. At all events, the first factor of nearness to market has little bearing upon the economical operation of a business, except in so far as transportation costs, facilities, and time may be concerned. If the business is one that requires continued transportation, either of raw materials in or of finished products out, or of both, the convenience of transportation facilities has a real bearing on the economical conduct of the business. Since the development and flexibility of motor-truck transportation have done much to free businesses from their former dependence upon railroads, the problem of transportation facilities is not so difficult to solve as it once was.

Nearness to Raw Materials. The importance of nearness to raw materials varies greatly with the nature of the business. Two subdivisions of this factor present themselves: one is the assurance of a constant and immediate supply, without dependence upon transportation or weather conditions. The other is the fact that the cost of transporting bulky raw materials a long distance may add so much to the cost of production as to make it unprofitable. It is much cheaper, for instance, to manufacture Portland cement at the place where the raw materials are than it would be to pay transportation charges upon them. Other examples for consideration might include the concentration of meat packing at Chicago, Kansas City, and Omaha so as to be near the source of supply of livestock, the transportation of petroleum by pipe line from the oil wells to the refineries, and so on.

Nearness to Labor Supply. The fourth factor, nearness to labor supply, is often of more importance than all the other factors, especially when skilled labor is required. This is seen

in the jewelry center of Attleboro, Mass., and the shoe manufacturing centers of Brockton and Lynn, Mass. That it is not all-important is seen in the development of St. Louis as a shoe manufacturing center. In the movement of New England textile mills to the South, the nearness to labor supply was not so important a factor as the cheapness of the labor supply there. It will be interesting to observe the effect on this particular situation of the Fair Labor Standards Act, which was passed by Congress in an effort to establish uniform rates of pay throughout the United States.

With retail-store help, nearness to labor supply is a negligible factor in comparison with the convenience to customers. With office help, also, nearness to labor supply is not so important as are adequate and convenient transportation facilities for employees, in addition to pleasant working conditions and certain aesthetic values attached to a location in a desirable neighborhood. High-grade office workers will not work in low-grade neighborhoods. In the selection of a site for offices or office buildings, more consideration should be given to the likes and dislikes of office workers than to almost any other factor.

Rent and Attractiveness. The fifth factor, attractive or less expensive location, is not so contradictory as may at first appear. The movement of plants and offices from the congested city into open country has almost always resulted in attractiveness with less expense for rents, taxes, maintenance, and so on.

Let it again be emphasized that in most cases a balancing of all factors is usually necessary to bring about the desired result. When one's objectives have been clearly defined, the steps to take to attain them are more clearly seen.

Choosing a Building

The very first factor in the choice of a building is its suitability to the nature, purposes, and requirements of the business. Heavy manufacturing calls for heavy construction; light manufacturing does not. A retail store needs the opportunity to display merchandise under favorable conditions; an office requires light and air and freedom from unnecessary noise. If the building is to be constructed to order, the services of a consulting manage-

ment engineer should be retained even before the architect's preliminary sketches have been made, in order that every advantage may be taken of the possibilities of appropriate construction, exposure, light and air, convenience of customers

Planning New Office Buildings

Major Problems

1. Determination of type of building to be erected
2. Selection of site for the building
3. Determination of size and general design of building
4. Calculation of departmental space requirements and location of departments
5. Determination of extent and location of public spaces, service facilities, etc.
6. Location of executive suite and other private offices
7. Mechanical and electrical communication
8. Illumination, ventilation, and noise reduction
9. Detailing of departmental layouts
10. Selection of furniture and equipment

How Management Engineers Can Assist

1. Keep the cost of the building project within reasonable limits
2. Simplify and coordinate the building operation
3. Provide effective operating conditions in the new building and thus reduce clerical operating costs
4. Insure against the need for expensive changes and alterations after occupancy

(From "Net Results," published by H. A. Hopf and Company, Management Engineers)

and employees, movement of goods and people in the building, telephone, power, and lighting circuits, arrangement or layout of equipment, and, in the case of both manufacturing and office departments, provision for so-called "straight-line" flow of work to the extent that it is feasible and desirable in the particular business.

How Many Floors? The comparative advantages and disadvantages of one-story vs. multistory buildings should be weighed; of vertical travel between floors vs. horizontal travel on the same floor, and of the kind of equipment needed for each; of northern, eastern, southern or western exposures and their effect on the work and on the need for supplementary artificial lighting; on the adequacy of power and lighting circuits and the convenient location of outlets; on the adequacy and convenience of heating and ventilating facilities; on the adequacy and convenience of toilet and washroom facilities, the legal requirements for which are usually much lower than the economy of employees' time would indicate as reasonable and desirable; of the general cost of maintenance and repair; and, finally, of the adequacy and expense of janitor service and building superintendence. The possible need and availability of additional space for expansion should not be overlooked.

Lighting. Lighting fixtures should be appropriate to the type of work that they are to illuminate. Adequate lighting of a display of merchandise to make it look attractive calls for special combinations of fixtures that would not be used anywhere else in the establishment. In factories the lighting should be so planned as to give the worker adequate but not overillumination at the spot where he is working, with entire absence of glare and without too great contrast. Some contrast is desirable, but not too much. Satisfactory shop lighting is tied in, not only with the colors of the walls and floors, but also with the colors of the various parts of the machines as well. The objective in factory lighting is to enable the worker to see what he is doing without hesitation or strain. Two results are desired: continuous high production and lack of accidents. Satisfactory illumination goes a long way toward accomplishing both.

In office lighting great strides have been made within the last few years, in three directions: first, in the way of better illumination; second, in better fixtures; and third, in lower cost of better lighting. Whereas in 1919, 2 to 4 foot-candles[1] was

[1] A foot-candle is the amount of light thrown by a standard candle on a surface within a radius of 1 foot from the candle. The number of foot-candles at any level may be readily measured by a foot-candle meter.

considered sufficient for office work, as early as 1938, 40 to 50 foot-candles was considered desirable, and intensities up to 100 foot-candles have been recommended for some kinds of office work.

Lighting Fixtures. Lighting fixtures generally may be divided into three classes: those throwing the light directly on the object are known as direct lighting; those which illuminate the object by reflection from a surface, as a ceiling, are known as indirect lighting; and a combination of direct and indirect lighting, variously called "semidirect," "semiindirect," and "direct-indirect." Each type of fixture has its advantages and disadvantages. Direct light casts a distinct heavy shadow; indirect light does not. Direct light, by casting all the light directly, requires less wattage and is less expensive; indirect lighting requires much greater wattage to overcome the absorption of light by the reflecting surface and is correspondingly more expensive; so are the indirect lighting fixtures. From the standpoint of expense of illumination, direct lighting is cheaper; from the standpoint of effective illumination and better results from employees, indirect lighting may prove to be less expensive in the long run. That is, the cost of lighting is not entirely measured by the cost of the fixtures or the current consumed.

Fluorescent Lighting. With the development of fluorescent lighting, which has taken place commercially only since 1938, a less expensive source of more intense light is now available. The principle of fluorescent lighting is the glow produced by ultraviolet rays in a tube coated inside with fluorescent powder. The current cost of fluorescent lighting is one-half to one-third that of incandescent lighting of the same intensity, with one-fifth the heat. By "channeling" the light the full length of the ceiling, with channels at measured intervals, office lighting has ceased to be the problem it once was. The gentle light from the fluorescent units is even softer than the reflected light from an indirect incandescent fixture. In factories, properly installed fluorescent fixtures do away with practically all shadows.

Lighting Maintenance. Whatever lighting fixtures are used, it should be remembered that all kinds require some maintenance in addition to the replacement of bulbs or tubes. Indirect

lighting systems, for instance, require weekly cleaning of the reflecting bowl in order to retain the initial efficiency. Bulbs and tubes may be replaced as they burn out, or by a regular schedule of replacement just before the end of its rated life. If the schedule plan is followed, all the bulbs or tubes in a stated section would be replaced at the same time. Even though this might mean that some lamps would still burn, it is felt that the assurance of nonstoppage of work for lack of light or while replacement is being made more than offsets the slight amount of light still left in the replaced bulbs or tubes.

Machinery and Equipment

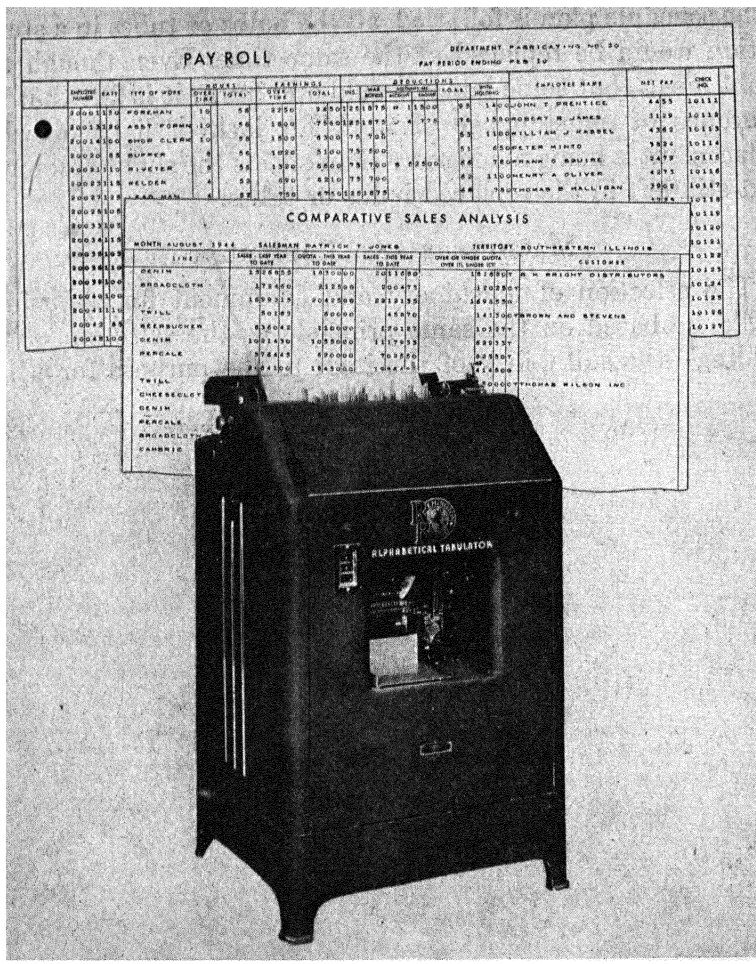
The selection of machinery and equipment for a business should be based on the same principle as the selection of the building—the suitability of the item to the purpose for which

Courtesy of Dictaphone Corporation

Electronic-dictation equipment like this simplifies and facilitates the handling of correspondence and other communications.

it is desired. In manufacturing and shopwork, single-purpose and multipurpose machines are often available for the same

operations. The choice, where the suitability of either has been determined, would depend upon whether the multiple-purpose machine would be used enough to warrant the extra cost; and

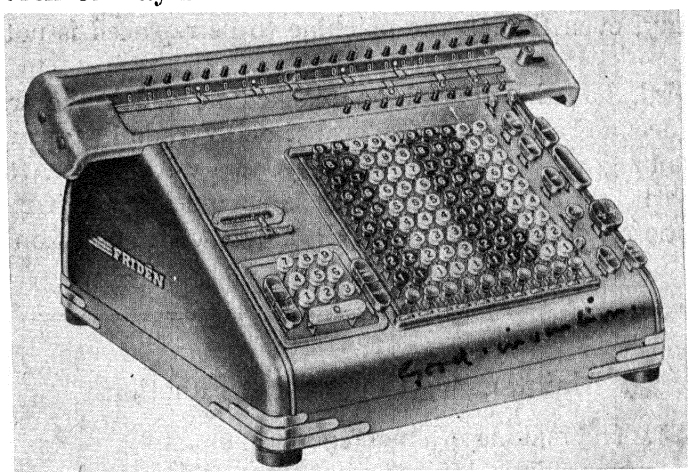


From a handful of punched cards, this machine tabulates and prints sales analyses, pay rolls, and other lists in an incredibly short time.

also whether its use would interrupt the continuous operation that is primarily to be expected.

Another point to bear in mind when considering machinery is the actual benefit, if any, to be secured from it. If a special-

purpose machine would not be used very often, the question might well be asked whether it should be purchased. Machines save time and labor; their output should be more accurate than on hand operations, if accuracy is important. Unless the time or labor saved, or the accuracy obtained, offsets the cost, the purchase may be uneconomical.



Is a Machine Always Necessary? Perhaps an illustration from office work may make the point clearer. Very fast calculating machines are available for making all kinds of computations. On some of the automatic calculators, it is necessary only to set up the problem in the machine and turn or press a switch. The machine does the rest. Among the computations performed in offices are the checking of extensions, footings, and discounts on invoices; the pricing of merchandise; the figuring of payrolls. A calculating machine does this work with little effort and not much time. It is possible, however, under certain conditions, to use tables of calculation which would be far more rapid than to make the same calculation on a machine, and without any question as to accuracy. A glance at the table gives the correct answer, even before the problem could be put in the machine. Such tables may be used to advantage where the variety of figures used is limited and constant and where there are complicated decimals or fractions to be dealt with.

When to Replace Equipment. The question of when a machine should be replaced often comes up. Three angles present themselves. First, is the machine worn out and is the work it does necessary? If so, it should probably be replaced. The economy of keeping a machine until it is worn out is doubtful.

Second, does an improved model do the work so much better and faster than this machine that to replace it would be an economy, even though the machine to be replaced is not worn out?

Third, has the point been reached at which the trade-in value declines abruptly? The best time to trade in typewriters, for example, is just before the end of the third year. After the fifth year, the trade-in value drops so quickly as to make it often more worth while to keep the machine and use it on rough work.

Maintenance Department Functions

1. The making of emergency repairs.
2. Systematic inspection of all machines and other equipment at such intervals as will ensure the detection of any wear or getting out of adjustment as might result in a breakdown or in impairing efficient operation.
3. Making such adjustment, repair, or replacement as the inspection may show to be necessary.
4. The keeping up of all useful records concerning machinery, such as drawings that are of service in making repairs or in planning work, inventories of machinery, fixtures, and adjustments.

(Courtesy of Manufacturers' News.)

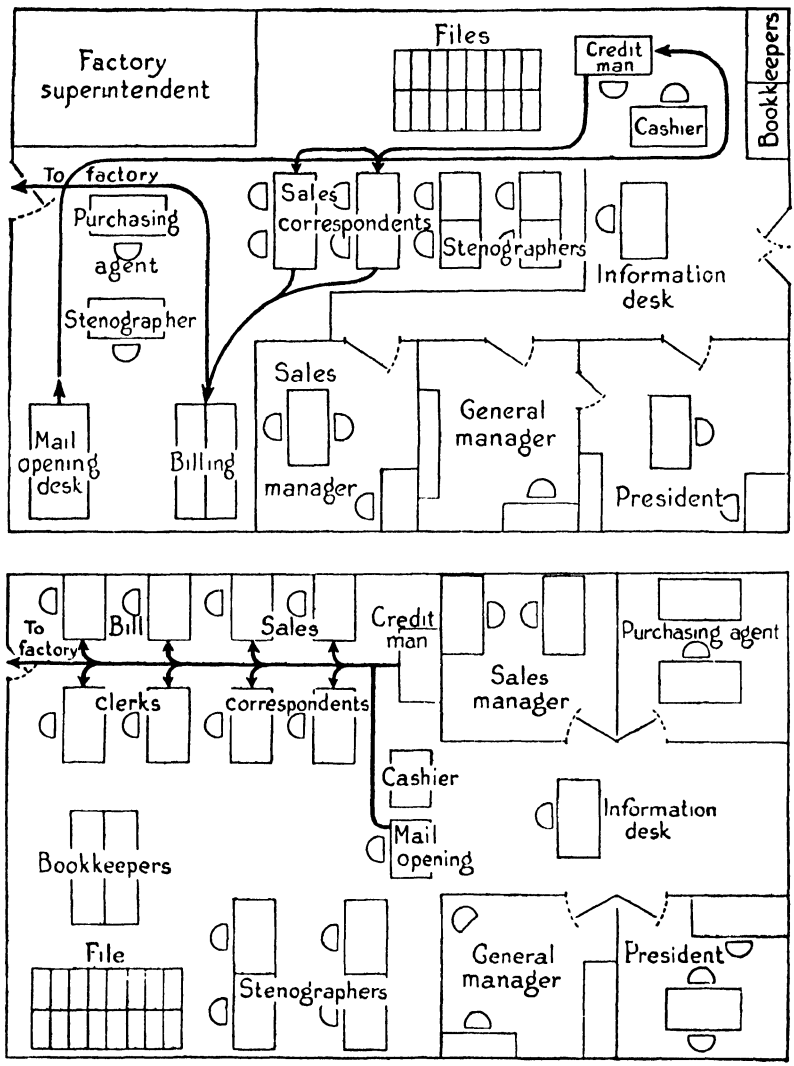
Maintenance of Equipment. All machines require maintenance, if only cleaning and lubrication. Many require adjustment; some require more repairs than others. If a machine has to be stopped frequently for repairs, the idle time of the operator

and the lessened production will mount rapidly and soon offset any price advantage in the original cost. All maintenance work should be scheduled, to ensure regular attention. In manufacturing plants and shops a maintenance man or department will have all responsibility for maintenance of equipment, to keep it in operating condition. Inspection will anticipate and prevent many breakdowns. In offices large enough to keep a mechanic occupied on office machines, it will often be an economy to employ one. The overhauling of all machines can be scheduled, and breakdowns prevented.

Arrangement of Equipment. The arrangement of equipment, or "layout" as it is frequently called, depends on the nature of the work to be done. In manufacturing, two plans may be followed. One may be called the "consecutive" layout, where machines are arranged in the order of operations, the work coming off of one machine being put directly on the next. Another arrangement is to have all machines of the same kind together in a section. The choice may be to have all operations on a piece of work done by one group, or have one group perform only one operation, and the next group the next operation. In either case, the amount of transportation of the material should be minimized both as to distance to be traveled and the means of transportation. Conveyers may be used to advantage in reducing the amount of trucking or hauling, and gravity should be taken advantage of wherever possible or feasible. Downhill movement of material requires no power.

In offices, desks should be arranged so that the work moves in a reasonably straight line, without unnecessary back-tracking or crisscrossing. Where work passes through two or more departments, consideration should be given to locating such departments near each other. In one office, for example,the purchasing department was located at one end of a 300-foot room and the voucher department at the other end, requiring constant travel between the departments. A rearrangement placed the two departments in adjoining spaces, so that papers could be transferred immediately without loss of time or effort. In the same way, the credit and bookkeeping departments should be located near each other, since the accounts receivable ledgers of the

bookkeepers are in frequent use by the members of the credit department.



Compare these "before-and-after" floor plans of an office. The upper plan shows the old arrangement. The lower plan shows how the new layout has eliminated unnecessary travel and backtracking.

Workplace Layout. The arrangement of the individual workplace, whether in office or shop, makes use of the same

principles. Basically, the idea is the convenience of the worker, as far as possible. No work at a desk, bench, or table, for example, should require frequent or continued stretching or reaching for materials or tools. Everything should be within arm's reach, a definite place being provided for every tool used, and each tool returned to its place immediately after use. If the work requires standing, the bench should be of a comfortable height. Consider the height of hospital beds, which makes it easy for nurses and doctors to attend a patient without unnecessary stooping or bending. Consider the height of the average kitchen sink or stove; no wonder some housewives get round-shouldered. If work can be performed seated, both workplace and seat should be of a comfortable height, adjusted to the individual worker, if possible. In repetitive work, full use should be made of both hands, with prepositioned tools to save time and energy otherwise spent in picking up and laying down tools. Careful study of the operations by a trained motion analyst will result in a faster accomplishment without increased fatigue. This applies to both office and shopwork.

Questions for Discussion

1. Name six factors concerned with the convenience of location of a business, and comment on each.
2. When is it important for a business to be located near its customers, and why?
3. Do you believe that it really makes any difference on which side of the street a store is located? Why or why not?
4. Why do wholesale houses in similar lines often locate in the same district? What would you expect that district to be called?
5. Does the fact that a business is located near its market have any bearing upon the economical operation of the business? Explain.
6. Why are businesses not so dependent upon railroads as they formerly were?
7. When should a business be located near its source of raw materials?

8. How important is it for a business to be located near its labor supply? Explain.

9. What is meant by labor supply?

10. What effect may the Fair Labor Standards legislation have upon the location of businesses? Why?

11. How important is it for an office to be located near its labor supply?

12. How important a factor in location is the expense of the location?

13. What is the very first factor in the choice of a building? Why?

14. What features of a building contribute to its suitability to the business that is considering locating there?

15. What are the comparative advantages and disadvantages of one-story and multistory buildings?

16. Comment on lighting fixtures, with respect to effectiveness, efficiency, cost, and maintenance.

17. Why is fluorescent lighting so popular?

18. What point should be kept in mind, regardless of the system of lighting adopted?

19. What factors enter into the selection of machinery and equipment?

20. Between single-purpose and multipurpose machines, what would be the two deciding factors in selecting one or the other?

21. Why are machines used, anyway?

22. When may tables of calculation be used to greater advantage than a calculating machine?

23. Comment on the three factors to take into account when considering whether a machine should be replaced.

24. Comment on the maintenance of machinery.

25. What is layout? Why is it important?

26. Describe briefly two plans for arranging machines used in factories.

27. Comment on the arrangement of office equipment.

28. What features concern the arrangement of the individual workplace?

29. How may time and energy be saved on repetitive work?

Topics for Special Reports

1. A question that pops up every now and then is the extent to which laborsaving devices have thrown employees out of work. See what you can find out about this and write a 1,000-word report on your findings. Restrict your comments to either office or factory.

2. Despite the increasing use of machinery in offices, the total number of office employees in the United States is now around 5,000,000 compared to less than 200,000 in 1880. How do you explain this phenomenon?

3. Adequate and uniform heating and ventilation of workrooms is not easy, for a number of reasons. List as many ways of doing this as you can find, and comment briefly on the effectiveness of each.

4. In a large garage for live storage, what is the best method of parking the cars?

Problems

1. Among the periodicals published by a certain concern is a daily newspaper with two afternoon editions, one at two o'clock and the other at four. At these times all the company's trucks are needed to carry mail and newspapers. There is one special route that has to be delivered to newstands right after each edition. Should the company purchase an extra truck to take this route (there would be no other use of it the rest of the time), or should the company arrange with a dispatch service to deliver this route? Give your reasons?

2. A daily newspaper in a medium-sized city is thinking of putting out a magazine section each week as a supplement to the Wednesday edition. They haven't a press that will do this kind of work, but there is a printer in a near-by large city who can handle the supplement. The alternatives are to (*a*) prepare the material locally and send it to the printer or (*b*) buy a special press and do the work locally. If you were the newspaper publisher, which or what would you do? Why?

3. During one Christmas vacation a student worked in one of the chain dry-goods stores and had an opportunity to study

the business and some of its problems. One problem was the requirement that every time a sales girl received a $5 bill or larger, she was expected to call the number of her counter aloud, whereupon the floorwalker would come to her counter, get the bill, and take it to the cashier at the other end of the store to get the change. During this procedure, there was a great deal of time wasted, especially if the store was busy. Also, many times the floorwalker failed to hear the girls, resulting in added congestion and loss of time. What are the reasons for this procedure? What suggestions would you make for improving the situation? Give your reasons.

4. After a retail store has been in operation for a long time, the addition of new offices or departments would mean a rearrangement of the departments. Is it wise to relocate departments when they have been established for some time? Why or why not? If rearrangement is decided upon, what suggestions would you make for the shift?

5. The kitchen of a combination restaurant and bakery in a small city is too small but, because of the construction of the building, it cannot be enlarged. To move out of the location would mean losing a profitable patronage. What can be done?

7

Organization of Personnel

THE MOST complicated problem of business is people. Technical processes may be mastered, strains and stresses of materials may be correctly figured, plants and offices may be built to exacting specifications, and intricate machines devised for performing work with fine accuracy but, if the human element in business is disregarded, trouble is ahead. There is no formula that will work all the time and in every case. Human beings differ too much from each other—they cannot be standardized like inanimate objects. They are dynamic, not static. This comment applies whether dealing with competitors, associates, or employees. The one certain thing about people is their uncertainty.

A recognition of the difficulty does not excuse one from attempting to solve the problem. The present chapter, therefore, will be concerned with theories, techniques, procedures, and objectives to be accomplished with respect to the employees of a business. A rereading of Chap. 4 is recommended as a background.

Enlightened Self-interest

Human beings are essentially selfish, both by nature and by environment. An altruist is one who has regard for and is devoted to the interests of others than himself. Some people seem to lack even a trace of altruism in their makeup; others feel that after they have looked out for "number one" there will be time enough to consider the interests of others; still others believe that there is such a thing as enlightened self-interest, which may be made to benefit everybody through cooperation. The history of cooperation among business men and politicians is replete with instances of the gentlemen's agreement, defined by Webster

as an agreement based on honor rather than on law and not enforceable by law. The exact point at which the parties to such an agreement cease to be gentlemen usually arrives when the avarice of one overcomes his sense of honor; whereupon he takes what he wants and lets down the other parties.

Personnel Control

What personnel control is: Getting and keeping the right kind of help at a cost we can afford to pay

Purpose of personnel control: To get continued high output of standard quality at a low labor cost per unit of output, with just rewards to employees, under good working conditions

Factors to control, in the following order:

1. The need of additional or replacement help
2. Job specifications, through job analysis
3. Sources of personnel supply
4. Selection
5. Placement and transfer
6. Training
7. Introducing the new employee to the organization
8. Direction, supervision, discipline
9. Remuneration of the employee
10. Working conditions
11. Incentives
12. Personnel policies

Once this fact of selfishness is not only recognized and admitted but fully realized and appreciated, it is possible to proceed to a solution based upon compromise, where one party gives up something in return for similar concessions from the other party. To be more concrete, nearly every person wants to

receive from his work just as much money as he can force his employer to pay, regardless of whether or not the amount bears any relation to "real" wages—*i.e.*, what the money will buy. Since real wages fluctuate with fluctuations in the prices of goods, the value of the money wages that one gets at any time is not measured by the amount of money received but by the quantity of goods that it will buy. Likewise, every employer wants to get as much work as he can from his employees at minimum cost. These are the extremes. There are persons who work for the pleasure of working, just as there are employers who encourage their employees to make as much money as possible.

Somewhere between these two extremes is a middle ground which can be approached by all parties. The wage-and-hour laws, as the Fair Labor Standard Acts are called, are an attempt to provide a legal minimum of pay for a stated number of hours worked. Except for temporary legislation enacted during the Second World War, there is no limit to what both parties may do beyond the legal requirements. Admitting that mistakes of both head and heart have been made, let us consider what might be done.

Two Viewpoints

There are always two viewpoints in the personnel problem of industry. The employer has some work he wants done; the employee wants to get from his work enough money to live according to the standard that he has established for himself. If the employer has to pay too much to get the work done, his increased costs will affect the price of the finished product to the point of diminishing returns in the way of orders from customers. If the employee cannot get so much money as he thinks he is worth, he will go somewhere else or else stay only as long as it takes him to find a job elsewhere.

The middle ground is the point at which each meets the other; the employer wants production at low cost; the employee wants an adequate return from his effort. Both objectives may be attained by increasing the efficiency of the worker. This does not mean driving, as so many people imagine; it means simply

making it possible for an individual to accomplish more work with less effort and in less time than he has been doing.

Old, Yet Always New

This is not a new doctrine. As early as 1911, a prominent management engineer, Frank B. Gilbreth, stated that by proved methods workers' "outputs have been more than tripled, production costs lowered, and wages increased simultaneously." Thirty-two years later, the War Manpower Commission published an instruction manual prepared by the Western Electric Company in 1940, based upon a program set forth in 1919 as a result of practices during the First World War. This program has been the basis of several excellent manuals. The director of the Training Within Industry program said in November, 1942, that in the short time the TWI program had been operating, 7 men trained 100 men, who in turn trained 4,000 men, and these 4,000 had trained 325,000 others, affecting plants employing over 5,000,000 workers. Since this particular training takes only five 2-hour sessions, it must have merit.

And yet the basic features are not new. Management engineers have known them for over a third of a century and are using them every day. They have been published in management society journals, discussed in meetings of management societies, and made available in book form to all who are interested enough to inquire. Several universities offer courses in this field which are open to everybody—men and women alike.

Six Factors

There are six main factors involved in successful personnel organization and administration:

1. Job analysis
2. Worker selection and testing
3. Worker training
4. Supervision
5. Incentive provision
6. Labor-management cooperation

Job analysis finds out what is to be done and determines the best

methods of doing it. Worker selection and testing finds the worker best fitted to do this work. Worker training shows him the best methods of doing the work, as discovered by job analysis. Supervision guides and assists the worker to do his best and overcomes hindrances to effective work. Incentive provision makes it worth while for him to put forth the effort necessary to get the desired results. Labor-management cooperation builds morale, resulting from a clearer understanding of mutual problems and a concerted effort to help solve them.

1. Job Analysis. The term "job analysis" has long had two recognized meanings, with correspondingly different objectives. One applies to the more or less superficial study of the work done and the conditions under which it is done, in order to determine what the job actually is, the conditions under which it is done, and the qualifications required of a worker to be able to do the work satisfactorily. The resulting information is summarized in a so-called "job specification," which is used in selecting from applicants for employment. The objective is to make it possible for the interviewer more intelligently to match an applicant's qualifications with the requirements of the job. It takes a lot of guesswork out of the hiring and helps to eliminate labor turnover caused by misrepresentation or lack of appreciation of the nature of the work and of the conditions under which it has to be done. When help is scarce, applicants must be "sold" on the desirability of working for a particular company, and it is not unreasonable to expect that greater stress will be laid on the attractive features of the job than on the unattractive ones. If a new employee knows beforehand, however, what the drawbacks are, he will not be so disappointed and inclined to throw up the job, as he would if he didn't get the low-down until he had started work.

More recently, the term "position analysis" has come to be used to describe the preparation of the "occupational description," as the job specification is now termed. With the wider use of scientific methods of determining fair standards of employee compensation, especially of salaried employees, there have resulted from position analyses a number of valuable by-products, which have become quite important in their own right,

such as job classification, job standardization, and salary standardization.

Improving Performance. The second meaning of job analysis has as its purpose, not the preparation of a job specification for employment purposes, but the improvement of the method of doing the work. This involves not so much describing the work as it does dissecting it. The first step in this kind of analysis is to determine whether the work is really necessary. If it can be eliminated, no more time need be spent on it; it's out. One test of essentiality is to ask what would happen if this particular work were discontinued. Elimination of unnecessary work is the first technical step in any improvement program.

If the work is found to be necessary, the next step is to examine everything connected with the job, starting with the purpose of the work, the materials and equipment used, the conditions under which the work is done, and a minutely thorough scrutiny of the way it is done, often using motion analysis as a background. As a result of this detailed survey, several facts may be revealed: the light may be inadequate or may come from the wrong direction; the machine may be in poor condition or it may be obsolete; the material may not come in proper shape to work on; the tools may be dull, not appropriate, or even lacking; the worker may make many unnecessary motions, which may not only take up unprofitably spent time but also tire him quickly; the work may not be arranged to best advantage; the workplace may be too high or too low; the seat, if any, may be too high, too low, not comfortable, or ill-adapted to the worker and the work.

From a study of this analysis an almost entirely new job may be synthesized, with appropriate materials, equipment, and tools, with as nearly ideal working conditions as possible under the circumstances, and with a method which contains no waste motions, no unnecessary effort, no strain, and which utilizes both hands simultaneously wherever advantageous and possible. This process is called "standardization," implying that everything concerned with the job is standardized and that wherever this same work is to be done, the standards established should be set up and adhered to.

The Present Trend. Originally, this analysis and improvement work were made by specialists who called themselves "systematizers" and "efficiency engineers." Here and there a concern had its own industrial engineers and methods men, but many installations were made by outsiders. Although this situation still exists to some extent, the present trend is toward letting the worker and his supervisor have some share in finding better ways of doing the work, instead of being shown how to do it by a hired specialist. The new technique calls for arousing and stimulating the interest of the worker and his supervisor in improvement work. The individual is not told or shown how to improve his work but is shown, by means of motion pictures and demonstrations, how others do it. Obvious improvements in technique, as well as in equipment and arrangement of the workplace, are apparent in the pictures shown. The desired result is to get the individual to think of places in his work where improvements could be made and to suggest those improvements. Increasing interest is stimulated by before-and-after pictures and by carefully directed publicizing of the improvements and of the individuals responsible for them. If improvement in performance is tied up with increased pay, as it should be, the interest should accumulate as a rolling snowball increases in size. The desired reaction is, "If he can do that, so can I." The foregoing applies to present employees, not to new ones, who still have to be shown how to do the work.

The mention of incentive, which is discussed more at length later on, brings up the value and purpose of time study.

Time Study. The purpose of time study, as distinguished from motion analysis, is to determine the time required to perform each element in the operation, each operation in the job, and the job itself, for two reasons: If a certain operation is done in the same way 100 times, the time taken for the 100 operations should be 100 times the time taken to do the operation once. Invariably, it will be found that, although the average of 100 performances is close to the time for one performance, many of the individual performances are out of line—some over, some under. Assuming that the timer knew his stuff and that the timing was correctly done, there must have been some other

cause for the variations in time. With this clue, a search may be made to discover what those causes are, so that the reasons for the longer times may be eliminated and advantage taken of the reasons for the shorter times. In other words, any variation from the standard time is caused by some variation from the standard operation, provided, of course, that the conditions are standardized also. This is particularly helpful in teaching a new method to others. Variations in time indicate variations in method; find where the variation occurs.

Given a standard time for doing any piece of work, it is possible to reckon how long it would take to do a stated number of pieces and thus to build up an operating schedule or provide a preview of costs.

The first reason for time study, then, is to provide a basis for comparing performances of the same job and to establish a standard time for doing the work.

Payment on Basis of Output. The second reason for time study is to make it possible to pay the worker on a production basis, that is, a basis of output. If a worker is paid 75 cents an hour for each hour put in, he is being paid for his time. But if he is paid $1 an hour for a stated output per hour, with a bonus for each additional piece per hour, he is being paid for what he actually does, not simply for a stated amount of time put in. This furnishes a very strong incentive to effort, provided the rates are set fairly to begin with and provided further that, once the rates are set, they will not be changed for any reason except a change in method.

This lengthy discussion of job analysis may seem somewhat far afield from the subject of personnel. On the contrary, it is a vital part of it. All of the work of job analysis results in something that the worker will live with on the job as long as he is in our employ. We want to have it right.

2. Worker Selection and Testing. The selection of the person best fitted to do the work involves the finding and tapping of sources of desirable applicants, followed by the interviewing, testing, and choosing from those available the ones who most nearly have the qualifications we are trying to match.

Probably the most likely sources of applicants for employment are the state and Federal employment services and the private agencies. Since different agencies may handle different kinds and grades of help, some experimenting may be necessary until one is found that is able to supply the kind of help desired. Once found, that agency should be given the exclusive business for that grade of help. "Shopping" by employers among several agencies is not satisfactory, since each agency approached realizes that under such circumstances speed in presenting personable candidates is more important than quality.

Schools, colleges, and training agencies are sources for specific types of help, especially for younger, inexperienced applicants who have promotional possibilities.

The Personnel Function

Interview and select applicants
Provide preliminary instruction in company rules
Introduce new employees
Follow up new employees
Watch absences, tardiness, personal conduct
Prepare and distribute manual or handbook, job specifications, instruction sheets, notices to employees
Supervise bulletin boards
Handle transfers and promotions, releases and discharges
Supervise vacation schedule
Keep essential personnel records

Other Sources. Sometimes friends or relatives of present employees constitute a source that may be tapped. Many large financial houses, however, are very careful not to hire relatives of present employees for fear of collusion. Other concerns not thus affected have sometimes found the source helpful, even advantageous.

Former employees with satisfactory records form a valuable source on occasion, especially for temporary rush periods. If a woman has left her position to get married, she may welcome an opportunity to pick up some extra money. Also, employees who have left for other satisfactory reasons may find the "green fields" were no better than those they left, and would be glad to return home, if they could do so without losing face.

Courtesy of Western Electric Co., Inc.

The applicant gets his first impressions of the company from the employment interview.

Newspaper help-wanted advertisements are sometimes effective and sometimes not. Responses are many in time of poor business, and not so many when business is very good and employment full. But they do reach some applicants who would not be found by any of the other sources.

Making a Selection. The selection of promising candidates from a group of applicants is not easy. The more care that is exercised in selection, however, the fewer failures will result. Certain factual features, such as sex, age, schooling, and previous employment, are readily ascertained and checked. It is the intangibles that make choice difficult. Suppose that an applicant has had three years of employment with a certain

Position
Department
Salary

Date
Employed by

Do not fill in the above space

Miller & Grove

Jewelers

Application for Position

Name _____ Age _____ Date _____

Address _____ Telephone No. _____

With whom do you live? _____ Nationality _____
If with parents, state so

Position desired _____ Introduced by _____

Education	Grammar school What grade? If graduate, state so.	State below if you have any special training or qualifications.
	High school How long? If graduate, state so.	
	College If business college, state so.	

References:

Give below four personal references who have known you for past five years.

Business or professional men preferred. (Do not name relatives or previous employers.)

Name	Business or Occupation	Address
1		
2		
3		
4		

Record of Previous Employment

Give your present or last position
first and other positions in order

1 Last position

Employer _____ Address _____

Business _____ From _____ 19 To _____ 19

Position held _____ Under whom _____ Salary _____

Reason for leaving _____

2 Next to last position

Employer _____ Address _____

Business _____ From _____ 19 To _____ 19

Position held _____ Under whom _____ Salary _____

Reason for leaving _____

3 Third last position

Employer _____ Address _____

Business _____ From _____ 19 To _____ 19

Position held _____ Under whom _____ Salary _____

Reason for leaving _____

4 Fourth last position

Employer _____ Address _____

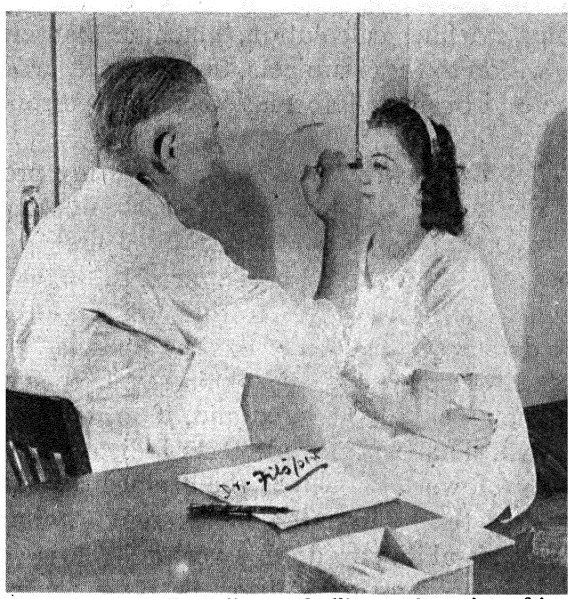
Business _____ From _____ 19 To _____ 19

Position held _____ Under whom _____ Salary _____

Reason for leaving _____

concern. What did he do there? How well did he do it? Was his work satisfactory? How did he get along with the other employees? Would his former employer reemploy him? If not, why not? Often a personal conference with the former employer will bring out points not otherwise ascertainable.

Testing Ability and Aptitudes. All the foregoing furnish a background against which to judge the likelihood of a candidate's making good in the work for which he is being considered. In addition, it is desirable to find out two other things: through a medical examination, to learn if he has any disease or tendency



A medical examination of all applicants facilitates detection of incipient diseases.

to disease which might spread among other employees or which might interfere with his own work sooner or later; through tests, to determine his present level of knowledge, ability, and intelligence, with respect to the work contemplated. Inexperienced beginners might well be tested for aptitudes, also, in order that their training may be directed along the lines of the work for which the tests show they have an aptitude. Tests have been prepared and are available that indicate the foregoing features to some degree. Indeed, it might be said that it is easier to obtain

satisfactory tests than it is to administer them; if tests are not administered properly and evaluated with discrimination, the results will not be reliable. No one should be allowed to give them who has not had training and experience in testing. The conditions under which they are given also affect the results.

The United States Employment Service has developed a testing service that is available to employers. In the clerical field, the National Clerical Ability Tests[1] have been developed and administered by the Joint Committee of the National Office Management Association and the National Council for Business Education. Carefully prepared tests cover stenography, typing, bookkeeping, machine calculation, machine transcription, and filing. In addition to these subjects, tests are prepared on general information and business information, plus a personality-rating schedule.

Keep This Distinction Clear. In all testing programs, the purpose of the testing should be kept clearly in mind. Aptitude testing is important where no occupational ability is expected at the outset; such ability will be acquired through training and experience on the job. Ability testing, on the other hand, is intended to determine whether or not the applicant possesses the specific capacities, abilities, and skills required in the job for which he is now being considered and, if so, to what extent he possesses them. That is, aptitude tests indicate trainability for certain kinds of work in which the trainee is most likely to succeed; ability tests determine the present attainment of the applicant and his ability to do the work.

When the employment manager or interviewer is satisfied that an applicant's qualifications indicate his probable success in the work to be done, there are still two important steps to be taken: the introduction and the training of the new employee.

3. Worker Training. The procedure set up for introducing the new employee and orienting him in the company is often called "induction"; its importance cannot be overemphasized, since upon the care and thoroughness with which it is carried out may depend the new employee's getting off to a good start.

[1] Information about the National Clerical Ability Tests may be obtained from Harold E. Cowan, The High School, Dedham, Mass.

With some companies and in some positions, induction may comprise nothing more than showing the new employee where he is to work and making him acquainted with one or two near-by employees. With other companies, the induction program may take from three days to three weeks, so important is it considered.

Courtesy of Workman Calculating Service

A change, no matter how slight, is always refreshing. A recreation room like this will pay dividends.

Purposes of Induction. One of the purposes of the induction procedure is to give the new employee such information about the company and the requirements of and facilities provided for its employees as will enable him to take hold with confidence in himself, in his supervisor and associates, and in the company. This information includes his working hours, his rate of pay, when he will be paid, absence and tardiness requirements, vacations, special facilities, and so on. Some companies print this detailed information, or part of it, in an employees' handbook. Others supplement it with personal or group talks by supervisors or others selected for the purpose by the personnel department.

Steps in Training. Next comes the training in the details of his work. Since it is obvious that no one can be expected to do what he doesn't know how to do, or to accomplish something when he doesn't know exactly what he is expected to accomplish, the training should be thorough. The steps may be taken in some such order as this:

1. Nature of the work (he already had some idea of this, when hired)
2. Purpose of the work
3. Features of the machine and other equipment (if used on the job)
4. Steps in doing the work
5. Inspection of the finished job

The training supervisor need not spend any more time explaining the nature of the work than is necessary to be sure the worker understands it. This does not mean that this explanation should be skimped, but it may call for nothing more than a review or outline to refresh the worker's memory. The explanation of the purpose of the work may well be combined with the first step, making sure that the worker understands both clearly. No work is so dull and uninteresting as that which seems to have no purpose to it.

Even though the new man may be thoroughly familiar with the machine he is to operate, it is well for the training supervisor to assure himself of that fact, either by questioning, by demonstration, or by observation. Sometimes later models have features not appearing on earlier ones. Often a safety device will have been added. Two purposes of this step are to assure that there will be no accident as a result of unfamiliarity with the machine and that the machine itself will not be damaged by one unfamiliar with it. It is possible to make sure of these points without offending the worker.

Of Vital Importance. Too much care cannot be taken in teaching the work itself. It is not enough to *tell* the new employee how to do it; frequently he has to be shown. And the demonstration should be so carefully and plainly handled that the worker can follow each step clearly. If written standard practice instructions are available, it is helpful for the worker to study

them carefully before attempting the work. If some of the steps are more difficult of comprehension than others, the supervisor should dwell on them, repeating them as many times as may be necessary. This is no time for hurry; the supervisor should do his work of training as though that were the only thing he had to do at the time. Many a worker is afraid that he will appear dumb if he doesn't catch on the first time. The supervisor should not be satisfied until he *knows* that the new man understands what he is to do and how to do it. If the work is made up of a number of jobs, it might be well to teach only one at a time; when that is mastered, the next can be taken. In cases of this kind, written standard practice instructions will be found extremely helpful, since they make it possible for the worker to review the directions as often as necessary. If the supervisor takes the attitude that his main job is to *help* the new worker, he should have no difficulty giving that help.

Checking the Trainee's Grasp. After the demonstration, the supervisor may ask the employee to try it while he watches closely and carefully. Several trials may be necessary before the supervisor is satisfied. When that time comes, the worker may proceed, with frequent observations by the supervisor to make sure that everything is all right. With practice the new worker will gain proficiency until eventually his output will approach the standard set for the work.

Let us review these steps in training.

1. Be sure the new man understands what you have in mind.

2. Show him carefully what you wish done, using patience, going into detail, and often explaining the significance and importance of each step.

3. Have him watch you or others perform the work, and let him ask any questions he desires.

4. Review the instructions.

5. Now let him practice the work under your direct supervision, slowly at first. This is your opportunity to correct false moves with patient explanation; let him continue to practice until he has mastered the correct method.

6. Review the instructions again.

7. Let him get more practice, gaining proficiency constantly, until his output approaches the standard set for that work.

4. Supervision. The function of supervision has been described in detail in Chap. 4 and need not be repeated here. Supervisors should be just as carefully and thoroughly selected and trained for their job as the workers are for theirs. There are right and wrong attitudes and techniques of supervision. The wrong ones can be very expensive indeed, and the right ones can save much time and money.

5. Incentive Provision. No one ever did anything without an incentive. People generally will carry on as far as they think it worth their while and then stop, unless a further incentive appears. Money or the hope of a reward is a powerful incentive, but it is by no means the only one; pride of accomplishment, the hope of praise or promotion, the satisfaction of working under pleasant conditions, and many other nonfinancial incentives are often effective where money or money alone would not be.

Nor are all people equally responsive to the same incentive nor to the same degree. This fact may explain why some incentive plans work at some times and not at others, or with some people and not with others. To select the incentive or combination of incentives that will be most effective requires careful study of all circumstances involved. If a financial incentive is chosen, such as a reward in the form of additional money payment, it is necessary, if the effort is to be sustained, that the reward be definitely tied up with the effort so as to leave no room for doubt that it is the result of the effort. Indeed, some authorities urge that the incentive payment be made separately from the regular salary or wage payment, so that it can be identified as resulting from extra effort.

The Standard Task. A very real problem in establishing an incentive plan is the determination of the point at which the reward should become effective. This involves setting what may be called a "standard task," comprising a certain amount of work to be done in a given time, usually stated as so many pieces an hour or so many units a day. For example, if, as a result of motion analyses and time studies, it is found that a

fair day's work for an employee is 60 pieces an hour for an 8-hour day, or 480 units for an 8-hour day, that figure would be used as the standard task, on which the basic salary or wage would be paid. That is, for a salary rate of $24 a week, say, or 60 cents an hour (figuring 40 working hours to the week), the employee would be expected to produce 60 pieces an hour, 480 pieces a day, and 2,400 pieces a week. The standard or basic wage would be $24 for a standard output of 2,400 pieces in a 40-hour week. That is at the rate of 1 cent per piece.

Suppose, now, that worker A turned out 2,800 pieces during the 40 hours, a rate of 70 pieces per hour. On a piece-rate basis, he would receive the regular rate of 1 cent a piece, or $28 for the week's work. Under this arrangement a worker can earn as much as he can produce. The importance of extreme care in setting the standard is now evident. If it is set too low, it is too easily reached; if too high, too difficult to reach. A standard should not be too easy nor too difficult; it should be possible to attain, by using the standard method under standard conditions. It should be possible to surpass, but not by any very great margin. With a standard thus set, it is possible to pay a base wage of 10 to 40 per cent more than without any standard, and at the same time provide for an additional payment of 5 to 40 per cent.

A Sliding Scale. Sometimes the payment for the additional output at the regular piece rate is not a sufficient incentive to put forth the effort. When this is the case, the incentive may be provided by increasing the piece rate when the output reaches or passes a stated figure.

For example, if 60 pieces an hour is the standard task and 1 cent per piece the standard rate, the rate for each piece over 60 an hour could be set at 1¼ or 1½ cents. This would result in an added payment per hour of 12½ to 15 cents on an hourly output of 70 pieces, or $5 to $7.50 additional per week.

There are many incentive wage-payment plans, but they are all based on some combination of time and output, with bonuses or premiums figured in various ways. One plan, for instance, starts the bonus at two-thirds of the standard. Another stops all payment at 120 per cent of standard, on the theory that

effort beyond that point would be too much of a strain and cause excessive fatigue, with a resultant slowing down. A steady pace is always preferred to spurts, although spurts are sometimes necessary during an unexpected rush of business.

6. Labor-management Cooperation. This received a strong impetus during the Second World War when the War Production Board in March, 1942, announced a drive for the purpose of speeding up war production by building up the morale of the workers and stimulating greater and sustained effort on the part of all. The plan proposed the formation of a joint labor-management committee in each plant, half of the committee to be selected from the employees and the other half from the management. Among the activities of the committee, one of the most important and fruitful was the encouragement of suggestions for improvements. These suggestions, thousands of which were received, were carefully gone over by the committees and those which were accepted were acted upon without delay. As the plan worked out, it was very successful.

When the labor-management plan was first proposed, there was a feeling on the part of management that the idea was for the joint committee to share in all of the management responsibilities—determining management policies, hours, wages, working conditions, and so on. On the part of labor, the unions wondered if the plan was an antilabor speed-up scheme. The committees, however, were specifically instructed to steer clear of matters concerning wages, hours, working conditions, management policies, and so forth. It is quite possible, nevertheless, that the close association of labor and management on joint committees may lead to a gradual extension of the ground covered as each side finds that the other side has no horns or forked tails. Since both management and labor have a vital interest in continued production, it is to the advantage of each to have the benefit of the mutual counsel resulting from close cooperation.

Questions for Discussion

1. "The most complicated problem of business is people." Why?
2. Why isn't a gentlemen's agreement usually kept?

3. Do you believe that there are people who work for the pleasure of working? Comment on this statement and try to recall something that you undertook, not because of what you were to receive for it but because of the pleasure it gave you.

4. Contrast the viewpoint of the employee with that of the employer with respect to the personnel problem.

5. Do you agree that if an employee cannot get what he thinks he is worth from his present employer, he will go somewhere else? What influences might tend to keep him where he is?

6. Name the six main factors in personnel administration and discuss each briefly, allowing one sentence to each.

7. What are the two purposes of job analysis? Which is the more important? Why?

8. What is position analysis and what is its purpose?

9. What is the purpose of the job specification or occupational description?

10. What is the first step to take in making a job analysis for the purpose of improving the method of doing work?

11. What is the first step to take in any improvement program?

12. The next step in improvement work—examining everything connected with the job—is approached from four angles. What are they?

13. As a result of a detailed survey, several facts may be revealed. Name as many as you can recall of the eight mentioned.

14. When a new method is synthesized as a result of a thorough survey and analysis, what would you expect of the new method?

15. Why is this process of analysis and synthesis called standardization?

16. Distinguish time study from motion analysis and state the purpose of each.

17. When the time that it takes a worker to do a piece of work varies, what is indicated?

18. What are the two main advantages of having a standard time for doing each kind of work?

19. How may time studies affect the pay of the worker?

20. Would you object to having your work time studied if you knew it might result in your getting more money?

21. What features are involved in selecting new employees?

22. Name several sources of applicants for employment and comment on each.

23. Each applicant has certain tangible or factual qualifications and certain intangible ones. List as many of each as you can recall.

24. How would you appraise the value of an applicant's experience?

25. Why is it desirable to give each applicant for employment a medical examination? Can you think of any reasons why exceptions should be made to this requirement?

26. "In all testing programs, the purpose of the testing should be kept clearly in mind." Name two kinds of tests and state their purposes, indicating also when each should be used.

27. What precautions should be observed in giving any test? Why?

28. What is the purpose of induction, and how is it accomplished?

29. Why should a new employee receive thorough training in the details of his work?

30. Five steps are suggested in training a new worker. Name them in proper order.

31. How much time should be spent explaining the nature of the work? Why?

32. Why is it quite desirable to state the purpose of the work when training a new employee?

33. If the work is operating a kind of machine with which the worker has had some experience, why should the training supervisor spend any time pointing out any features of the machine? How can this be done without offending the worker?

34. "Telling is not teaching." Explain.

35. Should the demonstration of how to do the work be done at a normal pace or more slowly? Why?

36. How much time should the trainer take to train the trainee? Why?

37. Why are some workers afraid that they will appear dumb if they don't catch on the first time? (Before answering this question, consider the old proverb, "The burnt child dreads the fire.")

38. Why are written standard practice instructions of help in training? Whom do they help the more, the trainer or the trainee? Explain.

39. What should the attitude of the supervisor be toward new employees?

40. Should the supervisor have the same attitude toward all his supervisees? Why or why not?

41. How may the supervisor know that the trainee has learned the work?

42. Why should supervisors be carefully selected and thoroughly trained for their work?

43. What is an incentive and what is its value?

44. Name four nonfinancial incentives and comment on each briefly.

45. Should any particular precaution be observed in paying a financial reward? If so, what and why?

46. Define or explain standard task, stating any precautions to be observed in connection with it.

47. What may be done if the additional payment for the additional output at the regular rate is not a sufficient incentive to put forth the effort?

48. All wage-payment incentive plans are based on some combination of time and output, with bonuses and premiums figured in various ways, usually with reference to the standard output or task. Why should one plan stop at 120 per cent of the standard task? Explain in detail just what 120 per cent of the standard task would be, illustrating your answer.

49. Could any method or plan of any kind that causes undue fatigue or strain be called efficient? Explain fully, giving a definition of efficiency.

50. What was the original purpose of labor-management cooperation?

51. What were some of the fears when labor-management cooperation was first proposed?

52. How has labor-management cooperation worked out?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of a class to work in groups or committees, as explained on page 85.

1. One of the problems facing gasoline-station owners and managers is the fact that the attendants often forget to put the cover back on the gas tank after putting gasoline in. Call on five filling-station managers and find out what steps they take to overcome this problem.

2. How can store managers stop the abuse that their employees make of the discounts allowed them, by using this discount for the benefit of outsiders? Call on five store managers and see how they handle this problem.

3. A retail furniture merchant asks, "How can you keep salesmen from sitting around doing nothing when business is slow?" Call on five retail merchants and ask them what they do about this problem, if it is a problem. Be sure to find out how important they think it is.

4. Intelligence and resourcefulness are important requirements for day and night clerks in a hotel that caters to transient trade. One hotel man wants to know what course of training should be followed to fit men for these positions. Call on the manager of a successful hotel and ask him how he trains his clerks. In making your report, state your opinion of his method and state what you believe should be done, and why.

Problems

1. Some firms pay their employees by check, and others by cash. Still others deposit the amount of the wages or salary in the employee's bank account. What are the advantages and disadvantages of each method? Which would you prefer for yourself? Why?

2. The stores clerk in the cost department of a factory seems unable to make a success of his job. What would be a possible solution of this problem?

3. In one concern the ledger clerk and the salesclerk have some sort of disagreement between them and are always arguing

about something. There are times when they forget their work and start an argument that attracts the attention of the other workers, whose work is thus interfered with. What will eliminate this difficulty? Give your reasons.

4. The president of an old-established concern suddenly realizes that his entire executive staff is showing signs of age. These men have been instrumental and valuable in building up the company. Now, because of age, they are becoming less efficient; but they cannot be thrown out ruthlessly and replaced by new men. What should the president do? Why?

5. In a medium-sized factory, one man has had charge of development work for many years. But now business is changing rapidly, competition is increasing, and this man is becoming old and not quite so apt in thinking up new ideas and plans. The firm is able to procure two new men with commendable engineering qualities but is unwilling to oust the older man. What should be done? Why?

6. The two clerks in a community drugstore have too much idle time. During rushes they have to work hard, but rushes are few and far between. The store manager wants to know what can be done to keep them busy as much of the time as possible. What would you suggest?

7. The cook in a certain summer hotel has been in that position from time immemorial. His reputation for cooking is excellent, and in addition he is a valuable handy man who can fix practically everything that may go wrong. Taking advantage of his position, he feeds the help poorly—the motive being laziness rather than a burning desire to save money for the owner. What can the owner, who feels that he would be utterly lost without this man, do to remedy the situation?

8. A community merchant advertises in the local paper for a boy to work Saturdays. Fourteen boys answer the advertisement. All are desirable candidates for the job, and eleven of them are sons of customers of the store. The merchant is not anxious to promote hard feelings or ill will against him or against the store by hiring one and telling the rest he is sorry. How can he determine which boy to hire and at the same time keep the good will of the other boys and their families?

9. A vacancy has occurred in a retail furniture store. To promote one of the present employees to this position would mean not only that he would have to be trained for his new position, but that whoever stepped into his old position would have to be trained for that. Would it be wiser to hire and train a new employee for the vacancy, without making any transfers? What would you do if you were the store manager? Give your reasons.

10. There are 16 men in a public utility office who post accounts at night. Each man has a special function which requires a definite length of time, and no man can leave until all the work has been completed and inspected. Thus, if one man finishes long before the others, he waits until the others have finished and the accounts are balanced. This may mean several hours in which a man has nothing to do but cannot leave. What do you suggest? Give your reasons.

11. The drivers and helpers employed in the traffic department of a particular concern are under the direct supervision of a young man several years their junior, who had, for several months before his promotion to supervisor, worked alongside them. The young supervisor finds the men difficult to control. If he should go directly to the officials of the concern, he is afraid that they might think they were mistaken in promoting him. What should he do? Give your reasons.

12. A department head insists on making arrangements for his shipments direct with the carriers instead of through the traffic department. Since the traffic department can secure better rates and better service, this procedure causes an unwarranted expense to the company. How can this department head be cured of his bad habit? Give your reasons.

13. The death of the manager of a chain food store left a vacancy. A new man was brought in from another store of the chain. The deceased man had been extremely popular among the workers. His successor has not cultivated the good will of the men. Several men cannot get along with him; one man was discharged. Would it be better to transfer the new man, who is trying hard enough, or should the men, who are excellent

workers, be allowed to leave the organization, as they express their intention of doing? Give your reasons.

14. If you had a very skillful employee with whom you had a lot of difficulty and who was a bit radical, how would you turn him into one of the most helpful of your employees? Give your reasons.

15. The bookkeeper of a certain company is an old friend of the president. She was with the concern when it started, and now the concern has expanded so that her knowledge is too limited for the records that ought to be kept. Neither she nor the president realizes this fact. What should be done? Give your reasons.

16. The city circulation carriers of a newspaper are paid weekly. At the end of each week they go to the cashier's office and collect their pay, in cash. This involves some extra work for the cashier, who wants the system changed so that the carriers will be paid once a month by check. The amounts are small, and the cashier claims that the extra work involved in weekly payments is not worth it. The city circulation manager claims the carriers do not like the idea of getting paid once a month, instead of every week. What are your suggestions? Give reasons.

17. A newsboy forgets one day to leave the paper for a customer who had been subscribing for several years. The customer is much excited because of this mistake and wants the boy fired, threatening to cancel her subscription. The carrier is a hard-working boy who does not make many mistakes and has been an employee for three years. What action should be taken? Give your reasons.

8

Organization for Office Management

OFFICE *management* is concerned with the direction and supervision of office work. Office *work* includes the recording of transactions and the results of transactions, writing and answering letters, filing papers, typewriting, telephoning, messenger work, duplicating, computing, carrying on office systems. When it is realized that in the United States alone there are over 5,000,000 people doing office work, compared with less than 200,000 hardly 65 years ago, it will be appreciated that not only is office work becoming more and more important, but so is the management of this work.

The great bulk of business today is conducted on a credit basis. That is, instead of the buyer's paying for his purchase at the time he makes it, he agrees to pay for it later at a time mutually agreed upon. A record is made of the purchase or sale and of the time when payment is to be made. The seller writes down what he sold, to whom he sold it, the price, and the date when payment is to be made. The purchaser writes down what he has bought, from whom he bought it, the price, and the date when payment is to be made.

Record Keeping

These simple records of purchases and sales are the foundation of all office activities. Probably the most important records of a business are those of purchases and sales; and the place where these records are made and kept is the business office. In a large office these records are kept by the accounting depart-

ment, which also keeps track of all moneys received, paid, owed, and owing—in other words, keeps the accounts. That department also handles the important function of recording, tabulating, and reporting the results of all transactions. Reports prepared by the accounting department show the past successes or failures and help to determine the future activities of the company.

In connection with the business done, there is always more or less correspondence—letters received and letters written. In large offices several persons may do nothing but handle correspondence, that is, read incoming letters, dictate answers, take letters down in shorthand or on the dictating machine, and then transcribe them on the typewriter.

After letters are answered, they must be put where they can be easily and quickly found, since oftentimes letters previously received must be referred to. This necessitates care and system in keeping track of and storing letters. This work is called "filing" and is carried on in the filing department, sometimes also called "the files."

After letters are written, they must be mailed. This handling of "outgoing mail," as it is called, may take place in a mail department which may also receive the "incoming mail," open it, and distribute it to the proper persons for handling.

If all the various kinds of office work just mentioned were done without any definite order or system, there would be only confusion. No one would know what he was to do, when he was to do it, or whether it had been done. There would be an immense amount of duplication caused by two or more people doing the same work. Many unimportant tasks might be entirely overlooked. Some order or system is necessary.

Office System

"Office system" is the term applied to the way office work is organized. Each office has its system of bookkeeping, filing, making records, writing letters, and so on. In well-organized businesses, office system is made up of carefully laid out routines which are simply established ways of doing the work. There is a routine for doing every kind of office work, and all office work

must go through the established routine; that is, every similar piece of work must go through the same steps in the same way.

Office Routine

A routine, therefore, may be defined as a series of steps in the performance of office work, each step in the series being performed in the same order and in the same way every time. Such an arrangement assures that the work will be done uniformly.

Department Organization

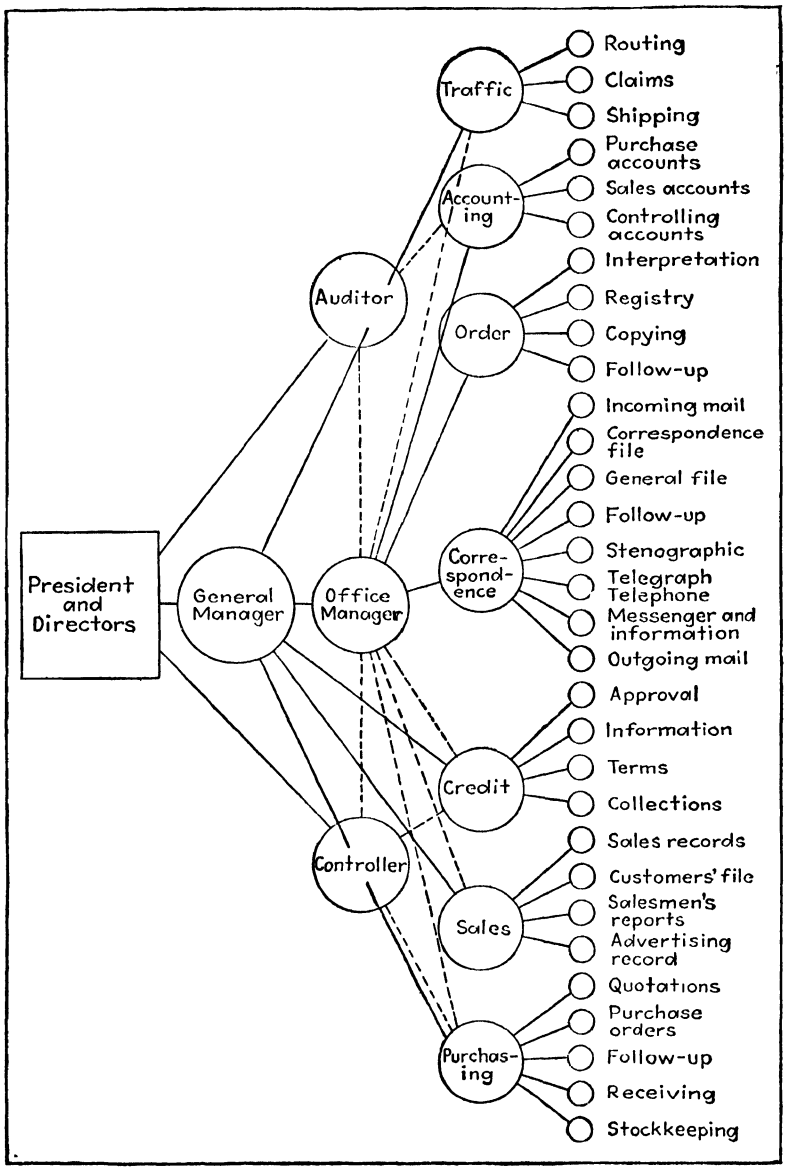
A department is a group of people concerned with the same activity. The work of a department is made up largely of routines. In the credit department, for example, there is a routine for passing on orders and a routine for getting credit information about customers and prospects; there are routines for filing the information after it has been obtained, for writing letters, for collecting money, and so on. The best ways of doing all these things have been worked out and put in writing so that all work will be done the best way every time. These written instructions are called "standard practice instructions." All the routines in any department go to make up the system of that department, and the routines of all departments go to make up the office system.

Office system, then, is the orderly way in which the work of an office is performed through routines and departments.

Two Kinds of Departments. A very interesting feature of office system is the distinction between so-called "technical" departments and "service" departments. Certain departments are concerned solely with their own special kind of work, such as purchasing, credits, accounting, and traffic; they are the technical departments, because their work is of a technical nature. Other departments, such as telephone, mail and messenger, and files, are concerned with rendering service to other departments; that is why they are called the "service" departments. Their work is described in Chap. 9.

Each technical department head is responsible to the president or the general manager. The heads or supervisors of the

service departments are usually responsible to an executive called the "office service manager," or sometimes simply the



"office manager." The office manager in turn reports to an officer of the company, sometimes to the general manager, some-

times to a vice-president, and so on. If you will look at the organization chart, you will see the responsibilities of the office manager and the department heads.

Office Management Problems

Modern business is making greater demands upon office workers than ever before. It was not so long ago that office work was looked upon as something that had to be tolerated. Today, with businesses operating at high speed, the well-managed office is recognized as an almost indispensable aid to the effective management and administration of a business.

Scientific methods are being applied to office work on a broad scale in an endeavor to establish standards of output, quality, and pay. Three outstanding management societies have made notable contributions as the result of research work done by their members in this field. Standardization of office work and of office methods has made rapid strides.

Offices have grown so rapidly in size with the increase in business and with the necessity for quickly getting information and control through records, correspondence, and routines, that office managers are confronted with two very serious problems: how to keep down the rising expense of office work and how to give new office workers the best training for the task they are to do.

Increasing Use of Machinery

The outstanding feature of the attempts to solve the first problem, that of lowering office costs, has been the increasing use of machinery in offices. This does not necessarily mean new types of machines, although many new ones have been developed, to be sure. What it really means is that offices that formerly used little machinery in their work are now using more; and offices that have always used machinery have sought and are finding better ways of using the machines already available.

Typewriters have been electrified, as have so many other devices. Calculating and duplicating devices have been simplified and speeded up. Dictating and transcribing machines have been perfected and made easy to handle. Machines for accounting

and recording have made rapid strides. Posting machines are used in savings banks throughout the country for entering deposits and withdrawals in passbooks; thus all necessary records are made in one operation.

What is perhaps the outstanding machine for eliminating certain bookkeeping operations altogether is a device that makes a miniature photograph of each sales invoice on a strip of film wound on a reel. A projector makes possible the examination of any desired invoice quickly. This same machine has been in use in banks for many years to take actual pictures of both sides of checks as they go through the bank's office.

The net result of the increasing use of office appliances has been to increase the quantity of necessary work that can be done by a worker in the same time, so that fewer workers can do the same amount of work that formerly required a larger force. Yet the total number of office workers is increasing!

The Job of the Office Manager

Not all offices have an office manager as such, although there is usually some person, an officer or department head or chief clerk, who is supposed to be responsible for the office work. Whatever the title may be, the function of office management is the same wherever it is found. Wherever the words "office manager" are used in this chapter, they refer to the individual responsible for getting the office work done, whatever his actual title may be.

The office manager is concerned with five factors:

1. The office work
2. The office workers
3. The materials and equipment used
4. The conditions under which the work is done
5. The methods by which it is done

Since working conditions were discussed in Chap. 6, what is said there will not be repeated here. The same comment applies to office workers, who are included in personnel and discussed in Chap. 7. Much of what is said in Chap. 6 about materials and equipment also applies to the items used in office work. That

leaves us concerned largely with how the office manager directs and controls the performance of office work, together with the very important responsibility of its improvement.

The First Principle of Management

In all management work, the first step is to determine the objective to be accomplished, then plan how to attain it. Consider first the work of receiving, dispatching, and shipping orders, which is described in more detail in Chap. 13. The objective is to get orders shipped accurately and promptly. Promptly means without delay; accurately means without error.

Accurate Work

Accuracy in filling orders depends upon two factors: first, the care with which the customer makes out his order; if he does not identify precisely what he wants, whether by name, number, description, or use, the chances of filling his order correctly are much less than if all or any one of those items were given. Another chance of error, due to the fault of the customer, occurs when the goods desired are both named and numbered but incorrectly. For example, the correct name of a certain repair part might be sirup pump, while the correct part number might be 416.3 If the customer asks for a sirup pump and gives the number 428.9, which is the number for an ice-cream box, how is the order clerk to know what the customer really wants? In this particular case, it might be presumed that he wants a sirup pump, since he calls for it by name; but many part names are chosen by manufacturers for their own convenience and may have no connected meaning to the customer. How many automobile owners, for example, know what a spring perch nut is? How many know that there is such a thing on their cars, until it falls off or works loose? Presumably the automobile mechanic who makes the repairs knows what that nut is, but the next time you visit a repair shop ask the manager to let you see the parts catalogue. Note its size, the number of pages, the number of items, and the possibilities of mistakes. Then marvel at the comparative accuracy with which a large volume of orders is filled daily.

Errors by customers may be decreased by furnishing them with carefully compiled information which makes it easier for them to order correctly. In the case of a machine, a diagram with the names of the parts clearly shown is one way of encouraging accurate ordering; even then, if there are two or more models, only slightly dissimilar, there are possibilities of confusion. Henry Ford took considerable pride in the fact that, despite the changes in the Model T Ford during its period of manufacture from 1909 to 1925, most parts were interchangeable on all Model T Fords.

To check the accuracy of the customer's order, many concerns have it carefully scrutinized before it goes into work. Obvious errors may be corrected then and there; doubtful items make it possible to write or wire the customer for more specific details. However it is handled, it should never be forgotten that a business is known by the customers it keeps, and it cannot continue long by losing customers. Good will is easily lost and with difficulty regained.

Careful Work

The second factor upon which filling orders depends is the care and attention given them by the clerks who handle them. Orders from customers may be received in several forms: by telephone, telegraph, letter, postal card, or personal visit. Regardless of the degree of haste involved, care should be taken to get the information correctly. It doesn't cost any more to do something right the first time than it does to do it wrong and have to do it over again. Handwriting should be clear and legible, figures should be carefully made, and quantities should be checked.

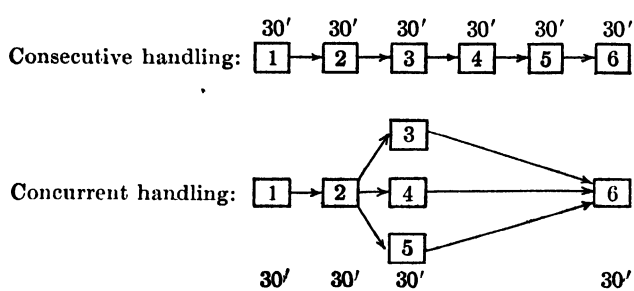
Faster Work

Many orders received are typed on purchase order blanks. Many are not typed. Those that are not typed are in various styles of handwriting. Even typed order forms may vary in style and in the placement of information on the order blank. If the original orders were put through in the form received from customers, there would be inevitable delays due to inspecting the order for necessary information. To obviate this time-con-

suming process, many concerns retype their customer's orders on a special blank order form, so designed as to bring together in one place, as far as possible, all of the information needed by any one department in handling the order. Thus each department clerk has only one place on the order blank to look for information which concerns him; there it is in black and white (or in purple and white if certain duplicating processes are used in writing the order).

Concurrent Operations

Another step often taken to lessen the chances of delay in handling a customer's order is to make enough copies of it so that if several departments have to handle the order, they can do so without waiting for other departments to get through with their part. Suppose that six departments had to handle an order, and that each handling took an average of 30 minutes; the total average handling time would be 180 minutes, or 3 hours, not counting the time required for the order to pass from one department to the next (this transportation time often takes longer than does the actual handling of the order itself). If it is possible for three of the departments to handle their part at the same time, one hour may be saved by sending a copy to each of the three departments. Whenever possible, concurrent handling of work, such as that is, is much quicker than consecutive handling, where each department has to wait until some other has finished its part. A simple diagram may show this helpfully:



One of the tasks of the office manager, then, is to see where concurrent operations are possible, in order to eliminate delays that might affect prompt handling.

Back Ordering

Another way in which the handling of stock orders is often expedited is by checking the stock on hand to see if there is enough to fill the order, before putting it through. This involves keeping the order clerk notified of those items which get below a certain quantity, so that he will not put through an order for items not in stock. If the customer has ordered several items, one of which is not in stock, that item would not be put through with the others on his order but would be put on a separate order, to be filled when the stock has been replenished. This process is called "back ordering," and the new order is called a "back order." The usual way of handling back orders, where the clerk does not know what is in stock, is for the whole order to be put through just as it is; when it reaches the stock clerk, he finds that one or more items are out of stock and marks these items BACK ORDER. Eventually, this gets back to the order clerk, who then proceeds to make out the back order. The possibilities of delay and oversight are greater in this way than with the other. The office manager of Landers, Frary & Clark redesigned his order form so as to eliminate back ordering.

The expression "putting the order through" has been used several times. This refers to taking the first step of the routine that has been set up for handling orders, called the "order routine." Taking the first step is also called "dispatching," since it starts the order on its way, just as a train dispatcher starts a train on its way. The word "dispatch" is a good one to use, since it connotes speed in handling.

Cutting Down Transportation Time

Mention has also been made of the time taken for orders to pass from one department or step to another. Unless the office manager has provided for handling this transportation with dispatch, orders may lie in a department or on a desk for several hours before being sent to the next department or desk. The same principle applies to the movement of all office work through the various office routines.

There are four ways of moving papers from one point to another. One is by the house-mail service described in Chap. 9,

where a messenger comes by at frequent regular intervals to leave and pick up papers. He picks up all orders and when he arrives at their destination, leaves them there. The advantage of this plan is its regularity, automaticity, and frequency. No one has to wonder whether the messenger is coming; his visits are automatic.

The messenger plan may not be so quick as if the clerk himself who had just finished his work on an order took it to the next place. But when a desk worker leaves his desk to act as a messenger, the performance of his desk work stops until he gets back; he cannot do so much desk work as if he did not have to act as his own messenger. In the case of emergencies or special rush orders, a special messenger may be waiting to take the papers away. That is the quickest method and probably the most expensive. A better way, where the volume of work warranted it, would be to use a belt conveyer, on which the clerk could deposit the papers as soon as he was finished with them, and from which the next clerk would take them as they reached him. Devices may be used to sweep papers off the belt at the right station. Where the papers go to another floor, a mechanical carrier of the Lamson type will pick them up, carry them to the designated point, and deposit them there automatically.

Sometimes it is possible to arrange desks so that papers may be passed from one to the next. This is not always desirable, however.

The fourth way of moving work from one point to another is for the department waiting for it to send a messenger for it. For example, when the clerks in a filing department begin to draw down the pile of papers to be filed, the head file clerk may send one of the clerks around to other departments to pick up papers ready to be filed. This is not so economical or effective as having the house mail service handle it, but if the office does not have a house-mail service, the file clerks may have to go after the material.

First Things First

Our discussion of handling customers' orders has included many of the points that concern the office manager in getting

his work done. In every office, orders should get first attention for the reasons stated in Chap. 13; in many offices they do. In some offices, unfortunately, they do not, usually because the relative values involved have not been carefully analyzed and thoroughly organized. But orders are not the only work that should be promptly dispatched. All work should be considered as to its relative importance and scheduled accordingly.

Where the volume of work is sufficiently large to keep a substantial office force busy, the office manager should look for possibilities of concurrent handling of work, diagrammed above. An example might be the opening and distribution of the morning mail, described in more detail in Chap. 9. The dispatch feature involved is receiving the mail early enough to permit its being opened, read, sorted, and distributed to departments that are to handle it, all before the office opens. This involves planning, scheduling, and dispatching. The distribution of mail to several departments enables each department to handle its mail while others are handling theirs.

Believe It or Not!

Perhaps some of these things may seem so obvious as not to call for mention. It would be surprising to know in how many offices work cannot be started on the mail until the manager himself has seen and examined every piece of it! If he is out of town, things just stop. It wasn't so very long ago that the members of a firm doing a large national business gathered around a long table and opened the mail themselves. It took the office manager of that firm a long time before he was able to persuade the partners to let someone else handle it.

Other Office Management Responsibilities

The establishing of efficient office routines is the responsibility of the office manager. The designing of forms to accomplish their purposes better comes under the head of office management. The elimination of unnecessary steps and possible delays is his direct responsibility. So also are the preparation and the revision of standard practice instructions for doing the office work. The office manager is responsible for the equipment

and materials used in performing office work; inspection and testing of such items should result in the preparation of standard specifications so that, once an item has been determined as the best for its purpose, no other item may be purchased for that purpose.

Time Controls and Quality Controls. The three controls which an office manager exercises over the performance of office work are time controls, quality controls, and cost controls. The quality of the work done is controlled by setting up standards of quality, reducing them to writing, preparing standard practice instructions for doing the work in the standard way, seeing that each clerk is taught the standard method of doing his work, supervising the performance of the work, and inspecting the result.

Time controls see that the work is completed at a scheduled time. In determining when work should be completed, certain external factors must be taken into account. One is the time of arrival of the morning mail; another is the times of departure of mail trains, or the times that mail closes at the post office. Others are the times when trucks arrive and leave, the opening and closing times of markets, the arrival and departure of messengers, and so on.

Some of these times can themselves be controlled by the office manager; others cannot. He has no control over the time when mail closes; but he can arrange for receiving the first morning mail much earlier than if it were left to the postman, as explained in detail in Chap. 9. He cannot control the arrival and departure of expressmen, but he can use their scheduled times as the basis for scheduling the performance of his office work.

How Does the Work Stand? In scheduling office work, not only must the factors just mentioned be considered, but also others as well. The quantity of work to be done and the force available for doing it are very important factors. One of the first things a careful office manager does each morning is to ascertain the condition of the work. He finds out from inquiry, or from reports from departments, how much work is to be done and how many people are available for doing it. If workers are

absent or if a group is understaffed, arrangements must be made for getting in extra help or for transferring workers from one section to another temporarily. The large mail-order houses set up their daily schedules on the basis of the number of orders received in the morning mail. This is ascertained by weighing the mail and multiplying the number of pounds by the number of orders per pound, as shown by previous experience. The schedule is then established so that the orders will be sent through in batches, with a time limit on each.

In smaller offices time control may be maintained by stamping the time of arrival of items in a department. If desirable, the time of leaving a department may also be stamped, in order to fix the responsibility for delays. It is not necessary to point out that a schedule should be possible to meet, not simply an arbitrary affair without a factual basis.

Cost Controls. Control of the costs of office work is also a responsibility of the office manager. These costs include payroll, materials, and equipment. The inclusion of overhead charges is a question of opinion; ordinarily, as a matter of common sense, there is no object in holding an executive responsible for items that he himself cannot control. To the extent, therefore, that the office manager can control office overhead, he should be held responsible for it.

Since the highest cost of office work is the payroll, every office manager tries to keep it down. This does not imply, as some might think, keeping individual salaries down, so much as it does keeping individual output high. One girl may be overpaid at $20 a week if she turns out 200 units of work when the standard is 300. Another girl doing the same kind of work may be underpaid at $30 a week if she turns out 400 pieces in the standard time. The lower salaried girl has a unit cost of 10 cents, while the other has a unit cost of only 7½ cents. More careful selection of workers, more thorough training, more adequate supervision, provision of more suitable and adequate facilities, and the better planning and scheduling of work are factors that help to reduce the payroll cost of office work. The amount of necessary training on the job can be lessened by giving realistic pre-employment vocational training in schools

and colleges, something that office managers are trying to get more of.

The cost of materials and supplies may be controlled by giving attention to standard specifications, described in Chap. 6, and by seeing that no items are delivered from stock except upon a properly authorized requisition. No office equipment of any kind should be purchased without the approval of the office manager, who is in a better position than any one else to determine the desirability, practicality, and suitability of the equipment proposed.

Questions for Discussion

1. What is the difference between office work and office management?
2. Why are both office work and office management becoming more and more important?
3. What kind of work is the foundation of all office activities?
4. Comment on office system and the need for it.
5. Define or explain routine.
6. Define or explain department.
7. Why is it desirable to distinguish between technical departments and service departments? Give examples of each.
8. Why are scientific methods being applied to office work?
9. What two serious problems confront the office manager?
10. Comment on office machinery as a means of reducing office costs.
11. With what five factors is the office manager concerned?
12. What is the first step in all management work?
13. What is the object of receiving, dispatching, and filling orders?
14. What does promptly mean?
15. What does accurately mean?
16. Upon what two factors does accuracy in filling orders depend?
17. How may the customer be helped to write out his orders more accurately?

18. When should the accuracy of the customer's order be checked?

19. "It doesn't cost any more to do something right the first time than it does to do it wrong and have to do it over again." Comment on this statement as it applies to the care and attention given to orders by the clerks who handle them.

20. Why do many concerns retype orders received from customers?

21. What advantage is there in making several copies of a customer's order?

22. What is meant by concurrent handling, and why is it important, not only with respect to orders but also with respect to other kinds of office work?

23. Comment on checking stock on hand before putting through a stock order.

24. Explain the meaning of putting an order through.

25. Explain back ordering.

26. In addition to the time required to handle orders at the various desks, what other factor may cause delays in handling them?

27. Name four ways of moving papers from one point to another, and describe each way, stating its advantages and disadvantages.

28. Contrast messenger service with belt conveyers, Lamson carriers, and pneumatic tubes.

29. Why should customers' orders get first attention in every office?

30. What are the dispatch features involved in handling the morning mail?

31. Mention five other responsibilities of the office manager.

32. Name three controls exercised by the office manager over the performance of office work, and describe or explain each.

33. How may an office manager control the quality of the work done in his office?

34. How may an office manager control the time it takes to do the work in his office?

35. Comment on the extent of the office manager's control.

36. What factors enter into the scheduling of office work?

37. How do large mail-order houses schedule the handling of orders received in the mail?

38. How does an office manager try to control costs?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups of five or six, dividing the work so that not more than one or two students will call upon any one business concern for information. These groups may work together informally or may organize as committees, each with a chairman and a secretary, as suggested on page 85.

1. Bring in to class a list of 10 firms or businesses in your town or city which have offices. In each case, state the following information:

a. Name of the concern

b. Kind of business it is engaged in

c. How many office workers it employs

d. The name of the office manager

2. Select any two concerns in your town or city with an office force of 10 or more workers and bring to class a report showing for each concern the information asked for in the first report and, in addition, the number of each kind of office workers in the office, for example,

4 stenographers	1 office boy
1 typist	2 clerks
2 bookkeepers	1 office manager

3. Select any two concerns in your town or city, regardless of size, and bring to class a report showing for each concern the information asked for in the first report; in addition, select two of the office positions and list all the duties performed by the persons in those positions.

4. Select any five concerns in your town or city, regardless of size, and bring to class a report showing for each concern the information asked for in the first report; in addition, bring a list of all the office appliances used by each firm; for example,

3 typewriters	1 check writer
1 adding machine	2 telephones

Problems

1. A firm employing eight addressing typists found that by standardizing the work and using the block form of address they gained 25 per cent in efficiency. How much would the same improvement save a firm employing 12 typists at $1,000 each a year?

2. If the average distance from the desks to the drinking fountain is 100 feet and it requires 2 minutes for a clerk to get a drink and return to his work, how much time will 2,000 clerks lose in a year of 300 working days if they make an average of 5 trips a day?

3. At an average of 50 cents an hour how much money would be saved in 10 years by placing fountains 20 feet from each clerk?

4. If it costs $100 to hire and instruct a clerk, what will the yearly expense be in an office where 400 new clerks are employed every year to maintain a working force of 200? It is estimated that 20 per cent of the force is changed by death, accident, or some unavoidable cause and should not be charged to labor turnover expense, as it is called.

5. A clerk opening mail found that by standardizing her work it was possible to handle 300 letters an hour instead of 80 under her former methods. What is the percentage of improvement?

6. Two typists were taken from a noisy general office and placed in a quiet room. They increased their output 100 per cent. What saving in a year would be effected with a force of 200 typists at an average salary of $20 a week?

7. To see how one company president looks at his office in relation to the business, read the following statement clear through; then answer questions *a* to *f* at the end of the problem.

When the president or chief executive of any business looks at the office, he sees it from a different point of view than any man or woman under him. He sees it as an expense. And it is.

Whereas the organization rank and file are prone to look upon the office as the vital end of the business, the responsible executive knows that it is,

practically speaking, a burden. Yet, paradoxically, it is also the focal point of profit for the business. That is its one redeeming excuse for existence, but it is so good an excuse that it would seem to be time to modernize our thinking about the office.

We have let the office run away with us. We have in many instances let it dominate our businesses. Looking at the office in its simplest terms, we see that actually it is only:

A place where the executive and sub-executive and clerical force may work for the production and sales departments and contact with them;

A place where the public may contact the executive and sub-executives;

A place where the records of the business may be concentrated for easy reference.

Its function is to serve as a center of control between the making of goods and the disposing of goods—or of service, if the business is of that type. But we seem to have lost that simple conception. We have made the office a business in itself, filled with people who have their own office work to do, and who spend so much of their time "working" that they have little time to do business.

So true is this that some of our practical business executives have come to look upon their offices with a feeling of impatience that they should be paying out so much for office overhead—that ever-increasing charge which has to be loaded on to the cost of goods and carried by the sales force.

If only the office staff could be in the factory producing goods, or out in the field selling them—how the showing of the business would improve!

Fine, high-grade salesmen in easy chairs, far removed from the customer, just supervising a field force of inferiors, and equal to any three or four of them. If men like these could only be out selling!

And skillful men and women who could turn out work in the plant of a quality that would scarcely need inspection. If only they could be actually producing!

But the practical business executive realizes that this is only a dream; that production must be directed, and sales must be supervised.

The author likes to look on the office as the servant of the factory and the sales force. Too often the office attitude is domineering and overlooks the fact that the only two profit-making elements are sales and production, without which there would be no need of an office. Did Mooney, the jockey, win the famous 1925 Derby or did Flying Ebony? Mooney helped Flying Ebony to get the most out of himself at the right time. Everything was done for Flying Ebony before and during the race. If the office group would only do everything for the sales and production groups, and put their own work and desires second, more sales would be made at a lower cost, and more goods produced at a lower price.[1]

[1] WALKER, L. C., *The Office and Tomorrow's Business*, D. Appleton-Century Company, Inc., New York, 1930.

a. Why does the president of a company see his office from a different point of view from that of any of the office workers?

b. How do the office workers look at the office?

c. Which viewpoint do you think is correct? Why?

d. What three things does Mr. Walker think the office is a place for? Do you think he has left out something? If so, what?

e. What does Mr. Walker mean when he says the office is the servant of the factory and of the sales force? Do you agree with him? Why or why not?

f. What comparison does Mr. Walker make between the office and a jockey? Do you think the comparison a good one? Why or why not?

9

Organization for Office Service

THERE are several services whose sole purpose is to help the other departments of a business do their work to better advantage. Communication, for example, is necessary between individuals, between departments, and with those outside the company. The facilitation of such communication is office service and includes the telephone, the reception room, the messenger service—whether human or mechanical—and written communications.

Services That Facilitate

Incoming letters are received, opened, sorted, and distributed to those who are to handle them. Outgoing letters are folded, enclosed, stamped, and mailed. The mailing service is a very important one since it definitely facilitates communication.

Letters have to be dictated and transcribed. Stenographic service is office service. Indeed, the chief function of a stenographer is to facilitate communication; any means that expedites this activity and is available to her should be welcomed by her with alacrity, whether it is machine dictation and transcription, telephone dictation, dictograph, or any other device.

A correspondence department, if centralized, is also rendering office service, since it facilitates communication by more adequately and promptly answering letters.

Letters and papers have to be preserved until wanted, then produced immediately. The filing service required is an invaluable office service, because it facilitates the finding of desired papers needed by the various departments of the business.

Stationery and forms and other office supplies are needed to carry on the work of the office. The procurement, storing, and

disbursement of these items form an indispensable office service, facilitating the work of everyone in the office.

The provision of additional temporary help in emergencies is an office service that saves much time. Even the hiring and training of office employees may be considered as office service, since they are not one of the purposes of a business but are intended solely to facilitate the carrying on of the business by furnishing competent help to do the work.

Office maintenance provides an indispensable office service by keeping the office clean and attractive, equipment in good working condition, and so on.

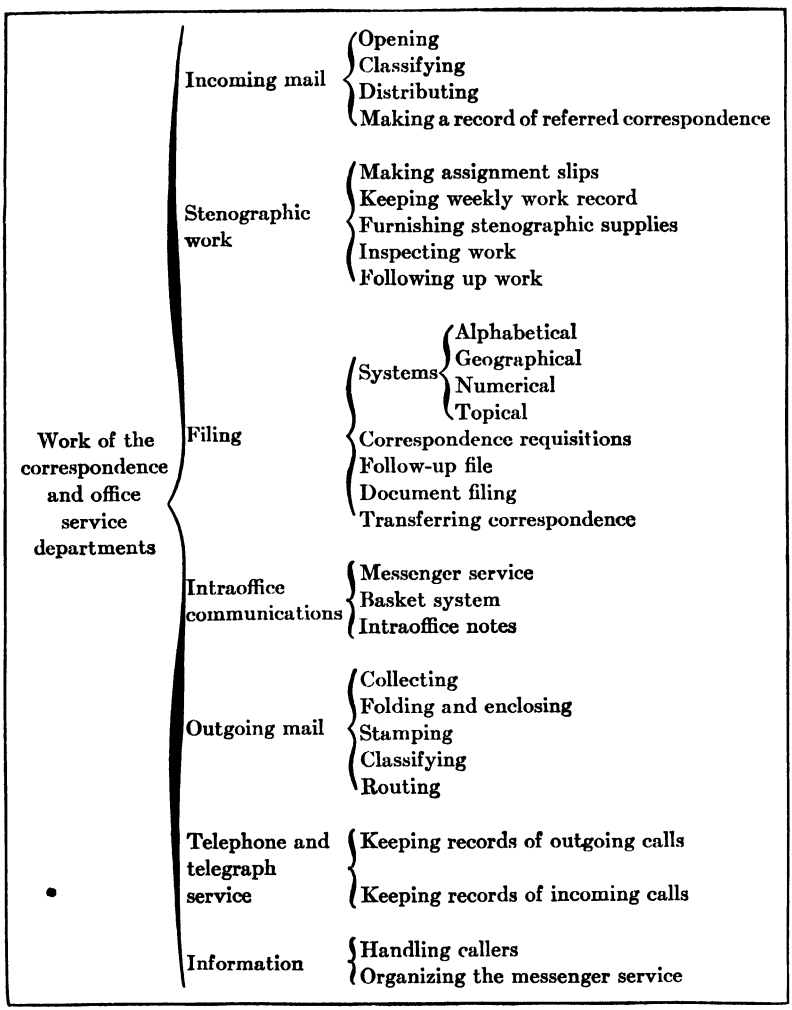
If a first-aid unit is maintained for the office, that is an office service, because it facilitates the taking care of accidents or sudden illnesses that might become serious if not attended to promptly.

Finally, office service may include any and all miscellaneous services that are intended for the office employees and are not a part of the purposes of the business, Such might include an office library, office cafeteria, and office rest rooms. These are often called "employee services" because they facilitate the efforts of employees in their own behalf.

Who Is Responsible for Office Service?

If the company has an office manager, he will be responsible for all office services. He may have an administrative assistant, to whom he assigns this responsibility; or the company may have an office service manager, who is responsible for these services. In some concerns that have neither an office manager nor an office service manager, the responsibility for the office services may be assigned to various department heads, to be handled in addition to their regular departmental duties; this arrangement, however, is ineffectual and wasteful of the department head's time. Sometimes the purchasing agent is assigned this responsibility, but again the arrangement is not effective or economical, since there is nothing in the work of the purchasing agent that is related to the office services any more than in that of any other department head.

As in Chap. 8, it will be assumed here that either an office manager or an office service manager is responsible for the office services. Wherever the term "office manager" is used in



this chapter, it may refer to the office manager, or to the office service manager, or to the department head or department heads responsible, as the case may be. The organization, administration, and control of the work will be discussed as though one

Office Service

Facilitating the Work of Those Responsible for Other Functions

Telephone Switchboard

Handle and dispatch
- Incoming calls
- Outgoing calls

Arrange and get
- Long-distance calls
- Foreign calls

Record and control all personal calls by
- Officers
- Employees

Directory maintenance
Other necessary records and reports

Filing Service

Index, file, and locate all correspondence and papers of all kinds
Operate central tickler or follow-up file
Operate and supervise credit department file
Supervise circulation of magazines to executives
Keep data and clipping files
Keep file of directories
Keep record of kind and quantity of filing work done

Information Desk

Receive and direct all callers
"In-and-out" directory of executives
Employees' time records
Incoming and outgoing
- Telegrams
- Cablegrams

Calls for repairmen
Necessary records and reports

Stationery Supply Service

Store properly:
- Stationery
- Printed forms
- Miscellaneous supplies

Disburse these upon proper requisition
Keep supply on hand
Replenish supply when needed
Keep necessary stock records

Circularizing Work

Addressing work:
- Operate addressing machine
- Make address plates
- Change addresses
- Hand addressing

Stuff circulars:
- Fold material
- Collate enclosures
- Enclose in envelopes

Stenographic Service

Take all dictation
Transcribe dictation
Typing of all kinds
All duplicating and copying, including
  Multigraphing
  Mimeographing
  Hectographing
  Typing
Keep necessary records of stenographic work done

Purchasing Service

Purchase for all departments:
  Materials, Equipment, Stationery, Supplies } upon properly authorized requisition
Be responsible for specifications, prices, delivery, inspection
Arrange for
  Inspection, Maintenance, Repair, Replacement } of all the equipment in the office
Keep records necessary for operation of department

Receiving and Shipping

Receive all goods delivered by vendors
Deliver to storeroom goods received for stock
Pack for shipment goods to be shipped
Deliver shipments to transportation company or post office
Receiving department records
Shipping department records

Mail and Messenger

All messenger service
  Within the building:
    Between departments
    Within departments
  Outside the building
Intraoffice mail service:
  Collect letters and papers from departments
  Sort material collected
  Deliver to departments designated
Incoming mail:
  Get from post office
  Open, read, sort
  Deliver to proper departments
Outgoing mail:
  Collect from departments
  Sort by branches
  Fold, enclose, seal, stamp
  Get to post office or train
  Care of postage stamps
Miscellaneous work:
  Shave cylinders
  Keep executives' desks supplied with pins, clips, pencils, rubber bands, paper, etc.
  Clean inkwells and keep them filled
  Sharpen pencils
Necessary records and reports

Office Maintenance

All janitor work
All cleaning
All porter work
Maintenance of lights, shades, etc.
Report needed repairs to purchasing agent
Heat and ventilation

person were responsible for its effectiveness, regardless of his title.

Telephone Service

Probably one of the first office services to be established is the telephone for communication within the office as well as outside. The factors involved are the provision of adequate equipment (switchboard, instruments, bells), a competent operator, and a definite understanding on the part of all concerned as to the proper use of the service.

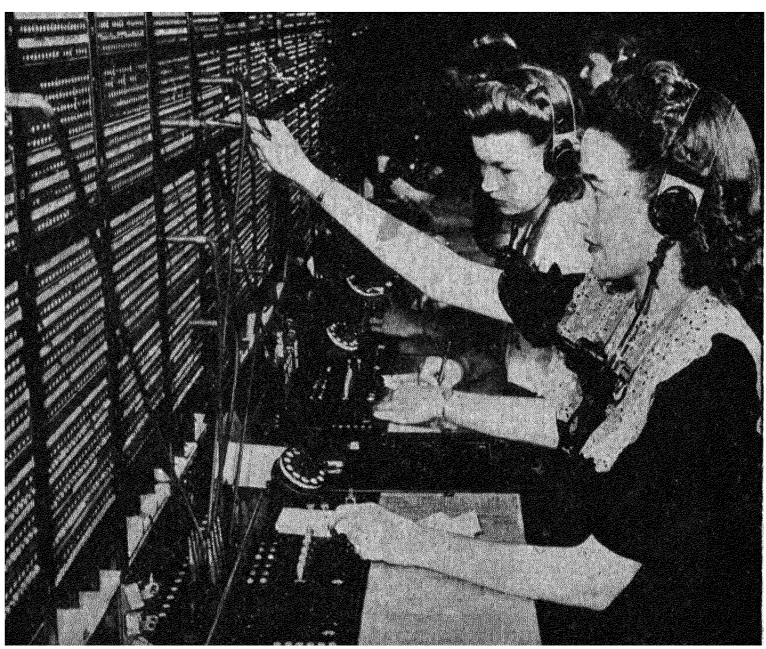
Since the primary purpose of the telephone service is to make possible quick communication with others on the affairs of the company, any abuse of it interferes with that purpose. Many concerns, therefore, restrict the use of the company telephones for personal matters, laying down definite instructions as to personal calls by and for employees. To avoid impairing office morale by absolute denial of the privilege, some companies, although not allowing clerks to use the telephone for personal calls or the reception of messages, permit the operator to receive and deliver messages for clerks. This she can usually do with little loss of time or danger of delaying customers, thereby eliminating all the needless telephone conversations so prevalent among young people.

Other companies require all personal telephone calls to be made and received from certain telephones or from a telephone booth. The telephone operator can thus keep track of those who are abusing the privilege.

Toll Calls. The control of toll calls made by anyone in the company, including executives, may make a considerable difference in the expense. Certain members of the organization would much rather telephone than write, even when time is not an important factor. Some concerns have their operator make a record of each long-distance call, showing the type of service used, the date, the person placing the call, the person and company called, the time of day, whether or not the call was completed on the first attempt, the number of minutes talked, and the cost of the call. This record is sent to the person making the call, for his signature, then to the department head

for approval, and finally to the accounting department for distribution after checking and paying the telephone company's bill. If there is any question about the call having been unnecessary or on company business, this record will provide a basis for control.

Standardize the Methods. There should be standard methods for calling and answering. Each company decides for itself the standard response to be made to the telephone ring; the telephone operator should then be taught that response as the standard. The announcement of the name of the company may be sufficient to indicate to the person calling that he has the right number. In all cases, care should be used in pronouncing the name clearly.



Courtesy of American Telephone and Telegraph Company.
These central office operators are thoroughly trained.

In like manner, the method of getting the name and business of the person telephoning should be standardized and carefully taught to all who have occasion to answer the telephone. "May I tell him who is calling?" will be more likely to get a response than "Who's calling?"

Trained substitutes should be provided to replace the operator during the lunch hour and at other times when she may have occasion to leave the switchboard temporarily.

A competent and well-trained telephone operator will also be able to standardize the use of the service throughout the organization and to control its undesirable use. Telephone

Courtesy of Dictaphone Corporation

Over the telephone, how you say it is almost as important as what you say. The voice with a smile wins.

communications with customers and others should be standardized as to methods of conversation, even to the extent of using certain standard phrases to fit occasions that are many times repeated in telephoning.

To find a competent telephone operator is not easy. If it is possible to engage a girl who has been trained by the telephone company, that is probably the most satisfactory source. If not,

care should be exercised to get someone who has a pleasing voice, a pleasant disposition, a will to serve, and a capacity for work. With proper support from the office manager, such an operator should be a real help in office communication.

Telephones Needed. The telephone company may be relied upon to help determine how much and what equipment is needed. A traffic survey will show how many external trunk lines to the telephone company's central exchange office are required, and how many internal extension lines to the various departments and desks of the subscriber will be needed.

Intraoffice Telephoning. For intraoffice telephone conversations, some concerns use what is called the "private automatic switchboard." If the internal traffic is heavy, the "PAX," as it is called, will relieve the regular switchboard of a considerable load, since each individual dials the call number of the person or department desired. Incidentally, since the ringing is automatic, everyone should be instructed not to let the telephone ring more than three or four times before answering. The person calling can control this by hanging up his receiver if his call isn't answered by the time of the third ring. This rule also encourages others near by to answer the telephone of one who may be away from his desk. Of course, with the PAX, a directory of internal telephone users is necessary. This may be printed on a card if it is not too long, or in a booklet if necessary. To be of value, it should be kept up to date. This is part of the responsibility of the office manager, working with the telephone operator.

The Dictograph. Three other methods of intrahouse communication are worthy of mention. One of them, the Dictograph, has microphones encased in small cabinets called "stations." There are two or more stations, depending on the number of persons who are to use the system. The box rests on the desk and permits one to speak in a natural tone of voice without holding a receiver to the ear or a transmitter to the mouth.

The TelAutograph. A second method of intrahouse communication is the TelAutograph, which means "transmitting one's own writing." There are occasions when it is desirable to get information without using the telephone, or without divulg-

ing the fact that you are getting the information. In some banks, for instance, if you present a check to be certified, you may notice that the teller goes to a corner of his cage and makes a

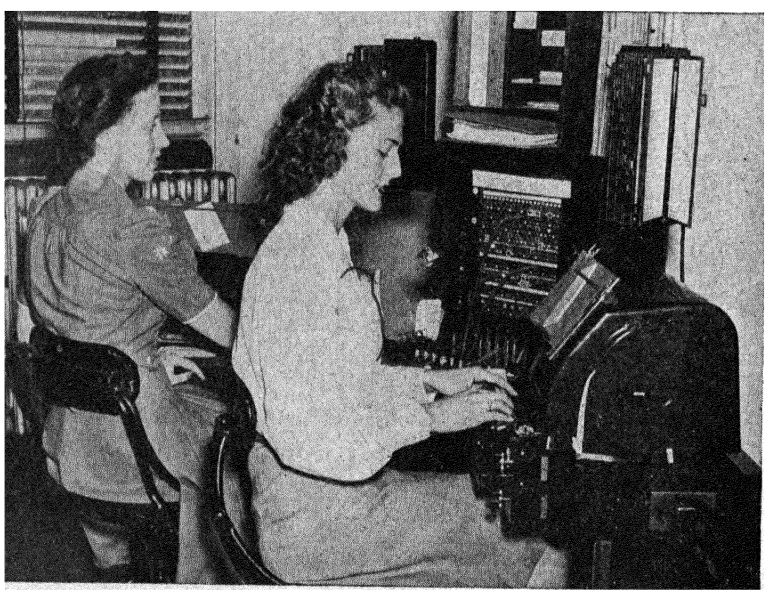
Courtesy of TelAutograph Corporation

The TelAutograph records in handwriting any written communication between more or less distant points.

notation. Then he prepares one or two forms to sign and after a few minutes he goes to the corner again and looks at what is written there. He next proceeds to have your check certified or

to tell you that he cannot certify it because there are not sufficient funds on deposit to cover the amount for which the check is drawn.

What the teller did was to write on the TelAutograph, an electric instrument that transmitted the actual writing to the bookkeeping department of the bank. There the depositor's account was inspected to see if the balance was large enough to permit certifying the check, or to obtain any other desired information about the account.

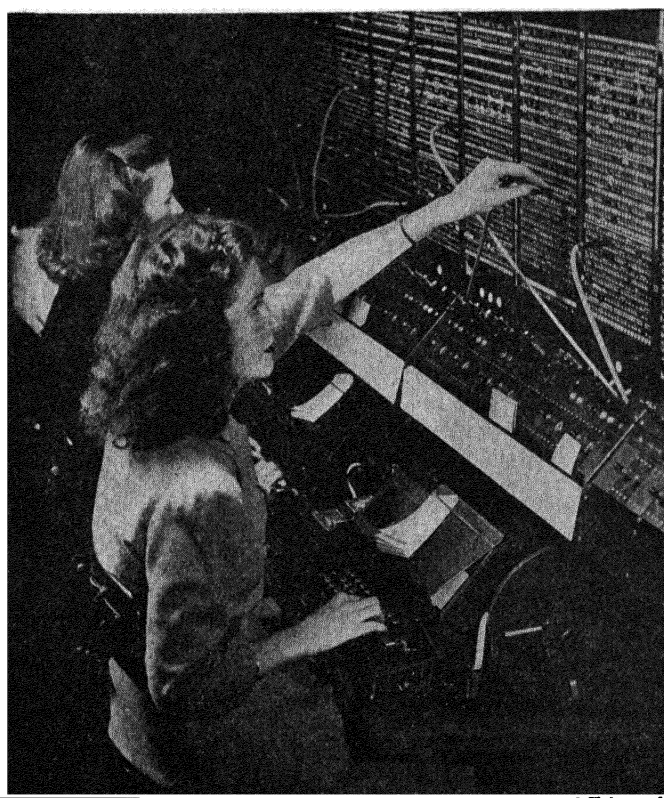


Courtesy of American Telephone and Telegraph Company

This operator connects teletype-exchange customers who wish to "talk in writing" with other subscribers.

The Teletype. The third method, the telephone typewriter, or "teletype," as it is often called, also allows confidential communication. By this method two machines with typewriter keyboards are connected with telephone wires. Matter typed at one machine is at once automatically typed out at the other machine, which may be in an adjoining room or hundreds of miles away. Messages may be reproduced in typewriting at several stations simultaneously. This system may be used for

transmitting orders quickly from the sales department to the stock or shipping room, or for regular and frequent communication between the general office and the branch offices. The telephone company has also established a regular telephone typewriter exchange service by which any teletype subscriber may communicate with any other teletype subscriber, using



Courtesy of American Telephone and Telegraph Company

These operators in a central teletype-exchange office connect subscribers who wish to communicate with each other.

typed messages. The names of teletype subscribers are published by the telephone company in a directory.

Desk Worker or Office Boy?

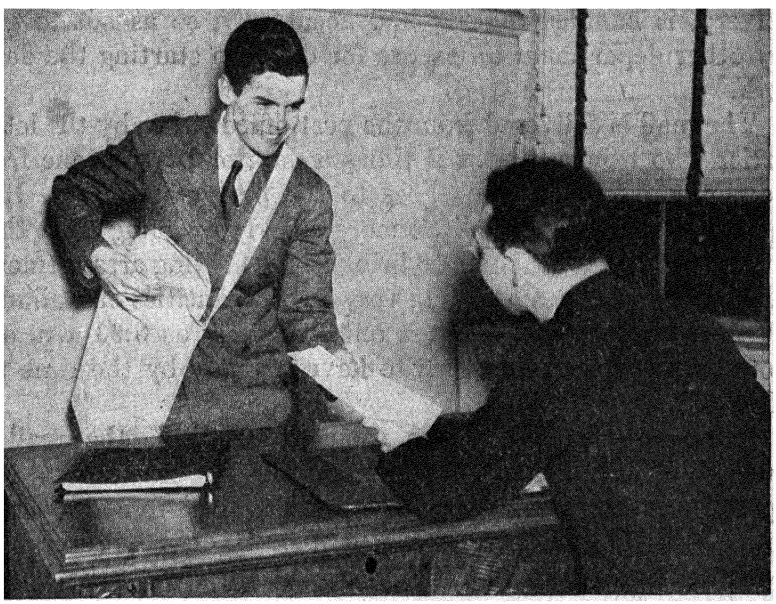
In every office, papers are constantly being passed between desks, between departments, and between buildings, where the

company's business requires more than one building. If all the company's business were carried on in one small room, it might be possible to arrange the desks there so that most of the papers could be handed from one desk to the next, without making it necessary for a person to leave his desk for that purpose. Anything that takes a desk worker away from his desk, even for a moment, interferes with the performance of his work. As an office grows in size, therefore, some arrangement should be effected that will make it unnecessary for anyone to leave his desk in order to carry papers to another point, whether near or remote. The organization commonly set up for this purpose is called by various names, such as "house-mail service," "internal mail service," or "intraoffice mail service."

Internal Mail Service

The main features of this internal mail service are the regular, frequent trips by a messenger for the purpose of delivering papers to departments and desks, and collecting papers intended for other departments and desks. Unlike an ordinary messenger service, where the messenger responds only when called, the internal mail service is more or less automatic in its operation. The stopping places, or "stations," as they are called, are first determined, then the frequency of trips, which depends upon the volume or urgency of the papers, then the selection of messengers. A schedule is prepared, showing the times at which the messenger starts each trip and the places at which he calls. At each stopping place, whether a desk or a department, two trays are provided, one for incoming papers and the other for outgoing ones. Some parts of the office may require 5-minute service; other parts may be well served with 30-minute service. The important feature is its reliability—the assurance that every 15 minutes or so, whatever the time interval is, a messenger will call. With such an arrangement, each desk worker simply deposits his outgoing papers in his OUT tray and takes up the next piece of work without delay. Provision is always made for emergencies, whereby a messenger may be called for a special trip which cannot await the arrival of a regular house-mail messenger.

Two methods may be used in sorting the papers picked up by the house-mail messenger. One is the continuous sorting method, the messenger sorting the papers as he picks them up; the other is to defer sorting until the messenger has returned to the central mail desk. Each method has its advantages and



Courtesy of Keystone View

Prompt delivery of letters and papers to all departments is necessary to the expediting of work.

disadvantages, dependent upon the frequency and length of trips. With long trips infrequently made, continuous sorting is probably better, since it minimizes the delays incident to central sorting, which is probably better when trips are short and frequent.

Incoming Mail

The internal mail service is frequently tied in with the incoming and outgoing mail services. A central mailing department is set up, which receives, opens, reads, and sorts incoming mail, which is then delivered by the house-mail messengers. Likewise, they pick up outgoing letters and take them to the central mailing room, where they may be folded, enclosed,

sealed, stamped, and taken to the post office if in quantity or dropped in the nearest mail box if not.

So many departments seem to depend upon the day's receipt of letters and orders that the manager who prides himself upon the expedition with which his office turns out work makes sure that the incoming mail, and particularly the first morning delivery, is handled quickly and accurately, so as not to give any other department an excuse for delay in starting the day's work.

The mail is delivered from the post office either by the letter carrier who brings it several times a day, or by someone from the company's office, who goes to the post office for it. It is possible to get the mail a little more quickly by going for it than by waiting for the postman to bring it. By making arrangements ahead of time, offices handling very large quantities of mail may get their letters from the post office as early as 6:00 A.M. and sometimes even earlier, so as to have it ready by the time the office opens.

Opening the Mail. As soon as received, the mail is usually taken directly to the mail-opening clerk, who first separates letters that are specifically addressed to some person from those addressed to the company. Then he proceeds to open the company mail and sort it for delivery to the proper departments, as described below.

Where the volume of mail is small, it is usually opened by hand, with the use of a steel letter opener. In medium-sized offices, a small hand-operated mail-opening machine is often used as a timesaver. In large offices, where a large volume of mail is regularly handled, an electric mail-opening machine is found useful. Whatever method is used, the object is to open the envelope as quickly and carefully as possible and to get the mail sorted with the least possible delay.

After the envelopes have been opened, the contents are removed, unfolded, and pinned to the envelope. Except to avoid multilation of documents, clips should never be used to fasten papers together, since a clip is likely to pick up other papers, which then may be permanently lost.

Where several clerks are working the mail, one may operate the letter opener, two or three may remove the contents and pin them together, while others read the letters for sorting. Some concerns do not bother to keep the envelope. However, if the envelope is destroyed at the mail desk, it should first be examined to make sure that it is empty; checks may easily be left in an envelope and overlooked. One simple device for inspecting envelopes is to pass them rapidly over an illuminated ground-glass plate set flush with the top of the table.

It is desirable to note the time that letters are received. In the case of important delayed orders, for instance, it is occasionally necessary to prove that the letter was not mailed when written or that it was delayed in transit. Clock-dating machines may be used for the purpose of recording the hour as well as the date of receipt. Some firms are satisfied to stamp merely the date when the letters arrive. Each concern decides this practice for itself, of course.

Watch the Motions. It is helpful to watch each movement in order to economize time in handling mail. If the clerk forms the habit of opening, checking, and time-stamping one letter at a time, as soon as opened, he will be repeating many unnecessary motions. It is better to open all the letters first, then time-stamp them all at once, instead of laying down the stamp and picking it up again for each letter. In this way each operation is carried out without any lost motion.

Reading the Mail. The clerk who sorts the mail is often able to tell at a glance to which department a letter should be sent, although it is sometimes better to read the entire letter. When the letter must pass through several departments, it is so marked that the proper data may be entered or attached from the time it is received until it is answered. Sometimes the parts of the letter intended for different departments are copied on separate sheets so as to avoid the delay in handling which might be caused by one department's having to wait until another department has finished with the letter.

As the mail reader determines the department to which each letter belongs, he places it in the proper compartment or rack.

From there an office boy takes the letters for delivery to the proper departments, using a bag with separate compartments for the purpose.

With a rack like this, the mail reader can sort a large amount of mail very quickly. Some offices use a semicircular rack.

The opening of the mail should be so organized that when the office opens for business, the first morning mail, or the bulk of it, will have been opened, sorted, and distributed to the desks of those who are to handle it, with all necessary previous correspondence attached to it, so that work may begin everywhere throughout the office at the opening hour.

Outgoing Mail

Outgoing mail comprises letters written during the day and other papers to be sent to customers or branch offices. In a very small office the stenographer or office boy will take care of it. In a large office the facilities of the mailing room are used. The advantage of thus centralizing the handling of outgoing mail lies in the quicker and better handling by specialists, the easier fixing of responsibility for postage stamps, and the relief of stenographers and secretaries so that they can concentrate on their particular duties.

Courtesy of National Protective Insurance Company

Preliminary sorting speeds up the handling of outgoing mail. Each compartment is for a certain state.

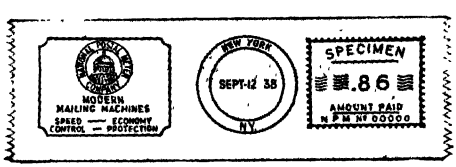
Courtesy of National Protective Insurance Company

At the tables, letters are folded and enclosed in window envelopes. The machines seal and stamp them.

Outgoing mail is brought to the mailing room by the house-mail messengers. Although the office manager should urge the handling of correspondence early in the day so that letters may be mailed early and avoid the delay and congestion at the post office, there will always be an increasing volume of outgoing mail as the closing hour approaches. All large offices set a dead line, after which no more outgoing letters will be received in the mailing room. If the office closes at 5:00 P.M., a last trip by the messenger boys may be made at 5:15, or whatever time is deemed reasonable.

After a letter has been checked for correct address and enclosures and has been signed, it must be folded and enclosed in the envelope. When window envelopes are used, it is necessary to fold the letter so that the address will fit the window.

Sealing and Stamping. Where the amount of outgoing mail is not large, the sealing and stamping are usually done by hand. Large offices use machines that both seal and stamp from 3,000 to 18,000 letters an hour. Instead of stamps, many firms print what are called "indicia" in the upper right-hand corner of the envelope, where the stamp would ordinarily be placed. This printing of the indicia is done by the same machine that seals the envelope, and at the same time. These indicia are of two kinds, metered and nonmetered, according to the type of machine used. The postage on metered mail is paid for in advance, by using a meter which is set by the post-office clerks to print whatever amount of postage one desires to buy; the letters may be deposited in the post office or in any convenient mail box. Nonmetered mail is paid for when it is taken to the post office; it cannot be deposited in letter boxes.



Courtesy of Commercial Controls Corporation

Indicia may also be printed on gummed paper tape and stuck on parcel-post packages in place of postage stamps.

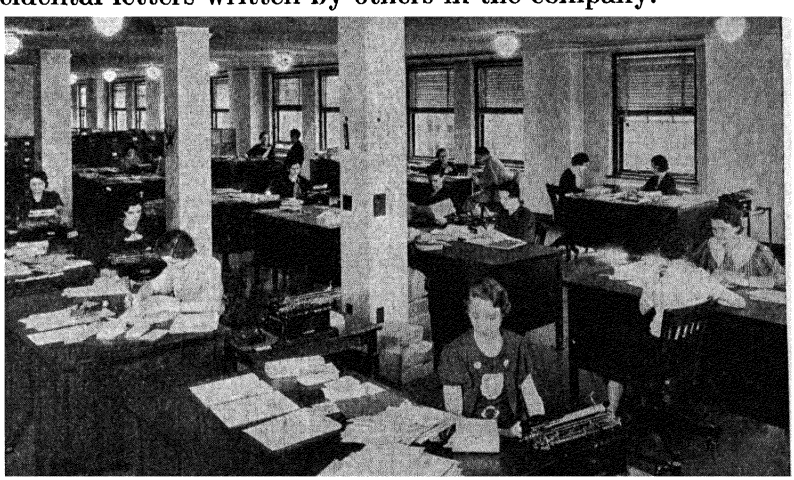
Care should be taken that the correct amount of postage is used on all classes of mail. Every office should have a copy of the latest revised postal rates—obtainable from the local post office—and should keep it near the mail desk. A postal scale is

an indispensable piece of equipment in both large and small offices.

After envelopes have been properly sealed and stamped, they must be mailed, either by delivery to the post office or by deposit in the corner mailbox. Many office buildings have mail chutes running from the top floor to the street floor, with openings on each floor so that letters dropped in any opening will go immediately to the mailbox at the bottom of the chute on the first floor. Large quantities of letters should be delivered direct to the post office.

Who Writes the Letters?

In many concerns the bulk of the letter writing is carried on by correspondents, who may be located in various departments or grouped in a central correspondence department. The advantages of centralizing the letter writing are the better control over the work, as well as the improvement of the quality of the letters written. Provision is also made for taking care of the incidental letters written by others in the company.



Courtesy of National Protective Insurance Company

Stenographer-correspondents not only compose letters but also type them. Special letters may be dictated.

Where there is a central correspondence department, an effective plan is to have all mail sent to the heads of the various

departments concerned; each department head or someone appointed by him will note the desired information on the letter, which is then sent to the central correspondence department for dictating. This plan makes it possible for a department head to give his attention to his special work, knowing that the letters will be written by specialists in their particular field.

In charge of the correspondents will be a head correspondent, who receives all the letters to be answered and parcels them out to the members of his department. He may also read all letters after they have been written, to be sure that the matters involved have been covered adequately and satisfactorily. He coaches his staff in letter-writing technique, sometimes even bringing together for an hour's chat all the people in the company who write letters. His records show the number of letters received and answered by each correspondent. His report is made to the office manager daily.

Dictation Methods

A correspondent may dictate his letter to a stenographer or to a dictating machine. The stenographer who takes his dictation may use either shorthand or a shorthand writing machine.

These correspondents are dictating letters to dictating machines that record the dictation on wax cylinders.

which is supposed to be sold only to an operator trained in its proper use. Correspondents who have organized their work try to get the bulk of their dictation out of the way the first thing in the morning while they are fresh and alert. This plan also gives the stenographer opportunity to get her notes transcribed in time to have the letters signed and mailed the same day without rushing. Where dictating machines are used, the correspondent will continue to dictate as long as he has any letters to answer. Dictated cylinders are picked up by an office boy and taken to the stenographer or transcriber, who places the cylinder on her machine and listens to the voice of the dictator, just as though he

Courtesy of Dictaphone Corporation

This secretary is making the most of her opportunities by using modern equipment to facilitate correspondence handling.

were talking to her. A stenographer who has the opportunity to transcribe from dictated cylinders or use any other mechanical

Parker Marshall Company

Fifteen Emmonsdale Road

BOSTON, 52, MASSACHUSETTS

May 9, 1939

J. A. Blaisdell Company
2967 Franklin Street
Indianapolis, Indiana

Attention of Mr. Robert Clark

Gentlemen:

Office Style for Letters

In order to secure uniformity of style in the arrangement of all letters from our office, our stenographers and typists are provided with a model letter, of which this is a copy. The parts of the letter are taken up in order.

Since the appearance of a letter is directly affected by the margins, an attempt should be made to have margins nearly equal--at top, sides, and bottom. The width of the margins is determined by the length of the letter. In a short letter the margins will be wider; in a long letter they will be narrower. If the letter as a whole is centered on the letterhead, the result will be pleasing, like a well-framed picture.

The date is typed at the right, two spaces below the last printed line of the letterhead, and ending flush with the right margin of the letter. The inside address is placed flush with the left margin, at least five spaces below the date line. No punctuation is used at the ends of the lines.

If the letter is addressed to an individual, his name and title should occupy the first line of the inside address, and the salutation should be "Dear Sir" or "Dear Mr. Doe." If, however, the letter is addressed to a company but to the attention of an individual, the attention line should be centered two spaces below the inside address as shown above, and the salutation should be "Gentlemen."

The salutation should begin flush with the left margin, two spaces below the last line of the inside address, or if an

Suppose a firm's product varied in quality and appearance as much as the letters written by some companies do. How long would they retain their customers? Giving a model letter like this one to each secretary, stenographer, and typist

J. A. Blaisdell Company -2- May 9, 1939

attention line is used, two spaces below the attention line. The salutation is followed by a colon.

If the subject of the letter is given, it should be centered two spaces below the salutation and underscored.

The body of the letter begins two spaces below the salutation (or two spaces below the subject line if one is used). The typing is single-spaced, but with double spacing between paragraphs. Block style is used; that is, there is no paragraph indention.

If the letter is too long to be typed on one page, a blank sheet of the same kind of paper is used for the second page. The name of the individual or firm to whom the letter is addressed, the page number, and the date are typed across the top of the page. The body of the letter is continued five spaces below, with margins of the same width as were used on the first page of the letter.

The complimentary closing is begun halfway between the side margins, two spaces below the last line of the body of the letter. No comma is used after the complimentary closing.

Two spaces below the complimentary closing, the firm name is typed in capitals, beginning under the first letter of the complimentary closing. Three spaces below the firm name and flush at the left with the two preceding lines the word "By" is written.

On the same line with "By" and flush with the left margin of the letter are typed in capitals the initials of the dictator and the transcriber, separated by one space.

If enclosures are to be mailed with the letter, the abbreviation "Enc." should be typed directly below the dictator's initials. If the number of enclosures is known, it is indicated by a figure following "Enc."

Yours very truly

PARKER MARSHALL COMPANY

SBM AMT
Enc. 3

By Sheldon S. Moore

in the company will help to bring about a desirable uniformity in the letters typed by them. Here is an easy place to start establishing standard practice.

or electrical devices for dictation should embrace the opportunity eagerly, if she can thereby facilitate communication, which is, after all, her sole function and excuse for being there.

Centralized Transcription

The advantages and economies of centralization are even more frequently realized by a central stenographic and transcribing section which will render stenographic and typewriting service to the entire office, instead of by small groups of uncon-

Courtesy of Burroughs Adding Machine Company

The girls in this central transcribing department are writing letters that have been recorded on dictating machines.

trolled stenographers throughout the office who work part of their time only on letters, part on miscellaneous clerical work, and, as is often the case, at other times sit in absolute idleness. When this work is centralized, each stenographer will produce much more than would otherwise be the case and, as a result, a smaller force will be required. This does not mean, however, that there should not be a certain number of private secretaries for the most important executives, for the valuable time of these men can be saved by the many things a secretary can do for them.

A head stenographer receives and assigns the work to her staff, supervising them and rendering assistance wherever necessary. Stenographers may be assigned to certain dictators

at stated times, or they may be assigned as calls come in. Scheduled times for dictation are usually the most satisfactory, but there are sometimes hindrances to this plan. The head stenographer keeps a record of the work of each girl, rendering a daily report to the office manager.

Why Keep Letters and Papers?

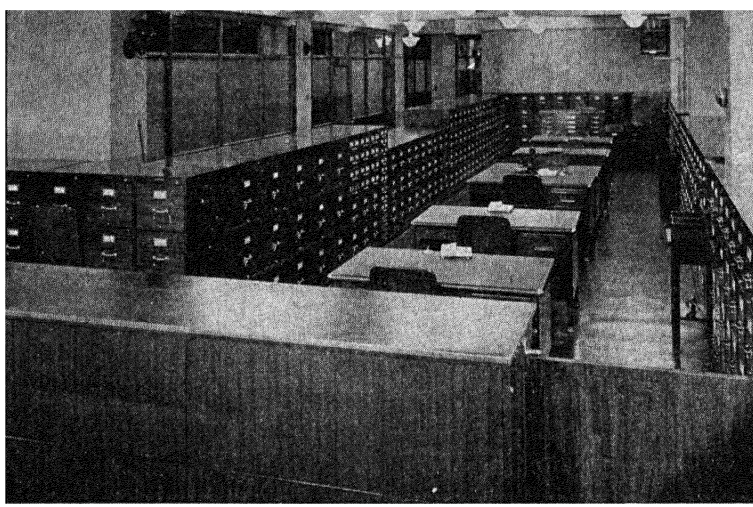
Formerly, every office kept not only every letter and paper received, but also a copy of every letter and document sent out, regardless of its value or importance. Many offices still follow this practice. A casual inspection of almost any filing drawer in almost any office will show that hundreds of letters and papers of no value are being preserved. Some firms evidently pride themselves on being able to show and locate every communication they have ever received, utterly ignoring the fundamental fact that the only reason for filing a letter is the assumption that it will be wanted for reference at a future time. Office managers are seriously questioning the wisdom of using valuable office space for expensive filing cabinets to hold papers that will never be referred to again. Nevertheless, offices always have some letters and papers to which reference will be necessary.

The Object of Filing

The files form a vital part of the records of every business. The object of filing letters and papers is not simply to dispose of them—the wastebasket could serve that purpose—but to provide a temporary or permanent storage space for them and to make it easy to find those that are wanted later. The average business man is not expected to remember all the prices that have been quoted, the details of every contract, or the contents of all the letters written, if he can depend upon the office files and records to furnish him instantly the information he desires. These records may consist of correspondence, miscellaneous information, or financial data. A good filing method is one that is adapted to the business, that can be depended upon for accuracy, and that will produce at once the information desired. Different kinds of records may require different methods of

indexing or a certain kind of equipment, but the purpose is the same—to make the desired information immediately available.

Competent filing clerks are essential to the successful operation of any filing system. The most common reason for the failure to find material that has been filed is that the person who filed it was not a trained filing clerk. Well-educated and well-trained supervision is also necessary, as well as thoroughly standardized and maintained methods. Accuracy should be especially stressed, as a letter misfiled is permanently mislaid, entailing possibly serious consequences.



Courtesy of Shaw-Walker

This filing department is arranged for business. No space is wasted; yet there is plenty of room for work.

Centralized Filing

Unless there is a central file system, it is not possible to fulfill the above requirements. Department files will receive indifferent attention, for the amount of material filed in any department is not usually sufficient to require the full time of one file clerk; the work is therefore attended to by a miscellaneous assortment of untrained clerks. Furthermore, decentralized files increase the expense of obtaining the needed information. A central filing system can be managed much better than small groups of files scattered throughout the office.

The material will be kept in better order, the work more economically done, and in general much better service will be given. This, of course, does not refer to the private files of the chief executive, which may contain much material that should not be in the general file.

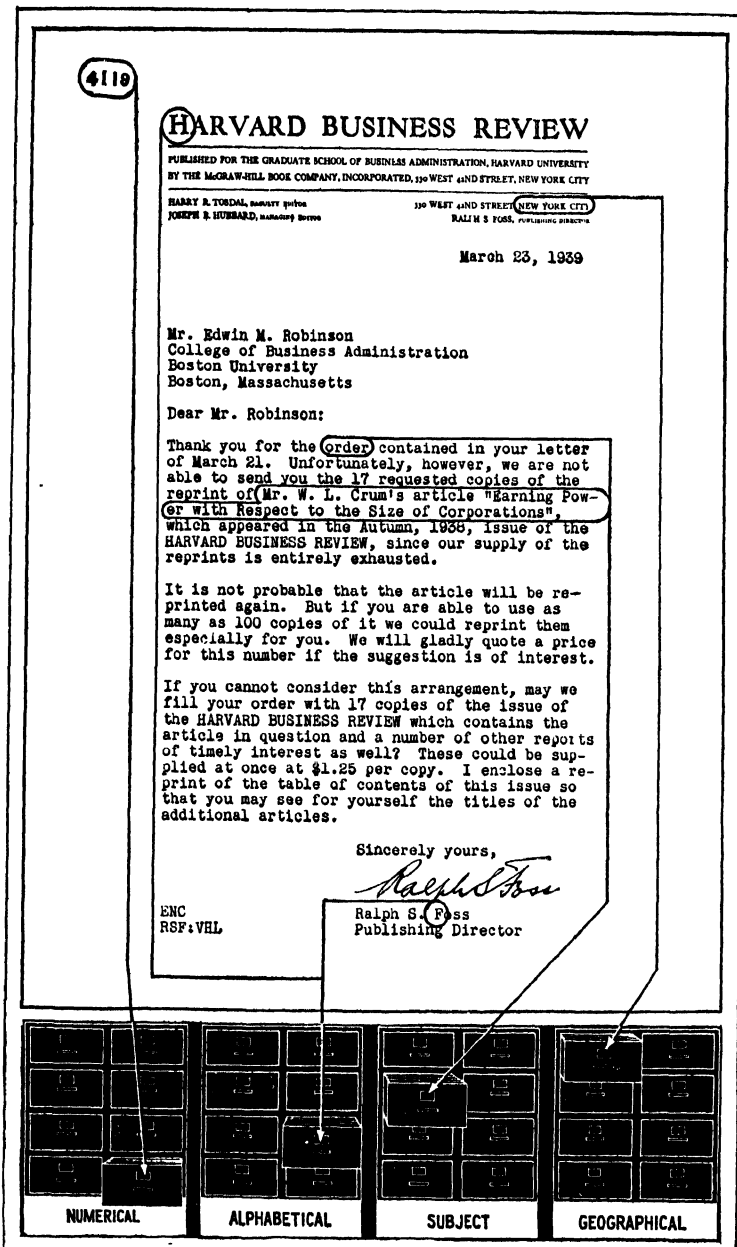
There is no question of the desirability of a central filing department for even very large offices, with hundreds of clerks scattered over a considerable area. The saving of labor alone is well worthy of consideration; the delay to the work is not serious if the department is well organized, and does not compare with the delay experienced in departmental files where the filing is haphazard.

Surveying Filing Requirements. The first step in the organization of a central filing department is to make a careful canvass of all desks in the office for the purpose of determining, from their contents, just what material there is to be filed and what information each desk occupant requires from the central file. The canvass, which may be in questionnaire form, should cover every paper, record, or report made, handled, or kept in the office.

Records that are constantly referred to in the department in which they are made, such as purchase requisitions and copies of purchase orders or paid vouchers in the accounting department, should remain there, as no good purpose is served in centralizing them.

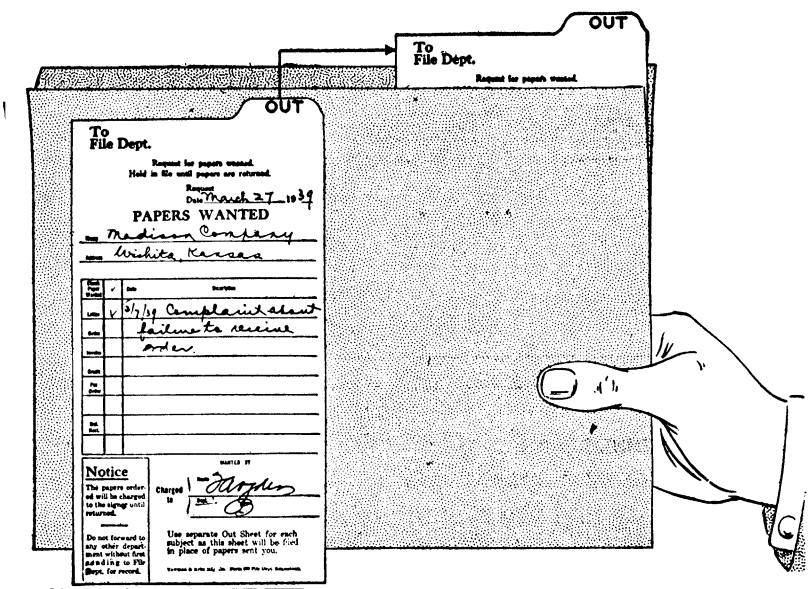
Rendering Quick Filing Service. Papers and letters intended for filing will be brought to the central filing section through the house-mail service. The head file clerk goes through the material rapidly, classifying it for filing; it is then roughly sorted and turned over to the file clerks, each of whom has her own special section for which she is responsible. After another sorting or two, the papers are "filed in" to the drawers in the filing cabinets. It is imperative that papers be filed, or at least sorted, within a few hours after reaching the filing section. A special sorting device, called the "Sortergraf," is often used to facilitate quick sorting before filing.

When papers are wanted from the files, they may be requested in person, by telephone or special messenger, or through



This letter is marked to show the four ways in which letters may be filed: numerical, alphabetical, subject, and geographical.

the house mail. There are, ordinarily, three occasions that require getting correspondence from the files: information is needed to answer a letter; a customer is coming in for a conference; or a question has come up that requires reference to previous correspondence. The first is probably best taken care of by having the mail reader refer to the files all incoming letters referring to previous correspondence; when the letter reaches the correspondent, it has all the necessary papers attached to it. The second situation can usually be anticipated far enough ahead to permit routine procurement of filed material. Only in the third instance is there need for unusual haste.



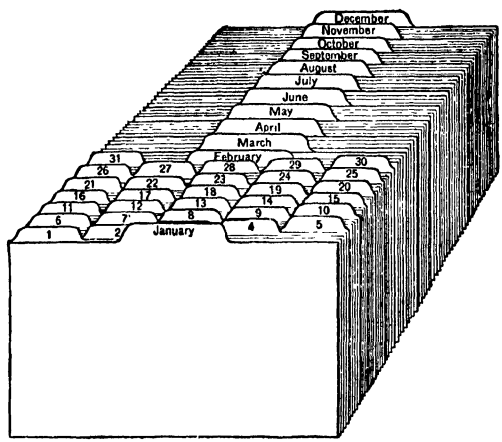
Courtesy of Yawman and Erbe Manufacturing Company

Whenever correspondence is taken out of the files, a record like this shows what papers were removed and who has them.

An Important Rule. It should be a hard and fast rule that no papers be kept out of the files overnight. This gives the filing department a control over papers entrusted to its care; when everybody has confidence in the ability of the filing section to produce any desired paper at a moment's notice, there should be no hesitancy in following the above rule; the only excuse for

keeping papers would be the fear of delay in getting them when wanted.

The Central Tickler. One very helpful service that a central filing department can render the office is the operation of a central tickler or follow-up file. All kinds of memoranda wanted at a future date can be sent to the central filing section, which will bring it up on the date requested. Private matters may be placed in sealed envelopes bearing the notation, "Bring up on—(date)" and signed by the person who is to receive it.



Either cards or folders may be used in a tickler file.

The office manager should require regular reports from the file department or departments as to the number of pieces received for filing and the number of requests for material to be withdrawn from the files; this record should be kept daily and reported not less often than weekly. It requires little labor but furnishes a good index to several other features of office management, besides the work of the file department itself.

Regular Inspection Desirable. A regular routine inspection plan should also be put in operation. It cannot be done by merely glancing at a file drawer now and then; nor is it necessary to make a complete examination of the entire filing section. It should consist, however, of a complete study of a small section of the work of each filing clerk selected at random. It should cover the accuracy of the filing, the thoroughness of the cross

indexing—where that is necessary—the neatness of the folders, and the correct position of folders and guides. The preparatory work, such as indexing, sometimes called "classifying" or "coding," should also be checked by holding back for examination a section of the work before it is filed. Attention to these points will give the office manager an effective control of the filing work.

Centralized Stationery Service

Central control of forms and other stationery items and supplies is desirable for two reasons: to minimize the chances of waste and to eliminate the purchase and use of unauthorized items.

The first step in such control is to establish a central stationery storeroom in which all items are received, counted, and stored; the central storekeeper is responsible for stationery received, and nothing is to be disbursed except on properly signed requisitions. There is no objection to having small local supplies of stationery, especially in very large offices; these local supplies should be kept down to a week's requirements, however, not only to keep down the investment in supplies but also to economize on space. The central storeroom should be located where it will be convenient to those who use it; it may be only a closet large enough to hold the necessary quantities used, and the storekeeper may be a clerk who gives an hour a day or so to this part of his job; or the storeroom may cover several bays and require the full time of one or more persons. In any case, it should be kept locked, with duplicate keys in the possession of the office manager.

Storeroom Features. The careful arrangement of the storeroom is essential to its satisfactory and economical operation, with the object of making all items easily accessible. Adjustable shelving is the most satisfactory; if several shelves are required, they are best arranged in stacks forming aisles, upon both sides of which the shelves open. These aisles should not be less than 30 inches wide and should be wider still if a truck is to pass through them. If steel shelving is not available, wooden shelving will of course serve the purpose.

Stationery items, like any other stock, should be issued only on proper authority. This is usually in the form of a requisition signed by someone in authority, ordinarily a department head or someone indicated by him for the purpose. The stationery requisition should show exactly what is wanted and the quantities; the name of the person receiving the items should be signed to the requisition, as well as the department or account to which the materials are to be charged, and the date.

Each department head should know how much is charged to his department each month for stationery and printing, in order that he may investigate any unusual increases by inspecting the individual requisitions, if necessary. The office manager should also watch charges to departments and bring unusual increases to the attention of the department head for such action as may be indicated by the condition found.

Central Computing Service

A central computing department will often be found of distinct advantage. Work on adding machines, comptometers, computing machines, and so forth, requires trained operators; the difference in output between them and persons who work at the machines only sporadically, or for a short period each day, is about 4 to 1. If there is any computing work to be done in the other departments, it can be handled in the same manner as dictation—by sending an operator from the computing section to such departments.

Central Duplicating Service

Mimeographing, multigraphing, and other duplication work are also handled much better by a central department than in isolated sections. Whenever any duplicating work is required, a requisition is made out, showing the quantity and date required and any other pertinent details, including the department or account number to be charged. The requisition is then submitted to the office manager or someone designated by him for inspection and approval. In this way, questions of priority of service can be disposed of without too much difficulty.

In order that the office manager may know what work the various office services are doing, he should receive a daily report from each section, showing the work received, the work done (divided into departments served, if possible), and any work left over, with the reasons for its being left over.

Questions for Discussion

1. What is the purpose of office service?
2. How is communication facilitated by the office services?
3. Name 12 office services and state briefly how each facilitates other office work.
4. Who is responsible for office service? Why?
5. What three factors are involved in telephone service?
6. Why should the use of company telephones for personal calls be restricted? How can this be controlled?
7. How may the making of toll calls be regulated? Why should it be controlled?
8. Comment on methods of making and answering telephone calls.
9. Why is it desirable to have a competent and well-trained telephone operator?
10. How may the office manager determine what and how much equipment is needed to give satisfactory telephone service?
11. Describe or explain how the private automatic switchboard is used.
12. What is the Dictograph used for? What is the main principle used?
13. What is the TelAutograph used for? What is the general idea of it?
14. What is the teletype and how is it used?
15. How may letters and papers be transferred from desk to desk and from department to department economically?
16. What are the main features of an internal mail service?
17. How is incoming mail handled? Describe in detail.
18. How is outgoing mail handled? Describe in detail.
19. How are most letters written in many concerns?

20. What is the advantage of having a central correspondence department?

21. Why should stenographers take advantage of every opportunity to speed up communication by using whatever facilities are available?

22. What are the advantages of a central stenographic bureau, and how is such a bureau operated?

23. Comment on filing service.

24. What are the advantages of a central filing department?

25. How would you proceed to organize and operate a central filing department?

26. Describe the central tickler and its purpose.

27. Why should the office manager require reports from the central filing department?

28. Should the office manager require similar reports from the other office service departments? Why or why not?

29. How may the files be inspected for accuracy of filing and condition of the work?

30. What are the advantages of stationery control?

31. How would you set up and operate a central stationery storeroom?

32. When would a central computing department be helpful?

33. Why would a central duplicating department be helpful?

34. From the discussion of the points in this chapter, draw up a list of advantages and disadvantages of central office service departments.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. From the office manager of a business concern in your town or city ask permission to come to his office early some morning to watch the opening and reading of the morning mail.

2. From the same concern or another one, ask permission to watch the mail clerks "work up" the outgoing mail some day in the late afternoon and early evening.

3. Find out if any concern in your town has an intraoffice messenger service. Then ask permission to accompany the messenger on one of his rounds. Watch closely everything he does, ask questions freely, and take notes. Then describe the service, stating the purpose, explaining what is done to carry out that purpose, and describing any special pieces of equipment or furniture that may have been used.

4. Visit some concern in your town that uses dictating and transcribing machines, and ask the office manager to let you watch the steps taken in dictating and transcribing letters on the machines.

5. How would you find out who sent an unsigned letter written on plain paper containing no name or address, and mailed in a plain envelope?

6. Visit a business house that has a private branch telephone exchange and ask the office manager to show you how calls are received and made, and what telephone records are kept.

7. Select 10 important foreign cities and prepare a chart showing the cost of sending a telegram, a cablegram, and a radiogram from your locality. Show also, if you can, the time it would take to transmit each kind of message.

8. Prepare a map of the United States showing the different time zones. Such a map will show which cities are on Eastern time, which on Central time, and which on Mountain and Pacific time. Using a colored crayon, show which sections of the country are on daylight-saving time.

9. Visit the bank in your town and ask the cashier to show you what records are filed in the bank and how they are filed.

10. Visit any local manufacturing concern in your town and ask the manager to show you what letters, papers, and other records are filed and how they are filed.

11. Visit any local store and ask the manager to show you what letters, papers, and other records are filed and how they are filed.

12. Ask the librarian at the public library to show you how books are indexed and catalogued. Be sure to look at the card index.

13. Ask the secretary of your school to show you how she files letters, papers, and other records.

Problems

1. Imagine yourself to be the clerk who reads the incoming mail of a large business house. Your purpose in reading each letter is to determine to which department the letter should be sent for answer. Among the departments in your concern are the following:

Accounting
Adjustment
Advertising
Cashier
Credit
Employment
Filing
Manufacturing
Purchasing
Receiving
Sales
Shipping
Treasurer

Copy the names of the 13 departments on a sheet of paper, listing them in a single column. Then on the paper indicate by letter to which department you would send each of the following letters:

a. Complaining of the receipt of damaged goods
b. Giving references as to financial standing
c. Asking for an extension of time for payment of a bill
d. Asking for a report on a former employee
e. Giving quotations for the sale of goods
f. Asking for quotations on the net price of goods
g. Applying for a position with the company
h. Applying for the purchase of stock in the company
i. Complaining of the nonreceipt of goods
j. Giving instructions regarding future shipments
k. Containing remittance for the payment of a bill

2. (*a*) Take the local newspaper and list on a sheet of paper the names of 50 advertisers, selected at random. Then arrange the names in strict alphabetical order. Note down the time you started to arrange the names and the time you finished.

(*b*) On small slips of paper, about 1 by 3 inches in size, copy the names of 50 advertisers in some newspaper or magazine, one

name on a slip. Then arrange the slips so that the names are in strictly alphabetical order. Note down the time you started to arrange the names and the time you finished.

(*c*) Compare the time taken to do (*a*) with the time for (*b*). Which took less time? Why? Can you think of some way by which the names on the sheet in (*a*) could be arranged as quickly as the names on the slips in (*b*). (There is a way.)

3. Much of the correspondence from one concern is coming into the office addressed to the salesmen and not to the company. Because of this, correspondence is left on the salesmen's desks while they are out of town on their trips, when it should be taken care of by someone else in the department. How can this be remedied? Give your reasons.

4. In one office, if a clerk wants to send a message or paper to another desk or department, he takes it himself. Of course this takes time, since the worker must leave his desk to do the errand. How can time be saved and give the employee more time to do his own work? Give your reasons.

5. The mailing department of a corporation receives mail twice a day. It sends out mail to the postoffice three times a day, by messenger. There is one department of the company which never has its mail ready to go out on the noon delivery. What might be done about this? Give your reasons.

6. Each department of a certain manufacturing concern has its own filing cabinets and does its own filing. Quite often it is necessary for one department to borrow material from another. The problem is to determine whether the saving would be great enough to have a centralized filing system, whereby all files are to be kept in one place where they are available to everyone. What would you do? Give your reasons.

10

Organization for Administration and Control

NO BUSINESS runs itself, even on momentum, which some wit has defined as "slowly coming to a dead stop." Like a rolling hoop, which has to be repeatedly struck and guided in order to keep rolling, every business needs repeated stimulus; and again like a hoop that has slowed down, a business that has slipped badly needs a lot of attention and stimulation. It is not easy to build a business; it takes time, intelligence, and hard work. It is easier to keep a business running smoothly if the proper attention is given to it, than if it is allowed to wobble and turn without direction.

Administration and Management

The function of administration and control is to keep the business on an even keel, to supply the necessary stimulus and direction, and to look ahead for possible opportunities, as well as danger signals. In some concerns administration includes management; in others it is more or less separated from management—in such cases, administration simply refers to the establishing and maintaining of major policies, while management carries out those policies.

Administration and management together include five functions:

1. Determining the results to be accomplished
2. Planning how those results are to be accomplished
3. Building the organization to secure those results
4. Directing the organization to secure those results
5. Controlling the organization, the plans, and the results

Meaning of Control

1. Knowing exactly what work is to be done
   - *a.* As to quantity
   - *b.* As to quality
   - *c.* As to time available
2. Knowing what resources are available for doing that work
   - *a.* As to personnel
   - *b.* As to materials
   - *c.* As to equipment
   - *d.* As to other facilities
3. Knowing that the work has been done, or is being done
   - *a.* With the resources available
   - *b.* Within the time available (which involves quantity)
   - *c.* At a reasonable cost (compared with standard cost)
   - *d.* In accordance with the required standard of quality
4. Knowing immediately of any delays, hold-ups, or variations
   - *a.* As to the happening
   - *b.* As to the cause
   - *c.* As to the remedy
5. Knowing what is being done to remove such hindrances
   - *a.* As to who is doing it
   - *b.* As to how he is doing it
   - *c.* As to what it is costing
   - *d.* As to when it will be done
6. Knowing when it is done
   - *a.* As to time finished
   - *b.* As to quality of the finished job
   - *c.* As to final cost
   - *d.* As to who did it
7. Knowing that recurrences are guarded against
   - *a.* In what way
   - *b.* By whom
   - *c.* At what cost
   - *d.* With what provision for periodic inspection

(From Davis and Stetson, "Office Administration," published by Alexander Hamilton Institute.)

A Classification of Management Problems

Management problems can be classified roughly in five major groups:

1. Problems of *policy*, which involve the setting of major objectives and formulating plans of action for their attainment.

2. Problems of *organization*, which involve the classification of activities into administrative groups, fixing responsibility for the performance of each group, and providing for the proper coordination of all groups so they may cooperate effectively in the attainment of the objectives.

3. Problems of *personnel*, which involve the procurement, development, and use of individuals to perform the responsibilities established by the organization plans.

4. Problems of *facilities*, which involve the procurement, maintenance, and use of the physical properties needed in the performance of the operations necessary in the attainment of the objectives.

5. Problems of *method*, which involve the establishment and use of routines and procedures needed for the effective performance of the operations necessary for the attainment of the objectives established by the policies.

All the problems that come to the desk of a typical executive can with a little ingenuity be placed within the limits of this classification. There are some problems, of course, that fall within two or more of these groups.

(From James O. McKinsey, "Organization Problems under Present Conditions," in General Management Series 127, published by American Management Association)

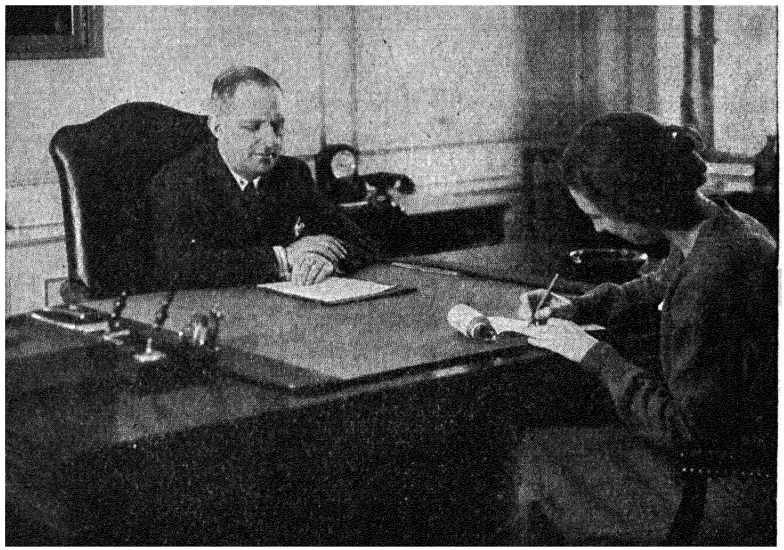
Management Problems

Statement of the problem:

Answer the following questions:

1. To what class or classes of management problems does the above management problem belong? Why?
   a. Policy
   b. Organization
   c. Personnel
   d. Facilities
   e. Method
2. What do you think is the basic difficulty involved in the above problem?
3. What approach to the solution of the problem would you suggest?
4. What objectives would you expect to attain by your suggested solution?
5. What obstacles might you encounter in the course of your solution?
   a. Of a policy nature?
   b. Of an organization nature?
   c. Concerned with personnel?
   d. Concerned with facilities?
   e. Concerned with methods?

It is easier to study a problem when your analysis is before you in black and white.



Courtesy of Underwood-Stratton

Preliminary Steps to the Solution of Any Management Problem

1. *Recognize* it as a management problem
2. *Classify* it
3. *State* the problem clearly
4. *Analyze* it
5. *Tackle* it
6. *Solve* it (or suggest a solution)

Elements of Control

The elements of control are authority and knowledge, guidance and direction, constraint and restraint. To be in position to exercise control, the manager must know what the situation is, he must know what it should be, he must know what to do to bring the situation into line, and he must have the authority to take the appropriate action. To bring about

control, therefore, the manager must have his lines of communication established, open, and working. He must know what to do under the circumstances, and he must do it.

To Secure Control

Of any Operation, Routine, or Function

1. Outline the steps that take place in the performance of the work.
2. Indicate the points at which control is needed to prevent plans from going astray (consider what might happen if control were not present).
3. Establish control mechanisms at points where control is desired.
4. Assign to some individual the responsibility for seeing that the control mechanisms work correctly.

(A control mechanism is any device, means, or procedure which keeps the executive informed as to the activities for which he is responsible, and which assures him that his plans and policies are being carried out according to schedule.)

There is present in every management problem a multitude of elements and conditions, some desirable, which the manager wishes to retain, and others of an opposite character, which he seeks to eliminate or avoid. Controlling, therefore, is the conscious directing or influencing of certain causes so that certain desired effects will result.

The First Principle of Management—Again

The first function of administration and management has been stated above as "Determine the results to be accomplished." This is only another way of stating the first principle of management: "Determine your objective." The objective is the result we desire and hope to attain, the object for which we are aiming. The ultimate aim of business is profit through

Information for Control

1. No man's judgment is better than his information.
2. The next best thing to knowing something is knowing where to find it.
3. Knowledge is not wisdom, but a man cannot be wise if he has not the necessary knowledge.
4. To be useful, information must be accurate, adequate, and timely.
5. Information from reliable sources is more likely to be accurate than that from unreliable ones.
6. Information is adequate when it is sufficient for one's purposes.
7. Information is timely when it is known in time to be of use.
8. Nine-tenths of wisdom consist of being wise in time.
9. No one should hesitate to ask questions of others; that is sometimes the best and only way to get desired information.
10. Every kind of information desirable is in existence somewhere or may be ascertained. In many cases all that is needed is the willingness to make the effort to get it assuming, of course, that the information is worth while.
11. Whatever information is needed should be procured.
12. If information should be kept up to date, make a point of doing so regularly.
13. One would not use a last year's calendar to tell today's date, nor an old timetable to find out the time that trains arrive and depart.
14. Always consult the latest available source of information.

service; but there may be and usually are a number of more immediate objectives before the final one is reached. No wise general says, "I will win this war." Rather does he say, "I will take this town, then that town, then that hill, then that river, then that city"; and so on until the war is won. The general very carefully plans each step, determining what obstacles must be overcome, what forces are necessary to overcome them, what forces are available, how many men will be needed, how much equipment they will need, how much softening up the enemy will need, when the preliminaries will commence and where, when the attack will begin and where and by what forces, led by whom. Each step is carefully planned and scheduled; the timetable shows each officer exactly where he is supposed to be at stated times; he knows that the success of the operation depends on his being at that designated point at the stated time.

The general gets reports of progress from each sector. If the forces in one sector are delayed or stopped, reinforcements may be sent in, a withdrawal may be ordered, or some action appropriate in the circumstances is taken. Without this constant stream of information, the general would not know what was going on, and he would not know what to do nor where to do it. He would not have control.

Traditional Planning

How does the management of a business concern make plans for the coming year, or for whatever period plans are to be made?

There are two approaches to this problem. The traditional one is to say that during the coming year the company will open up certain areas for its products or services and will push its business in those areas, using distributors, salesmen, advertising, sampling, demonstrators, mail sales campaigns, and so on. This objective may look definite enough; actually, it is rather indefinite. As expressed here, it is really nothing more than a hope: we hope to be able to say at the end of the year that we have established our line in such-and-such areas; and to do that we shall exert every effort at our command. We hope to make a profit in doing this, but we shall be satisfied if we have reached our stated objective: establishing our line in the indicated areas.

Scientific Planning

In contrast, consider the scientific method of approach: The first step is to determine the margin that is desired to be

Factors Concerned in Department Management

1. The work of the department
   - *a.* Technical work
   - *b.* Clerical work
2. Facilities with which to work
   - *a.* Equipment and layout
   - *b.* Materials
   - *c.* Working conditions
3. Personnel of the department
   - *a.* Personnel needed
   - *b.* Selection
   - *c.* Training
   - *d.* Handling
   - *e.* Remuneration
4. Administration and control of the department
   - *a.* Records
   - *b.* Reports
5. Relation to other departments and to the rest of the organization
6. Contact and relations of department head with and to his superiors

A department head must know what work is expected of his department and what facilities he has to help him do the work. Then he must organize the workers and divide the work equitably among them. He must instruct them in the best methods of doing the work and must see that the work is carried out in accordance with his instructions. He must keep the quality of the work up to the standard and must keep production up to schedule.

realized at the end of the period. Since a margin will be realized if our operations are successful, why not determine in advance what that margin should be? This is not mere wishful thinking but is based on considerations of what a reasonable margin for the period would be. The approach is not the Pollyanna kind, "Let's make $100,000 this year!" but a coldly analytical one, "On the basis of our past experience, the market conditions as they are, and our facilities, a margin of $100,000 is a reasonable objective."

There is only one way to make a margin of $100,000, except through accident. That way is to determine what volume of

Management Control Ratios

Ratios express the relationship between two sets of figures. The most common financial ratio used in business is probably the current ratio, that is, the ratio of current assets to current liabilities. Not so familiar, however, are nonfinancial ratios, which show operating efficiency of management. Following are some helpful ratios of that kind:

$$\frac{\text{Value of returned goods}}{\text{Value of total shipments}}$$

$$\frac{\text{Number of delivery promises filled on time}}{\text{Number of total orders shipped}}$$

$$\frac{\text{Value of materials spoiled}}{\text{Total value of materials handled}}$$

$$\frac{\text{Number of separations}}{\text{Average number employed}}$$

$$\frac{\text{Number of replies to date}}{\text{Per dollar of advertising}}$$

$$\frac{\text{Number of sales}}{\text{Number of inquiries}}$$

$$\frac{\text{Number of calls per salesman}}{\text{Total sales by salesman}}$$

(Courtesy of Henry P. Dutton and Factory.)

goods must be sold to produce $100,000 margin. As an illustration and to simplify the discussion, suppose that the company makes only one product, which sells for $5. Suppose that a reasonable margin on each sale would be 10 per cent, or 50 cents.[1] To make $100,000 margin would require the sale of 200,000 units at $5, on each of which a 50-cent margin is taken. Note that the margin is taken first.

Taking 50 cents out of $5 leaves $4.50 to cover the cost of manufacturing, selling, and administering the business. That is, the only restriction upon all costs of every kind is that they must not total more than $4.50 for each of 200,000 units, or $900,000 altogether.

Planning Sales. The sales department, with a definite assignment of 200,000 units to sell, analyzes its possible markets and the methods and costs of reaching those markets, determines what advertising will be necessary, how many salesmen will be needed, and how many units each salesman should sell. The resulting figure for selling costs is, let us say, $200,000, or $1 for each unit sold.

Suppose administrative costs are figured at $100,000, or 50 cents on each unit sold.

There remain $3 out of the $5 price. Within the limits of this $3, the manufacturing department can make the best product it knows how. Suppose the manufacturing overhead is figured at $60,000, or 30 cents on each unit. That leaves $2.70 for materials and labor. If materials are one-third and labor two-thirds, we should have $1.80 per unit for labor, and 90 cents for material. Let us tabulate these figures and look at them:

[1] Whether the margin should be 10 per cent, 20 per cent, 15 per cent, or some other figure is not so arbitrary as might appear; it is largely determined by the fiscal requirements of the business. For example, a stockholder owning a 5 per cent preferred stock of $100 par value in a corporation capitalized at $1,000,000 expects to receive a $5 dividend each year on each share of his stock; that is why he bought it. Five per cent of $1,000,000 is $50,000. If a company clears a margin of $100,000 on sales of $500,000 and pays half of it in dividends, it has left $50,000 for taxes, depreciation, reserves, and surplus. That may be enough, or it may not. The percentage of margin on sales must be set with an intelligent and realistic appreciation of what the financial obligations of the business will be.

	Selling Price, $5 *per Unit* Amount Allowed per Unit	*Sales Quota,* 200,000 *Units* Total Amount for 200,000 Units
Margin	$ .50	$ 100,000 00
Selling costs	1.00	200,000.00
Administration costs	.50	100,000.00
Manufacturing costs:		
Overhead	.30	60,000 00
Labor	1.80	360,000 00
Materials	.90	180,000 00
	$5 00	$1,000,000 00

Observe two points: we put the margin first instead of last; and we speak of sales in the number of units to be sold instead of in the total dollar volume of sales. Why speak of dollar volume of sales when the only way to reach that volume is by the sale of a definite number of units? As each unit is sold, the margin on that unit is set aside; when 200,000 units have been sold, the entire margin of $100,000 has been set aside, which was the objective with which we started.

Pay Yourself First

This idea of taking out the margin first is at the basis of all successful thrift plans. To take an extremely simple instance, suppose a clerk getting $25 a week salary wished to have $100 at the end of the year. She simply lays aside $2 from each weekly pay check, *the first thing*, before any of the money has been spent for anything else. That leaves her $23 to live on. She plans her personal budget on the basis of $23, to cover food, clothing, rent, insurance, recreation, and so on. It is possible, by following this plan, to accumulate any desired sum of money within reason. It is the approach that is important: *pay yourself first* by taking out your savings; then live within the rest. Too many people take out their living expenses first and, if there is anything left, save that. More often than not, there is nothing left, hence nothing to save. Too many businesses are operated on the same plan: Let's sell all we can, and if there is any money left over at the end of the year, that's our profit. The difference between the two plans is the difference between certainty and

uncertainty, between serenity and uneasiness, between scientific and unscientific management.

This plan, as presented, seems too good to be true; it seems too easy. Where is the catch? One is reminded of the young man who was being interviewed for a position. Finally, the employer said, "You will start at $20 a week and will receive an increase if you make good." Said the young man, "I knew there was a catch somewhere."

What Makes a Plan Work?

There is no catch in the plan described above, but there is a lot of hard work for those who are responsible for carrying out the plan. The success of the plan will depend first upon the care and thoroughness with which the plan is made; second, upon the vigorous persistence with which it is followed; and finally, upon the control exercised, that is, the watching of progress, the anticipation and removal of obstacles, and the bringing up of reinforcements when and where needed. But none of these features of control can be exercised intelligently if the information upon which they are based is not available in time to take the appropriate action, or if it is not correct. Just as a general must know when reinforcements are needed: it doesn't help after the battle to know that reinforcements were needed at one time—it must be known *at that time*, in order to be of value.

Requisites for Control

As has already been said, to be in position to exercise control, the manager must know what the situation is, he must know what it should be, he must know what to do to bring the situation into line if it is out of line, and he must have the authority to take the appropriate action. He must have his lines of communication established, open, and working; he must know what to do under the circumstances, and he must do it.

The collecting and presenting of the information are the functions of the accounting department, from the standpoint of the management. Ordinarily, one thinks of the work of the accounting department as keeping the books and recording the changes in assets and liabilities. Actually, those duties are minor

A Program of Management Research for Administration and Control

I. *General Survey of the Business*
- A. Over-all examination of the policies and practices of the business
  - 1. To determine the possibilities for
    - *a.* Increased profits
    - *b* Decreased costs
    - *c.* Improved control and so forth
  - 2. To include
    - *a.* Functions of
      - (1) Production
      - (2) Merchandising
      - (3) Sales
    - *b.* Personnel
    - *c.* Organization
    - *d* Administration
  - 3. To discover the most fertile fields for improvement
  - 4. To indicate the means of coordinating the various functions and activities

II. *Management Policies*
- A. Analysis of
  - 1. Existing management policies
  - 2 Results secured under them
- B. Suggestions for bringing policies in line with changing needs and conditions

III. *Office Methods and Accounting*
- A. Analysis of
  - 1. Operations
  - 2. Systems
  - 3 Procedures
- B. Suggestions for
  - 1 Simplification
  - 2. Elimination of waste
  - 3. Reduction in time
  - 4. Introduction of mechanical devices
  - 5. Standardization
  - 6. Improving control of
    - *a.* Operations
    - *b* Accounting
    - *c* Costs
- C. Preparation of written standard practice instructions and manuals

IV. *Organization and Reorganization*
- A. Creating or improving the basic structure of the business so as to
  - 1. Assign and distribute properly
    - *a.* Duties
    - *b* Responsibilities } on all levels of importance
    - *c.* Authorities
  - 2. Distinguish functions and services
  - 3. Coordinate activities
  - 4. Establish control while releasing initiative
  - 5 Free major executives from routine burdens
- B. Preparation of organization charts and manuals

V. *Office Layout and Equipment*
- A. Planning office space to meet present and future requirements of the work
- B. Arranging
  - 1. Departments
  - 2. Offices
  - 3. Furniture
  - 4. Equipment

  } so as to expedite the flow of work and utilize space to best advantage
- C. Consideration of such special factors as
  - 1. Illumination
  - 2. Ventilation
  - 3. Noise reduction
  - 4. Electrical requirements
  - 5. Intercommunication
- D. Preparation of detailed floor plans

VI. *Planning New Office Buildings*
- *A.* Ascertaining
  1. Organization needs
  2. Operating needs
- *B.* Adapting building plans to meet present and future space requirements
- *C.* Consideration of the problems
  1. Selection of plant and office location
  2. Selection of architect
  3. Determining size and general design of the building
  4. Ascertaining departmental space requirements and locations
  5. Determining extent and location of service facilities
  6. Partitioning
  7. Underfloor ducts
  8. Illumination, ventilation, noise reduction
  9. Floor covering
  10. Mechanical and electrical communication
  11. Departmental layouts
  12. Selection of suitable furniture and equipment
  13. Preparation of detailed floor plans
  14. Arrangements for moving from one location to the other

VII. *Job Analysis, Salary and Pension Administration*
- *A.* Determining for all jobs
  1. Duties and working conditions
  2. Qualifications necessary for their successful performance
  3. Grading and classification
  4. Assignment of correct salary ranges
- *B.* Tracing departmental and interdepartmental lines of promotion
- *C.* Establishing sound plan of compensation
  1. Based on fairness
  2. Resulting in reasonable payroll costs
  3. Providing an incentive to employees
- *D.* Designing pension plan constructed to
  1. Integrate with the compensation plan in effect
  2. Ensure practical operation and future safety

VIII. *Personnel*
- *A.* Establishing sound personnel policies and practices
  1. Selection
  2. Training
  3. Promotion
  4. Welfare
  5. Remuneration

  } of employees
- *B.* Devising and installing
  1. Employee tests
  2. Rating plans
  3. Training courses
  4. Incentives
  5. Records
  6. Other phases

IX. *Executive Compensation*
- *A.* Determining
  1. Proper compensation of executives
  2. Measure of executive accomplishment
  3. Evaluation of length of service and other factors
- *B.* Developing a promotional program
- *C.* Constructing plans
  1. Profit sharing
  2. Bonus distribution
  3. Stock ownership and so forth

X. *Budgetary and Statistical Control*
- *A.* Preparation of operating budgets to
  1. Coordinate sales, production, and other activities
  2. Keep departmental costs definitely within control
  3. Fix responsibility
  4. Secure cooperation in striving for lower unit costs
- *B.* Planning
  1. Reports
  2. Charts
  3. Statistics

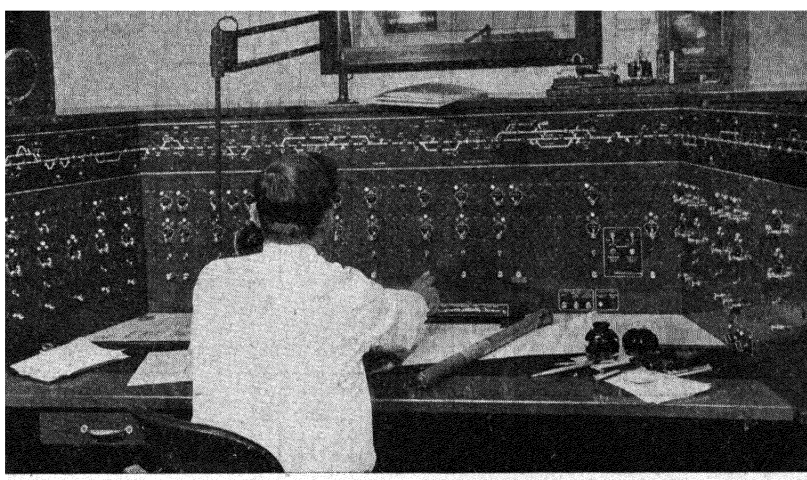
  } to provide maximum information and control with minimum effort

(*Adapted from "Net Results," published by H. A. Hopf and Company, Management Engineers.*)

compared to the responsibility of keeping the management informed.

What information does the management demand from the accounting department?

The first question the management wants answered is "How are we doing? Our plan calls for so-and-so. Are we doing so-and-so? If not, what are we doing and who is responsible? In what way are the actual results differing from the planned results? What and who are responsible?"

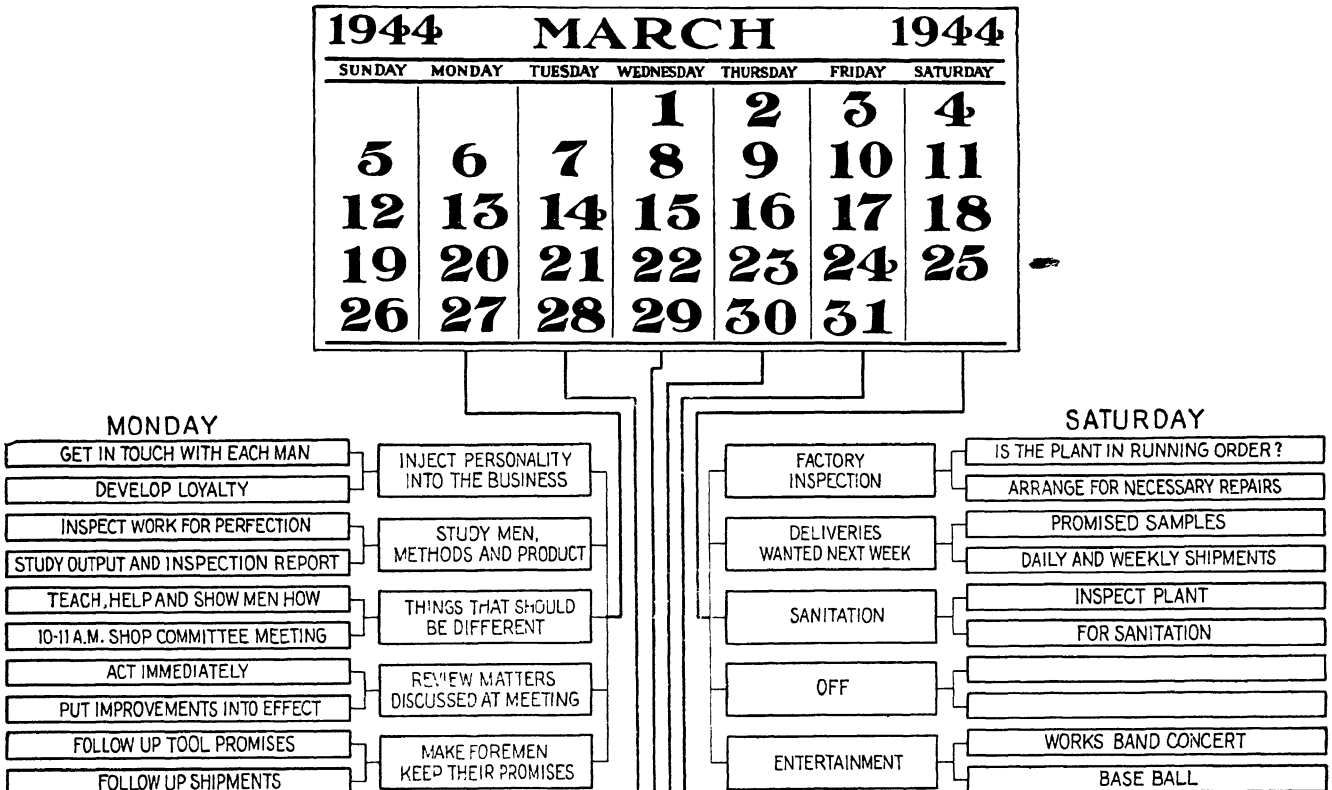


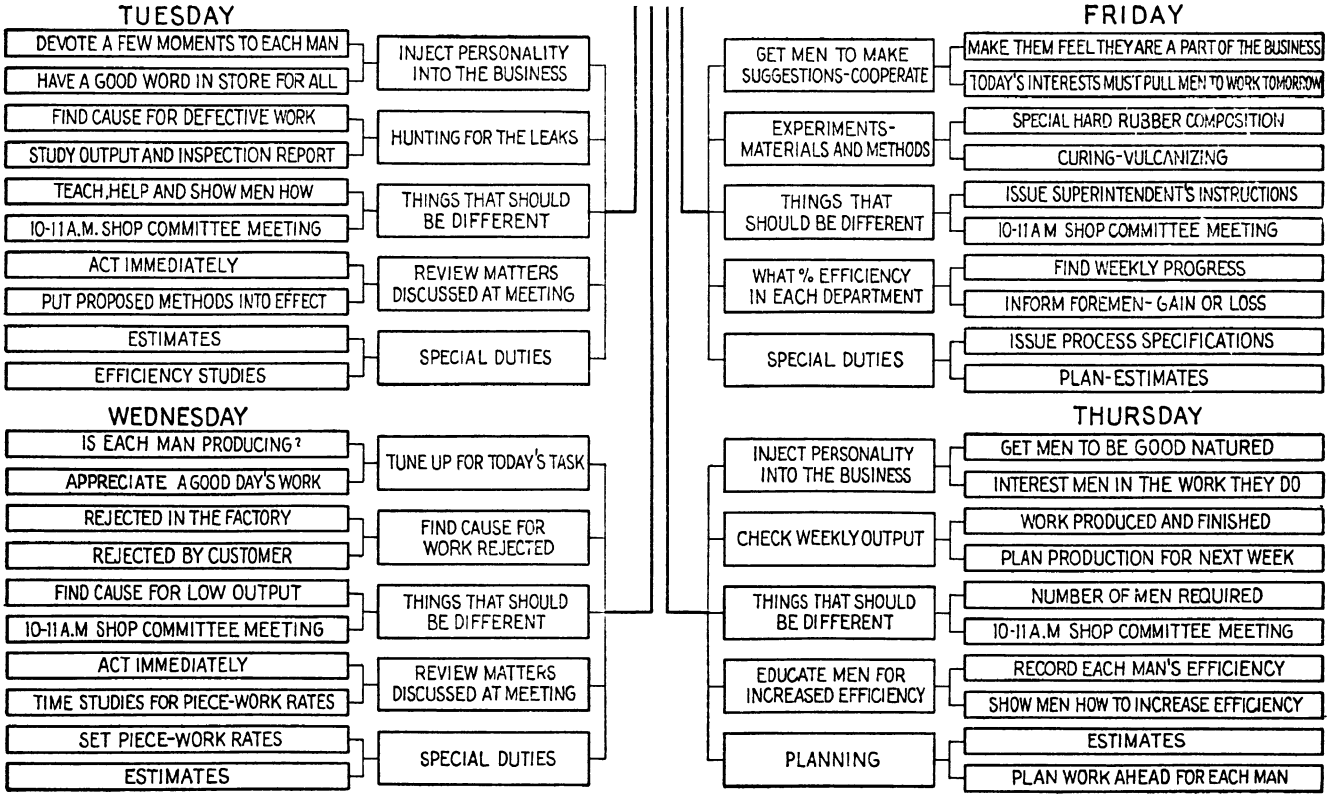
Courtesy of Norfolk and Western Railway

By looking at the top panel of his control board, this dispatcher *knows* where every train is and what progress it is making.

With the information indicated, the management can act intelligently, that is, with understanding. Without this information, the management is in the dark.

A moment's consideration will show that what the management is really doing is comparing the actual progress with the plan, to be sure that the plan is being followed, or modified if the information received indicates the need of change.


1944 MARCH 1944
SUNDAY MONDAY TUESDAY WEDNESDAY THURSDAY FRIDAY SATURDAY
1 2 3 4
5 6 7 8 9 10 11
12 13 14 15 16 17 18
19 20 21 22 23 24 25
26 27 28 29 30 31
MONDAY
GET IN TOUCH WITH EACH MAN
DEVELOP LOYALTY
INJECT PERSONALITY INTO THE BUSINESS
INSPECT WORK FOR PERFECTION
STUDY OUTPUT AND INSPECTION REPORT
STUDY MEN, METHODS AND PRODUCT
TEACH, HELP AND SHOW MEN HOW
10-11 A.M. SHOP COMMITTEE MEETING
THINGS THAT SHOULD BE DIFFERENT
ACT IMMEDIATELY
PUT IMPROVEMENTS INTO EFFECT
REVIEW MATTERS DISCUSSED AT MEETING
FOLLOW UP TOOL PROMISES
FOLLOW UP SHIPMENTS
MAKE FOREMEN KEEP THEIR PROMISES
SATURDAY
FACTORY INSPECTION
IS THE PLANT IN RUNNING ORDER?
ARRANGE FOR NECESSARY REPAIRS
DELIVERIES WANTED NEXT WEEK
PROMISED SAMPLES
DAILY AND WEEKLY SHIPMENTS
SANITATION
INSPECT PLANT
FOR SANITATION
OFF
ENTERTAINMENT
WORKS BAND CONCERT
BASE BALL



Is there any reason why you cannot schedule your regular duties as this manager has done?

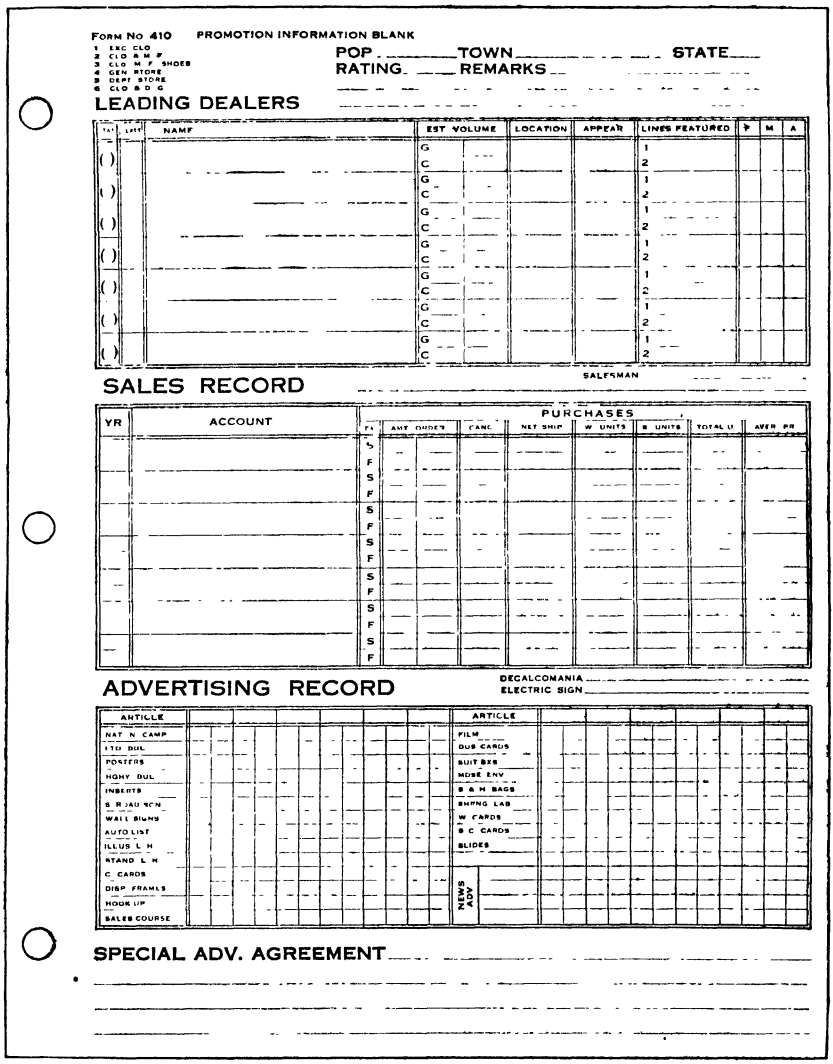
What Should a Plan Show?

The plan shows what each person in the company is expected to do, when he is expected to do it, and how much money may be spent in doing it. Each salesman knows how many units he is to sell, where he is to sell them, and in what periods. As a matter of fact, in many lines of business, the salesman knows the customer he is to sell, and how much he is to sell to each customer. This is a far cry from selling the customer all he can be persuaded to buy; that is bad business for everybody, as can readily be demonstrated.

A Specimen Analysis

Suppose that an analysis of the retail merchants in a certain city or town shows seven leading dealers, the class of store each conducts, the lines carried by each, the estimated volume of sales, the location, the appearance of the store, and the credit standing of each merchant. With respect to the city or town, the analysis shows the population, divided into age and sex groups, the leading industries, general conditions, and so on.

With this information a wholesale clothier can determine the order of preference of dealers for his particular line, the relative desirability of giving exclusive representation to one merchant as against splitting the business among several, and, especially, the quantity of the wholesaler's line which the selected merchant could handle to advantage. Given enough information, supplemented by what a successful retail merchant knows about his customers, the wholesale clothier can estimate with remarkable closeness how much the retail merchant should buy. If the salesman, before calling on the customer, goes over these details with the sales manager and the credit manager, there is little likelihood of his selling the customer too large a bill of goods. When a retail merchant has bought more goods than he can sell in the season, he is going to be slow in paying his bills, and he is not going to be a very good customer for the following season. Constructive sales management will not countenance overselling, which is not only uneconomic but very poor business all around.


FORM NO 410 PROMOTION INFORMATION BLANK

1 EXC CLO
2 CLO & H F
3 CLO M T SHOES
4 GEN STORE
5 DEPT STORE
6 CLO & D G

POP. _____ TOWN _____ STATE _____
RATING _____ REMARKS _____

LEADING DEALERS

TER	LET	NAME	EST VOLUME		LOCATION	APPEAR	LINES FEATURED		Y	M	A
			G				1				
( )			C				2				
			G				1				
( )			C				2				
			G				1				
( )			C				2				
			G				1				
( )			C				2				
			G				1				
( )			C				2				
			G				1				
( )			C				2				
			G				1				
( )			C				2				

SALESMAN _____

SALES RECORD

YR	ACCOUNT		PURCHASES						
			AMT ORDER	CANC	NET SHIP	W UNITS	S UNITS	TOTAL U	AVER PR
		J							
		F							
		S							
		F							
		S							
		F							
		S							
		F							
		S							
		F							
		S							
		F							

ADVERTISING RECORD

DECALCOMANIA _____
ELECTRIC SIGN _____

| ARTICLE | | | | | | |

needed, the help needed, and so on. The "production curve," so called, can be planned in advance so that instead of fluctuating up and down with sales, it is more nearly horizontal, making possible definite and more steady employment for workers.

Isn't This Worth While?

Throughout the organization, therefore, the work of each individual is laid out; he knows what he is to do and when he is to do it. Any failure, weakness, or lack of accomplishment at any point is *immediately* shown up by the records and reports received by the management, and whatever remedy is called for may be applied. This is scientific management, based on organized knowledge, as all science is based.

Anyone who feels that such a cut-and-dried program takes all the fun out of business by removing the chances and uncertainties is free to enter business on his own plan—or lack of plan—and get all the excitement he craves. But, if he is in competition with a business that is scientifically managed, he will soon realize that he is up against real competition, intelligently directed because based on facts.

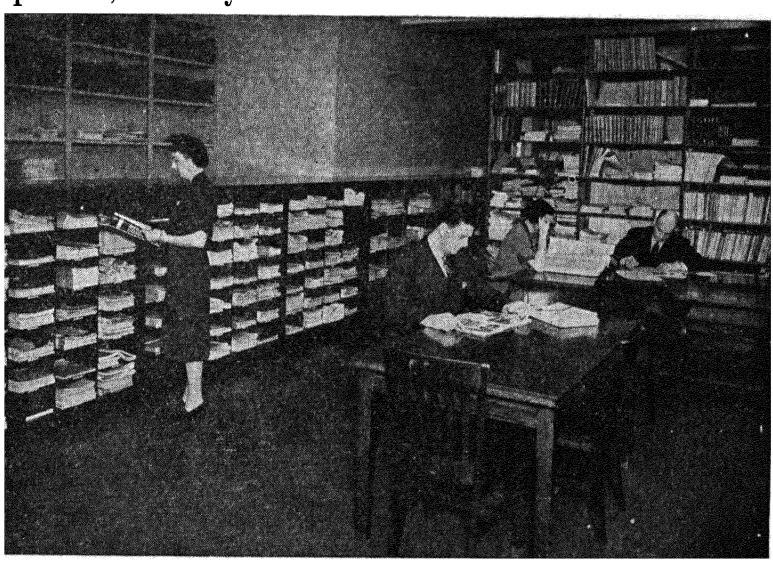
On the other hand, many men derive a keen pleasure from making the effort necessary to meet a program which, though not easy, perhaps is yet attainable and well worth while. If the program is a rainbow, the pot of gold is at the end of it. There will be plenty of pebbles in the path, not to mention a few rocks, which will call forth the best from every individual.

Waste Not, Want Not

The control of expenditures has been described in Chap. 5. It may be well to supplement what is said there with a brief comment or two on the elimination and control of waste, "the little foxes which spoil the vines."

A great deal depends upon the organization's mental attitude toward waste, upon the realization that the property of the company represents money, whether it is in the form of money, supplies, or equipment. For example, most employees of any business would scorn to steal even a few pennies from the cash drawer; that would be dishonest. But many of those same

employees might not hesitate to help themselves to pencils, paper, even a postage stamp now and then. Nor do the majority of employees think twice about throwing away a half-used pencil, a pad of paper that is not being used at the time, a paste jar when it is empty, the brass clips on the sheets of paper just tossed into the waste basket, and so on. Not all disregard of values is so reckless as was the case in one office where the janitor, in emptying the waste baskets, found two numbering machines, worth about $20 each. Inquiry showed that the waste basket was taken from the cashier's cage, where two young women readily admitted that they had thrown away the numbering machines. "We didn't need them any more," they explained, candidly.



A library, adequately stocked, competently staffed, and persuasively publicized, helps keep the organization on its toes.

Make Employees Waste Conscious. It is too much to expect that employees will become waste conscious of their own accord. Direction and stimulation are necessary, as well as a good example on the part of the management. The sin of American business is waste, whether of time, money, materials, or supplies. Waste and extravagance (which is merely a form of

waste) are so obvious and manifest as to reflect the lack of prudence on the part of the management; or perhaps it is indifference; it may be ignorance. Whatever it is, the failure to curb it is unjustifiable. Any management engineer can put his finger on fifty places where money can be saved, not at the expense of the business nor of the employees of the business, but merely by reducing waste.

Perhaps it will help to examine some of the forms of waste to be found in almost every organization.

Everybody Condemns These. There are certain glaring wastes that are inexcusable: placing on the payroll employees who are not needed; buying services that do not contribute to the effective operation of the business; paying more for physical features than the business warrants, often for the sake of appearances, and frequently at the expense of other items that would contribute more to the concern's well-being. As someone has wisely said, "It isn't keeping up with the Joneses that causes the trouble; it is trying to pass them on a curve."

Other Wastes Not so Obvious. Everybody will admit the indefensibility of the items mentioned in the preceding paragraph and will condemn their continuance, even if nothing is done about them. But there are other items, not so conspicuous, that deserve attention. A recent report of the National Office Management Association[1] lists 176 places –just in offices– where waste may be eliminated. Much waste can be prevented by a control over the procurement and use of materials, equipment, and services for which money is being spent. Standard specifications should be provided for all materials and supplies used. These items should be packaged in easily dispensable quantities and their use supervised and checked to prevent waste. Equipment should be used with care and kept in first-class condition. Dirt and the improper operation of a machine will shorten its life measurably.

Why Abuse Services? There should be no waste of services. Certain utilities are so handy that it is easy to abuse their very convenience. The telephone is probably the outstanding example. It may be abused in three ways: by personal

[1] *NOMA Forum*, January, 1942, pp. 3–17, 24–26.

calls, by inefficient use for company business, and by unnecessary and extended toll calls. When the toll calls of one industrial company amount to nearly a million dollars a year, the money-saving possibilities are immediately apparent.

The waste of electricity is appalling. Lights left burning, fans left running, machine motors not switched off, and so forth, all contribute to unnecessary expense—waste.

The Greatest Waste of All. Finally, there is the enormous waste of human effort. Thousands of employees are doing unnecessary work. Thousands more are doing necessary work inefficiently. If the principles, methods, and suggestions presented in this book lead to better management, many of these human wastes will be eliminated. But a conscious effort must be exerted by the management, which must abhor waste in any form—visible or invisible—and which must get the habit or state of mind that will constantly measure results against costs. Good management endeavors to eliminate waste wherever it is found, whether in high or in low places.

Questions for Discussion

1. "No business runs itself, even on momentum." Explain.
2. What are five functions of administration and management?
3. Name six elements of control.
4. What four facts should the manager know to be in position to exercise control?
5. "The manager must have his lines of communication established, open, and working." Why?
6. The first principle of management is "Determine your objective." Explain how an army general would apply this principle to his operations.
7. Explain the traditional approach to the problem of planning operations for the coming period.
8. Explain the scientific method of approach to the problem of planning operations for the coming period.
9. What is the advantage of the scientific approach over the traditional one? Under which plan would you prefer to work? Why?

10. What is the basis of all successful thrift plans? Explain it. What relation has this to the scientific approach to planning operations?

11. Upon what three factors does the success of the scientific plan depend?

12. Upon what does intelligent control depend?

13. Whose function is it to collect and present necessary information about the business to the management? Why?

14. What information does the management need? Why?

15. What does the management's plan show?

16. How can a wholesale clothier analyze the market for his product in any given locality, what information would he get, and what would he do with it?

17. What is the advantage to the salesman of such a plan as that mentioned in question 16?

18. What is the advantage of such a plan to the manufacturing department?

19. What is the advantage of such a plan to everybody in the organization?

20. Does a cut-and-dried program take all the fun out of business? Why or why not?

21. Upon what does the elimination and control of waste largely depend? Why?

22. "It is too much to expect that employees will become waste conscious of their own accord." Explain.

23. Why can any management engineer put his finger on fifty places where money can be saved, merely by reducing waste?

24. Three inexcusable and glaring wastes are mentioned. Explain what they are and why they are both inexcusable and glaring.

25. How may the waste of materials be lessened?

26. How may the waste of service be lessened?

27. "There is an enormous waste of human effort in business." Explain.

28. Why should a conscious effort to reduce waste be exerted by the management?

Topics for Special Reports

In all these cases, it will help if the student will begin his report by explaining just what is meant by control of the particular item indicated in the assignment.

1. What information does a sales manager need in order to control the work of his salesmen? Give your reasons for each kind.
2. What information does a credit manager need in order to control the work of the credit department? Give your reasons for each kind.
3. What information does a purchasing agent need in order to control the work of his department? Give your reasons.
4. What information does a traffic manager need in order to control the work of his department? Give your reasons.
5. What information does the supervisor of any group need in order to control the work of his group? Give your reasons.
6. What information does a company treasurer need in order to control the expenditure of money? Give your reasons.
7. What information does the president of a company need in order to control the operation of the company? Give your reasons.
8. What information does the board of directors of a corporation need in order to control the affairs of the corporation? Give your reasons.
9. In the first five assignments above, the questions concerns control of the *work*. What else might the executive desire to control? Explain how he would do this in each case. Give your reasons.

Problems

1. In May, 1934, a buyer from a shoe factory went to buy twill to be used in the making of shoe lining. He was told that when the processing tax bill was passed, he would not have to pay a floor tax on the twill. He received the twill late in May and started to use it immediately. About five months later he was approached by Federal agents who asked him how much

twill he had on hand on the first of June. After stating an approximate amount, he was told that he would have to pay a floor tax on that amount of twill plus a fine of one-half the tax for not filing a report of the twill. This was the first time anyone had ever mentioned to the buyer such a thing as a report. What should the manager have done? Give your reasons.

2. If the sales manager and the credit manager get into an argument, what method would be best to smooth out the disagreement? What might cause such a conflict? What results might come out of it?

3. How can one make sure his plant is in presentable condition, the processes hygienically right, the usual ingredients and flavors of the product the best he knows how to make them, the cases in clean painted condition with no protruding nails or loose metal straps, the cartons clean and attractive, the labels of good and pleasing design, the trucks spick and span, with signs on their sides?

4. A large downtown department store recently opened a cafeteria for customers and employees. After a few months of operation it has shown a decided loss. What should be done? Give your reasons.

5. During the past four years the cost of operating a certain department store has increased to such an extent that the net profit has been greatly reduced. The board of directors is of the opinion that this increase in costs is due largely to poor control of the sales force. For example, a buyer may think it necessary to hire an extra salesclerk for his department; later he finds out that there is little for her to do except during rush hours.

The head of the statistical department believes that the sales expenses could be kept down better if the right kind of statistical data were obtained. He believes that the store managers should know how much each clerk has sold each day.

The store managers, however, think that this would not result in a fair comparison between salesclerks, as one clerk may secure a customer who spends $50 or $100 while another clerk may be engaged for the same length of time with a customer whose purchases total only 75 cents.

The statistical man also says that the number of customers a clerk waits on in a day would be a fair test, since that information would show which clerks go forward to wait on customers as soon as they enter the store and which hang back and are less attentive to their duties.

One of the department heads says that if the average sale was determined for each department and each salesclerk, it would be possible to determine ahead of time how many sales people would be needed and the kind of merchandise to purchase. That is, if the average sale is low, more sales must be made than if the average sale were high; and that would necessitate more salesclerks.

a. What is the situation that has arisen in this department store?

b. Why is that situation serious?

c. What is it that each of the executives mentioned is trying to do about it?

d. What does the board of directors think is the trouble?

e. What is one thing that the head of the statistical department proposes to do? What advantage would result, if any?

f. What objection do the store managers make to the statistical manager's proposal? What do you think of it?

g. What other record does the statistical head suggest?

h. What does one of the department heads suggest? Do you think his proposal is sound?

i. How would these various kinds of information be obtained?

j. Would more clerks be needed to record that information? Why or why not?

k. If more clerks were needed, would the added expense be offset by the value of the information obtained? Why or why not?

6. Take two sheets of paper and write down two problems that occur to you in connection with some business in which you are or may be interested, or in connection with one of the businesses listed below. It is hoped that you will put down problems to which you want the solution, but you have a wide

range of choice. Bring these two problems with you to the next meeting of the class.

Suggestions

a. What *management problems* are there in connection with the functions or departments listed below?

b. What *problems of control* are there in connection with the functions or departments listed below?

( ) Sales	( ) Purchasing	( ) Statistical
( ) Office	( ) Storekeeping	( )
( ) Credit	( ) Production	( )
( ) Traffic	( ) Accounting	( )
( ) Advertising	( ) Financial	( )

c. What are some of the problems of the following businesses (or any others you wish, not named below):

( ) Retail stores	( ) Hotels	( ) Insurance companies
( ) Laundries	( ) Restaurants	
( ) Cleaners	( ) Garages	( ) Public utilities
( ) Wholesalers	( ) Banks	( )

First problem, concerned with the business of

Second problem, concerned with the business of

11

Organization for Accounting

As was stated in Chap. 10, the main function of the accounting department, from the standpoint of the management, is keeping the management informed about the operations of the business by collecting pertinent information and presenting it to those responsible for its successful conduct.

Subsidiary to this main function is the recording function of the accounting department. In this respect the accountant is really a historian, making available for immediate or future reference the facts about the business. Since accurate and timely records of business transactions mean a sounder basis for business judgment, the accounting department is one of the most interesting and important departments of every business, whether large or small.

What the Records Show

The records kept in the accounting department show how much money is received and paid out, who owes the company as well as those whom the company owes and how much, how much business the company is doing this year compared with last, this month compared with last month, the cost of doing that business, and so on. From these records, reports for the manager are prepared and so arranged that he can see at a glance whether the business is going forward or backward, whether a department is doing especially well or poorly, and just what the profits or losses are for any given period. In this way the manager can pick out the weak spots and take steps to strengthen them at once. The accounting department also prepares reports for department heads, showing them what their departments are doing and the cost. Thus each department

The Work of the Accounting Department

1. Three important kinds of records are kept in the accounting department: cash received and paid out; the amounts due and the amounts owing; the volume of business done and the cost of doing it.

2. Records are not kept for the sake of keeping records.

3. Records are worth while only as they help to indicate the progress and the condition of the business.

4. In addition to keeping records, the accounting department prepares statistical reports for the manager.

5. Sometimes a separate statistical department prepares the reports, especially in very large corporations.

6. These reports show the progress of the business, the progress of departments, and the profits and losses.

7. The manager studies these reports to pick out the weak spots and to take steps to strengthen them.

8. Accounts with customers are called "accounts receivable."

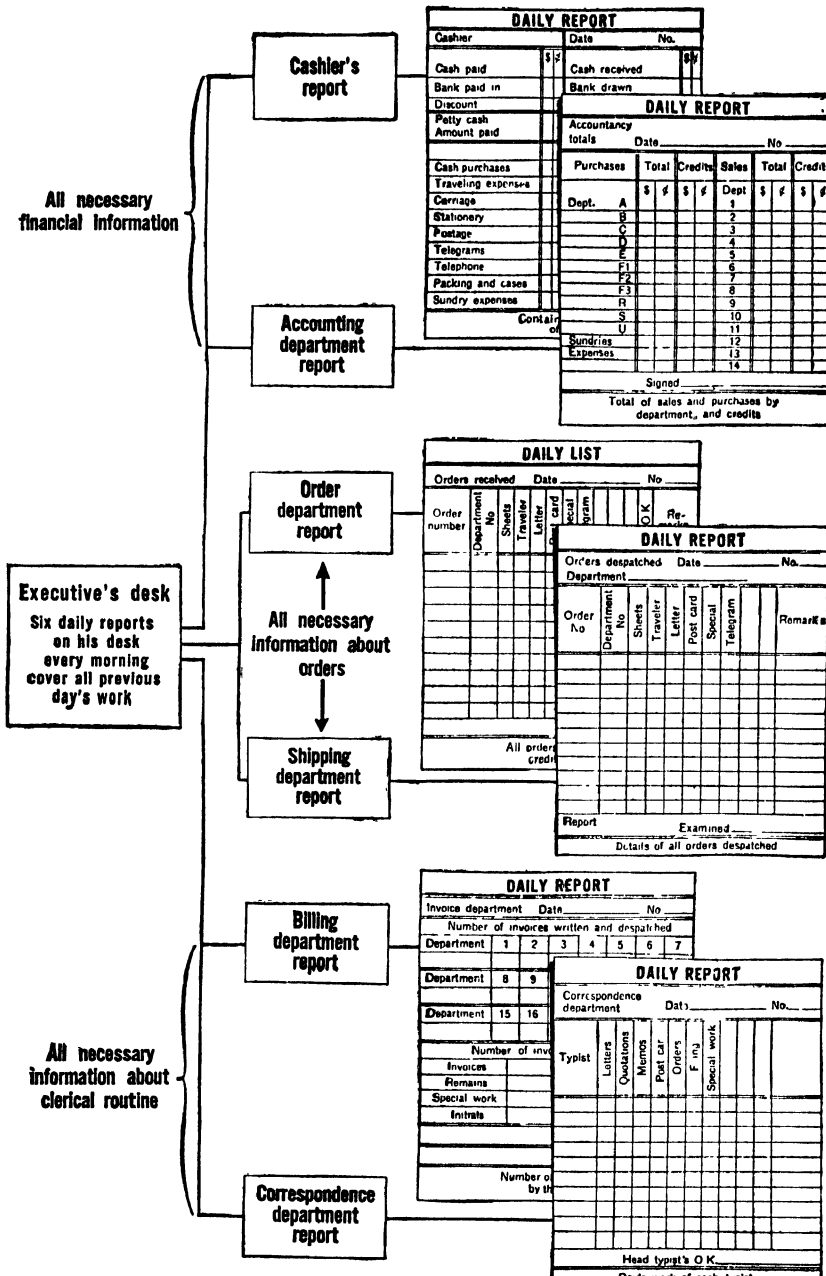
9. Statements of account should be mailed regularly and on time, at least once a month.

10. A simple form of statement gives the dates of charges and credits and shows the balance due.

11. Many concerns use ledger-posting machines, enabling them to ascertain balances whenever desired, without loss of time.

12. Payroll records are made up from the time cards of the employees.

13. Cost accounting shows the cost of materials, labor, and overhead expenses entering into the manufactured product.



Such reports may reveal any weak spots needing special attention.

head can watch the standing of his department and check its progress.

Organization of the Department

The chart on page 273 shows how the detailed work of the accounting department is divided. There are three main divisions: purchase accounts, sales accounts, and financial entries. Examine the chart carefully and follow closely each division as it is broken down into smaller subdivisions.

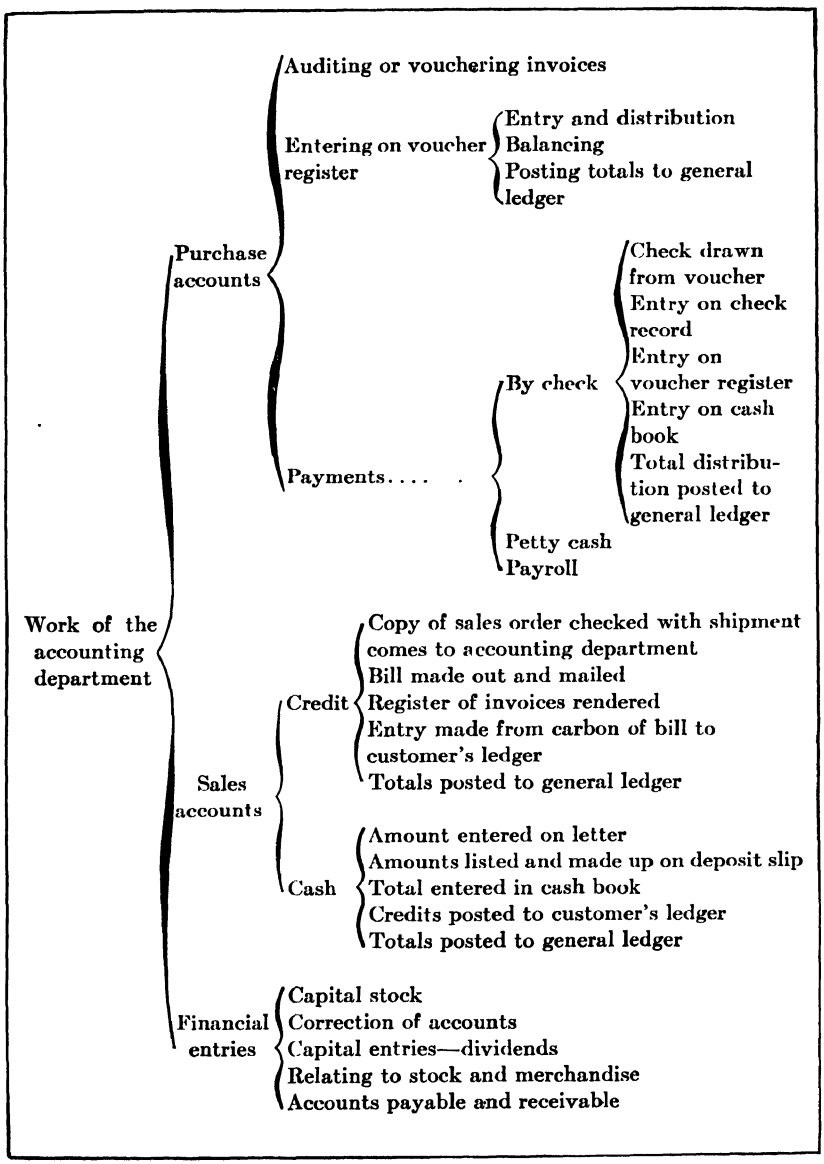
In charge of the accounting department is the chief accountant, who is responsible to one of four persons, depending upon the company concerned. In some offices the chief accountant is under the office manager; in others the office manager himself may act as chief accountant or vice versa. In some concerns the chief accountant may be responsible to the controller or the treasurer. Sometimes the secretary of the corporation is responsible for the accounting.

The number of people in the accounting department depends, of course, upon the size of the company and the amount of business it does. In a small business one person may do all the accounting and have time for other things also; in many small concerns a stenographer or secretary does all the bookkeeping in addition to her other duties.

On the other hand, a large corporation may have hundreds of employees in its accounting department, scattered in branch offices all over the country or the world. In such a concern each person in the department is likely to have only one type of work to do; for example, an entry clerk may handle only the accounts of customers in New York City whose names begin with S; another clerk may spend his entire time sorting copies of invoices and other items to be entered in the books. One individual may spend the whole day hunting for errors and correcting them; another may do nothing but check vouchers all day long. Each person has his particular work.

The Difference between Bookkeeping and Accounting

Keeping the records of transactions is usually called "bookkeeping"; by "accounting" is meant both keeping the records


Work of the accounting department
Purchase accounts
Auditing or vouchering invoices
Entering on voucher register
Entry and distribution
Balancing
Posting totals to general ledger
Payments....
By check
Check drawn from voucher
Entry on check record
Entry on voucher register
Entry on cash book
Total distribution posted to general ledger
Petty cash
Payroll
Sales accounts
Credit
Copy of sales order checked with shipment comes to accounting department
Bill made out and mailed
Register of invoices rendered
Entry made from carbon of bill to customer's ledger
Totals posted to general ledger
Cash
Amount entered on letter
Amounts listed and made up on deposit slip
Total entered in cash book
Credits posted to customer's ledger
Totals posted to general ledger
Financial entries
Capital stock
Correction of accounts
Capital entries—dividends
Relating to stock and merchandise
Accounts payable and receivable

Elementary Principles of Bookkeeping

1. Bookkeeping is the keeping of records systematically.

2. Accounting is the interpreting of the records.

3. The ledger is probably the most important record in bookkeeping.

4. The double-entry system of bookkeeping is so called because two entries are made in the ledger for every transaction.

5. In double-entry bookkeeping there is a credit for every charge and a charge for every credit.

6. The loose-leaf ledger has a separate leaf for every account.

7. The left-hand side of the ledger is called the "charge," or "debit," side.

8. The right-hand side of the ledger is called the "credit" side.

9. When the total credit entries of all accounts are equal to the total debit entries of all accounts, the ledger is said to be in balance.

10. The operation of comparing the credit totals with the debit totals is called taking a "trial balance."

11. The balance sheet is a statement of the assets and liabilities of a business. It shows the condition of the business at a stated time.

12. Entries are usually transferred to the ledger from some other source, such as books of original entry.

13. The transfer of items from the books of original entry to the ledger is called "posting."

14. The four commonest books of original entry are the journal, the cashbook, the purchase book, and the sales book.

15. In the journal the transactions are lined up one after another as they take place.

16. Each transaction is represented by two items in the journal: a credit item and a debit item.

17. In the cashbook is recorded all money received and paid out.

18. Cash received is entered on the left, or debit, side of the cashbook.

19. Cash paid is entered on the right, or credit, side of the cashbook.

20. In the purchase book are entered all purchases made from others.

21. In the sales books are entered all sales made to others.

22. These five books—the ledger, the journal, the cashbook, the purchase book, and the sales book—are the fundamental books on which all others are based.

and interpreting them through reports, that is, accounting for the results of the business operations. All modern bookkeeping is based on the ledger, a book in which every transaction of the business is entered and classified according to its nature and significance. Since all items of the same kind are on the same page, each page in the ledger tells its story. To the credit manager the ledger tells how each customer handles his account with the company; the auditor or chief accountant, on the other hand, is concerned with the correctness and completeness of the entries and, in addition, with the neatness and appearance of the books.

Accounts Payable Routine

When a firm buys goods from others, it receives a bill, or invoice, for the goods purchased. The bill is checked to make sure the goods have been received and are what was ordered. Then it is approved for payment and sent to the bookkeeper, who takes his accounts payable ledger, finds the supplier's ledger page, and enters thereon the details of the purchase.

The bookkeeper then enters the bill on the voucher register, which is a large sheet showing the following information about all bills for purchases (called "purchase invoices"):

1. Date of the bill
2. Date bill is due
3. Amount due
4. Name of supplier
5. Terms
6. Amount of discount allowed
7. Distribution

Distribution, as used here, simply shows which department ordered the goods. Frequently numerals are used to designate the departments; *e.g.*, the credit department might be 65, the sale department 32. When the bill is paid, the date and number of the check are entered on the voucher register. If the firm has more than one bank on which it draws checks, the name of the bank on which the check is drawn is also shown.

NAME Wardman Company
Barclay Bldg.
City

DATE 19		DESCRIPTION	Posting Ref.	Ch	CHARGES	Ch	CREDITS	Ch	BALANCE
Sep	30	Balance forward							1860
	30	Mdse	947		36504				38364
Oct	5	Mdse	1026		4806				
		"			14789				
		"			10977				68936
	13	Mdse returned	71				15387		53549
	15	Cash	28				50000		3549

LEDGER

CUSTOMER'S NAME WARDMAN COMPANY
ADDRESS BARCLAY BLDG
CITY

	OLD BALANCE	FOLIO	DATE	DESCRIPTION		CREDITS	NEW BALANCE	
			19 SEP					
✡	18 60	947	30	BALANCE FORWARD			18 60	
			OCT	ITEM	365 04		383 64	✡ WARDMAN
✡	383 64	1026	5	ITEM	48 06			
				ITEM	147 89			
				ITEM	109 77		689 36	✡ WARDMAN
✡	689 36	344	13	RETURNED ITEM		153 87	535 49	✡ WARDMAN
✡	535 49	1171	15	ITEM	269 48		804 97	✡ WARDMAN
✡	804 97		17	CASH DISC & ALLOW		383 64	421 33	✡ WARDMAN
✡	421 33	1194	18	ITEM	96 04			
				ITEM	120 46			
				ITEM	89 31			
				ITEM	83 09		810 23	✡ WARDMAN
✡	810 23		21	ON ACCOUNT		250 00	560 23	✡ WARDMAN
✡	560 23	1263	21	ITEM	147 61			
				ITEM	84 72		792 56	✡ WARDMAN
✡	792 56		24	CASH & DISC		792 56	0 00	✡ WARDMAN
✡	0 00		26	ITEM	39 43			
				ITEM	74 09			
				ITEM	77 46		190 98	✡ WARDMAN
			NOV					
✡	190 98	1409	3	ITEM	164 25		355 23	✡ WARDMAN
✡	355 23	1659	12	ITEM	75 60			
				ITEM	153 46		584 29	✡ WARDMAN
✡	584 29	1746	15	ITEM	46 81		631 10	✡ WARDMAN
✡	631 10		16	CASH & DISC		190 98	440 12	✡ WARDMAN
✡	440 12	1920	21	ITEM	123 46		563 58	✡ WARDMAN

Courtesy of Underwood Elliott Fisher Company

For comparison, here are ledger pages posted by hand and by machine. With the machine, carbon copies may be made at one writing.

Accounts Receivable Routine

When we ship goods to others, a bill, or invoice, is made out as described in Chap. 13 under the billing routine. A duplicate of this invoice is sent to the accounting department, where

McGRAW-HILL BOOK COMPANY·INC.

McGRAW-HILL BUILDING
330 WEST 42nd STREET
NEW YORK N Y

T 41021

To

EDGAR RUSSELL
721 FRONT STREET
SMITHVILLE, ILLS.

TO AVOID MISTAKES PLEASE SHOW THIS INVOICE NUMBER ON YOUR REMITTANCE

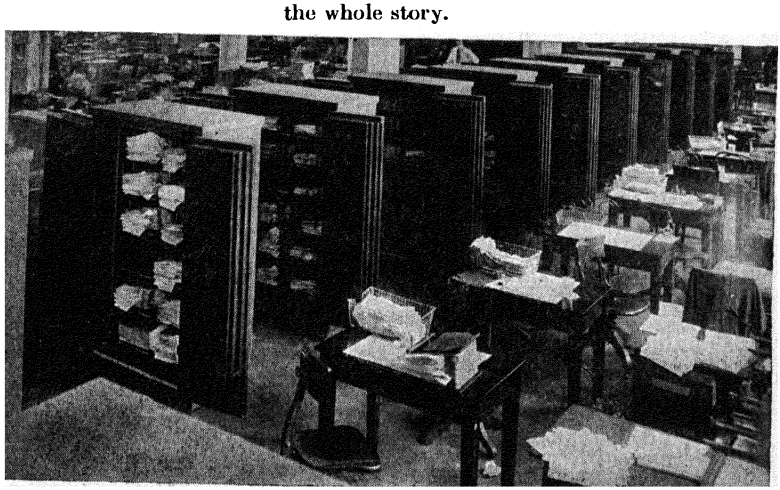
NET 30 DAYS—NO CASH DISCOUNT ALLOWED

DATE 6-7-39 ORDER NO 1037 REQ NO. VIA P.POST CLASS

QUANTITY	TITLES		UNIT PRICE	DISCOUNT	NET
1	WOODWARD & R-	A PRIMER OF MONEY	2.50		2.50
3	O'DEA	A PREFACE TO ADVERTISING	2.00		6.00
1	WEISS & A -	THE SHOPPING GUIDE	2.50		2.50
					11.00

BOOKS SENT BY MAIL, OR SENT TO OTHERS TO BE PACKED, ARE AT PURCHASER'S RISK

This invoice shows the purchaser what he bought, the prices, and terms. It tells the whole story.



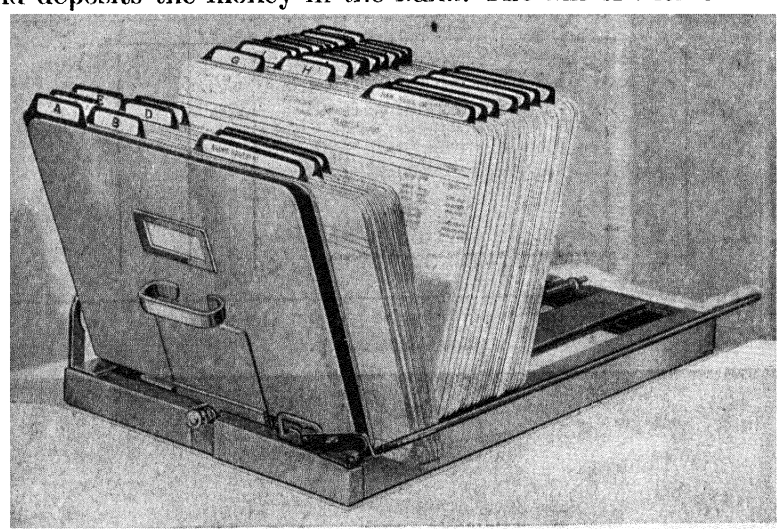
Courtesy of Liquid Carbonic Corporation

On the table and in the safe cabinets are looseleaf ledgers, "stuffed" with invoices, ready for the machine bookkeeper.

the bookkeeper takes the accounts receivable ledger and looks for his customer's ledger page. When he has found it, he posts the item to the customer's account by entering the date, description, and amount of the sale. After posting, the duplicate invoice may be filed by date or by number with other invoices that have been posted that day.

Handling Remittances

When the customer pays his bill, he usually sends with his remittance either the bill or some memorandum showing what the money is for. The cashier enters the amount in the cashbook and deposits the money in the bank. The bill or memorandum



Courtesy of Shaw-Walker

In this tray ledger sheets are easily located and can be removed for posting to customers' accounts.

goes to the bookkeeper, who takes the ledger, finds the customer's ledger page, and enters the remittance, then files the bill with other paid bills that have been posted that day.

Credit Memorandums

If a customer returns some goods for credit and the return is accepted, a credit memorandum is made out. One copy goes to the customer, another to the bookkeeper, and a third to the

file. Some companies also send a copy to the salesman to show him that his customer has returned some merchandise. The bookkeeper proceeds, as before, to enter the information in the customer's ledger account.

5

ACCOUNT NUMBER

NAME Richard C. Falcon, 2255

ADDRESS 2715 Broadmoor Pl.

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TRANS.
1	OCT-5-37		*500.00		**500.00	A A
2	OCT14-37		**25.00		**525.00	B A
3	NOV20-37		**15.00		**540.00	A A
4	DEC-5-37		**50.00		**590.00	B A
5						
6						
7						
8						
9						
10						
11						
12						

IN ACCT WITH Richard C. Falcon ACCT. NO. 2255

	DATE	WITHDRAWAL	DEPOSIT	INTEREST	BALANCE	TRANS.
1	OCT-5-37		*500.00		**500.00	A A
2	OCT14-37		**25.00		**525.00	B A
3	NOV20-37		**15.00		**540.00	A A
4	DEC-5-37		**50.00		**590.00	B A
5	JAN-2-38		**17.50	**5.61	**595.61	A
					**613.11	B A

Courtesy of National Cash Register Company

This machine computes balances and prints the entire transaction on the pass book and ledger card, all in one operation.

This device automatically stamps the time on the time card as shown below.

WEEK ENDING June 25, 1938
I. T. R. Co. Form No. 102

No. 24
NAME J. A. RAMSEY

	MORNING IN	NOON OUT	NOON IN	NIGHT OUT	EXTRA IN	EXTRA OUT	
M	8 04	12 01	12 48	4 32			7¼
T	7 54	12 02	12 52	3 58			6¾
W	7 58	11 30	12 54	4 36			7
TH	7 59	12 03	1 28	4 31			7
F	7 46	12 02	12 49	4 30	5 00	9 05	11½
SA	7 52	12 30					4½

TOTAL TIME 44 HRS.
RATE .57
TOTAL WAGES FOR WEEK $ 25.08

Courtesy of International Business Machines Corporation

Monthly Statements

At the end of the month the bookkeeper takes the ledger sheet of each customer and copies on a statement form the entries made during the month. This statement is then sent to the customer to show him what he has bought during the month and how much he owes the firm. If the bookkeeper uses a bookkeeping machine which writes the statement at the same time the entry is made, all he has to do at the end of the month is to tear out the statement and mail it to the customer.

Payroll

Another regular task of the accounting department is to make up the payroll. Since one of the largest costs in any business is the cost of help, it is necessary to keep records showing the work done by each employee and the salaries or wages paid. In many establishments time-recording clocks are used for recording the time when each employee starts work and finishes; pushing a lever punches a card which shows the time

PRODUCTION COST CARD

No. 43 NAME E. Stimson DEPT. 12

Form No. S15100 ORDER No. 2142 MACHINE No. 23

PART NAME Connecting Rod

PART No. 31

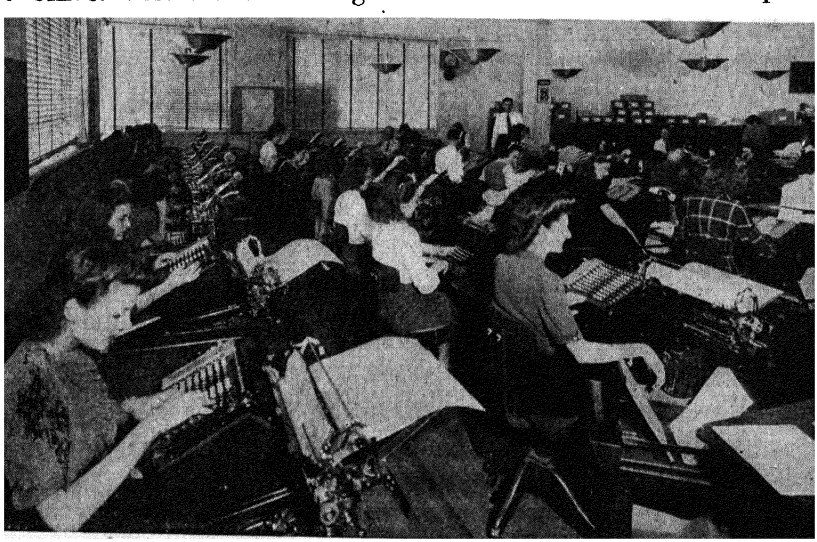
OPER. NAME Milling sides OPER. No. 16

PIECES	P. W. RATE	AMOUNT		RATE	ELAPSED TIME	
			Finish			MAR 1 11.2
100		2.94	Start	.70	4.2	MAR 1 7.0

O. K. L. Madison FOREMAN

Courtesy of International Business Machines Corporation

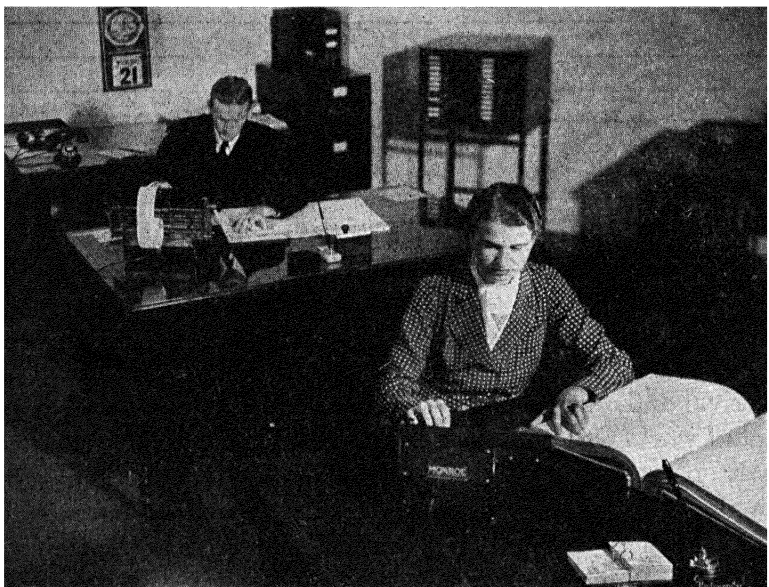
of arrival and departure, or the time spent on any special assignment of work. Other firms use cards, books, or sheets, on which a timekeeper marks the hour of arrival and departure. The payroll is made up from these records which the timekeeper sends in to the office. The Federal Wage and Hour Administration pre-



Courtesy of Burroughs Adding Machine Company

These girls are posting pay-roll records, showing calculations, extensions, earnings, deductions, and distributions.

scribes what records must be kept and what methods of keeping them will be satisfactory so as to show precisely and without question how much time each employee puts in each day.



Courtesy of Monroe Calculating Machine Company, Inc.

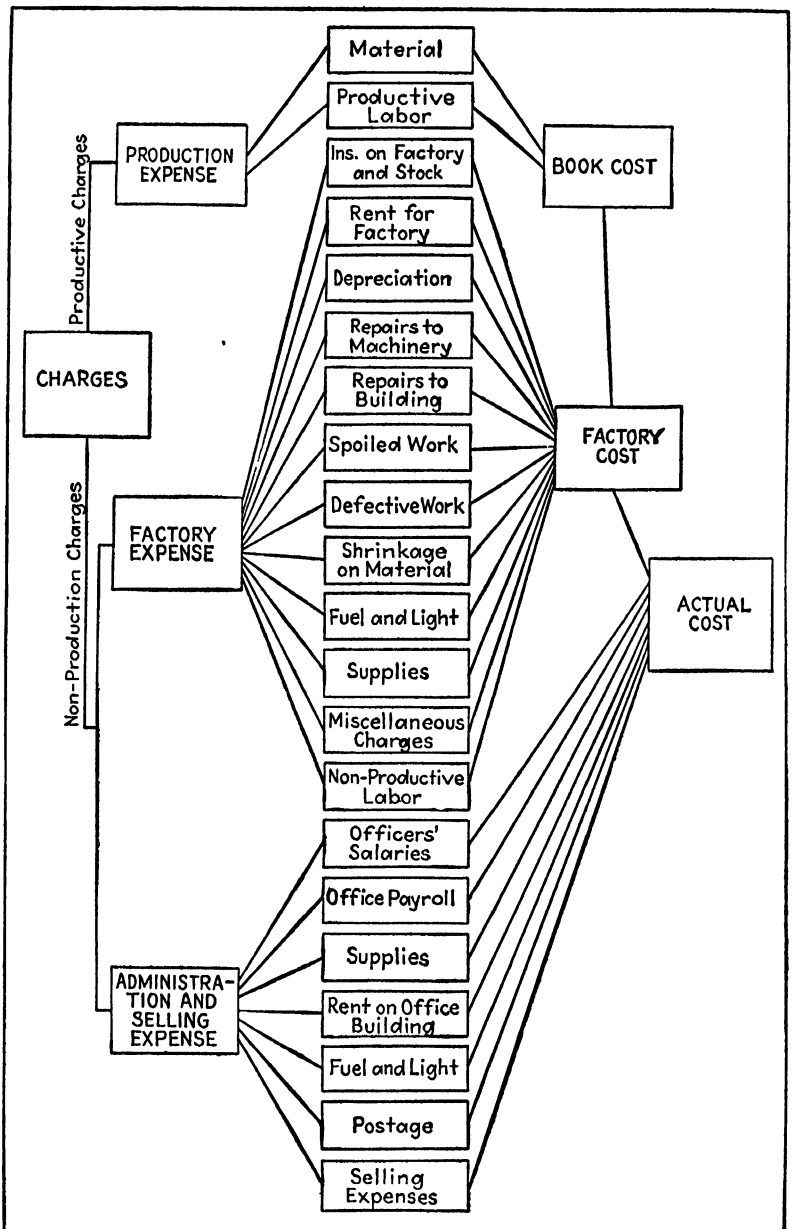
Calculating machines help to speed up work in the accounting department.

Cost Accounting

Another branch of accounting is cost accounting. This is not so much a method of bookkeeping as it is a method of keeping records of the cost of materials, labor, and overhead expenses entering into the manufactured product. Although the cost records are often handled in the accounting department, in large concerns a separate department may sometimes be found. Where this is the case, the costs are usually "tied in" with the general accounts by the accounting department.

The Controller

Mention has been made of the controller. To some people this officer is a very mysterious person. True, the position is one of the most important in the company, but there is no mystery about it.



Courtesy of C. B. Thompson, "How to Find Factory Costs"

From this chart you can see why a good manager tries to keep costs down. Every rectangle represents money.

In the first place, in a concern that has a controller, he is the chief accounting officer. This means that he is responsible for all accounting records, wherever kept. He must set up all systems, change them when necessary, and see that all records are up to date. His responsibility includes the preparation of

Courtesy of Felt & Tarrant Manufacturing Company, Manufacturers of the Comptometer
This Comptometer pegboard facilitates comparison and recapitulation of several columns of figures at a time.

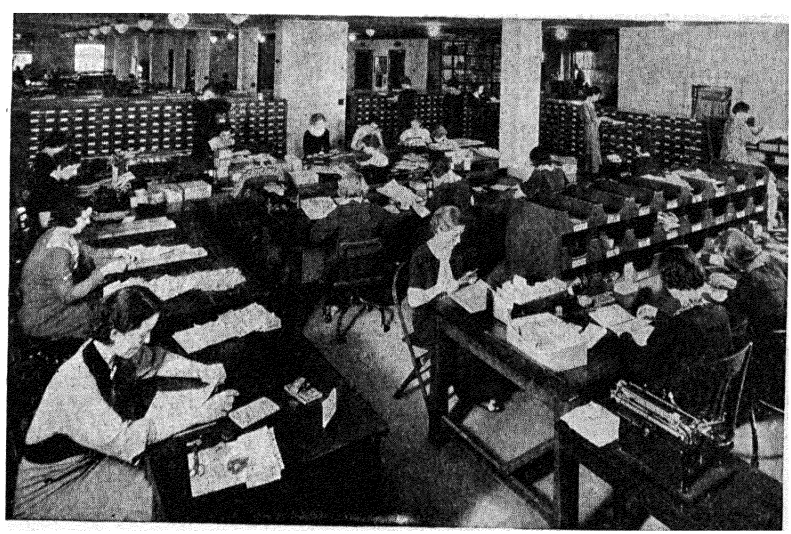
statistical reports of all kinds and usually the interpretation of them also. If the concern has a budget, the controller has to prepare it and see that it is followed. In most concerns no payment may be made until he has approved it and made sure that the budget provides for it. The position is well paid, the salary ranging from $5,000 to $40,000.

The Auditor

To err is human. "A person who never makes any mistakes never makes anything." Although a machine is expected to be absolutely accurate, it is too much to expect the operator of the

machine to be equally perfect. All of us make mistakes, and it is the responsibility of the auditor to catch those mistakes and correct them.

Why Auditing Is Necessary. When an accounting system is installed, it is well constructed, it covers all the activities of the company, and it is set up so that it will collect and bring to the manager the information he wants about the business. All the bookkeeping, accounting, and recording work is planned to be done in accordance with that system, There are chances for honest mistakes and sometimes for dishonest ones. What the auditor does is to examine the work at different points, now here, now there, to see if the work is done according to the system. In other words, auditing is simply comparing what is being done with the way it should be done. When the auditor finds mistakes, discrepancies, and variations from the established system, it is his duty to find out who was responsible and to take steps to see that the errors are not made a second time.

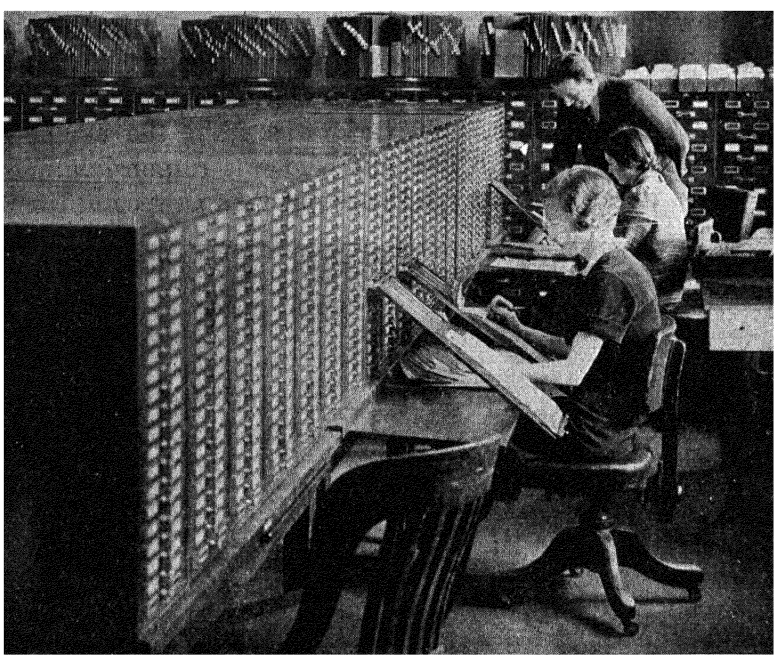


Courtesy of National Protective Insurance Company

These girls are auditing premium payments in an insurance office. Mistakes here mean delays when claims arise.

Making an Audit. A simple illustration will show how the auditor works. Suppose he is about to audit the work of the bookkeeper. He will take a sheaf of invoices or credit memoran-

dums, for instance, from which the bookkeeper made his postings to the ledger. The auditor will examine each piece of paper to see where it should have been entered. Then he looks up those accounts in the ledger to see if they were entered and entered correctly. Finally he adds up the accounts themselves to see if the work has been done correctly. In the same way he checks all the other work. It is not necessary for us to go into extended detail about the auditor's work. He has several methods of checking other people's work for both accuracy and honesty. He knows what to look for and where to look for it.



Courtesy of Postindex Company

With visible records like these, it is possible to make entries by hand easily and quickly. Reference is also speedy.

Development of the Modern Ledger

Formerly, all ledger accounts were kept in bound books—big, heavy volumes that took up a lot of room and were hard to handle. Then someone experimented with loose sheets of paper and found them much easier to use. Only sheets in active use

needed to be handled; the others could be put away. By punching holes in the sheets and placing them between covers called "binders," security was obtained without sacrificing ease of use. Finally some genius devised the visible loose-leaf binder, which shows the name of every account clearly, so that there is no need to hunt for any particular one.

Meanwhile, other men were experimenting with cards as ledgers and were finding that cards, being heavier than paper, could be stacked on edge in boxes or drawers. With cards the elimination of inactive accounts is also possible, just as with the loose-leaf systems. A hole or slot in the bottom of the card provides room for a locking device in the box or drawer in which the cards are kept, thus giving security.

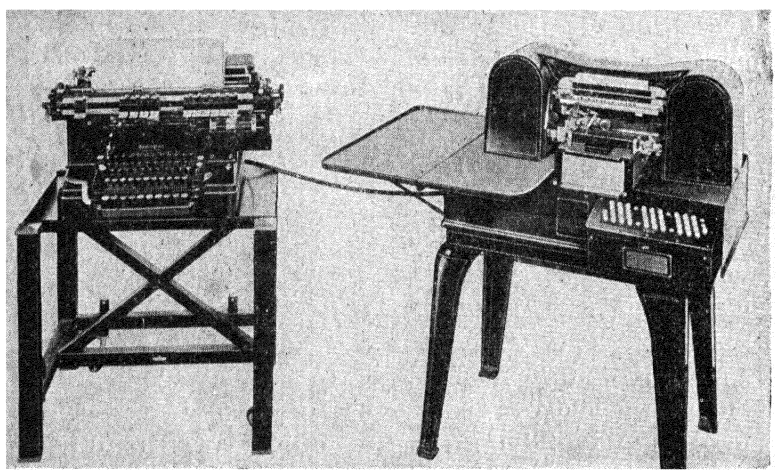
Bookkeeping by Machinery. While some bookkeepers were using ledger cards and others were using loose-leaf ledger sheets, progress was also being made in methods of making entries on the cards or loose leaves. In bound ledgers the only way entries could readily be made was in pen and ink. The introduction of cards made possible the use of rubber stamps for entries, but entries varied so much that the use of rubber stamps was limited. Next, the card was made thinner, so that it could be put into a typewriter. The next logical step was to put an adding mechanism on the typewriter; that was done. Then somebody invented a bookkeeping machine, made expressly for the purpose. There are now several different machines for making entries in ledgers. In fact, bookkeeping by machinery has become a reality. Regardless of the make, the main features of a bookkeeping machine are as follows:

1. Making a legible, correct entry
2. Showing at all times the balance of each ledger account
3. Providing a proof of the entry

For accounts receivable, that is, accounts with customers, some machines not only make the entries in the ledger but also write them on the monthly statement at the same time. This saves the work of copying a large number of statements at the end of each month and speeds up materially the time required to get out the statements. This saving of time is important, as we shall see in our study of credit and collection work.

A Remarkable Combination

One manufacturer of office appliances has brought out a billing machine (*i.e.*, a machine that writes bills or invoices for goods sold), an unusual feature of which is that as the invoice is written, an electrical connection with another machine cuts an analysis card. These analysis cards are put into a third machine



Courtesy of Remington Rand, Inc.
As invoices are typed on the billing machine at the left, the machine at the right automatically punches a tabulating card.

which sorts them and then computes the total of each item of information on the invoice. After the day's billing is over, for example, the sales manager wants to know how much of each commodity was billed that day, the total billings, and how much was billed in each territory. This information may be obtained from the analysis cards in an incredibly short time by using sorting and tabulating machines.

As a result of the extent to which modern laborsaving devices have been used in accounting and record keeping, it is now possible for a manager to have every morning all the details of his business for the previous day, so that he knows exactly where he stands. Formerly a business man considered himself fortunate if he could get a statement of the month's business by the tenth of the following month.

Thus we see how the use of loose-leaf and card-ledger systems has made possible the adoption of machine bookkeeping. Any number of clerks may work on the accounts at the same time; each account may be kept entirely independent of others and balanced, removed, or filed, as is found most convenient.

Loose-leaf and card-index systems also permit the arrangement of accounts in any desired order and, by transferring balanced or closed accounts, facilitate the insertion of sheets for new accounts without the expense of opening new books.

Questions for Discussion

1. What is the main function of the accounting department?
2. Why is the recording function of the accounting department subsidiary to the main function?
3. As a recorder, the accountant is really a historian. Explain.
4. What do the records kept in the accounting department show?
5. Who is in charge of the accounting department?
6. Upon what does the number of people in the accounting department depend?
7. What is the difference between accounting and bookkeeping?
8. Why is the ledger important?
9. Distinguish between the purchase invoice and the sales invoice as to characteristics, purposes, and handling.
10. How are remittances handled?
11. What is the purpose of credit memorandums, and how are they handled?
12. Why are customers sent monthly statements? Do you think that is necessary? What is the monthly statement?
13. Describe how the payroll is made up.
14. What is cost accounting?
15. Who is the controller, and what does he do?
16. Explain the auditor's job.
17. Trace the developments that led to the introduction of machine bookkeeping.

18. What are the three main features of a bookkeeping machine?

19. What is the advantage, if any, of the combined billing and tabulating mechanisms described in the text?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85. In making these reports, always keep in mind the purpose of accounting.

1. Visit a department store and ask to be shown the accounting department. Make a list of the various kinds of work that are being done there, and see if you can find out the purpose of each.

2. Do the same for a manufacturing concern.

3. Do the same for a bank.

4. Do the same for an insurance company.

5. On the basis of the reports presented under topics 1 to 4 above, compare the accounting work of any two different kinds of businesses, with respect to the work done and the purpose of that work.

6. Compare the payroll procedures of five different companies and see if you can determine the reasons for each step and also for any variations in the methods of the different companies.

Problems

1. For the past five years in which a certain retail store has been operating, it has realized a small profit each year. A study of the financial statements, however, shows that each year a substantial sum has been charged off because of stock becoming obsolete. If these charge-offs could be eliminated, a respectable increase in profit could be realized. Why has this stock become obsolete and what may be done to eliminate the charge-offs?

2. The owner of a small retail store has quite a bit of bookkeeping to do. Although he knows how to do it, he has to do it on Sunday at home, and it takes all day. How can he make time to do his bookkeeping during the week?

3. A community merchant sent in this inquiry, "I seem to be doing a fairly good amount of business. In fact, I have a monopoly in our small town. Profits, however, are practically nothing. I do not think I am charging enough for my goods. How can I determine my costs?" What suggestions can you give this man? Give your reasons.

4. How may a controller make sure that he has on hand the information that department heads and other executives may desire?

5. What method would you suggest whereby any considerable variance from the budgetary figures would be brought to the immediate attention of the controller?

6. In a country club vouchers are made out and signed by the members when purchasing meals or playing golf, whether their account is to be charged for the service or whether they pay cash when they receive the service. The problem is to find some means of preventing an employee who receives cash from destroying the cash vouchers and keeping the money paid him. What suggestions would you make, and how effective do you think your suggestions would be? Give your reasons.

12

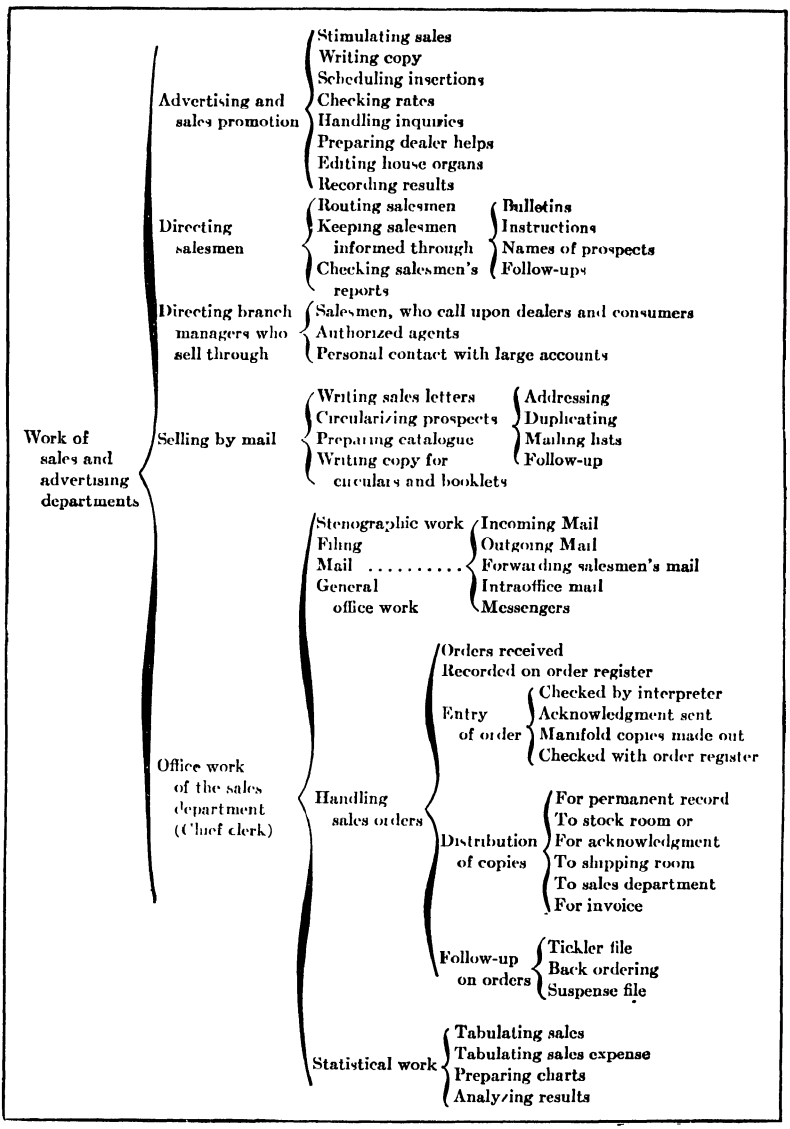
Organization for Sales and Advertising

SELLING is a fascinating field for anyone who likes to meet people and help them buy what they need. Many buyers depend upon the salesmen who call on them to keep them informed of the latest developments in their line. Like all other workers, however, salesmen need to be trained, coached, directed, and supervised, in order that their efforts may not be scattered. In nearly all concerns there is a sales department, whose work is shown by the chart on page 293. This chart shows the duties of the sales and advertising departments, which must work closely together. In some concerns, of course, there will be more of one kind of work and less of another. A mail-order house, for example, selling from its catalogue or through circular letters, would have no salesmen, but it would have a sizable office force. On the other hand, some concerns might not sell by mail at all, but only through salesmen.

Who Is in Charge of Sales?

Usually one man is in charge of all sales work. He may be called the "sales manager," the "director of sales," the "director of marketing," the "vice-president in charge of sales," or any other title which may or may not indicate the holder's responsibility for sales. Although the advertising manager, if there is one, is frequently responsible to the sales manager, in some concerns they are equal. This is particularly true in large department stores, where the man responsible for sales is known as the merchandise manager, and the man responsible for advertising

as the publicity manager. The merchandise manager is also responsible for buying the goods that are to be sold, while the



publicity manager has to look after window displays and all other forms of publicity, as well as the day-to-day advertising. Advertising appropriations run from the cost of a small adver-

tisement into millions of dollars, covering full pages of newspapers and national magazines and requiring careful preparation, for all of which the advertising manager is responsible.

Of all the departments in any business, the sales department is obviously the most important. When times are good and orders come easily, there is commonly a disposition on the part of some to decry the value of the work done by the salesmen.

"After all," says the factory man, "if the manufacturing department didn't make a good product, you couldn't sell it. Therefore, the manufacturing department is the most important, since the reputation of the company for quality goods is in our hands."

"That may be so," argues the credit man, "but if the credit department didn't collect the money that is due and owing, there wouldn't be any money to pay your salaries. Therefore, the credit department is the most important."

Then the salesman replies, "I'll admit that if the manufacturing department didn't make a good product, I couldn't sell it; and I'll also agree that we couldn't get along without the money which the credit department collects. But did it ever occur to you fellows that you wouldn't have any jobs at all if I didn't go out and bring in the business?" And the salesman is right.

Some Interesting Facts

Since the purpose of the sales department is to get business, it would seem obvious that the people who get the business, that is, the salesmen, are very important. That the salesmen are important is shown by two facts: the volume of business obtained and the salaries and commissions paid. In very large concerns the orders secured by just one salesman may total over a million dollars, and his yearly commissions may amount to more than a hundred thousand dollars. Not all salesmen sell such large quantities nor do all get such large commissions; but many do. And since the salaries and commissions paid to salesmen range from 5 to 50 per cent or more of the price of the goods, depending upon the nature of the business, the money involved in the operation of the sales department is a considerable factor in the operation of any business.

The salesmen may travel from city to city, they may stay in one locality which they cover thoroughly, or they may sell in a store. The traveling salesmen call upon their customers, while in a store the customers come to the salesmen. In any case, the object is to sell the product of the firm.

Why Sales Are Important

Someone has stated, "Sales are the lifeblood of a business." Certainly, without sales—which means orders—a company could not continue in business very long; its continuance depends primarily upon the orders that the sales department gets. During periods of depressed business conditions, the difficulty in getting orders (*i.e.*, finding buyers of the product or service) immediately shows the importance of the sales department. When business drops off (*i.e.*, when sales decline), we see factories closed down, workers laid off, and many concerns going out of business. Only those survive and keep going which are able to sell their goods. The others go out of business, or "wait until business gets better," meaning when their salesmen will find it "easier" to get orders.

Some concerns take advantage of depression times to bring out new products or improve their present ones. Other concerns feverishly cut their prices in a frantic effort to get business. Whatever methods the successful concerns use, inquiry has shown that at any one time—good times or bad—there are always concerns somewhere that are having good business; that is, their sales departments are securing orders.

As has been stated, very few concerns do not have a sales department in some form or other. Even a bank has its new business department. An investment banker has his loan department, which exists for the purpose of locating people to whom money can be lent safely and persuading them to make the loan, which may run into millions of dollars. When the loan has been arranged, the investment banker's salesmen proceed to round up investors to buy the bonds representing the loan.

What Selling Means

The only way that a business can sustain itself year in and year out is by making sales and collecting the money from those

sales. "Making sales" does not mean merely "taking orders"; it means digging up possible users of products or services and persuading them to buy. Successful sales effort is continuous sales effort; no let-down is possible. As one corporation president said, "There is no room for complacency in a sales department. We must keep pushing, and pushing, and pushing." "Keeping everlastingly at it" is the way another sales manager stated the secret of sales success.

Definition of a Salesman

Commercial Traveler, Road Salesman.—Calls on prospective buyers in the retail market or on industrial consumers and solicits orders for merchandise, the *selling of which requires no professional or technical knowledge* (as opposed to Sales Engineer), but may require a trade knowledge based on familiarity with the product sold; *attempts to interest prospective purchasers by showing sample articles or displaying catalog;* points out the salable features, merchandise value, durability, economy, or other merits of the product; *quotes prices and credit terms; tries to complete sales with hesitant purchasers by offering reductions,* giving information regarding contemplated price rises, or *obtaining the good will of the purchaser, frequently by entertaining him;* takes orders, forwarding them to the home office; makes periodic reports of business transactions, keeps expense accounts, studies trade periodicals and keeps informed of price changes and other market conditions; attends sales conferences and other meetings to exchange sales information. Usually operates within a restricted territory, making periodic calls on customers.

(*U. S. Employment Service*)

Do you agree that this is all there is to selling? What would you add?

The successful salesman must be a born optimist, even though he may not be a born salesman. He believes that his company's products are the best to be had at any price, and that any customer or prospect who doesn't buy his goods is a

benighted heathen, who needs to be treated with care and consideration and shown the light. In sales work, missionary effort is often important, in order to convert the "lesser breeds without the law," as Kipling put it. This preparatory work of the sales department is also often referred to as "spade work," similar in objective and hard work to the turning over of the earth in a garden, before planting seed.

The Sales Function

The sales function may be divided into three subfunctions, as follows:

1. Finding out what people want or need
2. Finding people who want or need it
3. Getting orders from them

It will be noted that all three of these subfunctions are concerned with the people to whom we hope to sell our goods. All sales efforts start with the customer; indeed, some authorities state that every consideration of business starts with the customer. "What does the customer want? Let's find out and give it to him." Any individual who starts out to establish a business on any other basis will find his road uphill all the way. Why tackle it the hard way?

This Is Fundamental

The first question to be asked is, "What human need exists that is not already satisfactorily supplied?" This question implies, not that a brand new product must necessarily be found but that, if present available products or services do not meet the customer's needs, perhaps an improved product or service will do so. More than one firmly established concern has been shaken out of its middle-aged complacency by discovering that its market has been invaded by a competitor with a better product, an improved product, or a more satisfactory service.

One of Many Instances

Consider scouring powders, as an example. Fifty years ago, the old stand-by of housewives for all-purpose cleaning was the

scouring brick, of which Sapolio was probably the best known and the most vigorously pushed. Aside from Bon Ami, probably no one now alive can recall any other scouring brick. A scouring brick has many good features, not the least of which is the fact is that it is economical: wet a cloth, rub it on the brick, wipe the surface to be cleaned, and there you are!

Then came the scouring powder. Bon Ami discovered a successful way of putting up its scouring brick in powder form; Sapolio did not. Now, a scouring powder will not clean a surface any quicker or better than a scouring brick; and it is more wasteful and less economical. But its convenience cannot be denied: "Sprinkle a little on the surface to be cleaned, wipe with a damp cloth, and take up clean." The shaker top makes it easy to use, and an attractive container looks much better than an unlovely dirty gray or white brick.

To realize the extent to which scouring powders have replaced scouring bricks and to further appreciate how such a seemingly simple little change from a brick to a powder can affect the market for a product, it may be confidently stated that probably no one who reads this statement ever heard of Sapolio before. But every housewife is familiar with Bon Ami, and Old Dutch Cleanser, and Babo, not to mention Wyandotte. On the other hand, how many people know what a mixture of 10 parts of whiting to 1 of trisodium phosphate is, and what it is used for?

Sales Research

In order to keep abreast of developments in both products and markets, many concerns maintain research bureaus. Professional researchers are available for concerns that do not wish to operate their own research departments. One purpose of sales research is to develop new products and improve old ones. Sometimes a product is discovered which is so far ahead of the present market that its sale would be difficult without considerable expensive missionary work. The problem is whether to go ahead and promote it, or to withhold it until the market is more nearly ready for it. A case in point is the stream-lined design of automobiles, which was ready years before it actually appeared.

An Approach to the Problem of Distribution

(Program for the Coming Period)

I. Continue to sell the same volume of goods now sold, by
- *A.* Retaining present customers
  1. Whose buying is steadily increasing
  2. Whose buying remains static
  3. Who are buying only part of the complete line
  4. Whose buying is falling off
- *B.* Bringing back former customers
  1. Find out why they are not now buying
     - *a.* Analyze the reasons to determine what can be done about each *reason*, if anything
     - *b.* Apply methods necessary to bring them back (What method is called for?)
- *C.* Getting new customers
  1. Analyze the market
     - *a.* Who are the logical customers?
     - *b.* Where are they?
     - *c.* Consider methods of reaching them (channels of distribution)
     - *d.* Apply the methods selected
     - *e.* Bring out possible new products

II. Try to sell more goods (consider 1*a* and 1*c* in I*C* above)

III. Try to get a wider margin from the goods sold, by
- *A.* Increasing the price (consider competition, quality, etc.)
- *B.* Reducing costs
  1. Directly, find out where saving can be made on
     - *a.* Material, by
       - (1) Using a substitute
       - (2) Using less material in the product
       - (3) Redesigning the product
     - *b.* Labor (make it more efficient)
     - *c.* Overhead and other expenses, by
       - (1) Analyzing them
       - (2) Seeing what can be cut out
  2. Indirectly, greater sales volume sometimes lowers cost

IV. Arrange to meet competition, as to
- *A.* Quality
- *B.* Price
- *C.* Service
- *D.* Terms
- *E.* Product

V. Build a permanent working organization

Another problem for the research department is concerned with the design of the product. The fact that an article will do what it is intended to do will not in many cases overcome the handicap of poor design or of unattractive appearance. There are styles and trends in design that must be considered before the product is ready for the market.

Launching a Competing Product

An interesting illustration of a concern breaking into an established market is furnished by Lever Brothers' new white floating soap Swan. The leading, in fact the only well-known, white floating soap was Ivory, brought out in the early 1890's by Procter and Gamble. Ivory soap was well advertised and had universal distribution. It was thoroughly entrenched. The only other white floating soap that had attempted to compete with it seriously was Fairy, manufactured by the N. K. Fairbank Company. But Fairy soap hadn't been advertised for a long time. In the course of events, ownership of the soap passed to Lever Brothers, who decided to put out a new white floating soap to compete with Ivory. When they were all ready with their new soap, they put it out with a vigorous advertising campaign, using all available mediums and seeing that all stores were well supplied, with the result that consumer acceptance of Swan was established almost overnight.

Look Out for Patents!

The question of patent rights often enters into the consideration of new products. The safety-razor business has two main products: the razor, which is really nothing but a blade holder, and the blades. The real profit is in the blades, since the holder lasts indefinitely, while the blades do not. A certain razor and blade had international distribution. No other competitor—and there were many—seriously contested its preeminence. If any blade holder bore any resemblence to it, a law suit for infringement would quickly take care of the pretender.

But the time was approaching when the patents would expire. Anticipating that time, the company redesigned its blade so that it would fit only the company's razor, which was

also modified so that no other blade would fit it. Great preparations were made for putting the new combination on the market. The salesmen and distributors were brought together in meetings, the advertising agencies demonstrated the new blade's fine points, and a nationwide advertising campaign was prepared ready to shoot.

One week before the date set for the opening advertisement of the new blade, there appeared in *The Saturday Evening Post* a full-page advertisement of a new blade manufactured by another company. Across the face of the illustrated blade appeared the words, "Reg. U. S. Pat. Off." Five days later appeared full-page advertisements of the first company's razor and blade. Across the illustration of the blade appeared the words, "Patents Pending." A comparison of the two blades showed that the competing blade would fit the first company's new razor as readily as its own. The price was the same.

After some preliminary skirmishing, the second company sued the first company for infringement of patent. When that company's patent attorneys had had a good look at what they were up against, they advised their clients to settle on the best terms they could get.

The outcome was the purchase of the second company by the first for $20,000,000. At one of the preliminary meetings, an executive of the first company demanded to know why such a high price should be paid for a company with net assets of less than $7,000,000. The spokesman for the second company is said to have answered, "But, gentlemen, I have a patent on your product."

Product Research and Development

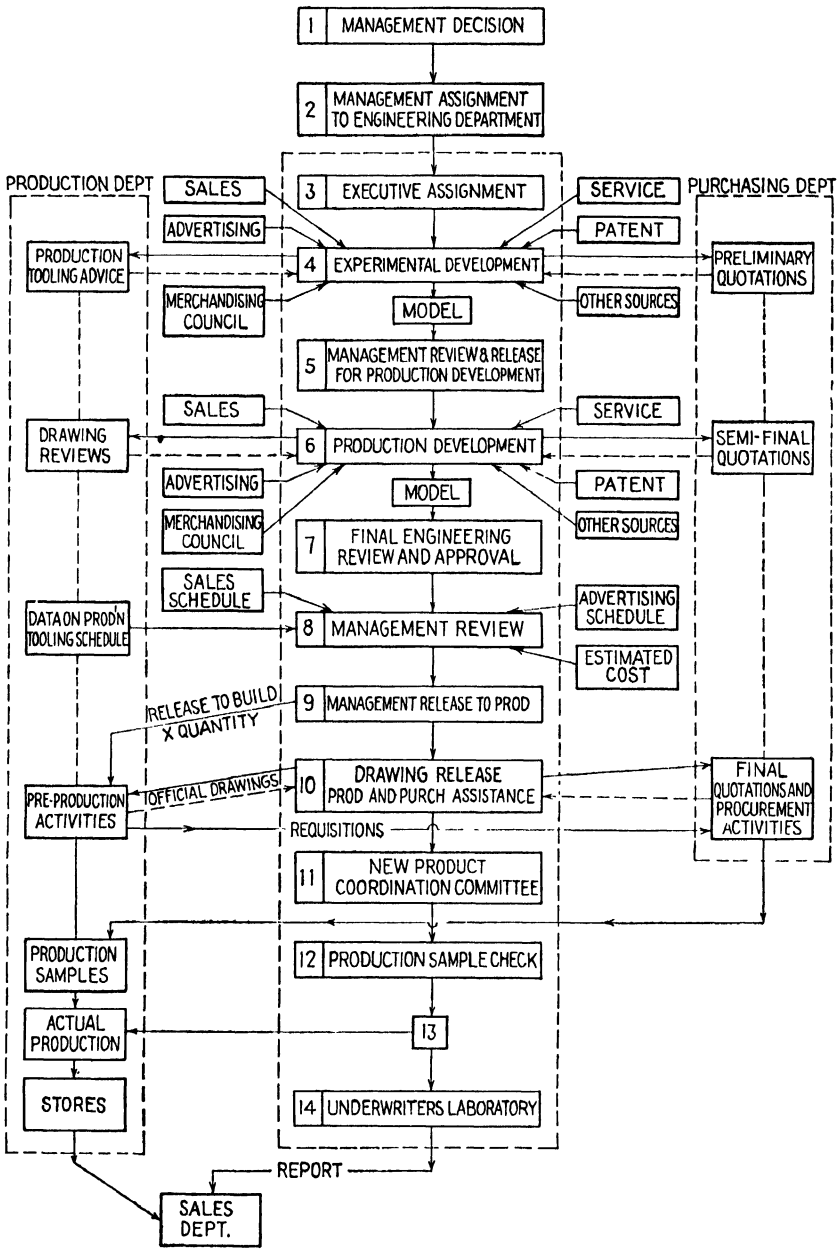
The lead-pencil industry furnishes a number of interesting illustrations of product research. Up to 1915 or thereabouts, the standard pencil used in offices and by people generally was a wood-encased affair, holding a long thin cylinder of graphite compound. As the pencil point wore down from writing, it was renewed by whittling away the wood from the lead. To be able to put a good point on a lead pencil was an art, not mastered by many, but envied by all. It took a sharp knife and required time.

To reduce the time required to sharpen lead pencils, mechanical sharpeners were devised and put on the market. These varied from one that revolved the pencil against a sheet of sandpaper to others that used revolving knives. Some did a fairly satisfactory job, considering. Others chewed up the wood and broke the lead so that a pencil did not last very long. Refinements in pencil sharpeners aimed at three objectives: to accommodate varying sizes of pencils, to stop the sharpening automatically when the pencil was pointed, and to regulate the length and fineness of the point desired. A machine was finally devised which did all three, but the price was so high that the makers could not sell many, and it fell by the wayside. It is now possible to buy for a modest sum a mechanical pencil sharpener that will do a good job of sharpening quickly and easily.

There is one thing, however, that no pencil sharpener can do; that is, to make a pencil longer. Each time a pencil is sharpened, it gets shorter and shorter, until finally it is too short to use. Just how short a pencil must be before it becomes unusable is a matter for argument. The fact is that in most offices that still use wood-encased lead pencils, the pencils are discarded shortly after they are half used. Clerks claim that their work is slowed down by a short pencil; and the management cannot let anything so insignificant as half a lead pencil interfere with clerical output. To be sure, pencil holders are available; but at 35 cents each, or even 25 cents, for a good-looking holder, the cost is many times that of a single pencil at 2 cents apiece.

Early Mechanical Pencils. Anyway, to get away from the constant sharpening and wearing down of lead pencils, many attempts were made to devise a mechanical pencil that would hold a thin lead without breaking or jamming. Actually, the designs of the pencils were ahead of the formulas for the leads. But since they had to work in combination, the result was the same—broken leads and jammed pencils, neither of which make good writing materials.

One of the first really successful mechanical pencils was the Eversharp, which attained a wide distribution. Like Henry Ford's Model T automobile, the Eversharp was long made in one style, with two sizes and finishes. But it did jam occasionally



Courtesy of The Hoover Company and Metropolitan Life Insurance Company

This chart shows the essential steps in the development of new products and new models.

requiring the lead holder to be easily detachable. Eventually, however, this difficulty was overcome.

What's in a Name? Another early comer in the mechanical pencil field was the Autopoint. It looked for a while as though the Autopoint would give the Eversharp some real competition; but they never did overcome the jamming, which was both aggravating and annoying. About 1918 or 1919, a small group of men brought out a very successful nonjamming pencil which they called Realite. Since it did not sell any too well under that name, the right to use the name Autopoint was purchased, and the company began to forge ahead, being now well and very favorably known.

Other companies devised mechanical pencils, so that now there are so many makes to choose from and at any price one wishes to pay, that it would seem as though no new improvements could be made; but each month the United States Patent Office reports two or three new patents for mechanical pencils, indicating that the end is not yet.

Product Improvement. And what have the old-line pencil companies done to meet the competition of mechanical pencils? Many of them have added the manufacture of leads for mechanical pencils—comparable to the blade end of the safety-razor business. In wood-encased pencils themselves two improvements are discernible—greater uniformity in the wood and also in the lead itself. Seldom now does a wood-cased lead pencil, even in the cheaper pencils, splinter in a mechanical sharpener. Nor does the lead break so easily. In addition, the pencils write more smoothly, with less grittiness and scratching, which was once common and which has been overcome by more careful processing of the lead under improved formulas.

Another step that the old-line pencil companies are taking is to increase the use of wood-cased pencils as souvenirs and advertising novelities. Although the use of pencils for advertising purposes is by no means new, the comparative initial prices of wood-cased and mechanical pencils are in favor of the former. An attractive wood-cased pencil can be furnished for 1 or 2 cents; an equally attractive mechanical pencil would cost 10 to 25 cents. For $100, therefore, an advertiser can distribute

5,000 to 10,000 wood-cased pencils, while the same number of mechanical pencils in equal attractiveness would cost $1,000 or $2,000. This seems to be a clear case where price definitely limits the market for a product.

Market Research

The study of markets is thus another job for sales research. Markets may be actual or potential. An actual market is one in which there is an existing demand that may or may not now be supplied; in any case the demand is there. A potential market is one in which the demand does not exist, considering demand as an expressed desire and not merely as an unexpressed need. The potential market may offer greater possibilities than the actual present one, but it may also cost more and take longer to develop. The telephone is a case in point.

When "the fool who says he can talk through a wire" tried to market his invention, he found no demand; the demand had to be created. The present distribution of telephone service in the United States attests to the success of that demand creation; and the telephone company has probably been the most consistent advertiser in newspapers and magazines, year in and year out. Curiously enough, the only instance of the use of radio advertising by the telephone company which comes to mind was the request during the 1913 Christmas holidays not to use the telephone any more than was necessary. It is rather interesting that a medium in the development of which the telephone company's research laboratories have had so considerable a part should not be used for advertising the company's own services. On the other hand, the broadcasting companies use the telephone constantly in checking up the extent to which their radio programs are being listened to.

An existing market may be undersupplied or well supplied or oversupplied. If undersupplied, the entrance of a new product is not so difficult as when the market is well supplied or oversupplied. About all that is necessary is to inform people about the new product and see that it is available.

In a market that is well supplied or oversupplied, however, the problem is one of meeting and overcoming competition.

There are five directions that may be taken to meet competition, any one or all of which may be necessary, as determined by the market studies of the sales research department.

How Important Is Price?

When competition is mentioned, many people think only of price. Price *is* important, but it is not all-important. A low-priced product of poor quality cannot maintain a market that demands a higher quality. On the other hand, a better quality product at the same price as a competing product will have little difficulty in maintaining its market as long as those differentials obtain. Consider the large number of relatively unknown brands of double-edged safety-razor blades which compete with a certain well-known blade at the same price. Since the well-known company itself advertised, at the time it "took over" a competing concern, that it had sacrificed quality for production, it has only itself to blame. One wonders how long it would take this company to become the sole supplier of double-edged blades if its own product were of uniformly high excellence. One is reminded of the remark made by one automobile manufacturer to another some years ago; "When you make the car you advertise, I'm going to buy one."

Although quality is not all-important, as we have just seen, it does play a very important part in business and in competition. Quality for quality, other things being equal, the low price is more attractive than the high one; and where the material or goods are purchased for resale or for processing into another product for resale, the price has a very definite bearing on the costs on which the resale price will be figured.

Is This Fair? Unthinking or unknowing individuals are inclined to believe that all price competition is evil, that prices should be either sustained or repressed, and that all price cutting is predatory. Such individuals are inclined to criticize severely any concern, which through improved management, is able to lower its costs so much as to be able to cut the price of its product way below that of its competitors. Indeed, during the Second World War, the Lincoln Electric Company, which had established methods that enabled it to manufacture at a frac-

tion of the cost of its competitors, was penalized by the government when it shared its savings with the employees who had made those savings possible. The Federal tax authorities made no allowances for better management methods. They used the costs of competitors as a criterion and regarded any savings made by the Lincoln company as extra profits which should be taxed instead of shared with employees.[1]

Fair Trade Acts. In an attempt to control resale prices, the United States Congress passed the Miller-Tydings Fair Trade Act, which forbids any buyer for resale to sell below the minimum retail price established by the manufacturer. This act, which was supplemented by similar legislation in the various states, has effectively eliminated predatory price cutting, which resulted in so-called "loss leaders," where a store advertises certain well-known merchandise at less than cost, in order to attract customers who will also buy enough other items to more than offset the loss taken on the advertised articles.

But the fair trade acts also prevent more efficient merchandisers from attracting trade by offering standard merchandise at lower prices. The result has been that the consumer pays higher prices for nearly everything. Even the "ceilings" placed by the Office of Price Administration during the Second World War did not too effectively prevent prices from rising under an escape clause.

Relation of Price to Value. A curious thing about price is that, of and by itself, it ordinarily has no real significance, even though inexperienced buyers and many consumers may believe that price has some relation to value. In an endeavor to determine the price level at which a certain garment would sell best, stores have experimented by simultaneously displaying the same garment at several different prices, ranging from 69 cents to $4.98, for example. In a case reported by a large store, the price at which the garment had the largest sale was $3.48. Now it is obvious that not more than one of the prices at which the garment was displayed had any relation to its cost at all. Many consumers will unintelligently pay a higher price for a

[1] See "The Lincoln Electric Company Incentive Plan," by James F. Lincoln, in *Production Series No.* 153, American Management Association, pp. 35–36.

particular label or at a particular store, under the impression that the label or the store name is a guarantee of better quality than the identical item available from other sources at a lower price. As long as such consumers continue to buy on such a price basis, there will presumably always be sellers ready and willing to accommodate them. Although the trend toward informative labeling may help to adjust this situation somewhat, many consumer purchases are made with motives other than utility and value. Pride and snobbishness are very real factors.

What Is Quality?

Quality is usually more important than price, especially when buying to specifications. But the word "quality" has been misused. The term "quality goods" does not mean what many consumers think it means, for there are many levels of quality. Canned salmon, for example, comes in several grades, from the finest steaks, at top prices, to the lowest priced, put up especially for cats. The cat salmon is good quality for cats, but not so good for humans, although it is fit for human consumption, and many people buy it for that purpose, as is illustrated by the story of the haughty lady who sailed into the market with her small daughter and asked for the prices on canned salmon. The grocer gave her the various prices, including cat salmon at 15 cents. The lady said she would take a can of the cat salmon, whereupon the small daughter piped up, "O Mummy, are we going to have a kitty?"

Quality is purely relative. If we should classify all goods in five levels of quality, such as best quality, high quality, good quality, medium quality, and standard quality (note the terms and their possible significance), we should find that there were buyers at each level. All the goods are "quality" goods. If a seller determines that the quality of goods at the standard level is the market he wishes to supply, he should not be criticized for his decision, *so long as he does not represent his goods to be of a better grade than they actually are.* Someone has to supply the market at that level, and why shouldn't he?

Once a manufacturer has established the level of quality for his product, he must exert every means at his command to main-

tain that level. Consumers do not easily forget the lowering of goods which they have come to recognize as of an established level. A collar manufacturer, who had established a wide market, suddenly reduced the quality of his goods. The demand for his collars fell off so rapidly that it was years before he regained his markets. The same is true of a large typewriter manufacturer, whose machines during one year were so poorly made that it took 15 years to come back, and the concern never did regain its former leadership in the industry. Such instances could be multiplied many times.

Quality, Price, Service

Quality and price, as factors in meeting competition, therefore, are very powerful, but they must supplement each other to be wholly effective. It is difficult to convince satisfied customers that a competing product is even "just as good" as the established one. A lower price may create the suspicion of a lower quality, for reasons previously stated. The newcomer frequently has to use other methods of breaking into an established market. One very effective method is to give superior service.

> **Just Plain Common Sense**
>
> A concern is known by the customers it keeps.
>
> Our customers are our competitors' prospects.
>
> More sales are lost by neglect than by competition.
>
> Keeping everlastingly at it brings success.

What Service Means

"Service" means giving prompt and adequate attention to customers' correspondence, complaints and, particularly, orders.

One of the evils of monopoly is the indifference to the wishes of customers which a concern enjoying a monopoly almost invariably displays. The attitude is, "If they want what we've got, they must come to us; if they don't come to us, someone else will. Why worry?" Even if the heads of the concern do not feel that way, the lesser employees are likely to, unless a continuous and determined effort is made to overcome the feeling described. Had the railroads in their early days shown more consideration for the public, much of their later grief might not have happened. Probably the outstanding example of a monopoly that has imbued its employees with the right attitude toward customers is the telephone company, whose advertised motto is, "The voice with the smile wins."

Why Give Away Your Business? Poor service is not found exclusively in huge concerns. Consider the case of a tailor in the suburb of a large city. He was a good tailor; his work was first class in every respect. He had the cream of the trade of the community. To be sure, his prices were a bit high, but people were willing to pay a little more for the excellent work done on their garments.

Unfortunately, this tailor began to get a swelled head. Customers who brought their garments to the store were not insulted outright, but they were made to feel uncomfortable. Delivery promises became unreliable, although high quality of work was still maintained. The following instance, personally observed, is characteristic: A lady well known in the community left a garment at this tailor's shop to be cleaned and pressed. The price quoted was $1; the time promised was one week. At the end of the week the lady called for the garment. The proprietor himself waited on her. The garment was not ready; in fact, nothing had been done on it. Why? Well, the price quoted should have been $1.25 instead of $1. "But why didn't you telephone me or send me a postal?" wailed the customer. "Well," answered the proprietor, "I knew you'd be in sooner or later, and I could tell you then."

Is it any wonder that this woman took her trade to the only other tailor in the community, that she told all her friends about it, that in less than a year five competing tailor shops opened up,

"He'll Never Notice It"

Strange as it may seem, there are today people doing business on the "He'll never notice it" basis.

A merchant of that type will sell a customer an imperfect piece of merchandise, thinking the imperfection will never be noticed.

A manufacturer will fail to correct a buyer who gives him an order at a higher price than the current rate just cut. He thinks the buyer won't notice it and he can produce an alibi if the matter does come up.

An insurance man renews the same old type of policy without comment, when there is another and better form recently made available at a lower rate.

A service station omits part of the expected service in the hope the neglect will not be noticed.

Fortunately for such business people, those of us who are on the buying and paying end do often fail to notice; but unfortunately some of us do notice and though we may say nothing, we just cross that man from our list and do business elsewhere.

You see, there are two types of customers, patrons, clients. There are those who proceed to kick violently whenever they notice anything wrong, and there are those who do not kick, but take it out in changing to another source of supply while telling all their friends of the way they were gypped.

You say he'll never notice it, but don't you think he won't. He'll notice a lot more than you think he will and a lot more than he'll ever tell you about.

If he notices and complains, it puts you in the wrong. If he notices and never complains, you are doubly in the wrong. In either case you are a business loser.

—Frank Farrington

(Courtesy of Frank Farrington and Office Appliances.)

The Law of Contracts

1. A contract is an agreement that the law will enforce.

2. The parties to a contract must be competent, that is, sane, sober adults.

3 A contract made by a minor is not void, but it is voidable by the minor, although not by the adult.

4. A contract made with an intoxicated person is not enforceable, if it is apparent that he cannot understand what he is doing.

5. Most contracts are formed by offer and acceptance.

6. When an offer is accepted by the person to whom it is made, a contract results.

7 The acceptor must not change the offer in any respect whatever; the minds of the parties must meet on every point before there is a contract.

8. If a good offer is made, accept at once lest it be withdrawn.

9 If you intend to withdraw an offer, do it at once lest it be accepted

10. A contract made by force is voidable "An act done by me against my will is not my act."

11. The requirements of the contract must be lawful. Gambling contracts are illegal and therefore void

12. In some states a contract is void if drawn on Sunday.

13. There must be a valuable consideration in every contract. Consideration is what you get for what you give.

14. Mutual promises are good consideration.

15. A promise to make a gift cannot be enforced, since there is no consideration for the promise.

16. An oral contract is usually as binding as a written one, but it is harder to prove.

17. A written contract proves itself An oral contract must be proved by the testimony of others. There is less opportunity for dispute in written contracts than in oral ones. Don't make an oral contract if you can make a written one.

18. Some kinds of contracts are required to be in writing to make them enforceable.

19. The words in a written contract may be handwritten with lead pencil or in ink; they may be typed on a typewriter; or they may be printed with a printing press

20 Agreements that cannot be carried out within a year from the date of the contract must be in writing to be enforceable.

21. Leases for over a year must be in writing to be enforceable.

22 Contracts for the purchase of real estate must be in writing to be enforceable.

23. In many states a contract to purchase goods to the value of $50 or over must be in writing.

24 The terms of some contracts are not stated by the parties but are implied by their conduct.

25 You get into a taxicab and are driven across town; this is an implied contract that you will pay the taxi driver.

26 If you accept and use anything that you did not order, you must pay for it, unless the circumstances under which it comes to you indicate that it was intended as a gift or that it was not to be paid for. There is an implied contract.

one on each side of the old tailor, that in less than two years he had to give up what was considered the finest location in town and is now occupying a "hole in the wall"?

Business Has Wings. Another striking instance of poor service may be drawn from a suburb of Boston. There are six Boston newspapers. For years the newspaper franchise in this community had been held by two elderly ladies who ran a small stationery store. They hired boys to deliver the papers. But deliveries were irregular. Complaints brought the answer, "But you know how unreliable boys are." To aggravate the situation further, there was no telephone in the stationery store, and the only way to make a complaint, other than by letter or a personal call at the store, was to wait until one of the sisters reached home after the store was closed. They had a telephone at home but not at the store. One customer, after receiving the usual brush-off, delivered himself of this statement: "Well, all I know is that if I had a business as good as this is, I'd take care of it."

Within two years, the sisters had lost their franchise, which was then split between two agencies with a staff of five inside men. That is, a business which two sisters considered a nuisance now supports five men in two separate establishments with no interests outside of selling newspapers. This is purely a question of service. Back of that question is the attitude responsible for the poor service. E. St. Elmo Lewis, a well-known advertising man, once made this statement: "Business goes only where it is invited, and stays only where it is well treated." The Supreme Court of the United States has defined good will as the tendency of customers to return to the place where they have received good service.

Terms

Price, quality, service—these three are at the basis of success in meeting competition. A fourth factor, not so important now as the other three, is the terms that can be offered customers. Terms refers to the time allowed the customer for paying his bill and includes also cash and trade discounts.[1] There was a time

[1] Cash discount is a deduction, frequently 2 per cent, allowed for paying the bill within a given time, which varies from 10 to 70 days or more, depending upon

when a seller could make any terms he chose, even if it meant practically giving the goods away. But recent legislation, like the Robinson-Patman Act, for instance, has placed very positive restrictions upon the leeway of the seller in quoting prices and, since terms often affect prices, upon the terms that may be granted.

Under the act, a seller may not sell his goods at more than one price, regardless of the quantity ordered, unless he can definitely show that the difference in price is due to the saving in costs brought about by the larger order. Time was when goods intended for use in the spring could be sold and delivered in the fall, with the understanding that payment need not be made until spring. "Spring dating" and "fall dating" were quite common. There is now some question as to how far a seller may go in granting large discounts and long datings, since both are closely related to price. Authorities are not wholly in agreement.

The last of the five factors that a seller may use in meeting competition concerns the product as a product. If the seller's sales research shows that a certain market exists for a product that he doesn't now sell, he may decide to provide it, even if only to stave off or stalemate competition until he can become better established.

How Shall We Sell Our Product?

After sales research has determined the product to be sold and the market for that product, there still remains the selection of methods of selling. Again we approach this from the customer's viewpoint. How will the customer prefer to have goods for sale brought to his attention? Will he prefer to have salesmen call at his office or home, or would he rather call at the seller's sample rooms or at a store? Is he accustomed to buying from advertisements or from propositions received through the

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the industry. Trade discount is the deduction allowed to the trade; that is, by a manufacturer to a wholesaler or a retailer, or by a wholesaler to a retailer or another wholesaler. It is a simple way of adjusting price. One list price would be quoted to everybody, and each customer would apply the trade discount to which he was entitled, to get the net price of the goods.

mail? Is telephone solicitation desirable or effective? In the case of a manufacturer, is it better for him to sell direct or through wholesalers, or how? Are samples more effective than descrip-

Courtesy of Boston American

tions? Are testimonials from satisfied users more appealing than the statements of the advertiser?

The choice of a selling method is also influenced by the nature of the merchandise and by its price. A closely figured price does

not allow much leeway for selling expense. On the other hand, bonds cannot be sold by sample. Nor can private yachts be sold by house-to-house canvassing. Groceries could not be sold universally from house to house, although that might be an ideal and effective method of creating a demand for the sampled merchandise. Unless, however, a stock is maintained at stores convenient to the customer, the sampling effort may be wasted.

Although there are established sales channels for nearly all standard merchandise, a seller may use any means that he thinks will bring him the business. Or he may use every means at his disposal.

Channels of Distribution. Orderly methods of marketing merchandise sold through retail stores involve making up samples which the manufacturer's salesmen display to the store buyer, who places his order for subsequent delivery. Or the manufacturer may sell exclusively through wholesalers, who make the contacts with the retail stores. In a few cases, the manufacturer may by-pass the wholesaler and retailer and contact the consumer direct, through salesmen, through mail sales letters, or through advertising. Such concerns as Fuller Brush and Real Silk do a tremendous business through canvassers. Large and small mail-order houses bombard their customers and prospects with their offerings, through sales letters and catalogues. Only incidentally, however, will a manufacturer advertise direct to his prospects for business to come directly to him. Rather is his advertising intended to encourage customers to tap the established local sources of supply, or at the least to "pull" inquiries which are turned over to salesmen or distributors to follow up.

Salesmen call on retail merchants with goods for resale, on industrial and commercial purchasing agents with goods for use within the individual establishment, and at homes with items intended for domestic use. The first group of salesmen are often called "travelers," the second group "salesmen" or "sales representatives," and the third group "canvassers."

Training of Salesmen

All salesmen require training, direction, and supervision, as has already been stated. The extent to which all three are

necessary varies with the individual, the goods, and the company. Generally speaking, the more thorough the training, the better the results. It is frequently possible to shorten appreciably the period of training by the company (often called "in-service" training) through effective pre-employment training in salesmanship in schools and colleges. Good training, wherever given, consists of thorough instruction under a competent, experienced instructor, with opportunity for practice under his supervision.

There are several methods of training salesmen, not all equally effective. Before describing any of these methods, it might be well to consider the purpose of salesman training.

What a Salesman Should Know. A good salesman knows his goods and is able to present their merits effectively and adequately. He is able to answer any ordinary questions about them, such as their content, properties, method of manufacture, and uses.

Second, a good salesman knows his company, something of its history and development, the men who are responsible for its success, the standing of the company in the trade, its progressiveness and reliability, and so on.

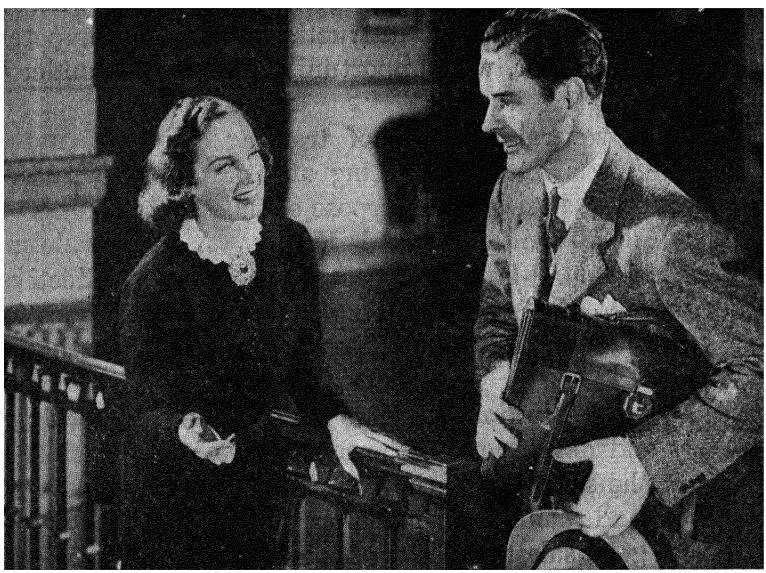
Third, a good salesman knows his customers. Without going into the theory of differences between individuals, suffice it to say that all buyers are not alike. Some buyers want to learn everything there is to know about the goods; others are satisfied with a few details. Some buyers are susceptible to a logical presentation; others to an emotional one. Some buyers are interested in details; others are not; and so on.

Fourth, a good salesman knows the technique of selling, which includes the approach to the customer, gaining his attention, arousing his interest, creating a desire for the goods, and turning that desire into action—*i.e.*, getting the order.

It may be claimed, with reason, that all a salesman really needs to know is the fourth feature; that anyone may know the first three but, if he hasn't the fourth, he cannot be a successful salesman. There is just enough truth in that argument to make it impressive. Its weakness lies in the fact that it substitutes cleverness for knowledge. A salesman may be able to dodge questions about his product and his company, but he cannot

satisfy all customers with the same verbal fencing and sidestepping. Sooner or later, he will trip, and another customer is lost.

The Purpose of Salesman Training. The purpose of salesman training, then, is to give the prospective salesman an



Courtesy of George La Monte and Son

A well-groomed appearance, modulated voice, courteous manner, and interest in others contribute to a salesman's success.

adequate knowledge of the goods and the house, the necessary information about his customers and prospects, and instruction and practice in selling technique. How is this training given?

Methods of Training Salesmen. Various methods are in use by different companies. The main difference in method lies in the time taken for the training and in the resulting effectiveness of the training given. At one extreme is the extended program which starts a young man in the stock room, where he becomes thoroughly familiar with the stock; then he may be placed in the general office for a spell, to get acquainted with the mechanisms established for handling orders, invoices, correspondence, and so on. After that comes a stay in the

advertising department, where he learns how the features of the company's product are attractively presented and how the advertising department cooperates with the company's distributors. Then he spends some time in the sales office, where he becomes acquainted with those responsible for bringing in the business and where he sees what makes the wheels go around. Next he may accompany an experienced salesman on a trip, acting as his assistant, carrying his samples, serving as a model if a model is called for, and making himself generally useful. The senior salesman may point out features of each call in advance, so that the junior will know what to look for and will see how various situations are handled. After the call, the junior may have questions, which the senior can answer, pointing out certain aspects that may not have been clear or anticipated. Occasionally, the senior salesman will allow the junior to try his hand, selecting, of course, a customer who will appreciate the circumstances and not feel slighted.

When the senior salesman is satisfied that the junior can handle things on his own, he will so report to the sales manager, who will then give assignments to the junior that are within his capacity.

How Long Should It Take? A training program such as we have described may take from one to five years, depending on the thoroughness with which it is done. Obviously, the longer the program, the younger the candidate should be when he enters upon it. For this reason, such an extended program may not be suited to others than youths.

It is possible to shorten the training program considerably and to condense it within a few months or less. To do this requires careful and thorough preparation, an experienced instructor, and trainable individuals. Samples of all the company's products may be inspected and their fine points indicated; illustrated sales literature may well supplement this part of the training program. Instruction manuals, giving full details, are invaluable, provided they are well prepared. Sometimes these sales manuals present a "canned" sales talk to be memorized and used word for word. This plan has its advantages and, some claim, disadvantages. Short talks and discussions by

officers and department heads help to explain company policies and objectives.

Following an intensive course of instruction like that just outlined, the trainee is ready for a test on actual selling, either under supervision (which is probably better) or on his own (which also has both advantages and disadvantages). When the instructor and the sales manager are satisfied, the new salesman is given a definite assignment, which may comprise all or part of the line and certain customers or prospects in a given territory.

If the business is a seasonal one, like clothing, for instance, the salesmen go out on their selling trips twice a year. In such cases, the credit manager may go over each salesman's accounts with him and indicate the extent to which he can sell each customer. This practice does away with overselling, which loads up the customer and makes him a poor prospect for the next season's business.

An Important Point. To one who has had little or no experience in or contact with selling for a reputable house, it may come as a surprise to learn that salesmanship does not consist of "putting something over" on the customer, especially where his trade is desired year after year, The easiest way to lose a desirable customer is to trick him into buying something he doesn't want and cannot use or sell.

Short-sighted Tactics. Again, it may surprise some people to learn that not all business concerns require their salesmen to sell each customer all he can be persuaded to buy. "High pressuring," as such tactics are called, is short-sighted in the long run and does not make for permanent, enduring, customer relations. Products that require forced selling are not always economically sound, and the disadvantages often more than overweigh any short-term advantages. High-pressure selling is almost always accompanied by a high turnover of both salesmen and customers. Eventually, such practices defeat themselves and do not result in lasting satisfactions.

Selling Is Real Work

Let no one get the idea from the preceding paragraph that selling ability is not required, or that the salesman merely takes

orders. There is a vast difference between being handed an order and going after it. One is passive and may be likened to the waitress whose customers come to her and state what they want; the other is active and requires helping the customer to make up

> Well bought is half sold—but it is only *half* sold.

his mind, but does not overload him with all the traffic can bear. A real salesman will not be satisfied with selling the customer an order; he makes sure the customer buys what is best for him, if he can supply it. It takes courage for a salesman to tell a customer that his goods do not meet the requirements; but it builds good will.

Even in a retail store, a salesman often has an opportunity to build a following. For example, in a large men's clothing store in Boston, the outstanding salesman would now and then tell a customer, "I'm sorry, but I haven't a thing that would suit you. Come in again in about two months." This attitude made the customer feel that the salesman was looking out for his interest and was not thinking of merely making a sale.

Supervision of Salesmen

Like other employees, salesmen need direction and supervision. The man who never goes stale on his job just doesn't exist. And salesmen get discouraged at times, just like other people. A wise sales manager, therefore, keeps close tab on his salesmen and knows when to pat them on the back, when to give them a push or a lift, and when to criticise. Oftentimes a sales manager will jump into the field and help a salesman close a difficult prospect. To be able to do this involves keeping in touch with the salesmen.

Many sales managers put their salesmen in competition with each other, realizing that healthy rivalry is an effective stimulant. Published results of the period's sales by each man on the force show how they are doing and keep up the interest.

Quotas are usually set, to show each man the amount of business he should turn in during the stated period. If these quotas are not arbitrarily set but are based on territory, conditions, and the salesman's possibilities, they are effective. Where they are simply an advance over the preceding period, they may result in a hopeless feeling on the part of the salesman. One sales manager thought he was praising his salesmen when, every month, he started his letter with these words, "Your sales for March were very good, indeed, but not good enough." It doesn't take long for an employee to cease trying to satisfy those who just won't be satisfied. After an employee has got the "What's the use?" attitude, his value to his employer has lessened appreciably; his morale is pretty low.

Sales Statistics

The sales manager receives reports on what his men are doing, on the prospects dug up, the calls made, the sales made, the expense incurred, and so on. This information is transferred to the office records, and summaries are made for comparison. From these statistics, charts and graphs are prepared showing the percentage of prospects sold, also the general relation of cost to sales and the ratio of the individual's sales and expenses to the average.

Salesman's weekly expense report for the week ending March 18 19

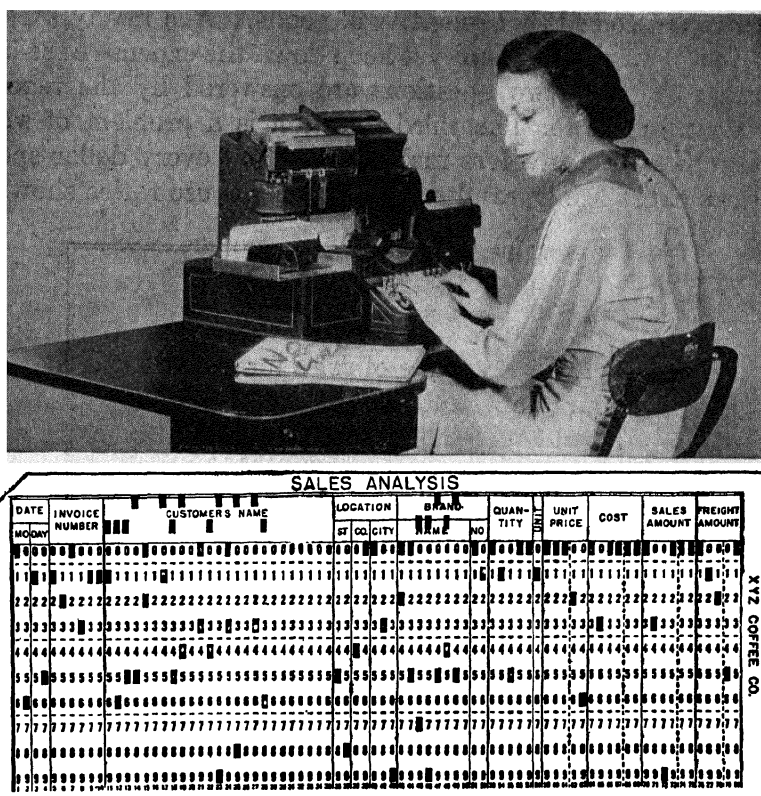
Date	Breakfast	Dinner	Supper	Total meals	Bed	Total	Railroad	Laundry	Bus	Miscellaneous	Miscellaneous	Total	Sales	%
Sunday	.35	.75	.60	1.70	2.00	3.70						3.70		
Monday	.35	.50	.50	1.35	2.00	3.35	1.75		.25	.65		6.00	$120	5%
Tuesday														
Wednesday														
Thursday														
Friday														
Saturday														
Total														

Cash on hand $_____
Expenses for week_____
Balance on hand_____

All these records show the producing ability of the salesman, to what extent the business is up to standard in each district, and what the cost is for each dollar of sales. A salesman's typical report is shown on the opposite page.

In retail stores, the salesclerks make out a sales slip for each transaction. A copy is given to the customer with the goods; a duplicate is used for recording and totaling the sales made by each clerk. In large establishments where much compiling of statistics is required and the accounting is complex, a tabulating and recording machine is frequently used.

From these sources and from the report of the mail orders received, the summary of the day's sales is made up and placed



Courtesy of International Business Machines Corporation

Cards showing the details of each sale are first punched then sorted and tabulated—all by machine. Each hole represents a number or a letter. This sale was for $390.

on the sales manager's desk the next morning. These daily reports show not only the sales made but also the cost of making the sales. Gathering the statistics of sales forms an important part of the office work of the sales department, since it is through a study of these figures that the sales manager finds the answers to three questions that confront him in his work. A knowledge of these questions is important, since all the records concerned with the sales department are devised with these three questions in mind.

Analyzing the Figures. The first question the sales manager asks is "How many dollars' worth of goods are we selling?" Having found this out, his next question is "What is it costing us to sell that quantity of goods?" And finally, "How can we sell more goods and yet keep down the expense of selling them?" The first two questions are answered by the reports already referred to. The third question is a problem of sales management and involves making sure that every dollar spent on sales effort brings results. Some concerns use ratios showing

Do You Know

1. The volume of sales for each of your departments and for all departments in a given period?
2. The cost of the goods sold?
3. The gross margin?
4. The average inventory?
5. The monthly rate of stock turn?
6. The portion of the total expense that should be borne by each department?
7. The ratio between sales and expenses?
8. The net margin and the percentage of net margin on sales?

the actual cost per dollar of sales and apply that ratio to all selling expenses. If the ratio tends to get out of line, the figures are closely analyzed to find out the cause and try to remedy it. It is an axiom of business that "it costs money to make money," but that is no excuse for throwing money away. It is probably easier to throw away money in the sales department than anywhere else, because the optimism of the sales manager and his salesmen leads them to believe that, if they could only get the money to do this, that, or something else, the business would just come rolling in. Sometimes they are right.

Sales by Territories. The sales manager is also interested in two other types of figures. One is the sales produced from each territory. Geographic territories usually differ from each other in the amount of business that can be secured from each, because of differences in population types, in density of population, in the nature of the community—whether industrial, commercial, residential, or agricultural—and so on. The sales research department procures these figures from government or other sources, breaks them down, and is often able to state positively the amount of business any stated territory should reasonably be expected to produce. The form shown on page 255 shows the information that one concern procures. Allowance is made for the fact that if 10 concerns decide that a given territory can produce a stated amount of business, all cannot expect to get the full amount. This is where intelligent competition makes itself felt.

Sales by Products. The third type of figure the sales manager wants is the analysis of sales by products. This analysis shows how much of each of the company's products is sold in the various sizes, in each territory, and by each salesman. A study of these figures will show which products are selling well, where they are selling, and who is selling them. A sudden jump or slump in any of these calls for immediate explanation, so that steps may be taken to take advantage of favorable conditions, as well as to offset unfavorable ones. Furthermore, if one item shows a phenomenal sale, care should be taken to see that that item does not run out of stock, thereby losing desirable sales. The controller can be of real help to the sales manager in gathering

figures and arranging and presenting them for quick and intelligent analysis.

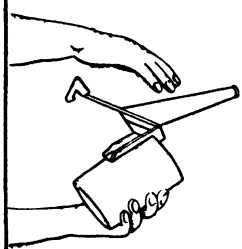
The chart on page 299 summarizes the steps that may be taken by the sales manager in operating his department.

Advertising Department

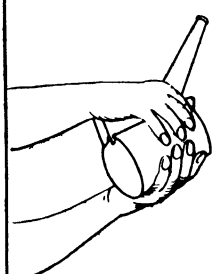
The advertising department works closely with the sales department. In many cases, as has been said, the advertising manager is responsible to the sales manager. In others he is coordinate with him, depending on the business. In any case the advertising manager or director of advertising, or whatever he may be called, is usually a highly trained man who knows the technique of advertising in all its ramifications and is able to select the appropriate measures to produce the most satisfactory results in any given situation.

> Principal sources of waste in advertising are quitting after having started campaigns, trying to cover territory too fast, and attempting to impress rather than serve the reader. Other causes, not so important, are lack of preparation, lack of market analysis, and failure properly to analyze product, manufacturing, and distribution. So declares Kenneth M. Goode, advertising consultant, who believes that most wastes in advertising could be prevented by spending more money.

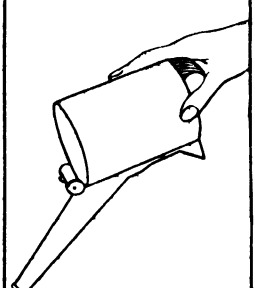
Purposes of Advertising. The primary purpose of advertising is to bring the company and its products quickly and favorably to the attention of possible prospects who would not be reached by salesmen in a reasonably short time.



Place opener on top of can with latch up.



Press down firmly . . . Latch locks on bottom of can . . . cuts hole in side. Not a drop leaks out.



Serves all makes of cars . . . spout at just the right angle to reach all intakes easily.

New... Better

The Balcrank "SID-E-SPOUT" Can Opener and Oil Funnel

HERE'S a can opener and funnel that cuts and destroys the can in a flash right in front of the customer . . . without laying it on the ground or slipping the can into a container. The handiest, most efficient for any service station.

1. Cuts hole in side of can, destroying label . . . Impossible to refill.
2. Complete drainage is assured . . . Can may be set down without spilling at any time.
3. Knife and gasket form perfect seal against leakage . . . Drainage is quick.
4. Knife and gasket are removable . . . without bolts or rivets . . . for easy, reasonable maintenance.
5. Opener and funnel all in one piece—no other unit necessary . . . Quick, easy, convenient.
6. Two sizes . . . for one and five quart cans.

BALCRANK CINCINNATI, OHIO

This advertisement tells the whole story in three steps, leaving nothing to the imagination,

A secondary purpose is to pave the way for salesmen.

A third purpose is to create good will toward the company. This is what is known as "institutional advertising," the best example of which is probably that of the American Telephone and Telegraph Company.

Forms of Advertising. Advertising may take the form of copy inserted in newspapers and magazines; fliers, circulars, leaflets, pamphlets, price lists, catalogues, and so on. They all require the preparation of copy, the selection of appropriate type and illustrations, and the arrangement of the material in the copy, known as "layout." A definite technique for the preparation of advertising copy has been developed, with rather rigid specifications drawn along well-recognized lines. To that extent, perhaps, advertising may be said to be a science, although there are still enough uncertainties to justify calling it an art.

Often the work of the advertising department is supplemented by the services of an advertising agency, whose assistance may range from merely giving counsel to a complete service—preparing copy, selecting mediums, checking insertions, and so on.

SCHEDULE OF ADVERTISING

Series_____ Topic_____

Whole number_____ Date of order_____ Territory_____

Copy sent_____ Cuts sent_____ Copy by_____ Layout by_____

Size of space_____ Page_____ Lines_____ Inches high_____ Inches wide_____

MEDIUM	DATE		MEDIUM	DATE	
	PUBLICATION	CLOSE		PUBLICATION	CLOSE

Lines to be treated_____

Remarks on copy_____

Remarks on illustrations_____

determined or ascertained. When the advertising schedule has been finally drawn up, someone must be delegated to see that it is followed in every detail.

After the advertisements have been inserted, they have to be checked for two purposes: first, to make sure that they actually appeared; and second, to ascertain what results came from them, and whether or not they were worth what it cost.

Does Advertising Pay? A concern may feel sure that it has an article to sell that is desired by a certain group of people, or it may be able to write an interesting story about it, or it may know the best time to advertise the article. But it may not be sure of the best medium through which this information is to be given to the public. On this account it is necessary to keep a complete record of all returns, both of inquiries and of actual

Publication

		Jan				Feb			Mar				Apr				May				June				July				Aug				Sept				Oct.				Nov	Dec
Space used																																										
Cost																																									
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Total	Cost each								
Jan	Inquiries																																								
	Orders																																								
Feb	Inquiries																																								
	Orders																																								
Mar	Inquiries																																								
	Orders																																								
Apr	Inquiries																																								
	Orders																																								
May	Inquiries																																								
	Orders																																								
June	Inquiries																																								
	Orders																																								
July	Inquiries																																								
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Aug	Inquiries																																								
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Sept	Inquiries																																								
	Orders																																								
Oct	Inquiries																																								
	Orders																																								
Nov	Inquiries																																								
	Orders																																								
Dec	Inquiries																																								
	Orders																																								

On cards like this, inquiries and orders resulting from advertising may be recorded each day as received.

sales. Such records, kept over a period of time, make comparisons of different mediums of value. Although it is not easy to get accurate records of results from newspaper, magazine, and radio advertising, it is not impossible. Such records are particularly valuable in planning the advertisement and in deciding which mediums to select for advertising purposes.

In one method of checking, the records are kept fairly accurate by "keying" each advertisement. This is done by using some symbol or distinctive mark in the address line which will easily identify the source of the inquiry. Sometimes a department letter is used, such as Department A in one publication, while in another publication the address may be Department C. Sometimes the numbers in the address may be either street or room numbers, or several different addresses may be used.

In newspapers and magazines many advertisers use a coupon on which is printed a symbol indicating the publication carrying the advertisement. An additional advantage in using a coupon is that it often seems to make it easier for the writer to send in his order or to make the inquiry.

HOME ECONOMICS DEPARTMENT E3-6, AMERICAN CAN COMPANY
230 PARK AVENUE, NEW YORK, N. Y.

Please send me, free of charge, your motion picture film "Alaska's Silver Millions".

Date required..... Date film will be returned.....

No. of projectors in school.....

Send film checked ☐ 35 m. m. Silent ☐ 16 m. m. Silent ☐ 35 m. m. Sound ☐ 16 m m. Sound

Also send.....Teachers' Guides

I promise to return the film to you on the date specified above and will prepay the return postage.

Signed:.....*Principal*

Name of school.....

Address of school.....

Courtesy American Can Co.

for you from start to finish: what to see and do, how to get here, time required, itemized cost schedules, plus over 100 photographs, maps, etc...authentic facts available only through this non-profit community organization. Coupon brings it FREE by return mail.

When you arrive, be sure to visit our new Official Information Bureau, 505 West 6th St., Los Angeles, for expert help in getting the most enjoyment out of your stay here. FREE, of course.

Come to California for a glorious vacation. Advise anyone not to come seeking employment, lest he be disappointed; but for tourists, the attractions are unlimited.

MAIL COUPON TODAY

All-Year Club of Southern California,
Dept. 5-N, 629 So. Hill St., Los Angeles, Calif.

Send me free book with complete details (including costs) of a Southern California vacation. Also send free routing by ☐ auto, ☐ rail, ☐ plane, ☐ bus. Also send free booklets about counties checked: ☐ Los Angeles, ☐ Orange, ☐ Riverside, ☐ Santa Barbara, ☐ Inyo, ☐ San Diego, ☐ Imperial, ☐ San Bernardino, ☐ Ventura, ☐ Kern.

*Name*_____

*Street*_____

*City*_____

*State*_____

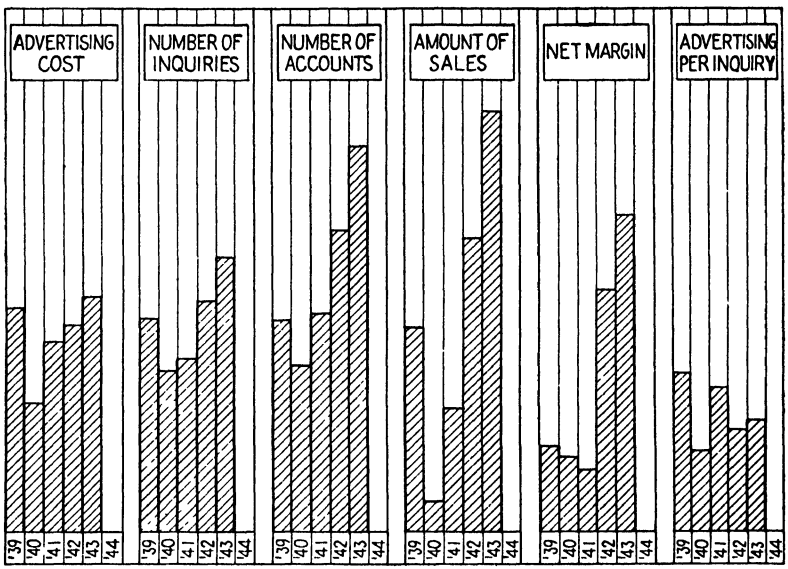
(Please print name and address)

ALL-YEAR CLUB OF SOUTHERN CALIFORNIA

Courtesy of All-Year Club of Southern California

When the replies come in, they are assorted according to key numbers; it is then a comparatively simple matter to record the

number of replies to the advertisement. The records usually show the name of the publication and all necessary information in regard to the advertisement and the results obtained from it.



A chart like this helps to make comparisons easier than the puzzling over of columns of figures.

A comparison of these records helps the manager to select the profitable mediums and to discard the unprofitable ones. It also indicates the size and kind of copy that are most productive and the season of the year when the best results may be obtained for each particular proposition.

Sales Promotion

Supplementary to the primary work of the advertising department is sales promotion, whose purpose is not directly the making of sales so much as it is getting prospective customers to think of us first when they are in the market for products like ours. The monthly house organ is perhaps the outstanding example of what is meant by sales promotion. A house organ is a periodical publication, ranging in size from a four-page folder to multipage magazine, containing information of interest to the

reader and news about the products and progress of the company. Actual sales are not expected as the direct result of reading the house organ, but the material presented is selected with a view to entrenching the company so firmly in the customer-prospect's mind that we are the first source he thinks of when he wants goods or services in our line. Sales promotion also includes the preparation of dealers' helps, such as counter cards, counter and window displays, posters, or envelope inserts ("stuffers").

Sales Department Correspondence

Among the most important office work of the sales department is that of writing letters. The correspondence of active sales departments is usually rather heavy. The sales manager and his assistants write frequent letters to the salesmen, informing them of changes in the line or in prices and terms or sending the names of prospective customers for the salesmen to visit. Occasionally it is also necessary for the sales manager to write an encouraging letter to a salesman who may be falling down; such letters are sometimes called "pep" or "ginger" letters. Then there are the letters written by customers and prospects and others with whom the company is dealing; these should be answered promptly and adequately. The handling of correspondence is explained in Chap. 9.

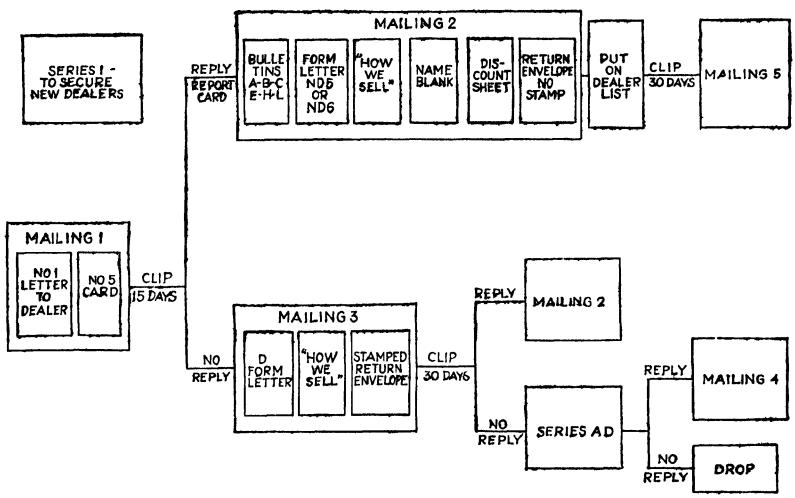
Mail Sales

In addition to selling through salesmen and distributors, many concerns also operate a mail-order department, through which sales propositions are presented by mail to customers and prospects. This work is often called "mail sales," to distinguish it from the mere filling of orders received incidentally through the mail. Mail-order selling involves the use of sales circular letters, usually printed in large quantities by special processes to look like actual typewritten letters. Some concerns circularize their customers and prospects once or twice a year, while other concerns make a mailing every week.

A series of letters mailed at certain intervals is sometimes called a "follow-up" series, because each letter is expected to

follow up the message carried in the preceding letters. Follow-up letters are often sent out on a prearranged schedule, which shows just when the proper letter is to be mailed. The figure on this page shows the mailing schedule of one mail-order house.

Mailing Lists. Whether mailings are frequent or infrequent, a mailing list is required. "Mailing list" is the name

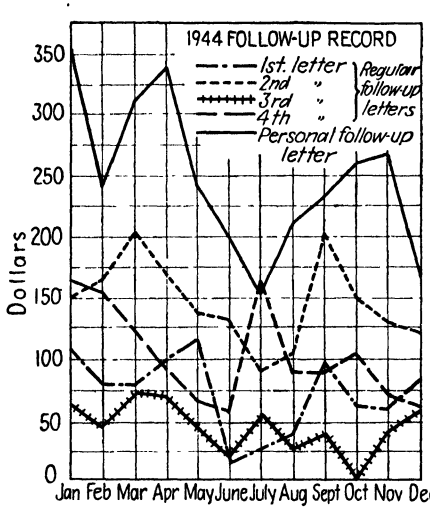


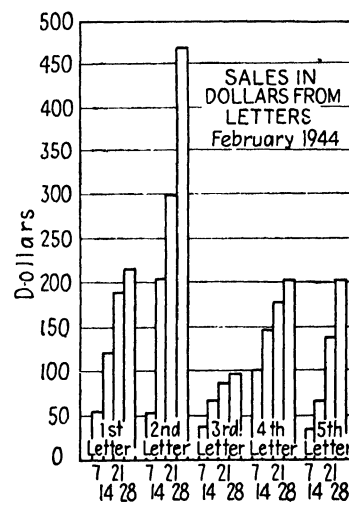
This chart shows when to mail follow-up sales letters. Each letter is mailed 15 or 30 days after the preceding one.

usually given to the lists of names and addresses of customers and prospects to whom sales letters and other advertising material are sent. Some sales managers have mailing lists that require constant attention by the office force to keep them up to date, because of changed addresses, deaths, and so forth. One sales manager, however, considers that it costs more to correct his prospect lists than to make new lists of prospects every year. Of course, the list of customers is kept up to date all the time, but this manager found there were so many changes in the prospect list that it took longer to make the changes than to make new lists. He gets new names from advertisements, clippings, and salesmen, or from lists furnished by directory and mailing companies who make a business of furnishing lists of prospects for almost anything.

Some concerns keep their mailing lists on cards, while others use addressing-machine plates or stencils. Envelopes and circulars may be addressed from cards or lists by hand or on the typewriter; when addressing-machine plates or stencils are used, the work is done much more quickly and accurately. Whether cards or stencils are used, they should be filed in some order, so that changes and additions may readily be made.

How Are We Doing? The results obtained from mailings are recorded and charted for the sales manager. By keying each follow-up and form letter so as to give the number of customers secured or inquiries received, a record can be made showing which letters are effective and which should be strengthened or discarded. If a letter or mailing should show particularly good results, the sales manager would want to use that letter again some time and perhaps get some good points from it to use in other letters. The measure of any effort is the result it produces, and it is by results that the manager determines which are the





best letters to use. The figures on this page show the charts used by one firm for watching the results of its mailings.

Selling by Telephone

It might be desirable to mention the wide use of selling by telephone, which has developed to such a point that a book has

actually been written on the subject. Without going into detail, we may note that the outstanding feature of telephone selling on a large scale is a special room—facetiously called the "boiler factory"—fitted up with glass-enclosed booths placed on desks, where sit trained salesmen and saleswomen, who spend the day calling up name after name on their lists. To each person called they make their carefully prepared sales talk and try to get an order.

Courtesy of "American Business"

There is no limit to the territory that these telephone sales clerks can cover from this room.

Telephone selling for many years was apparently confined to the grocer or butcher, calling the housewife for the day's order. Today telephone selling is in use by cleaning establishments, stock-selling concerns, advertising salesmen, magazine-subscription agents, and so on. The telephone company has gone so far as to divide the country into districts, on what is called the "key-town plan," whereby all towns within a certain radius

are reached by telephone from a central key town. The telephone company also provides special booths and special blanks to speed up this service. Thus has a handy little office tool become a mighty force to aid the sales department in securing business.

Questions for Discussion

1. Who is in charge of the sales work? Explain or comment.
2. Why is the sales department the most important one in the business? Or do you think otherwise? If so, why?
3. What facts indicate the importance of salesmen?
4. "Sales are the lifeblood of business." Explain.
5. Contrast the actions taken by different concerns during depression times.
6. "At any time, good or bad, there are always some concerns which are having good business." Explain.
7. Making sales does not mean merely taking orders. Explain.
8. "The successful salesman must be a born optimist." Explain.
9. What are the three subfunctions of the sales function?
10. With what common factor are all the sales subfunctions concerned? Why?
11. Comment on "finding out what people want."
12. Why do so few people know anything about Sapolio?
13. What is the purpose of sales research and how is that purpose carried out?
14. What is the problem of sales research with respect to the design of the product?
15. How did Lever Brothers establish consumer acceptance of Swan so quickly?
16. Why did a prosperous razor manufacturer allow the patent situation to arise, as described in the text? What should he have done?
17. Why were mechanical pencil sharpeners devised?
18. Trace the development of mechanical pencils.
19. What steps has the lead-pencil industry taken to meet the competition of mechanical pencils?

20. Comment on market research.

21. Why should the telephone company, which is a near monopoly, continue to advertise extensively, year in and year out?

22. Comment on the comparative use of the radio and the telephone by the telephone company and the broadcasting companies. How do you explain the contrast?

23. What five steps may be taken to meet competition in a competing market?

24. Which is more important, price or quality? Why?

25. Is all price competition evil? Explain.

26. Comment on the experience of the Lincoln Electric Company.

27. What is the purpose of the Fair Trade Act, and how is it working out?

28. Just how significant is price, by itself? Explain.

29. Comment on the term "quality goods."

30. "Quality is purely relative." Explain.

31. Why is it vital to maintain an established level of quality?

32. Explain service. Illustrate your answer.

33. Explain terms.

34. Distinguish between cash discount and trade discount.

35. Explain spring dating and fall dating.

36. How are the methods of selling selected?

37. What is meant by orderly methods of marketing merchandise?

38. Why should a manufacturer wish to sell direct to consumers, instead of through middlemen?

39. To what extent do salesmen require training, direction, and supervision?

40. What four things should a good salesman know? State why, with respect to each.

41. If a salesman can sell, why should he be concerned with other factors?

42. What is the purpose of salesman training?

43. What is the main difference in methods of training salesmen? Explain.

44. How is a junior salesman often trained by a senior?

45. Do you believe that salesmanship consists of putting something over on the customer? Explain.

46. How long should a salesman-training program take? Explain.

47. How can a salesman-training program be shortened?

48. Explain high-pressuring tactics in selling. Why are they disadvantageous? Can you think of any circumstances under which they would be justified?

49. "Selling is not order taking." Explain.

50. How may a retail salesman build up a following? What is a following?

51. Why do salesmen need direction and supervision? How are they given?

52. Comment on sales quotas.

53. What information does a sales manager require? Why?

54. What is the purpose of the sales slip in a retail store?

55. The sales manager wants to know how much the sales department is selling. What two other related points is he interested in?

56. Explain expense ratios.

57. Why is the sales manager interested in territorial sales figures?

58. What value is there in analyzing sales by products?

59. Who runs the advertising department?

60. State three purposes of advertising and comment briefly on each.

61. Explain briefly the forms that advertising may take.

62. What services does an advertising agency render?

63. What does advertising in newspapers and magazines involve besides the preparation of copy?

64. Why are advertisements checked, and how?

65. Explain how an advertisement is keyed.

66. What advantages are there in using coupons in advertisements?

67. Explain what sales promotion includes.

68. Comment on the letter-writing activities of the sales department.

69. Explain mail sales, and comment on them.

70. What is a follow-up series of sales letters?

71. Describe or explain mailing lists and state how they are kept and used.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Call on the sales managers of five local concerns and ask them how they keep in contact with their salesmen. Find out if there is an occasional slip-up; if so, how it happens, and what they do about it.

2. Find out if in your community there is any concern that has no salesmen or sales department. If you find such a concern, ask the manager how he sells his product.

3. Call on the local gas or electric company and find out the procedure to be followed when an application for service is received. Find out, also, how long it takes from the time the application is received until the gas is turned on or the electric current connected.

4. Call on five local sales managers and ask how they determine the results secured by each salesman.

5. Call on the managers of five retail stores and ask them how they determine the results secured by each salesperson.

6. A tremendous volume of automobile casualty insurance must be handled by casualty insurance companies at certain times of the year when large numbers of automobiles are registered. Call on the office managers of two casualty insurance companies and find out how they take care of this problem of rush work.

Problems

1. If a good customer telephoned a small grocery store and, after placing her order, asked the manager to buy something at a near-by drugstore and deliver it with her grocery order, should the grocer accommodate her? Why or why not?

2. Is it best to have the respective departments located in the same places in all seasons and have the customers know

where to find them? Or would it be better to shift departments from time to time? Why?

3. A certain store, which has been doing most of its business on a credit basis, has decided to change to a cash basis. How can the store approach its charge customers to tell them of the change without losing their patronage?

4. A hardware store in a small community has decided to open an expensive saw department. How may the manager convince the public that the purchase of an expensive saw is the best buy in the long run?

5. One of the hardest problems for an independent grocery store manager is that of his inventory. Customers are always requesting articles that the independent storekeeper does not carry in stock. Should he stock an article because he has one or two requests for it and run the chance of having it stay on his shelves? Would it be better to lose the sale?

6. How can the retail merchant in a small community find out whether or not his advertising is worth while?

7. A certain retail store has in stock goods that have a very slow turnover. It is probable that in time the goods would turn over completely. The goods are marked up higher than the rest of the stock. Would it be advisable to clean up these articles by marking them down and suffer a loss, or continue to carry them at the higher markup?

8. One secret of success in the mail-order business is to keep the orders coming in. How can this be done?

9. As is true everywhere, there are people who consider radio music a form of relaxation, and there are those who are nearly driven to a frenzy by its constant clamor. How can the manager of a summer hotel strike some sort of adjustment that will leave both classes of people reasonably well satisfied?

10. A restaurant has a seating capacity of 50. The theater crowd overflows the place between 10:00 P.M. and 1:00 A.M. Many customers, after finishing their meal, remain seated at the table, reading and using up valuable space while buying nothing more. How can they be persuaded to leave after finishing, so as to make room for those looking for seats?

11. A problem confronting long-distance trucking companies every day is how to obtain return loads on long trips, so as to

have the trucks come back full. What can you suggest? Give your reasons.

12. A dry-cleaning enterprise is doing a very good business, but its "not-called-for" department is growing by leaps and bounds. What can the manager do to eliminate or at least reduce the expense of operating this department and at the same time get the customers to call for their goods?

13. What is the best way for a cleaning business to contact its retail prospects? Give your reasons.

14. A concern whose home office is in New York has salesmen covering territorities all over the country. The salesmen travel quite a bit and send in their expense sheets. The problem is to figure out some method whereby the sales manager can check up on their expense accounts and the calls that they make.

15. Should the management of a business select salesmen from the territory to be canvassed, or should he select men who are total strangers to the territory? Give your reasons.

16. If a division manager in a sales office discovers that two salesmen who have adjacent territories differ widely in their sales, although they have the same amount of ability, what can he do about it? Give your reasons.

17. What should be done if the sales quotas are too low and the salesmen are selling far above their quotas? Would you hire more salesmen or would you increase the quotas of the present force? Give your reasons.

Points of Law in Sales Contracts

1. Mr. Brown says to Mr. Call, "I think I will sell my car for $1,200." Mr. Call says, "I accept that offer." Is that a contract? Why or why not?

2. Mr. Arens says to Mr. Burns, "I will pay you $100 to paint my house." Mr. Coyl, who is standing near, replies, "I will accept that offer." Is this a contract? Why or why not?

3. Mr. Doyle says to Mr. Elm, "I will pay you $75 to paint my automobile." Mr. Elm replies, "I will accept for $80." Is this a contract? Why or why not?

4. Mr. Frye says to Mr. Gill, "I will take $200 for this white horse." The next day Mr. Gill meets Mr. Frye and says

he will accept the offer for that horse. Mr. Frye refuses to sell. Can Mr. Gill enforce the sale? Why or why not?

5. Mr. Blaire steps aboard a bus and rides three blocks. Is this a contract? If so, how is it enforced?

6. A newspaper was sent regularly by mail to Mr. Dale, who had not subscribed but who did not refuse to receive it and did not direct its discontinuance. Must Mr. Dale pay for the paper?

7. Mr. Gale sent a crate of strawberries to Mr. Abbott, who had not ordered them, but he received them and used the berries. Can Mr. Gale collect the price of the berries? Why or why not?

8. Mr. Boyd without authority to do so sends a watch to Mr. Cain and writes, "Give the watch a 10-day trial and if you do not return it at that time I shall consider it sold for $25." Cain does not return the watch. How much can Mr. Boyd collect? Why or why not?

9. Mr. Crane offers in writing a lot to Mr. Dalton for $2,000 and gives him until six o'clock to decide. About two o'clock Mr. Crane is offered $2,500 for the same lot and sells it. Mr. Dalton accepts the offer, makes a payment, and sues Mr. Crane for breach of contract. Can he collect? Why or why not?

10. Mr. Bamberg wrote to Mr. Crane on May 4 and offered him $200 for a riding horse. Mr. Crane answered on May 5, accepting Mr. Bamberg's offer. In the meantime Mr. Bamberg changed his mind and wrote Mr. Crane on May 5, withdrawing his offer. The letters passed each other in the mails. Can Mr. Bamberg be compelled to take the horse? Why or why not?

11. Mr. Brown on his twentieth birthday purchased a $600 piano as a gift for his sister. Mr. Brown signed a written contract agreeing to pay for the piano in six months. Can the piano dealer collect if Mr. Brown refuses payment? Why or why not?

13

Organization for Handling Sales Orders

WHEN A customer enters a stationery store and asks for a bottle of ink, the clerk turns to the shelf, takes down a bottle, wraps it, and hands it to the customer, who pays for the ink and then leaves, carrying his purchase with him.

How simple this is! And how easy!

There could be only one hitch—and that is in case the store did not have any ink—an almost unthinkable situation.

Suppose, however, that the customer was buying for a large office and asked for a 5-gallon keg of ink. Then we might not be so surprised if the store did not happen to have that size on hand.

Suppose, further, that instead of visiting the store personally, the customer telephoned for the ink, or mailed in an order, or gave the order to a salesman for the store. When would the customer get his ink?

In all these cases, it is the same customer, the same store, and the same ink. The only difference is in the way in which the customer gives his order. A customer entering a store expects immediate service; when he sends the order to the store in any other way, he does not know definitely just when he will get the goods ordered, unless he called up first and ascertained that the goods were in stock and could and would be delivered at once.

CAUSES OF DELAY

If the goods had to be made up, he shouldn't expect immediate delivery. But if they were in stock, there would seem

to be no reason why delivery could not be made promptly, except that—

Other orders may be ahead of his

The delivery truck may be out on a trip

The store may be shorthanded

Another customer's order may have been put ahead of his

His credit may have to be looked up

The order-filling routine may be very complicated and cumbersome and take more time than is reasonable

His order may have been lost or mislaid.

In a national survey made to determine how much office work is required to handle orders, it was found that one manufacturing concern required 3,456 minutes, or 56 hours! Another in the same line required only 45 minutes of office work. The average for all manufacturing concerns included in the survey was 159 minutes, nearly $2\frac{2}{3}$ hours. In wholesale businesses, the longest time taken was 929 minutes, and the shortest, 21 minutes, with an average of 38 minutes per order.

This Is a Serious Problem

The question is this: If a personal purchase of a bottle of ink takes less than a minute, why should any other method of purchasing take so very much longer?

In the answer to this question lies the solution to a problem that affects all businesses. Some concerns try to do something about it, some apparently do not care, and many doubtless feel that there is probably nothing they can do about it and, therefore, do not even try. It is those in the last group who are most likely to complain about competition and so forth, when the main trouble is simply poor management. How else can you explain why, of two manufacturers of the same product, selling to the same trade in a similar manner, one takes 50 minutes an order, and the other, 450? It is obvious that there is considerable room for improvement here.

Analyzing the Problem

Perhaps if we work this out from a common-sense angle, we may arrive at a more satisfactory result than if we jump at

The Routine of a Sales Order

1. The order comes in by mail and is opened in the mail-opening department.

2. It is sent to the order department, where it is recorded in the order register and given an order number.

3. It is sent to the credit department for O.K.

4. It is copied, and copies are sent to each department that is to furnish a part of the material.

5. The production department has the order with the date on which the shipment is to be made.

6. The planning department makes out instructions for filling the order, with the time for completion. The order is scheduled for delivery at a stated time.

7. Requisitions for material are sent to the storeroom.

8. The foreman has the order. The material from the storeroom is gathered, assembled, inspected, finished, and sent to the shipping department.

9. The shipping department has the order.

10. If the order is shipped by freight, three copies of the bill of lading are made out.

11. If it is shipped by express, a receipt is obtained.

12. If it is shipped by mail, postage is paid and a receipt is obtained if it is registered or insured.

13. The accounting department is notified of the shipment of the order.

14. The accounting department makes out the bill and sends it to the customer.

15. The money is paid, or

16. The accounting department sends the bill to the collection manager.

conclusions before being sure they are there. In previous chapters we have seen that the first principle of management is to "determine the objective." Let us apply that principle to the problem of handling orders.

What is the objective of handling orders? Why, obviously, it is to get the order filled and shipped to the customer just as quickly as possible. Why? Well, for two reasons.

We Want Our Money. The first reason is that the sooner we can get the order shipped, the sooner we can get our money

"Profits are in goods delivered—not in orders." No manufacturer ever made a profit on his orders; he might as well go out of business as to have a vast pile of orders without corresponding deliveries. It is a perfectly simple proposition, but how many manufacturers are really running "order museums" instead of factories. Every day that you delay in the filling of an order, unless your plant is already running to capacity, is making the order less valuable to you; your overhead is running along just as merrily as though the order had been changed into a bill of goods. That overhead is eating into your profits, "Otherwise the orders were only interesting evidences of sales ability."

for the goods. If we are selling on 30-day terms, we cannot expect to get our money until the 30 days are up; and, since the 30-day period does not start until the day the goods are shipped and billed, it is obvious that every day's delay in getting the order shipped is one more day that we shall have to wait for our money.

This may be a selfish way to look at it, but it is a very realistic viewpoint and may have more weight than some other arguments.

Service Again. The second reason for getting orders shipped just as quickly as possible is that in this way the customer gets the service to which he is entitled. If our competitors charge the same price that we do for the same quality of goods but we give better service, we have the best possible talking point in soliciting business. We are not doing any customer a favor when we ship his order promptly; he is doing us a favor when he places his order with us instead of with our competitors, and the least we can do to show our appreciation is to see that he gets his goods without delay.

A large hosiery company endeavors to make sure that each of the many small orders coming into its special re-dye department is shipped out on the day promised. In the special rush shipping room a row of trays or boxes is built on the shipping bench. These boxes are placed on top of the bench near the back, leaving room for work on the front, and are labeled "Monday," "Tuesday," "Wednesday," and so forth. There are 12 boxes in the row—enough not only for the current week but also for a week in advance. Each box holds the orders due to be shipped on a particular day. If the day is Tuesday, for instance, all the orders in the Tuesday box should be finished before quitting time. When any of them seem to be held up, notice is at once sent to the manufacturing department to push them through. If all the orders in today's box have been shipped, those in tomorrow's box may be started on and completed ahead of time.

Beside distributing the orders according to the promised dates, this row of boxes gives a visual idea of the amount of *work ahead* of the department. Any order blanks appearing in yesterday's box claim special attention until the goods are shipped. The scheme is better than card signals because in itself it constitutes the work to be handled, as well as the signals.

Sound Management Technique

Just as we first determine what our objective is in management practice, so also do we work backward from our objective in studying the order routine. That is, in working out a routine for filling orders, we start with the shipment of the order and *work backward* to the receipt of the order. Only in this way can we be sure of including only those steps which contribute to the filling and shipping of the order. For the present we are not interested in any other steps, however interesting or desirable they may be. We can take them up later and see whether they can be inserted without delaying the forward progress of the order.

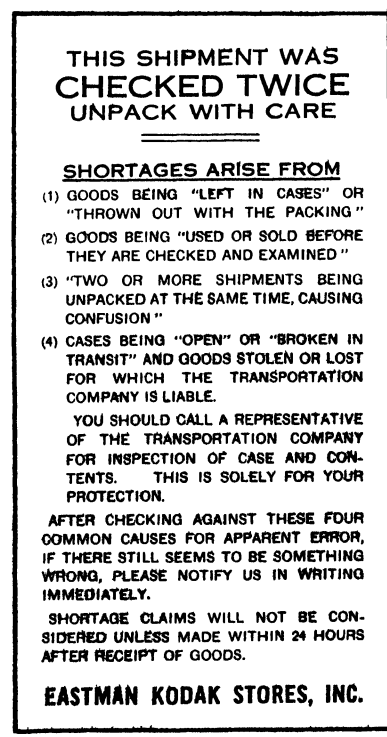
Shipping the Order

The last step in filling an order is shipping it. This involves turning it over to the express truck, or to a freight trucker, or delivering it in our own truck. This apparently simple operation involves more than may be at once apparent. Unless the express or freight trucker calls regularly at our shipping room, we shall have to notify him to call, at the same time ascertaining when he will call, so that we may be sure to have the shipment ready. The call for the trucker must be put in early enough in the day so that he can include us in his pickup route. Even if he calls at a regular time every day, we must keep our eye on that time and schedule everything we do so as to have the shipment ready when he calls. If the goods are to go by rail freight, we must know at what time the shipment must be at the freight house; or if by parcel post, at the post office. All this information should be at hand and kept up to date. There is no excuse for a slip-up here.

Making Out the Shipping Papers

The last two steps before actual delivery of the goods to the trucker are the labeling and the making out of the shipping papers, comprising the bill of lading or the express receipt, as described in detail in Chap. 17. In many cases the label and the bill of lading are made out very early in the order routine, so that the shipping department merely puts the label on the

correct shipment and sees that the trucker properly signs the receipt for the goods when he takes them. If the label is stenciled on the box or crate, this is usually done in the shipping room. Weights are usually taken and checked in the shipping room and entered on the shipping papers there; in some lines of business, however, merchandise is shipped in standard-sized lots in standard-sized cartons, which bear the weight already printed on them. Likewise, in many concerns, the company's products are already printed on the bill of lading, thus saving the time otherwise required to write in this information.



Packing and Checking

The next preceding step is packing and checking. In the packing room are boxes and cartons of standard sizes, or, if crating is required, lumber cut to standard lengths. This standardization of sizes and lengths makes it unnecessary to cut lumber especially to the required size or to hunt around for a box or carton of the right size to hold the merchandise. Also, a standard method of packing reduces the time required to pack the goods. As the goods are packed, each item is checked on a packing list, which is then initialed and placed inside the package before it is sealed. In some concerns the label is also affixed or stenciled on at this time. The packing list is prepared early in the order routine, as we shall see when we get to it.

Assembling the Order

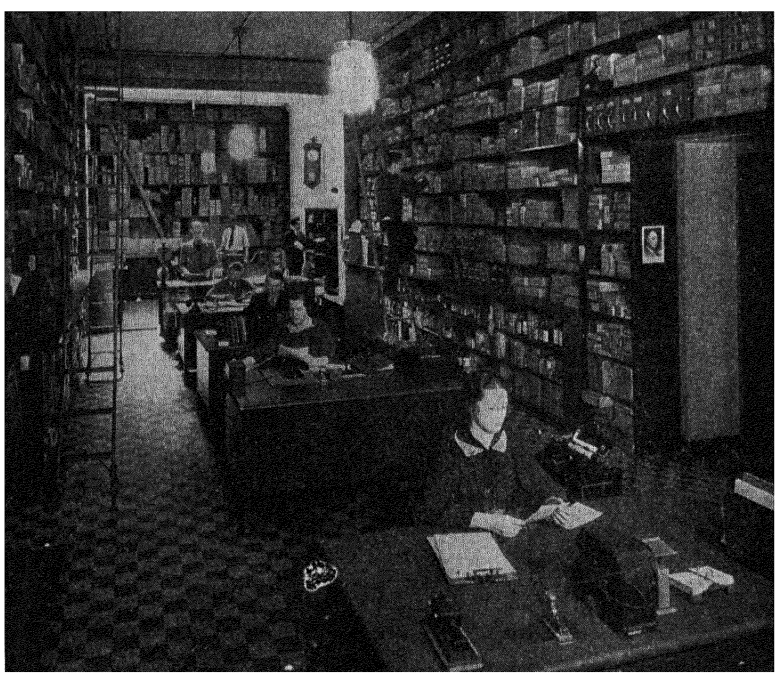
Sometimes the various parts of an order may come from different departments; if the entire order is to be shipped to-

gether, provision should be made for holding each part as it arrives at the packing room, and then bringing all together.

The next preceding step is moving the goods to the packing room from the stock room, manufacturing department, or assembly floor. This may be done on trucks or on conveyors. An afternoon spent in the packing room of a large mail-order house will be revealing.

"Picking" the Order

The next preceding step depends on the nature of the order. If it is a stock order, the items are "picked" off the shelves, bins, or racks and sent to the packing room with the packing list.



Courtesy of Office Equipment Company, Louisville, Ky.
Orders received by this concern are checked, entered, and handed to the stock clerk who "picks" the stock off the shelves.

If it is a manufacturing order, the goods must be processed and inspected and then sent to the packing room with a copy of

the order. Since the steps involved in manufacturing are described in Chap. 18, they will not be repeated here.

Notifying Departments Concerned

Before the goods are manufactured, assembled, or picked from stock, the department doing this work must be notified of what has been ordered and must be given the authority to do whatever is necessary. For a stock order, this requires merely a list of the items ordered; for the assembling order, a list of parts and whatever instructions are necessary for assembling; for a manufacturing order, a production order may be issued.

Credit Approval

The next preceding step is usually passing the order for credit, as explained in more detail in Chap. 14. For the present, it is sufficient to state that credit is always checked to the extent of determining the probability of the customer's paying the bill when it comes due. Whether that decision is made at this point in the routine or at some other point depends upon the practice of the individual concern.

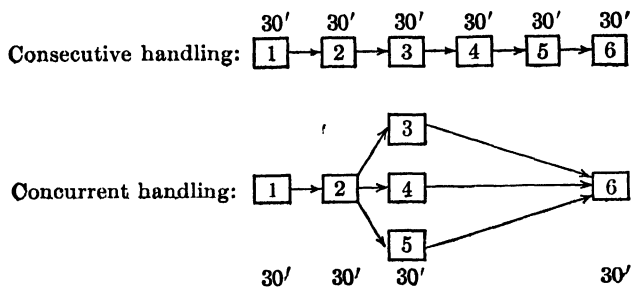
Where Do They Come From?

Let us pause a moment in our backward progress and consider a few features. In each of the steps thus far mentioned, a copy of the order, in some form, has been used. In the shipping department was the bill of lading; in the packing room, a packing slip; in the stock room, a copy of the order; in the assembling room, an assembling order; in the factory, a production order; in the credit department, a copy of the order. Here are six copies of the order—really eight, since the bill of lading set has three copies. Where did these copies come from, and how were they made? Or were five of them the same copy, passed from one department to another?

Concurrent Operations

This question brings up a very important point about the handling of sales orders, which is applicable to other routines as well. That point concerns the desirability of consecutive opera-

tions as against concurrent operations. Consecutive operations are so called when they follow each other in order, singly: the first step is taken, then the second, then the third, and so on. No step is taken before the step preceding it has been taken. Obviously, a series of consecutive operations will take longer than if a group of them can be handled concurrently, as explained in Chap. 8, and illustrated by the following diagram:



The order routine provides an excellent opportunity for saving time by performing operations concurrently rather than consecutively. For example, suppose enough copies of the order are made so that the credit department may have one, as well as a copy each to the stock, packing, and shipping rooms. Doing this makes it possible for the stock clerk to go ahead and pick the order while the credit department is looking up the customer's credit; if there should be some delay in credit passing, the packing department would not be delayed in doing its work, and the shipping department would have everything all ready to ship, awaiting the O.K. from the credit department. As soon as the credit O.K. reaches the shipping room, the goods are shipped on the next trip out, without any untoward delay. Should the credit department turn down the order, the shipping department simply sends the goods back to stock through the receiving room, just like any other incoming shipment.

We may ask where the saving is when a shipment has to be returned to stock. The answer is that in this particular case there is no saving; but in most cases, where orders are for regular customers, the time saved by concurrent handling of the order is a real factor in giving first-class service.

Applicable to Stock Orders Only

It should be noted that what has been said about delayed credit approval applies to stock orders only. For manufacturing orders, where processing is involved and where the finished product would be useless except to this customer, the fabricating process should not be started on any order until the customer's credit has been O.K.'d. Nevertheless, it is often possible to do a good deal of the preliminary paper work, even though the actual processing of material is deferred. This is not a hard and fast rule, but one that may be applied wherever desirable and helpful.

How Copies Are Made

Multicopies of the order may be made in any of several ways. Where only a few copies are to be made and a small number of orders handled, an ordinary typewriter with carbon paper may be used. The International All-Electric writing machine is an electric typewriter having a variable impression regulator; with this machine, as many as 20 legible copies may be made, provided very thin paper and very thin carbon are used.

Billing Machines. The Underwood-Elliott-Fisher billing machine is a flat-bed writing machine with weighted type keys which help to give a powerful stroke; this machine is also widely used in making multiple copies of orders. Up to 15 copies may be made, using carbon. The paper need not be too thin to allow a reasonable amount of handling.

The Underwood billing machine is another machine widely used for making multiple copies of orders. In effect, it is a typewriter to which an attachment has been affixed for quickly inserting and removing carbons between the various copies.

In making multiple copies on a typewriter, considerable time would be lost in inserting carbon paper between the various sheets, unless there were some way of doing this quickly. Actually, a number of ways have been developed for this purpose. The simplest is also one of the most recent; a contrivance holding several circular disks of carbon is attached to the typewriter in such a way that one disk may be lowered between two sheets of paper.

Another plan is to purchase order sets made up with "one-time" carbon already inserted between the sheets. One set at a time is placed in the typewriter; after typing, the set is removed and the copies "snapped" out.

The continuous form method for writing copies is probably more widely used than any other. The forms are printed in continuous strips and collated in sets by the printer, so that after one end of the strip has been inserted in the writing machine, the rest is pulled through, a set at a time, as needed. These continuous forms may be obtained with one-time carbon already inserted, or they may be used with a carbon-inserting device, which mechanically threads the carbon between the sheets and removes it after the writing is finished.

Duplicating Machines. An entirely different machine widely used for making multiple copies of orders is the gelatin duplicator, also called the "hectograph." This device has a flat gelatin surface on which is laid a master copy, printed in hectograph ink and typed with a hectograph ribbon or carbon. The moist gelatin surface loosens the ink, which transfers to the gelatin surface, from which up to 50 or more copies may be made. One advantage of the flat-bed gelatin duplicator is that portions of the original may be readily blanked out on some copies and included in others.

Rotary duplicators of the gelatin, spirit, and stencil type may also be used for multicopy writing. A recent development of the Mimeograph is a double stencil which may be used for running off the preliminary copies; later, additional information may be cut on the second stencil, which is then run off, without again cutting all the information on the first stencil.

How Many Copies Are Needed?

Now that we have seen how multiple copies may be made, let us return to our sales order routine and see how many copies it is necessary or desirable to make in order to get the greatest advantage from concurrent operations. Obviously, each department that handles the order should have a copy. Perhaps it will help to list the departments, with the functions:

Credit department (to pass the credit)
Stock room (to fill the order from)
Assembling floor (to know what is desired)
Manufacturing department (to serve as a basis for manufacturing)
Packing room (packing slip)
Shipping room (bills of lading)

In looking over this list, a few questions occur. Might it not be well to make another copy to serve as a control over the others? Suppose, for example, that we keep the ribbon copy of the order

A recent study, by the American Iron and Steel Institute, showed that more than 100 separate printed forms are filled out by steel company employees after receipt of a customer's order.

About 50 different types of forms are used in entering an order on the books and routing it through the mills, and multiple copies are made of many of the forms so that duplicates can be routed to various departments and individuals for filling in essential data.

First step is to make 10 copies of a master order form which specifies not only what the customer has ordered, but also such additional details as credit terms, shipping information, standard metallurgical specifications, and any special instructions relating to the particular customer's requirements that might be obtained from previous experience.

Copies of the master order go to the company's sales office in the district in which the customer is located, to the billing, credit, and manufacturing research departments, to the manager of production, and to the principal production and inspection divisions through which the order will pass.

Later on, the manufacturing department makes up a production order, containing much of the information on the master order plus certain additional details. At least seven copies of the production order are made and distributed to foremen and others who actually work on the order during production and shipment.

at a desk which, for present, we may call the order desk, or the order control desk, or whatever other name seems appropriate.

Help the Stock Clerk

Another question is this: After the stock clerk has sent his copy of the order to the packing room with the goods, what record has he of the goods taken off the shelves? This is important, since if no record is made of goods removed, no one will know when to replenish the stock before it runs out. Let us see what might be done, since there is no object in making more copies than are necessary.

Suppose we send two copies of the order to the stock room; from one of them the order can be filled, and that copy sent along

Courtesy of Dillo, Inc.

How would you facilitate the work of this stock clerk?

to the packing room with the goods, the other being held to enter on the stock records. A reasonable question might be "Why not use the packing slip to go along with the goods?" This might be all right if there were only one stock room; but even then there would be no way of identifying the shipment with the packing slip inside it, unless it were labeled in the packing room.

When there are two or more stock rooms, two copies should be sent to each, so that each stock clerk may fill his part of the order without waiting for someone else to get through with his copy. The packing slip will go direct from the order desk to the packing room, so that the packers will know when the order is complete and ready to pack and seal.

The manufacturing department may also need more than one copy. Whatever quantity is needed may readily be made.

The shipping department is down for three copies of the bill of lading. Some concerns send the shipping department a copy of the entire order, since sometimes the bill of lading does not show all of the information on the order, but only that part needed for shipping directions. When the shipping department receives its copy, it knows what transportation facilities to provide and can proceed accordingly.

A Desirable Control

The credit department does not need more than one copy. That copy the credit department sends to the shipping room with the credit O.K. or other instructions. There it is matched with the shipping department copy and held until the goods arrive from the packing room.

In some concerns, the credit department copy is returned to the order desk, which notes the decision of the credit department and in turn notifies the shipping department. The advantage of this arrangement is that the order desk thus knows at all times the status of each order. To carry this control still further, the order department should be notified as each department finishes with its part of the order. This notification may be effected by furnishing another copy of the order for the stock room on a distinctively colored paper or by a special slip bearing the order number for identification. One advantage of using an

extra copy of the order is that if any of the items are not in stock, that fact may be noted on the copy, thereby notifying the order desk, which can proceed to put through a back order.

Sometimes a copy is sent to the customer as acknowledgment of the receipt of his order so that he can see if the order has been entered correctly.

Now that we have considered the numbers of copies to be made, let us take the next step backward and see what happens to the order before it gets to the order writer.

Examining the Order

Before any copies are made of the order, it is examined, for two reasons: first, to make sure that all of the information needed to fill the order is given and, second, to see that the name

> Incorrect writing of names and initials on order blanks often brings grief in billing and other records. It also causes disgruntled customers, as shipping tags, invoices, and statements aggravate the bad impression. A good rule is to require that all names be printed by hand on the original order. Then there is no excuse to go wrong in billing or letter writing.

and address of the customer are legible and correct. Occasionally, special billing instructions may be necessary; this is the time to add them. Reference to a card index of customers will give this information. Here, for example, are the instructions given to the order examiner of one concern:

1. Check the following items thoroughly and see that they appear on the order:
   a. Proprietor's name
   b. Store name

c. Street address
d. Town, city, and state
e. Correct sales territory
f. Terms
g. Ship when—make it at once or a definite future date
h. How ship: express, parcel post, freight, air, best way
i. Salesman: see that his name is in full, *not* initials
j. Order number

2. Under article wanted, follow catalogue closely:
   a. Give full details on each item; do not allow *any* abbreviations
   b. Check prices closely; notify salesman of errors
   c. Add the column of figures accurately

Courtesy of Dillo, Inc.

When the salesman writes down the order is the best time to ensure its accuracy.

If such a detailed examination is required of each order, many delays and misunderstandings may be avoided. This is the time to discuss with the customer or salesman any points that are not clear, thereby assuring the correctness of the multi-copies, when they are made.

First Three Steps

What happens to the order before the order examiner gets it? Three steps take place:

1. The order is received
2. The date of receipt is stamped upon it
3. It is registered and given an order number

Some record, however brief, should be made of each order received, so that none may be lost or mislaid without any evidence that it was ever received. Although the amount of information recorded in the order register varies with different concerns, the minimum would include the name and address of the customer, a brief memorandum of what was ordered, and the date received. Frequently, the order register carries the order numbers also, so that as an order is registered, the next consecutive number may be placed on it and that number then typed on all the multicopies when they are made.

After the multicopies have been made, the ribbon copy is compared with the customer's original copy, to make sure that no errors have been made. This comparison may be made at the order desk, which schedules the order and then separates the copies for distribution to the departments concerned.

Another Timesaver

Many concerns make out the invoice at the same time that the multicopies are made. This is a real timesaver in the case of stock orders and with all orders where no changes are likely. Of course, with stock orders, if an item happens to be out of stock, the customer's invoice should not show that item, unless it is marked "out of stock" or "back-ordered." Back-ordering simply means putting through a new order for the item that is out of stock. Some concerns, instead of marking the invoice "back-ordered," make out a new invoice showing only the items shipped.

One way to obviate the necessity of making a new invoice when an item is out of stock is to ascertain that fact before the multicopies are made. There are many ways of doing this; some involve a lot of work, and others do not. Fundamentally, what is required is a perpetual inventory record to be kept at the order desk. As items are ordered, they are deducted from the stock on hand; thus the order clerk can tell at a glance whether sufficient stock is on hand to fill the order. Unless this same

record is kept in the stock room, it may be necessary for the order clerk to notify the stock clerk when the quantity on hand approaches the "order point," that is, the point at which the order for a new supply must be placed, to avoid running out before the new supply arrives.

Watching the Stock

In one concern the stock clerk keeps track of stock by a reserve plan. That is, a stated number of boxes of each item are plainly marked so that when the first box of that lot is taken, or as the reserve quantity is reached, a manufacturing order is placed to replenish the stock. There are six order clerks in the order department of this concern, examining the orders and editing them for accuracy and completeness, as well as noting on each order the number of copies required. To keep these order clerks informed of the condition of stock, a long blackboard hangs on the wall in front of the room where everyone can easily see it. On it are noted those items the stock of which is below the order point, together with the balance of stock on hand, thus showing the order clerk whether there is enough to fill the order. Any item marked with a red O is completely out of stock. For these items the clerk makes out a back order. Any item not on the blackboard is in stock.

Our study of order handling started with the shipping department and worked backward. That is usually the best way to study any routine. But it might be helpful now to start at the beginning of the order routine and follow its normal course as each step is taken. Thus we shall have a complete picture.

The Order Department

As we have seen, many concerns feel that the handling of orders is so important that they establish a department which they call the "order department," whose responsibility it is to take the order when received, interpret it, copy it, schedule it, and follow it all the way through to shipment and delivery to the customer. In a small office it is often possible for one person to attend to all the office details in connection with the handling

The Work of the Order Department

1. In a small business one person may handle the orders.

2. In a large business an entire department may be required to handle the orders.

3. Orders are usually written on standard order blanks so as to facilitate uniform handling.

4. Registering orders provides an accurate record for future reference.

5. The order register shows the order number, the date, the name of the customer, what is ordered, the quantities, the amount, and the date of shipment.

6. The total sales are obtained by totaling the Amount of Sale column.

7. Since there is no profit in unfilled orders, every order should be filled as soon as possible after it is received.

8. The manager watches the column headed Date of Shipment, in order to see that orders are filled promptly.

9. The credit department should approve all orders before shipment.

10. If a customer's credit is not satisfactory, goods may be shipped c.o.d.

11. An order should not ordinarily be sent c.o.d. to a customer whose credit is good, lest he be offended and his good will lost.

12. Orders are divided into three classes: those which can be filled from stock on hand, those which must be purchased, and those which are to be manufactured.

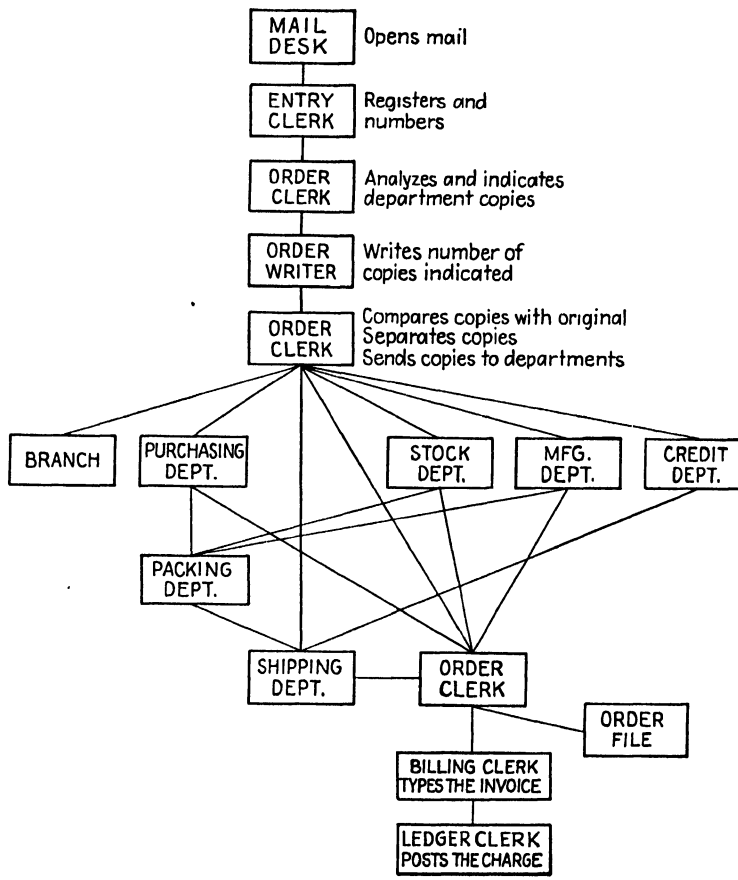
13. This division of orders into classes is called "analyzing the order."

14. Orders should go only to those departments which are concerned with the order; hence the necessity for order analysis.

15. In addition to the copy of the order which goes to the stock room, the factory, or the purchasing department, one copy goes to each of the following departments: shipping, accounting, sales; and also to the unfilled-orders files.

of orders. In any case, certain steps are necessary, as shown on the charts on pages 365 and 370.

Orders are received in many ways—over the telephone, by telegraph, through the mail; they are also brought in by the salesman or by the customer himself. The first step is to register them.



This is a sales order routine. You can use this type of chart to show almost any routine.

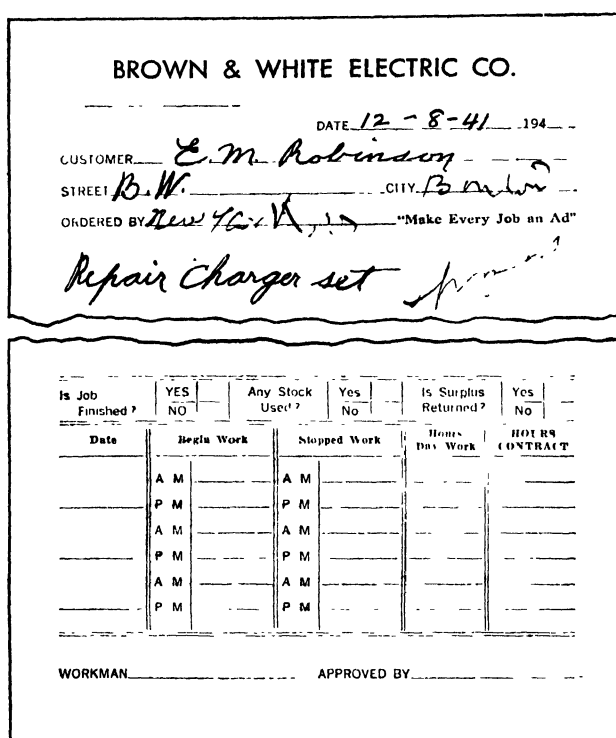
Registering the Order

Each company has its own way of registering its orders, but the purpose is always the same—to make an accurate record of each, so that if at any time a question should arise, the details

of that order could be found immediately by referring to the register. In one office the following information is recorded in the order register:

1. Date
2. Number of the order
3. Name of customer
4. What is ordered
5. Quantities ordered
6. Amount of sale
7. Terms
8. How the order was obtained

Not only does this registration give the information about each order, but it makes it possible to obtain the total sales for each day simply by totaling the column, Amount of Sale. Under "How the Order Was Obtained," there may be two or three



BROWN & WHITE ELECTRIC CO.

DATE 12-8-41 194__

CUSTOMER E. M. Robinson

STREET B. W. CITY Benton

ORDERED BY New Yorker "Make Every Job an Ad"

Repair Charger set

Is Job Finished?	YES / NO	Any Stock Used?	Yes / No	Is Surplus Returned?	Yes / No

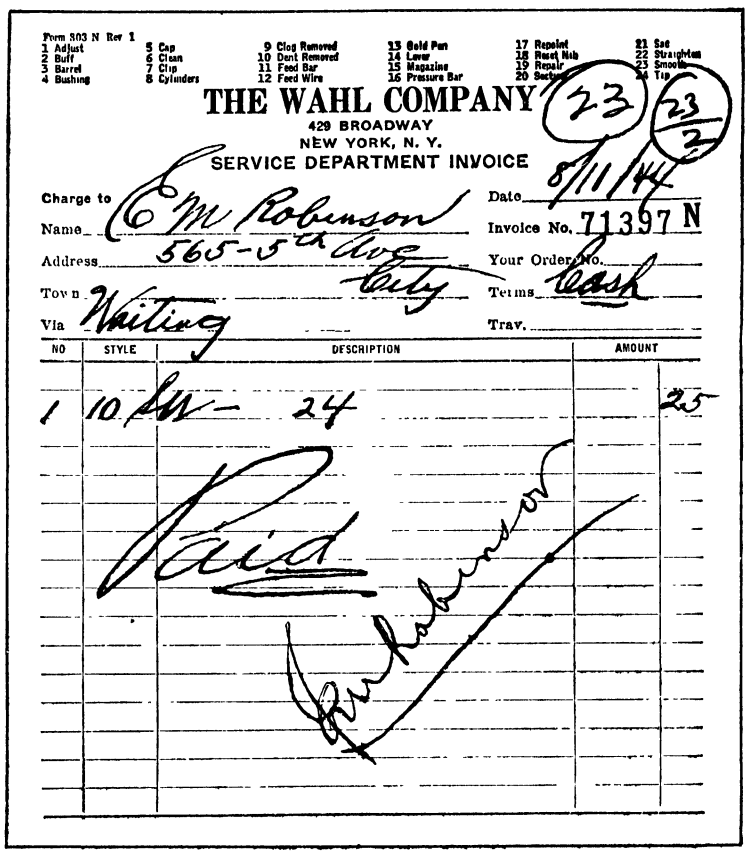
Date	Begin Work	Stopped Work	Hours Day Work	HOURS CONTRACT
	A M	A M		
	P M	P M		
	A M	A M		
	P M	P M		
	A M	A M		
	P M	P M		

WORKMAN_____ APPROVED BY_____

A simple but effective job order blank. What line puts the workman on his mettle?

columns, or even more if it is thought desirable, each column showing a source of sale, and a check mark being sufficient to indicate the source.

After the order is registered, it must be filled. Many concerns have the order approved by the credit department right after registering and before it is written up. Others use the concurrent plan previously described. (Sometimes the concurrent plan of handling routines is called the "parallel plan.")



Form 803 N Rev 1

1 Adjust, 2 Buff, 3 Barrel, 4 Bushing, 5 Cap, 6 Clean, 7 Clip, 8 Cylinders, 9 Clog Removed, 10 Dent Removed, 11 Feed Bar, 12 Feed Wire, 13 Gold Pen, 14 Lever, 15 Magazine, 16 Pressure Bar, 17 Repoint, 18 Reset Nib, 19 Repair, 20 Section, 21 Set, 22 Straighten, 23 Smooth, 24 Tip

THE WAHL COMPANY

429 BROADWAY

NEW YORK, N. Y.

SERVICE DEPARTMENT INVOICE

23 23/2

Charge to C M Robinson — Date 8/11/44

Name — Invoice No. 71397 N

Address 565-5th Ave — Your Order No.

Town City — Terms Cash

Via Waiting — Trav.

NO	STYLE	DESCRIPTION	AMOUNT
1	10 Lev — 24		25

Paid

C M Robinson

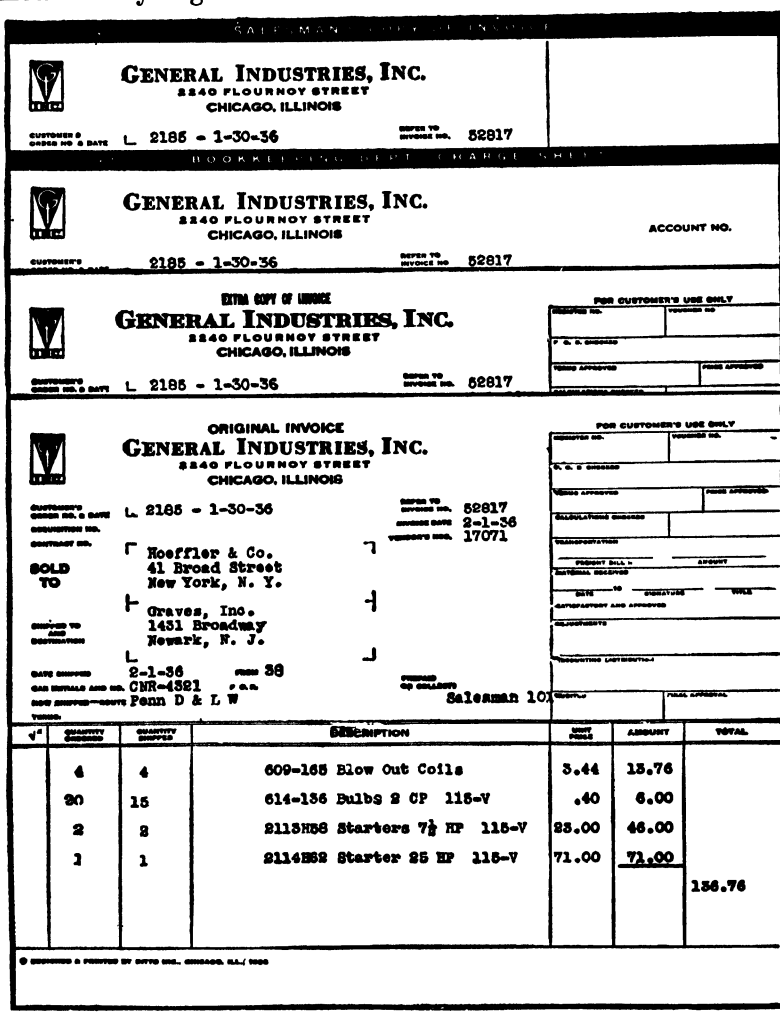
Another simple order blank that tells the whole story.

Analyzing the Order

After credit approval, or right after registering, whichever plan is followed, the order comes to the analysis clerk, who divides all orders into three classes: those that

1. Can be filled from stock on hand
2. Must be purchased from other concerns
3. Must be manufactured

Of course, some orders might come under all three of these classes. But almost any one can be divided so that it will fall into one or more of these groups. This dividing into groups is called "analyzing the order."



GENERAL INDUSTRIES, INC.
2240 FLOURNOY STREET
CHICAGO, ILLINOIS

CUSTOMER'S ORDER NO. & DATE L 2185 - 1-30-36 — REFER TO INVOICE NO. 52817

BOOKKEEPING DEPT. CHARGE SHEET

GENERAL INDUSTRIES, INC.
2240 FLOURNOY STREET
CHICAGO, ILLINOIS

ACCOUNT NO.

CUSTOMER'S ORDER NO. & DATE 2185 - 1-30-36 — REFER TO INVOICE NO. 52817

EXTRA COPY OF INVOICE

GENERAL INDUSTRIES, INC.
2240 FLOURNOY STREET
CHICAGO, ILLINOIS

CUSTOMER'S ORDER NO. & DATE L 2185 - 1-30-36 — REFER TO INVOICE NO. 52817

FOR CUSTOMER'S USE ONLY

ORIGINAL INVOICE

GENERAL INDUSTRIES, INC.
2240 FLOURNOY STREET
CHICAGO, ILLINOIS

CUSTOMER'S ORDER NO. & DATE L 2185 - 1-30-36

REFER TO INVOICE NO. 52817
INVOICE DATE 2-1-36
VENDOR'S INVOICE NO. 17071

SOLD TO
Roeffler & Co.
41 Broad Street
New York, N. Y.

SHIPPED TO AND DESTINATION
Graves, Inc.
1431 Broadway
Newark, N. J.

DATE SHIPPED 2-1-36 — FROM 38
CAR INITIALS AND NO. CNR-4321 — F. O. B.
HOW SHIPPED—ROUTE Penn D & L W
CHARGES TO BE COLLECTED
Salesman 10

FOR CUSTOMER'S USE ONLY

QUANTITY ORDERED	QUANTITY SHIPPED	DESCRIPTION	UNIT PRICE	AMOUNT	TOTAL
4	4	609-165 Blow Out Coils	3.44	13.76	
20	15	614-136 Bulbs 2 CP 115-V	.40	6.00	
2	2	2113H56 Starters 7½ HP 115-V	23.00	46.00	
1	1	2114H52 Starter 25 HP 115-V	71.00	71.00	
					136.76

Courtesy of Ditto, Inc.

Many concerns use a hectograph duplicator in making multiple copies of their sales orders.

order. Where orders pass through the factory, as many copies are made as will be needed in the different shops. When an order comes in for a machine that is to be shipped complete, this method can be still further expanded. With one writing, copies may be made for acknowledging the order to the salesman and to the customer, an order to the factory, a notice to the traffic department, two notices to the treasurer, two copies for the order department, a notice to the salesman with credit of commission, a notice to the accounting department to credit the salesman's commission, and a ledger sheet for the accounting department. After the required number of copies has been made, each copy is sent to the proper department for its part in putting the order through.

Pricing

After the goods ordered have been shipped or delivered to the customer (in some concerns before it is delivered), the order blank goes to the pricing clerk, who looks up the price of each item on the order and writes it on the order blank opposite the item. In some offices this clerk also calculates the "extensions," by multiplying the price by the number of pieces of each item.

This calculation may also be made in one of three ways:

1. *Mentally.* For simple computations, mental calculation is the quickest, provided the clerk is clear-headed.

2. *On a Calculating Machine.* This method is accurate and quick, especially if discounts are involved, as they often are.

3. *From Tables of Figures.* If the concern's sales are confined to one or two products, the use of tables in computing extensions and discounts is the fastest method there is, even faster than calculating machines. Such tables are easily prepared.

If the "footings" (the totals of the extensions) are to be obtained by the pricing clerk, this may be done mentally, on the calculating machine, or preferably on an adding and listing machine. Usually the footings are left to the billing-machine operator, if the billing machine has an adding mechanism.

Billing

From the pricing clerk the order blank goes to the billing department, where clerks sit at billing machines and make out

bills, called "invoices." A billing machine looks like a typewriter, but it may have an adding and calculating mechanism in it which speeds up the writing of the invoice by making unnecessary the mental operations of multiplying and adding. By means of carbon paper, two copies and sometimes three or more are easily made out. The first copy, called the "original," is sent to the customer. The second copy is sent to the book-

Courtesy of Underwood Elliott Fisher Company

Billing-machine operators make out invoices that pass through the machine in long strips.

keeping department. If there is a third copy, it is filed with copies of other bills for this same customer.

Occasionally, for various reasons, an order may be delayed in going through. In such cases, the order department must follow it and find out where it is and what is holding it up. If, at the time the order is entered, a shipping date is also scheduled, orders can be marked off the schedule as fast as they are shipped, leaving those not marked off to be followed up.

Questions for Discussion

1. Should a stationery store always carry 5-gallon kegs of ink so as to be in position to fill an order for one? Why or why not?

2. Which customer is more important, the one who comes into the store with his order or the one who sends in by mail or telephone? Why?

3. Would your answer to question 2 be different if one of the customers was a charge customer? Why or why not?

4. Which of the seven reasons for delay in filling an order seem reasonable and which seem unreasonable? Explain.

5. "The main trouble is simply poor management." Do you believe it? Explain.

6. Why do we start our study of the sales-order routine with a statement of the objective of the routine?

7. What is the objective of handling orders? Explain.

8. Which of the two reasons given for seeing that prompt shipments are made is the more important? Explain.

9. "We are not doing any customer a favor when we ship his order promptly." Do you believe this statement? Explain.

10. Might there be some circumstances under which we would be doing a customer a favor by shipping his order promptly? Explain.

11. In studying the order routine, why do we work backward from our objective?

12. Are there any other management problems in which we work backward from the objective? Explain.

13. Describe and explain the last step in filling an order.

14. List the preceding steps in order, describing and explaining the reason for each.

15. Where is the best place to make out the shipping label? Why?

16. How may time be saved in filling out the bill of lading?

17. What two devices or plans may speed up packing, and how?

18. How are departments that are to handle orders notified of what is wanted? Do you think that is the best way? Explain.

19. What is the difference between consecutive operations and concurrent ones? Which are better? Why or why not?

20. Is any particular preparation necessary for concurrent operations? Explain.

21. To what extent is credit always looked up before passing an order? Why?

22. When do you think credit should be looked up? Why?

23. Would your answer to question 22 vary according to the type of order? Explain.

24. Why is it not easier, quicker, and cheaper to use the original order instead of making several copies of it?

25. List and describe or explain the different ways in which multicopies of sales order may be made.

26. How many and what departments should receive copies of an order? Give your reasons for each.

27. How may the sales department control the progress of an order? (Consider the meaning of "control.")

28. How may the stock clerk control the stock given out on orders? Explain.

29. What is the advantage of having an order desk or an order department?

30. What would be the main responsibility of the order desk or department?

31. What is done to an order before any copies of it are made? Why? (Consider what might happen if not done.)

32. What information should appear on every sales order? Why?

33. What is meant by registering an order, and why is it desirable, if it is?

34. What are the advantages and disadvantages of making out the invoice at the same the multicopies of the order are made?

35. Compare the information that appears on the invoice with that appearing on the order.

36. Explain back ordering, and state its purpose.

37. Before an order clerk puts through a stock order, how may he know how much of the order is in stock? Explain.

38. How does one concern keep its order clerks informed of stock shortages?

39. Describe or explain pricing.

40. Describe or explain billing.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Select any local business concerns and find out how prices are placed on their sales orders before the bills are made out.

2. Select one concern in your town in one of the following lines of business and find out how sales orders are handled after they are taken:

Retail store	Automobile company (or garage)
Mail-order house	Telephone company
Wholesale house	Express company
Manufacturer (factory)	Railroad
Insurance company	Hotel

3. What difference does it make whether an order is filled before credit is approved or afterward? Before answering this question, discuss it with several business men and with your classmates.

4. Procure from some local business a copy of its sales order blank. (If the company makes more than one copy of its orders, secure as many copies as are usually made.) Find out the purpose of each item printed on the blank and report your findings in writing.

Problems

1. How can you ensure the proper filling out of sales orders by the traveling salesmen? Give your reasons.

2. In one concern there has been constant friction between salesmen and the order department. The salesmen, who understand the particular desires of their customers, try to explain to the order department what standards the goods must attain. The order department never seems to understand exactly what is wanted and never fills the order according to the salesman's directions. When the salesman sees the customer again and tries to sell him, he has a hard time doing so. Consequently, he blames the order department for the loss of sale. How can better coordination be attained? Who is to blame? Give your reasons.

3. The order department of one concern is receiving many complaints concerning the way orders are received by customers. Some of the complaints are these: not complete; received late;

received in damaged condition. How may this unsatisfactory situation be done away with? Give your reasons.

4. The head of the order department of a new company has informed the manufacturing department and stock room that he has been getting many complaints of nonfilled orders. These two departments, after checking their records, find no trace of the orders ever having been received. How can this situation be remedied? Give your reasons.

5. In another concern time is spent in editing orders. This is necessary, but the time so spent and in advancing them to the next step seems to be so long that the shipments are slowed down. How can the time spent in an indispensable step be saved? Give your reasons.

6. In what way could an order department keep a careful check on all orders so that none will be lost and yet not maintain a large filing system? Give your reasons.

7. Many orders require technical advice which only a few employees can give, and sometimes the orders pile up on the technical men. Even if only part of an order requires this attention, the entire order is held up, and as a result the customer gets his goods much later than ordinarily. How can this problem be overcome? Give your reasons.

8. How can routine orders from dealers be so handled that they do not have to go through all the steps that consumers' orders go through?

14

Organization for Credit Management

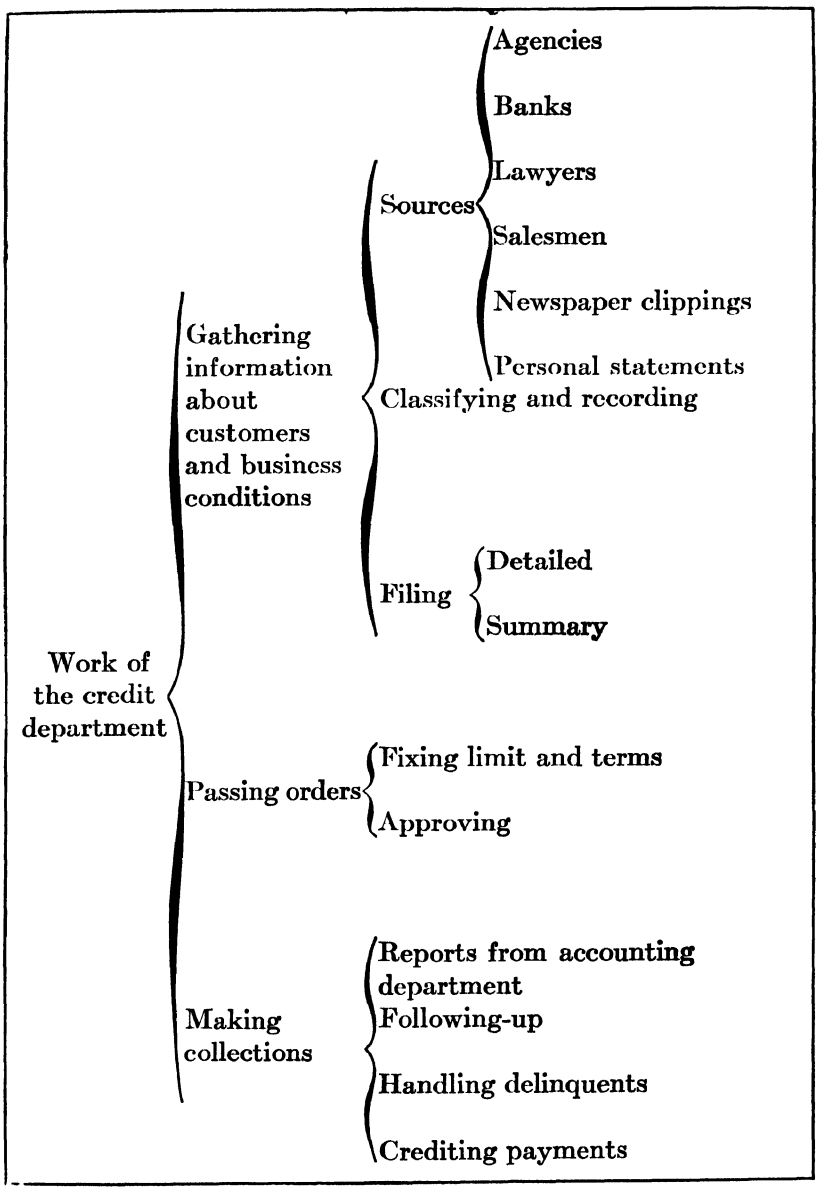
THE GREATER part of business is transacted on a credit basis. That is, instead of paying for their purchases at the time they are made, buyers arrange with the sellers to make payment at a date anywhere from 30 days to several months later. Goods sold on credit are charged to the customer's account, and the customer is expected to pay at the time the account is due, that is, at the time agreed upon.

Before credit is extended to a customer, the careful credit manager makes whatever investigation is necessary to satisfy him that the customer is worthy of credit—that he can and will pay his bills on or before the due date.

The main difference between wholesale credit and retail credit is that wholesale customers usually buy for resale to others, while retail customers buy for their own consumption. Wholesale customers, therefore, will realize an income from the resale of their purchases; and it is from this income that they expect to pay their bills. Retail customers, on the other hand, pay for their purchases out of other income, such as salary, wages, interest, dividends, or rent, and not from the sale of the goods bought.

Wholesale Credit Procedure

Successful wholesale credit management depends largely upon the proficiency with which the credit man sizes up the business ability and honesty of the credit applicant, who is usually a retail merchant. Business ability is measured by the


Work of the credit department
Gathering information about customers and business conditions
Sources
Agencies
Banks
Lawyers
Salesmen
Newspaper clippings
Personal statements
Classifying and recording
Filing
Detailed
Summary
Passing orders
Fixing limit and terms
Approving
Making collections
Reports from accounting department
Following-up
Handling delinquents
Crediting payments

analysis and comparison of balance sheets and operating statements. Wholesale credit department routine, therefore, is largely concerned with the procuring, interpreting, and preserving of this information, whether it is obtained from the customer himself or from other sources of credit information, such as the mercantile agencies, banks, or other wholesale houses.

Credit Control of Shipments

As we saw in Chap. 12, the sales department is responsible for getting business, that is, for making sales to customers and prospects. When a sale is made, an order is taken to be filled and shipped but, before the order is shipped, the credit department must approve it. Since there is no object in shipping goods to a customer who cannot pay for them and since the credit department is responsible for determining the customer's ability and willingness to pay his bills, most firms do not allow the shipping department to send goods out of the house without the O.K. of the credit department.

What the credit department really does is to determine whether or not the customer is "good" for the order; that is, not only that he is willing to pay for the goods ordered but that he is able to pay. In most lines of business credit, approval must be given before the order is put into work; in some it may be given at any time before the order reaches the shipping department, thus speeding up the handling of the order by other departments.

An investigation is made, based upon the information that the credit department is able to secure. This information, which is procured by correspondence and personal interviews, is reduced to writing and becomes a part of the permanent records of the credit department. A large part of the credit department office work is concerned with keeping its records up to date and with arranging the information in such a way that it is immediately accessible for reference.

Responsibility for Collections

The credit department is responsible not only for seeing that goods are not shipped unless the customer's credit is satisfactory;

it is almost always responsible for collecting the money from the customer after the goods have been shipped and billed. The discharge of this responsibility requires much office work in ascertaining which customers are behind in their payments, in

Credit Department Procedure

1. No goods should be shipped until the credit department has approved the order.
2. Before passing an order for shipment, the credit department wants to know whether the customer can pay for the goods.
3. The credit department also wants to know if the customer will pay for the goods.
4. The credit department is usually responsible for collecting the money.
5. Usually the credit department tries to get all the information it can about a prospective customer.
6. The credit manager may talk with the customer.
7. He may ask him for a financial statement.
8. He may ask him where else he buys.
9. He may ask the name of his bank.
10. He may write the bank for information about the customer.
11. The credit-reporting agencies may also be consulted.
12. If the credit manager is satisfied with the information he receives, he may pass the order.
13. He passes the order by writing "O.K." on it, followed by his initials.
14. Credit information is received in confidence and should be kept so without exception.
15. This information must be kept up to date.
16. This is called "revising the credit files."

making and sending out duplicate bills, and in writing collection letters. If the customer has to be sued, the credit department handles the details and prepares the necessary evidence. It can readily be seen that a knowledge of business law is of inestimable

value to a credit man; in fact, some credit men are graduates of a law school.

Who Does the Work

In a large concern, the responsibility for handling credits and collections is in the hands of an individual called the "credit manager," who may have as many assistants as may be required to handle the necessary details. Sometimes there are one or more assistant credit managers, a collection manager, credit assistants, and so on. The credit manager is usually responsible to the treasurer of the company. In a smaller concern, the treasurer himself may handle the credit work.

Procuring Credit Information

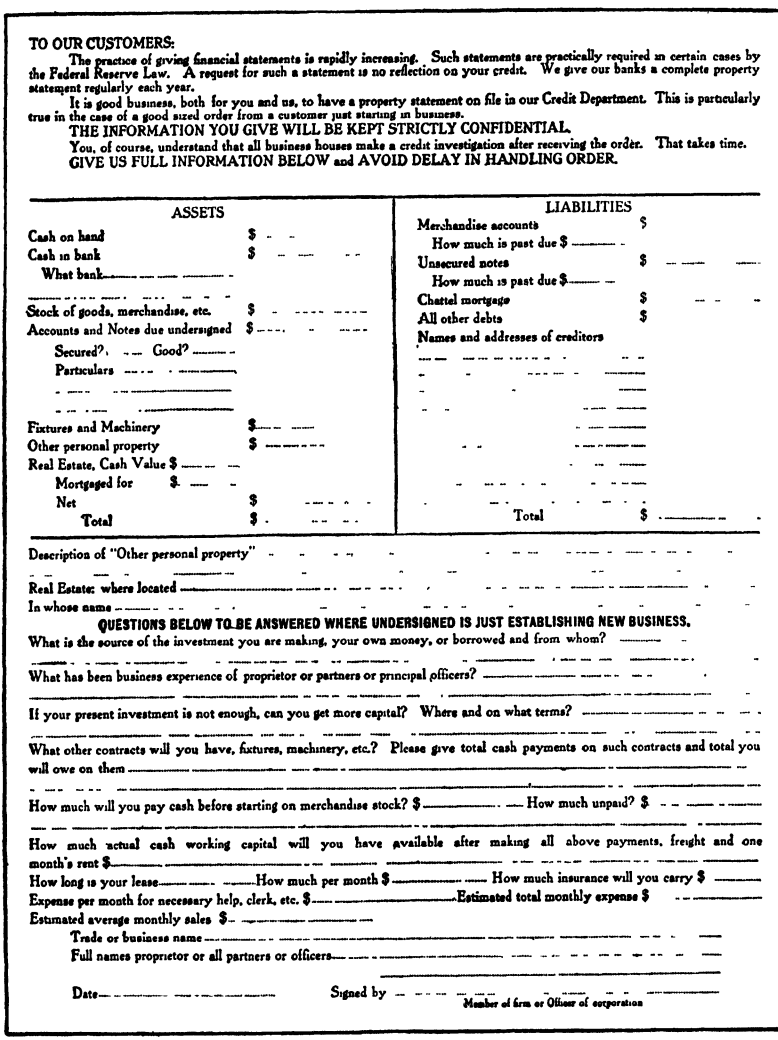
Usually the work of the credit department starts when an order has been received from a customer, although there is no reason why, whenever desirable, the credit department cannot look up a customer to a limited extent, at least, before the order is placed. Some firms allow salesmen to approach only prospects previously approved by the credit manager.

Sometimes the credit manager himself talks with the customer to get whatever information the customer is willing to give; sometimes he has to rely on other sources of information. Since the customer should know more about his business than anyone else, he is, or should be, the best source of information for the credit department. Whenever possible, therefore, the credit manager tries to get as much information as he can from the customer direct. Some firms make it easy for the customer to give this information by providing a blank like that shown on page 382.

Many concerns have the salesman make out a report on the customer at the time the order is taken. This report gives such information about the financial standing of the customer as will enable the credit department to pass intelligently on the order. For example, it may contain a financial statement, the names of some of the other concerns from whom the customer buys, and any other references that may be desirable. Sometimes the salesman adds his opinion of the customer, describes the appearance of

his place of business, and so on. One advantage of having the salesman get this information is that he is on the ground and can talk with the customer face to face, explaining to him any points that may not be clear.

If the customer declines to give sufficient information about himself, the credit department has the choice of turning down



TO OUR CUSTOMERS:

The practice of giving financial statements is rapidly increasing. Such statements are practically required in certain cases by the Federal Reserve Law. A request for such a statement is no reflection on your credit. We give our banks a complete property statement regularly each year.

It is good business, both for you and us, to have a property statement on file in our Credit Department. This is particularly true in the case of a good sized order from a customer just starting in business.

THE INFORMATION YOU GIVE WILL BE KEPT STRICTLY CONFIDENTIAL.

You, of course, understand that all business houses make a credit investigation after receiving the order. That takes time.

GIVE US FULL INFORMATION BELOW and AVOID DELAY IN HANDLING ORDER.

ASSETS		LIABILITIES	
Cash on hand	$	Merchandise accounts	$
Cash in bank	$	How much is past due $	
What bank		Unsecured notes	$
		How much is past due $	
Stock of goods, merchandise, etc.	$	Chattel mortgage	$
Accounts and Notes due undersigned	$	All other debts	$
Secured? Good?		Names and addresses of creditors	
Particulars			
Fixtures and Machinery	$		
Other personal property	$		
Real Estate, Cash Value $			
Mortgaged for $			
Net	$		
Total	$	Total	$

Description of "Other personal property"

Real Estate: where located

In whose name

QUESTIONS BELOW TO BE ANSWERED WHERE UNDERSIGNED IS JUST ESTABLISHING NEW BUSINESS.

What is the source of the investment you are making, your own money, or borrowed and from whom?

What has been business experience of proprietor or partners or principal officers?

If your present investment is not enough, can you get more capital? Where and on what terms?

What other contracts will you have, fixtures, machinery, etc.? Please give total cash payments on such contracts and total you will owe on them

How much will you pay cash before starting on merchandise stock? $ How much unpaid? $

How much actual cash working capital will you have available after making all above payments, freight and one month's rent $

How long is your lease How much per month $ How much insurance will you carry $

Expense per month for necessary help, clerk, etc. $ Estimated total monthly expense $

Estimated average monthly sales $

Trade or business name

Full names proprietor or all partners or officers

Date Signed by

Member of firm or Officer of corporation

A form like this makes it easy for a customer to furnish the credit man with the information needed to pass orders.

the order or else of trying to get the necessary data from other sources, of which there are several. And, of course, if the customer is good for the amount of the order, there would be no object in turning him down if the desired information can be secured from other reliable sources.

Mercantile Agencies

Probably the most satisfactory source of credit information, next to the customer himself, is the mercantile agencies, of which Dun & Bradstreet is representative.

The mercantile agencies, through their traveling representatives, gather information about business concerns and place it in their files. When a credit manager whose company is a subscriber to the agency's service asks for information about a customer, the agency prepares a comprehensive report from the material in its files and sends a copy to the credit manager. This report shows the history of the customer from the time he started in business and traces his growth, or lack of it, year by year. The local reputation of the customer is given, as well as his record with other concerns from whom he buys. Some agency reports are several pages long and give balance sheets and operating statements, as well as changes in ownership and any misfortunes, such as fires, lawsuits, and bankruptcies.

In addition to their report service, the mercantile agencies also publish rating books giving the capital and credit ratings of all persons, firms, and corporations doing business. These books are usually issued from two to four times a year, although special reports may be obtained at any time.

The names in the rating books are arranged alphabetically according to states and cities. If you wish to look up the financial standing of Fred. W. King of Elmwood Place, Ohio, you first find Ohio and then the town of Elmwood Place. Opposite King's name you will see the kind of business and the letters and figures signifying his capital rating and his credit. On page 385 is shown a portion of a sample page of mercantile ratings from Dun & Bradstreet's *Reference Book:* on page 388 is the key to the ratings.

Credit-reporting Agencies

1. Credit-reporting agencies make reports on business concerns all over the country.

2. Their reports usually show when a concern started business and what progress it has made.

3. Sometimes their reports indicate whether a firm is making or losing money.

4. Some agencies publish rating books.

5. These rating books usually give a credit rating and a capital rating for each individual or concern that has been investigated.

6. The capital rating shows the estimated net worth of the business.

7. The credit rating shows the reputation of the concern for paying its bills.

8. Some concerns are not rated, because the agencies can not get enough information about them.

9. One of the largest credit-reporting agencies is Dun & Bradstreet, Inc.

10. Dun & Bradstreet has branches in cities throughout the country.

11. There are also credit agencies that specialize in only certain lines of business.

12. A business can get information from a credit agency by subscribing to its service.

13. The subscription is usually paid by the year and entitles the subscriber to the latest rating book and a stated number of reports.

14. Additional reports may be obtained at a nominal cost per report.

15. Some agencies furnish coupon books to their subscribers.

16. In order to get a report, the subscriber fills out a coupon and sends it to the agency.

17. If the report received from the agency is not very recent, the subscriber may ask the agency to bring it down to date.

OHIO 2289

* Patrick Hugh.....G S L 3½
Ⓒ Rathbun Miss K.....Dresses & Wwear L
S Rosch Frederick.....Bsmith L 3½
P Rouse Henry H.....Dairy
* Sullivan J. D.....G S F 2½
Summerville V. H.....Cig & Tob K 4
■ Turk E. M.....Hware F 3
I Twist Daniel E.....Coal G 3
Ⓒ Wagner Geo.....Hot, &c G 3½
* Warren L. H. & Co. (Trade name) G S
II Wayne Feed Co.....Dlrs Cereal (Also Branches)

(7)

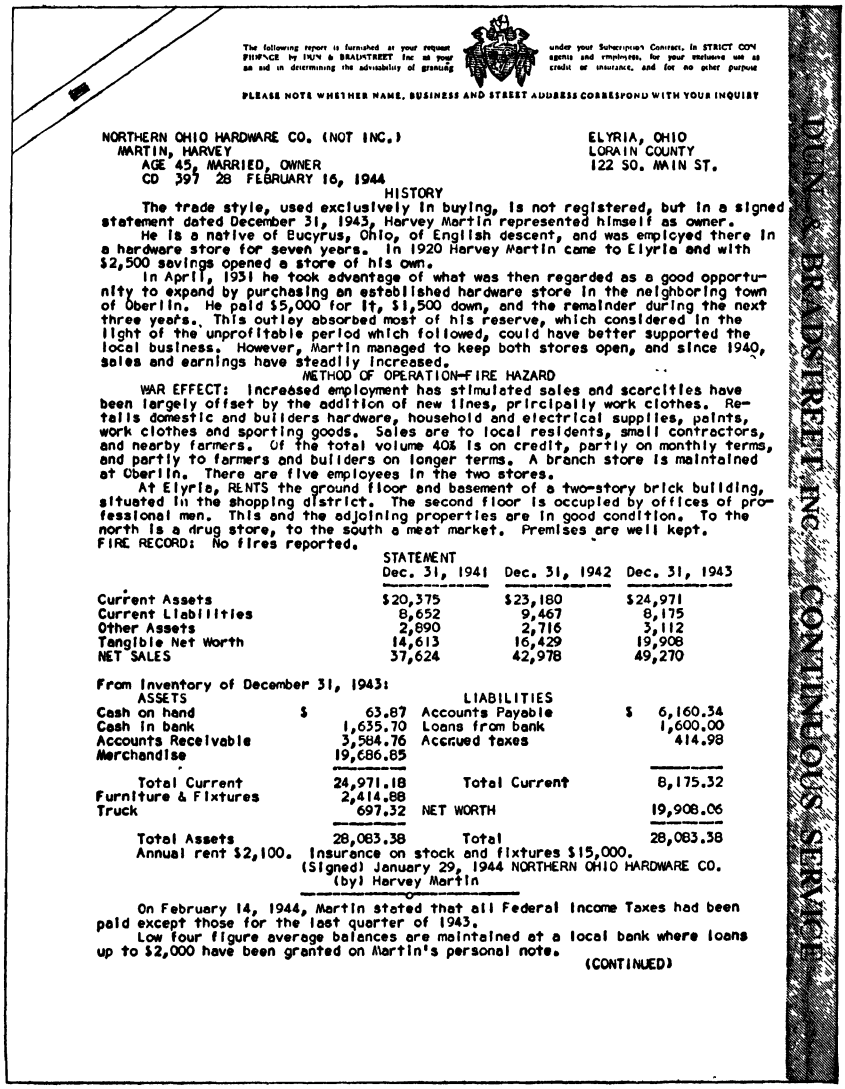
ELMVILLE, Highland Co.—7 D
(R D from Hillsboro)
Pop 40—Bk town Hillsboro
O Orr R. W. & Son (Trade name).... Plbg & Htg L

(7)

ELMWOOD PLACE, Hamilton Co.—8 H
Pop 4,562—A banking town
L Budd Albert F.....Bldr
T Carini Vincent.....Meat J 3½
Caruthers B. S.....Staty & Prtg
Ⓒ Clyde Candy Kitchen & Restaurant.. J 3½ (Br of Smithsville)
Ⓒ Gurran Thomas A.....Ser Stn L 3½ (Also Branches)
Ↄ Hall W. E. & Co. (Trade name) Und
Ⓒ Hux Motor Co. (not inc.)..... 3
P *Huxton Canning Co., Inc....Can & Pkrs* A+A1 *(Br of Cummingsville)*
✕ King Fred. W.....Wallppr, &c F 3
Ⓒ King James M.....Ser Stn H 3½
T Kudretz Stephen.....Gro & Meat L 4 (Also Boston)
■ Levi Abraham G.....Hware & House Furng (Also Branches)
Ⓒ Lewis Henry C.....Ser Stn & Gro M
Ⓒ Loder Daniel G.....Hot L 4
Ⓒ Mann David T.....Ser Stn, &c M
Ⓒ Mindlin J. J.....Luncheonette, Staty & Confec
S Mitchell & Vanvleck.....Bsmiths & Genl Rep H 3
II Mittnight Joseph.....Feed, &c F 2½
✕ Paint Market, Inc., The....Paint & Wdg & Ser Stn G 3½
Ⓒ Pieper W. & M.....Auto Rep,
Ⓒ Polito John J.....Gar M
T Posnick Samuel....Meat, Gro & Veg F 3
% Reboli Frank.....Confec, &c L 4
Ⓒ Rocco Pasquale.....Rest & Bar
O Ryan Sanford J.....Plbr G 3
A Samson Joseph J.....D G, &c
A Saunders Gift Shop..... G 3½ (Also Branches)
L Sharpe A. B. & Son.....Sand & Gravel
Ⓒ Shimer T. H.....Ser Stn & Rest F 3
V Smith Charles D.....Rad Rep M
✚ Spilker Abraham.....Tlr M
T Spohn M. J.....Gro, B & S, &c M 4
A Stedman Telephone Co..... H 3½
Ⓒ Stone J. J. Garage.....Gar, &c D 2
T White Frank E.....Gro, &c M
T Wilcox Harold R.....Gro, &c L 4
* Hoover Marion J.....G S, &c
Howard Frank C.....Drugs H 3½
Ⓒ Hubbs Lars.....Ser Stn K 3½
Ⓒ Hunziker Carl.....Fill Stn, &c
Ⓒ Hurd Rolland.....Gar H 4
A Jannace Art Shop.....Fcy Gds, &c F 3
O Jasinski Bronislwo.....Shoe Rep M
Ⓒ Kaplan Alfred.....Ser Stn H 3½ (Br of Marley)
Ⓒ Kaplan Harry.....Rest & Shoes F 3
T Kaplan Selik.....Meat F 3 (Br of Ipswich)
A Kassel Miss Polly.....Dresses 3
✚ Kaufman Max.....Tlr & Furrier L 3½
II Kelley Mrs. Carol.....Feed H 3
T Kleczor Jos.....Gro & Meat M 4
Ⓒ Klein Charles E.....Ser Stn 3
T Kluge Robert Charles...Meat & Gro G 3½
Ⓒ Knapp Fred.....Gaso & Auto Rep
P Koon A. F. & Son (Trade name).... Milk, &c L 4
% Krause Alfred.....Confec K 3½
T Kress Edward D.....Meat, &c M
% Krier Arthur.....Confec & Staty L 4
T Kronenberg Harry.....Gro L 4
✕ Knettel William L.....Dectr M 3½
Ⓒ Krapf Fred.....Gar M
* Kreuter August R.....G S J 3½
Ⓒ Krumvelde Otto W.....Fill Stn, &c M
Ⓒ Lape Andrew.....Rest & Bar J 3½
Ⓒ Langer Gas Service Co., Inc.....: 3
% Lebed Samuel.....Confec, &c H 3½
Leff Printing Co. (not inc.)..... J 3
T Leipschutz Samuel M.....Meat, Bak, &c K 3½
A Leslie John A.....D G (Also Branches)
Z Levin Jesse.....Drugs G 3½
Z Levine Samuel E.....Drugs H 3½
Ⓒ Lewis Clarence W.....Gar M 4
Ⓒ McCune Marie R....Hot, Rest & Liq G 3½
* McFarland George H., Est.....G S F 2½
Z *McMonagle & Roget, Inc....Drugs* C+1 *(Br of Atina)*
T McPhillips C. B. Co., Inc....Gro & Feed H 3½
✚ Maged David....Cloth, D G & Furng C 2
* Maloy & Chatfield.....G S & Coal C+1
Ⓒ Minicozzi Mark.....Ser Stn M
Ⓒ Misavich Chas.....Ser Stn M
T Mistretta John.....Meat J 4
E Moles Walter C,.Radio Rep & Elec L 3½ Wallppr E 2½ (Br of Milwaukee)
V Morin Bros.....Mfrs Tools G 4
● Morreale W. P.....Shoes, &c K 4
✚ Nichols & Knapp..Mens Clo & Furng H 4
✕ Nicholson W. B....Rep & Sign Ptg M
Ⓒ Nick James.....Hot K 3½
Z Norris J. P. & Co.....Cosmts J 3½
■ Northern Ohio Hardware Co. (not inc.) ..... F 3½ (Also Oberlin)
Ⓒ Nyholm Alger B.....Rest
L O. R. L. Road Materials, Inc..... Contrs 2 (Br of Seattle)
Ⓒ O'Connell Roger.....Gar & Rep J 3½
◆ Ormstead Henry L.....Jwlr M
Ⓒ Ostroff Rebecca P. (Mrs. Sam).... Rest & Ser Stn G 3½
■ Paddock Wm. H. & Son.....Hware 2
Ⓒ Palmer James.....Rest & Confec M (Br of Upsalon)

Courtesy of Dun & Bradstreet, Inc.

The symbols after each name in Dun & Bradstreet's *Reference Book* give the capital and credit ratings, as shown in the key. The symbol before the name shows the kind of business.



The following report is furnished at your request PRIVATELY by DUN & BRADSTREET Inc as your aid and in determining the advisability of granting under your Subscription Contract, in STRICT CONFIDENCE and for your exclusive use as credit or insurance, and for no other purpose

PLEASE NOTE WHETHER NAME, BUSINESS AND STREET ADDRESS CORRESPOND WITH YOUR INQUIRY

NORTHERN OHIO HARDWARE CO. (NOT INC.)
MARTIN, HARVEY
AGE 45, MARRIED, OWNER
CD 397 28 FEBRUARY 16, 1944

ELYRIA, OHIO
LORAIN COUNTY
122 SO. MAIN ST.

HISTORY

The trade style, used exclusively in buying, is not registered, but in a signed statement dated December 31, 1943, Harvey Martin represented himself as owner.

He is a native of Bucyrus, Ohio, of English descent, and was employed there in a hardware store for seven years. In 1920 Harvey Martin came to Elyria and with $2,500 savings opened a store of his own.

In April, 1931 he took advantage of what was then regarded as a good opportunity to expand by purchasing an established hardware store in the neighboring town of Oberlin. He paid $5,000 for it, $1,500 down, and the remainder during the next three years. This outlay absorbed most of his reserve, which considered in the light of the unprofitable period which followed, could have better supported the local business. However, Martin managed to keep both stores open, and since 1940, sales and earnings have steadily increased.

METHOD OF OPERATION-FIRE HAZARD

WAR EFFECT: Increased employment has stimulated sales and scarcities have been largely offset by the addition of new lines, principally work clothes. Retails domestic and builders hardware, household and electrical supplies, paints, work clothes and sporting goods. Sales are to local residents, small contractors, and nearby farmers. Of the total volume 40% is on credit, partly on monthly terms, and partly to farmers and builders on longer terms. A branch store is maintained at Oberlin. There are five employees in the two stores.

At Elyria, RENTS the ground floor and basement of a two-story brick building, situated in the shopping district. The second floor is occupied by offices of professional men. This and the adjoining properties are in good condition. To the north is a drug store, to the south a meat market. Premises are well kept.
FIRE RECORD: No fires reported.

STATEMENT

	Dec. 31, 1941	Dec. 31, 1942	Dec. 31, 1943
Current Assets	$20,375	$23,180	$24,971
Current Liabilities	8,652	9,467	8,175
Other Assets	2,890	2,716	3,112
Tangible Net Worth	14,613	16,429	19,908
NET SALES	37,624	42,978	49,270

From Inventory of December 31, 1943:

ASSETS		LIABILITIES	
Cash on hand	$ 63.87	Accounts Payable	$ 6,160.34
Cash in bank	1,635.70	Loans from bank	1,600.00
Accounts Receivable	3,584.76	Accrued taxes	414.98
Merchandise	19,686.85		
Total Current	24,971.18	Total Current	8,175.32
Furniture & Fixtures	2,414.88		
Truck	697.32	NET WORTH	19,908.06
Total Assets	28,083.38	Total	28,083.38

Annual rent $2,100. Insurance on stock and fixtures $15,000.
(Signed) January 29, 1944 NORTHERN OHIO HARDWARE CO.
(by) Harvey Martin

On February 14, 1944, Martin stated that all Federal Income Taxes had been paid except those for the last quarter of 1943.

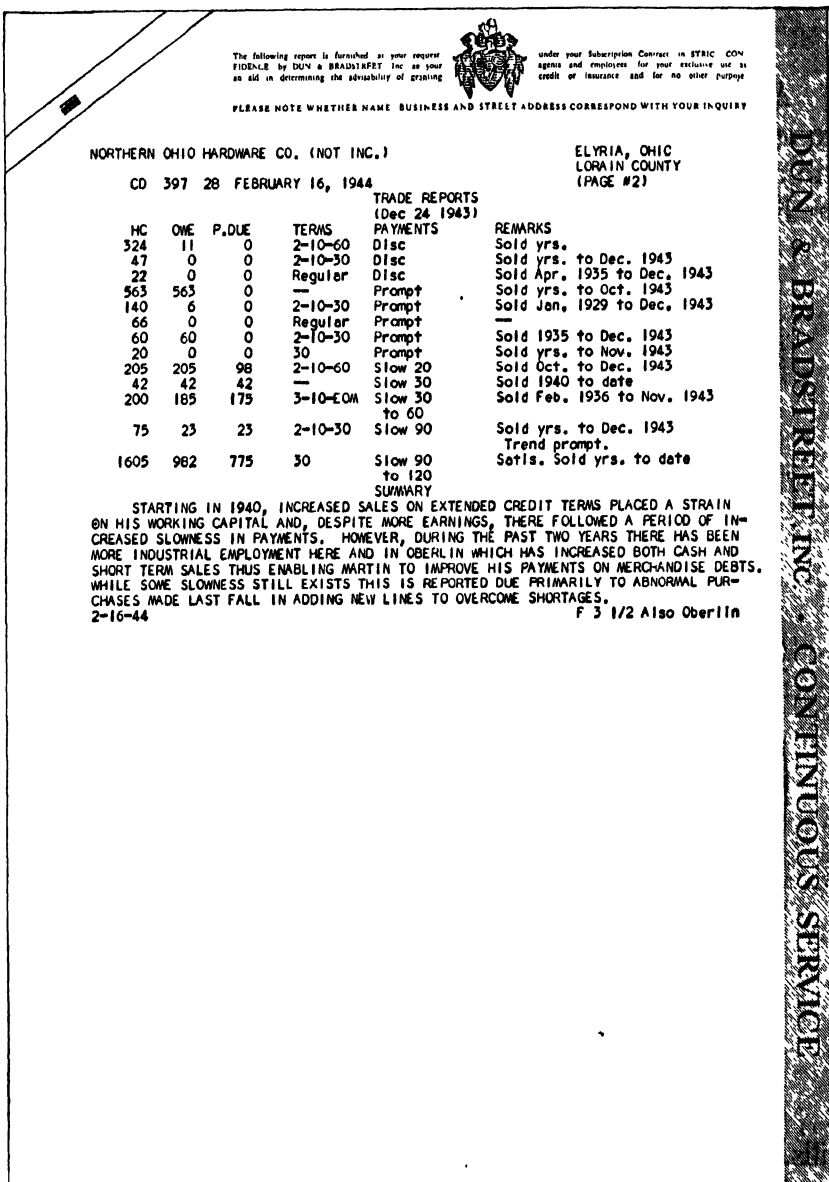
Low four figure average balances are maintained at a local bank where loans up to $2,000 have been granted on Martin's personal note.

(CONTINUED)

DUN & BRADSTREET, INC. CONTINUOUS SERVICE

Courtesy of Dun & Bradstreet, Inc.

A careful reading of this report—of which the first page is reproduced above—shows the detailed information that the mercantile agency makes available to the credit manager.



The following report is furnished at your request in STRICT CONFIDENCE by DUN & BRADSTREET, Inc. as your agents and employees for your exclusive use as an aid in determining the advisability of granting credit or insurance and for no other purpose under your Subscription Contract.

PLEASE NOTE WHETHER NAME, BUSINESS AND STREET ADDRESS CORRESPOND WITH YOUR INQUIRY

NORTHERN OHIO HARDWARE CO. (NOT INC.)

ELYRIA, OHIO
LORAIN COUNTY
(PAGE #2)

CD 397 28 FEBRUARY 16, 1944

TRADE REPORTS (Dec 24 1943)

HC	OWE	P.DUE	TERMS	PAYMENTS	REMARKS
324	11	0	2-10-60	Disc	Sold yrs.
47	0	0	2-10-30	Disc	Sold yrs. to Dec. 1943
22	0	0	Regular	Disc	Sold Apr. 1935 to Dec. 1943
563	563	0	—	Prompt	Sold yrs. to Oct. 1943
140	6	0	2-10-30	Prompt	Sold Jan. 1929 to Dec. 1943
66	0	0	Regular	Prompt	—
60	60	0	2-10-30	Prompt	Sold 1935 to Dec. 1943
20	0	0	30	Prompt	Sold yrs. to Nov. 1943
205	205	98	2-10-60	Slow 20	Sold Oct. to Dec. 1943
42	42	42	—	Slow 30	Sold 1940 to date
200	185	175	3-10-EOM	Slow 30 to 60	Sold Feb. 1936 to Nov. 1943
75	23	23	2-10-30	Slow 90	Sold yrs. to Dec. 1943 Trend prompt.
1605	982	775	30	Slow 90 to 120	Sels. Sold yrs. to date

SUMMARY

STARTING IN 1940, INCREASED SALES ON EXTENDED CREDIT TERMS PLACED A STRAIN ON HIS WORKING CAPITAL AND, DESPITE MORE EARNINGS, THERE FOLLOWED A PERIOD OF INCREASED SLOWNESS IN PAYMENTS. HOWEVER, DURING THE PAST TWO YEARS THERE HAS BEEN MORE INDUSTRIAL EMPLOYMENT HERE AND IN OBERLIN WHICH HAS INCREASED BOTH CASH AND SHORT TERM SALES THUS ENABLING MARTIN TO IMPROVE HIS PAYMENTS ON MERCHANDISE DEBTS. WHILE SOME SLOWNESS STILL EXISTS THIS IS REPORTED DUE PRIMARILY TO ABNORMAL PURCHASES MADE LAST FALL IN ADDING NEW LINES TO OVERCOME SHORTAGES.

2-16-44 F 3 1/2 Also Oberlin

DUN & BRADSTREET, INC. CONTINUOUS SERVICE

Courtesy of Dun & Bradstreet, Inc.

This is the second page of the mercantile agency report begun on the preceding page. The analysis of trade reports shows the customer's bill-paying record with other suppliers from whom he buys.

Trade References

Another very valuable source of information is those concerns from whom the customers are or have been buying. These are called "trade references." By writing to such concerns, the credit manager may find out how the customer is meeting his

DUN & BRADSTREET, Inc.

		Estimated Pecuniary Strength		General Credit			
				High	Good	Fair	Ltd.
*-1	5A	Over	$1,000,000	A1	1	1½	2
	A+	Over	750,000	A1	1	1½	2
	A	$500,000 to	750,000	A1	1	1½	2
	B+	300,000 to	500,000	1	1½	2	2½
	B	200,000 to	300,000	1	1½	2	2½
	C+	125,000 to	200,000	1	1½	2	2½
*-2	C	75,000 to	125,000	1½	2	2½	3
	D+	50,000 to	75,000	1½	2	2½	3
	D	35,000 to	50,000	1½	2	2½	3
	E	20,000 to	35,000	2	2½	3	3½
*-3	F	10,000 to	20,000	2½	3	3½	4
	G	5,000 to	10,000		3	3½	4
	H	3,000 to	5,000		3	3½	4
	J	2,000 to	3,000		3	3½	4
*-4	K	1,000 to	2,000		3	3½	4
	L	500 to	1,000			3½	4
	M	Less than	500			3½	4

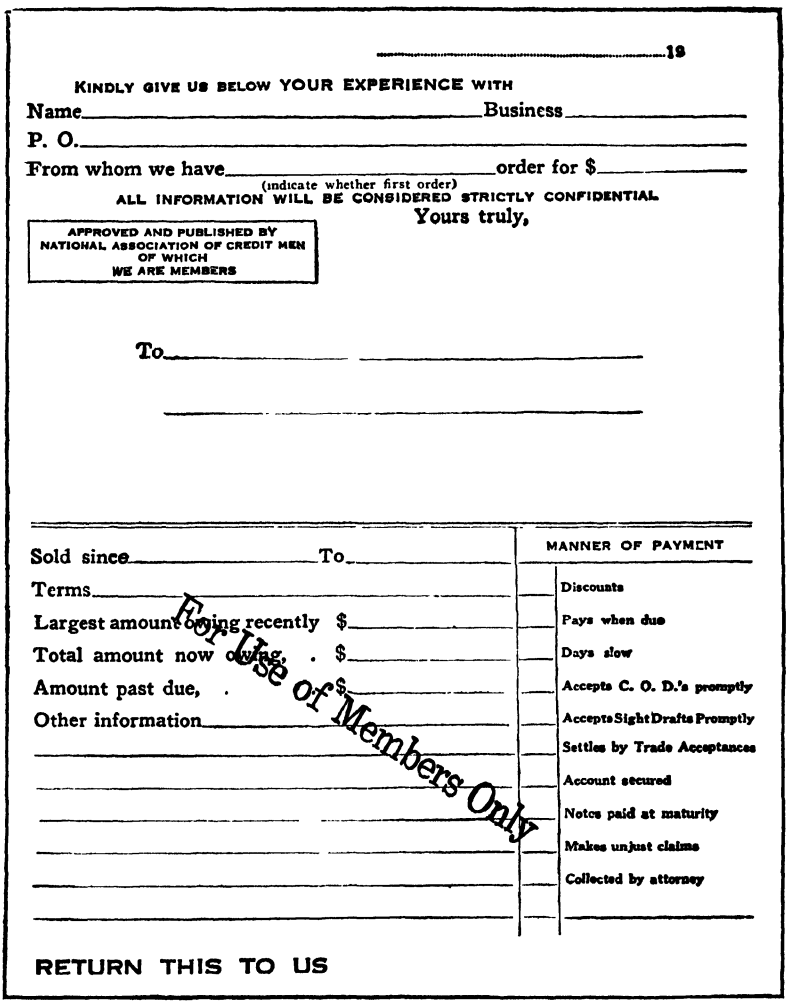
* When a numeral only (1, 2, 3 or 4) follows a name in the Reference Book it is an indication that the financial strength, while not definitely determined, is considered within the range of the dollar ($) figures in the corresponding bracket, and that a condition is believed to exist which warrants credit in keeping with that assumption.

Courtesy of Dun & Bradstreet, Inc.

Key to the ratings in Dun & Bradstreet's *Reference Book.*

bills. The National Association of Credit Men has devised a special printed form for procuring the desired information, as shown on page 389. Whenever the credit man requests information from other credit men, he gives any information that he himself may have and always encloses a stamped, addressed return envelope. Incidentally, the association discourages the making of such requests of other credit men unless the credit man making the request actually has in hand an order from the customer about whom he is inquiring.

Occasionally the credit manager writes to the customer's bank and to local attorneys. These two sources of information are not always wholly satisfactory, since no bank will give



.....19

KINDLY GIVE US BELOW YOUR EXPERIENCE WITH

Name_____Business_____

P. O._____

From whom we have_____order for $_____

(indicate whether first order)

ALL INFORMATION WILL BE CONSIDERED STRICTLY CONFIDENTIAL

Yours truly,

APPROVED AND PUBLISHED BY NATIONAL ASSOCIATION OF CREDIT MEN OF WHICH WE ARE MEMBERS

To_____

_____

_____

Sold since_____To_____

Terms_____

Largest amount owing recently $_____

Total amount now owing, . $_____

Amount past due, . $_____

Other information_____

_____

_____

_____

_____

_____

_____

MANNER OF PAYMENT

Discounts

Pays when due

Days slow

Accepts C. O. D.'s promptly

Accepts Sight Drafts Promptly

Settles by Trade Acceptances

Account secured

Notes paid at maturity

Makes unjust claims

Collected by attorney

_____

RETURN THIS TO US

For Use of Members Only

Courtesy of National Association of Credit Men

The use of this form speeds up the exchange of credit information between concerns dealing with the same customer.

unsatisfactory information about a good customer, and a lawyer can hardly be expected to divulge unpleasant details about his clients.

Organizing Credit Information

As a result of the investigations and correspondence carried on by the credit department, a wealth of information is secured. But this information is not worth much unless it is arranged in some definite order and kept so that it may be quickly referred to at any time. Furthermore, it must be checked for accuracy and

Credit Records

1. Making and maintaining
   - *a.* Quick finding of place
   - *b.* Simplicity of record
   - *c.* Ease of entry or marking
   - *d.* Adequate information
   - *e.* No unnecessary data
2. Preserving the record
   - *a.* Safety
   - *b.* Privacy
   - *c.* Convenience
   - *d.* Accessibility
3. Referring to the record
   - *a.* Quick finding
   - *b.* Ease of interpretation

truthfulness. A comparison of information from one source with information from another source often discloses discrepancies that call for further investigation in order to get the facts.

Before considering how the credit manager uses this information in determining whether or not to accept the order, let us see how this information is arranged and preserved. First, let it be said that all credit information should be kept strictly confidential. Under no circumstances should anyone who is not entitled to do so be allowed to see information about the credit standing of another person or company. Ordinarily, this means that no one outside the credit department, except an officer of

the company or a member of the firm, should see the records, not even the salesmen.

The Credit File

As credit information is received by the credit man, he goes over it carefully to make sure it is as complete as possible. Then he puts it into the credit file, which is simply a large envelope or

Credit and Collection Records

1. Since a large part of business is done on a credit basis, certain records must be kept to determine whether customers are worthy of credit.
2. Some of the sources of information about customers are salesmen, banks, newspapers, trade journals, and credit-reporting agencies.
3. Different firms use different methods of recording credit information.
4. One firm records credit information on a 3- by 5-inch card, giving the name, address, rating, ledger account number, and other useful or interesting information.
5. Another firm places the credit rating at the top of the customer's ledger account.
6. Still another firm places all credit information concerning its customers in letter-size folders, filed numerically.
7. A collection record is used to watch payments on accounts, in order not to let the account run too long before it is "cleaned up."
8. One collection record is a special follow-up card showing the dates when notices are mailed; the calls made by the collector; the payments made; the balances due; any special action taken, and so forth.
9. By the use of tabs or signals, attention may be called to any account card whenever desired.
10. Collections should be followed up carefully and firmly.

folder bearing the customer's name and address. There is one folder for each customer, and into that folder is put all the credit

information as it is received, after the credit manager has examined it, of course. In this way there is gradually accumulated a complete credit history of each customer, to which reference may be made at any time. The folders are arranged in alphabetical order, so that any customer's folder may be quickly located. Some credit managers also keep a card record on which are noted the different kinds of information. One advantage of a card record is that it can be quickly examined without taking the time to go through the papers in the folder. Sometimes, instead of a card, which has to be filed separately, a check sheet is placed in front of the credit file folder, summarizing the information in it and showing at a glance how recent that information is. This also helps when it is necessary to revise the credit files, as described in the next paragraph.

Revising the Credit File

Since business conditions are constantly changing and since no business stands absolutely still but is either going forward or backward, the information in a credit file should be brought down to date every 6 months or so, and certainly not less often than once a year, in order to make sure that there is available the latest information about the customer. The process of bringing this information down to date is called "revising the credit files." It is accomplished by writing the customer and all the other sources from which information about this customer has already been received, as well as any new sources that are known, such as other concerns from which the customer has started to buy since the credit files were last revised. An alert salesman can often furnish valuable leads of this sort, by casually noting the brands of merchandise on the shelves of the customer's store.

Passing the Order

Now let us see how a credit manager handles his job. He has before him for consideration an order from a present customer. This means that one or more orders from this customer have been filed and that there is some information about him in the credit file. If orders from him have been filled frequently, the credit manager will probably be familiar enough with the

account so that he can say "yes" or "no," practically offhand. Much may depend on the size of the order. A modest order would probably be promptly O.K.'d by the credit manager's writing his initials in the space provided—some credit managers use the upper right-hand corner of the order blank.

What the Ledger Shows

If the quantity ordered seems out of line with what has generally been shipped to this customer, or if the manager's memory is a bit hazy, he can step over to the bookkeeping department and look up his account in the accounts receivable ledger. Here he finds the record of shipments, payments, returns, allowances, and so forth. Some of the questions answered by the ledger sheet are "How much does he owe us now?" "Does he discount his bills?" "Does he pay when due?" or "Is he slow pay?" An experienced credit man glances at the dates and the amounts on the ledger sheet and draws a quick conclusion as to his "ledger experience" with this customer. One of the most reliable sources of information about any customer is actual experience with him. If that has been favorable, the credit manager is favorably

inclined toward him; if unfavorable, he is more inclined to be cautious before extending further credit. Some of the points brought out by experience with a customer include the way he pays his bills, whether he often returns goods without just cause, whether he makes frequent unjustified claims for adjustments and allowances. In other words, does experience show him to be a good customer or an undesirable one?

Red Flags for the Credit Man

An experienced credit man usually develops a sixth sense in watching accounts. Certain happenings put him on guard at once. Some of these are indicated here:

1. Account past due. This is the commonest occurrence.
2. Cash discount taken after time allowed; evidence of dishonesty.
3. Check for less than amount due, marked "paid in full." This must be handled carefully.
4. Delay in presentation of claims for shortage, damage, or defective quality.
5. Cancellation of orders or of parts of orders.
6. Unusual volume of credit inquiries from other houses about this customer, especially on first orders.
7. Abnormal increase in number and size of orders.
8. An unusually large order from a slow-pay customer who has recently been paying promptly.
9. Fire under suspicious circumstances. To the credit man, no fire is "successful."

If the examination of the ledger account shows that the customer pays his bills promptly, or discounts, and that the quantities shipped are in line with the present order, the credit manager will probably pass the order without further examination. If, however, the customer's ledger account shows that he is inclined to be a bit slow in paying his bills or that the present order is larger than usual, then the credit manager will go to his credit file folder and see what he has there.

Analyzing the Balance Sheet

The first thing to look for is the most recent balance sheet, the one as of the end of his last fiscal year, December 31, for example, as that coincides with the date for which most business concerns prepare their balance sheets preliminary to filling out their excise and income tax returns. The balance sheet that the customer himself sent may be found or it may be included in a mercantile agency report. If a recent statement is not found, one may be obtained from the agency or by writing direct to the customer.

The first figure to look for is inventory, then cash, then accounts receivable, then accounts payable. A comparison of these figures with those on an earlier balance sheet will furnish a line on how this customer conducts his business. If there is also an operating statement (sometimes called an "income sheet" or "profit and loss statement"), the sales figure can be compared with the others to see how large an inventory turnover he has. A low turnover is not so favorable as a higher one, although the acceptable turnover rate varies with different lines.

A look at the net worth item on the balance sheet is followed by an examination of the asset items which represent the net worth, and we mentally estimate the liquidity of those items.

If an inspection of the balance sheet is satisfactory, or reasonably so, the order may be O.K.'d. Or it may be wise to look further in the file. Some trade references may be found showing how this customer pays his bills with other firms. A balancing of all the data available finally resolves into a decision to pass the order on regular terms, or on special terms, or c.o.d., or not at all.

Two Vital Questions

What the credit manager is trying to do is to find the answer to two questions:

Can the customer pay this bill when it comes due?
Will he pay it when it comes due?

The first question concerns his ability to pay. That is, is he likely to have the money to pay the bill at maturity, and what

is the source of that money? Has he assets that are readily realizable? What is his net worth? Ordinarily, a firm's capital rating is determined by its net worth. Its balance sheet shows this.

The second question, "Will he pay?" concerns his habits of and reputation for paying his bills. The man who is chronic slow pay does not change his habits overnight. Many a slow-

AVERAGE COLLECTION PERIOD.—The number of days that the total of trade accounts and notes receivable (including assigned accounts and discounted notes, if any), less reserves for bad debts, represents when compared with the annual net credit sales. Formula—divide the annual net credit sales by 365 days to obtain the average credit sales per day. Then divide the total of accounts and notes receivable by the average credit sales per day to obtain the average collection period.

CURRENT ASSETS.—Total of cash, accounts and notes receivable for the sale of merchandise in regular trade quarters less any reserves for bad debts, inventory less any reserves, listed securities when carried at the lower of cost or market, and United States Government securities.

CURRENT DEBT.—Total of all liabilities due within one year from statement date including current payments on serial notes, mortgages, debentures or other funded debts. This item also includes current reserves such as reserves for taxes, and reserves for contingencies set up for specific purposes, but does not include reserves for depreciation.

FIXED ASSETS.—The sum of the depreciated book values of real estate, buildings, leasehold improvements, fixtures, furniture, machinery, tools and equipment.

FUNDED DEBT.—Mortgages, bonds, debentures, gold notes, serial notes or other obligations with a maturity of more than one year from the statement date.

INVENTORY.—The sum of raw material, material in process, and finished merchandise. It does not include supplies.

NET PROFITS.—Profit after full depreciation on buildings, machinery, equipment, furniture, fixtures and other assets of a fixed nature; reserve for taxes; reduction in the value of inventory to cost or market, whichever lower; charge-offs for bad debts; all miscellaneous reserves and adjustments; but before dividends or withdrawals.

NET SALES.—The dollar volume of business transacted for 365 days net after deductions for returns, allowances, and discounts from gross sales.

NET SALES TO INVENTORY.—The quotient obtained by dividing the annual net sales by the statement inventory. This quotient does not represent the actual physical turnover which would be determined by reducing the annual net sales to the cost of goods sold, and then dividing the resulting figure by the statement inventory.

NET WORKING CAPITAL.—The difference between the current assets and the current debt.

TANGIBLE NET WORTH.—The sum of all outstanding preferred stocks (if any) and outstanding common stocks, surplus, and undivided profits, less any intangible items in the assets, such as good-will, trade marks, patents, copyrights, leaseholds, mailing lists, treasury stock, organization expenses, and underwriting discounts and expenses.

TURNOVER OF TANGIBLE NET WORTH.—The quotient obtained by dividing the annual net sales by the tangible net worth.

TURNOVER OF NET WORKING CAPITAL.—The quotient obtained by dividing the annual net sales by the net working capital.

Courtesy of Dun & Bradstreet, Inc.

Here is a clear, definite, concrete statement of the terms used in analyzing financial statements.

pay customer, in opening a new account, believes that if he discounts the first few bills with the new supplier, he will have established himself favorably, not realizing that the credit manager of the new supplier has access to more or less complete information about his credit standing and is fully aware of his slow-paying habits with other suppliers. Indeed, many a credit man has soliloquized on about how long it would be before the new customer would slow down in his payments.

The New Customer

Thus far we have seen how the credit manager handles an order from a present customer. What is his procedure with a new customer, whose first order lies on the credit man's desk?

Three factors enter into the picture right away: First is the size of the order. Some concerns will pass a small first order more readily without a complete credit checkup than they will a larger one.

Second is the credit reference that accompanied the order. Experienced business men know that before they can buy on "open" account (so called because the accounts receivable ledger account is opened with the first charge and remains open until balanced), the seller must have some intelligent basis for granting the credit; the best basis is the experience of other concerns with them. A first order from a new customer should therefore be accompanied by the names and addresses of other concerns who have sold him on open account. Usually, the name of one's bank is also desired. The submission of one's latest balance sheet (where the order is a substantial one) always creates a favorable impression, provided, of course, that the statement is a good one. Frequently, instead of enclosing a financial statement, a customer may write, "You may obtain a copy of my balance sheet from Dun & Bradstreet," or "I am rated in Dun & Bradstreet" or in some other mercantile agency. If a new customer does not give any references or other information about himself, the credit manager will hold up the order while writing the customer for references, unless the agency rating is high enough to warrant shipment.

The third factor is the customer's rating in the reference book of the mercantile agency indicated, as described earlier in this chapter. If the rating and the financial statement are satisfactory and the firms named as references are favorably well known, the credit manager will probably O.K. the first order, if it is not too large. Most credit men develop what is

The Three C's of Credit

Character

Reliability.—Business and social honor. Squaring himself with the world and keeping himself so.

The Man.—Personal deportment. Leading a clean, temperate life. Character of associates.

Moral Risk.—Reputation. Built up by long years of honest dealing.

Capacity

Capability.—Age, health, education. Is he mentally and physically capable of conducting his business successfully?

Methods.—Business experience? Is he experienced or is he a novice? Has he demonstrated his ability to manage a business? Does he manage this one well?

Business Risk.—Personal effort. Has he built it up himself or did he inherit it?

Capital

Responsibility.—That which can be taken under an execution. Does it consist of property and other assets of a tangible character convertible into money without great cost and undue delay?

Means.—Resources personally acquired or inherited? Is the capital borrowed or inherited and, if so, are there any "strings" to it?

Property Risk.—Net wealth. Is the capital ample? Will the lack of capital make overborrowing necessary?

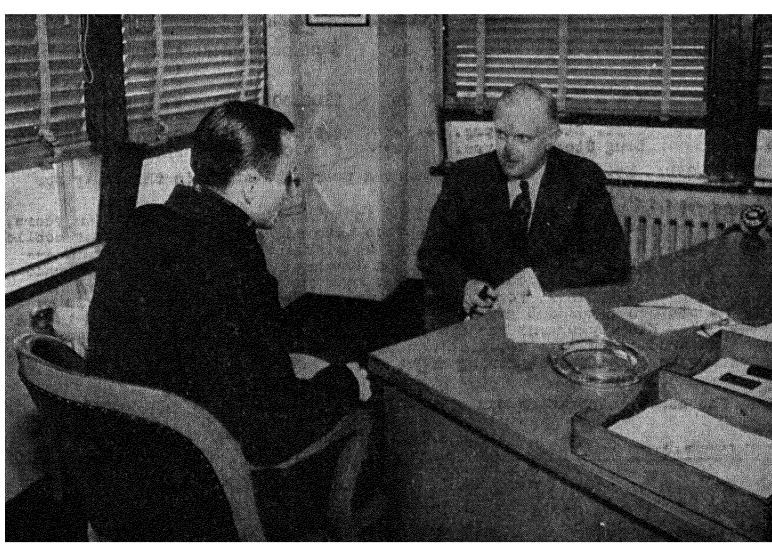
(*Shaw Banking Series.*)

known as a "credit sense," enabling them to spot a discrepancy, even when all the surface indications are apparently favorable.

If the credit manager has any doubt about the wisdom of accepting the order on the basis of the information before him, he may write, wire, or telephone the references given, depending on how urgently the goods are needed. Also, it should not be forgotten that the credit manager is well aware of the old saying, "Figures never lie, but they can be grouped so as to serve the same purpose." One doubtful item in the credit information makes the credit man wonder how many others there are; and he finds them often enough to justify the cynical attitude that many credit men have.

Retail Credit Procedure

As has previously been stated, the main difference between wholesale and retail credit is that wholesale customers usually buy for resale to others, while retail customers buy for their own



The credit manager always prefers to talk with a customer before opening a charge account. Why?

consumption. Wholesale customers, therefore, will realize an income from the resale of their purchases; and it is from this

RETAIL CREDIT COMPANY
CHARACTER CREDIT REPORT
(INDIVIDUAL)

CONFIDENTIAL

Acct. No. ----
2-5-41
H-----, C---- D.
W----------, N. C.
Serv. St. Atten. - B----- E-- Station
File No. 160-SB-kf

Founded 1899

G---------- OFFICE

Transaction: Radio
Amount $ 170.00
Mo Notes $ 11.00

IDENTITY:	1. Time known (years) by you and each informant?	1 You? - Informants?	10-8-5-2 yrs.
	2. Are name and addresses correct as given above?	2	Yes
	3. About what is his age? (If around 21, verify if possible)	3	30
	4. Is he married? How many are dependent on him?	4	Yes — Number of Dependents? One
	5. What is his racial descent (Greek, Hebrew Anglo-Saxon Negro, Italian)?	5	Anglo-Saxon
EMPLOYMENT:	6. By whom is he employed?	6	B------ E-- Station
	7. What is nature of business? (State the kind of trade or industry)	7	Gasoline Service Station
	8. What position does he hold?	8	Attendant
	9. How long has he been in present connection?	9	3 months
	10. Does he work full time? (If not, how many days per week does he work?)	10	Yes
FINANCES:	11. About what would you estimate his net worth?	11	$500
	12. Of what does worth consist principally?	12	Home furnishings-Personal
	13. Does he own his home?	13	No
	14. About what is his annual income from employment? (If a professional man or owner of business, give his net personal income from such.)	14	$1,000
	15. Does he have added income from investments, rentals, pensions, etc? (If so, state source, amount)	15	No
	16. If married, does wife follow a gainful occupation? (Her annual income?)	16	Yes — Wife's income $ 800
CHARACTER:	17. Is he steady and progressive?	17.	No
	18. Does he live within his income?	18	No
	19. Is his reputation as to honesty and fair dealing good? (If not, why?)	19	No
	20. Do you learn of any illegal activities, or domestic difficulties?	20.	No
	21. Has he ever failed, bankrupted, been foreclosed, any pending suits or judgments or garnishments? (If so, state which. Give details)	21.	No
	22. Do you recommend doing business with applicant on a credit basis?	22	No

Form 62 SB—4-41 reverse is blank

23. BUSINESS: State former and present business connections and prospects for permanent employment, amplify any unusual or unfavorable information, such as irregular employment illness of applicant or members of family, etc, which might affect his ability to pay promptly
24. PROPERTY Give full details concerning all property owned (real and personal)
25. IF REPORT COVERS A WOMAN, give name and occupation of husband (if married) or father (if single) and estimate of his net worth and annual income.
26. CREDIT RECORD Tell how local merchants and banks regard him as a credit risk (See headings below)

Date	Kind of Business	How Long Sold	Is Account Active	Highest Recent Credit	Amount Owing	Paying Record: Specify 30, 60 90 days, etc (Is this in accordance with terms?) If Contract Act to state
Sept. 1940	Groc.	5 yrs.	No	$ 23.00	None	Unsatisfactory-had to collect through School Board.
Oct. 1940	Furn.	3 yrs.	No	$100.00	None	Very slow - wife made payments.
Feb. 1941	Dept. Store	2 yrs.	Yes	$ 25.00	$10.00	Slow, unsatisfactory
Dec. 1940	Drug Store	4 yrs.	Yes	$ 5.00	None	Satisfactory

CREDIT RECORD: Mr. C---- D. H----- bears a poor reputation in this city for meeting his obligations.

BUSINESS-CHARACTER: Mr. H----- has lived in this city approximately ten years. His usual occupation has been in connection with sales or service on automobiles. Up until about a year ago he was employed as a salesman for the A------ S---- Motors, an auto sales agency. He was on a drawing account and failed to make expenses; so the drawing account was taken away and he quit. For a time he had no steady employment. For the past three months he has been employed as a service station attendant and he is regarded as capable and efficient in his present job. His employment is permanent. Mr. H----- has a slightly deformed foot which produces a limp but does not impair his ability to work. Mrs. H----- teaches in the local school during eight months of the year.

NOTE: The above information was carefully confirmed.

RETAIL CREDIT COMPANY — Signature of person making report _____ — CHARACTER CREDIT—INDIVIDUAL

Courtesy of Retail Credit Company

A character credit report like the one shown above gives the credit manager valuable information about individuals. Insurance companies also find them helpful in considering applications for insurance.

income that they expect to pay their bills. Retail customers, on the other hand, must pay for their purchases out of other income.

Since retail customers buy for consumption and not for resale, the retail credit manager should take every wise precaution to protect his store from being imposed upon by unscrupulous customers. For this reason the credit manager prefers to interview personally at the store all applicants for credit. At that interview the applicant is asked for such information as her full name and address, how long she has lived at her present address, her husband's occupation, business, employer, or position, and details as to bank deposits and real estate owned. Many stores also require the credit applicant to sign the blank

Passing on First Purchase

1. Do not make snap judgments. Be careful but not too cautious or too lenient. Strive for a happy medium
2. Be sure of identity of customer
3. If customer has charge cards from other stores and the information on the application looks O.K., pass no more than $10 to $15 in merchandise as a first purchase
4. Do not pass a first purchase to a minor without a written guarantee
5. Do not pass first purchase to the wife of a man in military service beneath the rank of a commissioned officer without a waiver and guarantee
6. Do not pass first purchase to anyone employed less than two years at present position if she has no other charge accounts
7. Do not pass first purchase to customer who changes address or job frequently
8. Remember—the first purchase is just a "courtesy charge." This does not assure the applicant that the account will be opened

(Courtesy of Touraine Stores, Boston.)

These standard practice instructions to the credit authorizers of a retail store leave no doubt as to just what steps to take.

STRICTLY CONFIDENTIAL

Chicago,.....

To.....

.....

.....

Party whose name appears below has applied to us for a credit of $50 00, to be liquidated in small monthly payments.

Kindly let us have your frank opinion as to his financial responsibility, and as to whether or not we would be justified in accepting the account.

Any information you give us will be treated strictly confidential and greatly appreciated.

Very truly yours,
HENRY M. BROWN & SON,
1247 West Jackson Boulevard

REPORT IS REQUESTED ON

Name..... Acct. No.....

Address..... Occupation.....

NOTE—Please indicate below the nature of your replies to this inquiry.

HABIT OF PAYMENT—
..... Prompt
.....Slow, but good.
. ....Sell for cash only.

CREDIT—
.....With local merchants.
..... Good.
.....Only fair.
....Merchants report unsatisfactory.
.....Claims against him
.....Has been sued.
.....Unpaid judgments against him.

HABITS—
.....Good.
.....Fair.
.....Bad.
.....Drinks.
.... Gambles.
.....Personal expenses
..... High.
..... Moderate.
.....Borrows frequently.

PERSONAL WORTH—
.....Wealthy.
.....In good circumstances.
.....Hard pressed for funds.

CONDITION OF BUSINESS—
.....Seems prosperous.
.....Is standing still.
.....Is on the decline.
.....Has failed.
.....In hands of receivers.
.....Sold out to..... .....
.....Gone out of business.

GENERAL COMMENT—
.....Has economical family.
.....Has expensive family.
..... Stranger.
.....New arrival—here only short time.
.....Left town—address not known.
.....Left town—present address is .....
.....
..... Inclined to over buy.
.....Is very conservative.

Further comment..... .....
....
.....

This information is given in confidence, merely as a matter of courtesy, for which no responsibility is to be attached to the writer or house he represents.

A blank like this makes it easy to give credit information. Six check marks tell the story about the applicant.

on which the above information has been noted, together with the statements that "all purchases will be considered necessities." Blank forms are sent to banks and other references, and a decision is based on the information received.

The retail credit manager gives particular consideration to such points as how long the husband has held his present position, how long the family has lived at the present address, and if securities and unencumbered real estate are owned. If there is a local retail credit bureau, the customer's paying habits and record with other stores is obtained and examined. After the account has been opened, the customer is given an identifying card, or a token coin, or some device indicating that the customer is entitled to charge purchases made by her at the store. Sometimes a limit is placed on the amount that may be charged; in such cases the retail sales clerk communicates by telephone with the credit department, where the information about the customer is instantly available, making it possible to approve or decline the charge without delay. Some rather ingenious devices have been developed for speeding up retail "credit authorization," as this procedure is termed.

Wholesale Collection Procedure

Since one of the things that the credit department wants to know about the customer is how he pays his bills, that department, as we have seen, is usually responsible for collections, and collection records are consequently closely connected with credit records. Before granting more credit to a customer, it is necessary to know if he has paid his previous bills. For this reason collection records are usually placed under the same control as credit records, that is, under the credit manager.

Theoretically and legally, anyone who owes money is expected to pay it when payment is due, without demand for payment. Practically, some sort of demand, varying from a simple mild reminder at one extreme to a lawsuit at the other, is frequently necessary.

One outstandingly successful credit manager has said that the time to start the collection procedure is when the credit is passed. What he meant was that, since the credit manager is

responsible not only for approving the credit but also for collecting the account receivable resulting from the credit, he should have a clear understanding with the customer as to when and how payment is to be made. Such an understanding, firmly

Collection Procedure

1. Not all customers will pay their bills without being asked to do so.
2. That is why collection departments are necessary.
3. The job of the collection department is to get the money due the company.
4. If the money can be collected without offending the customer, it should be.
5. Sometimes, however, a customer will not pay his bill until he is sued or thinks he is going to be sued.
6. Collection procedure should start as soon as an account becomes due.
7. The first step is usually to send a statement showing the amount due.
8. The next step is to ask the customer if he received the statement.
9. Some concerns ask the customer to let them know if the statement was incorrect.
10. If no answer is received, ask the customer if there is any reason why the account should not be paid.
11. Then tell him that if you do not receive payment within a certain time, you will place the bill in the hands of an attorney for collection.
12. As a final step, give the account to a reputable attorney or a good collection agency.

backed up, will go far toward assuring the payment of accounts receivable on or before their due dates in most instances. Thus the collection effort may be confined to a smaller number of customers, on whom attention may be concentrated and pressure brought to bear if needed.

The first step in the collection of wholesale accounts receivable is to send the invoice as soon as possible after the shipment of the order. Some concerns even send the invoice along with the goods. In the case of long-distance shipments, the invoice, if mailed, may reach the customer before the goods do.

Among other things, the invoice shows the amount charged and the terms, which vary with different lines. In many lines the terms are 2/10, net 30, which simply means that if the bill is paid within 10 days from the date of the invoice, the customer may deduct 2 per cent as a cash discount. Otherwise, the bill is to be paid within 30 days from date, without deduction.

At the end of each month, a transcript of the customer's ledger account is mailed to him. This monthly statement, as the transcript is called, shows the unpaid invoices or, as they are often called, the "open items," even though some of the items may not yet be due. The date opposite each item helps to show when payment is due. The customer is thereby informed of the status of his account; he knows when bills are due for payment. If the credit has been carefully passed, payment may be expected to be made in due course, provided that no untoward events have occurred to delay it.

If payment of any invoice is not made on the due date, or within a day or two thereafter, the credit manager or his assistant will give his attention to the account. The important point in making collections is to make sure that if the account is not paid on the date it is due, such steps will be taken as may be necessary to collect the money.

Send Statements Promptly

If the amount due is substantial, the information in the customer's credit file will be reviewed to determine whether there are any weak spots that need watching. If no danger signals are discovered, nothing may be done at this time other than to send the customer another copy of the monthly statement. Experienced and careful credit men also make a point of going over each customer's ledger account from time to time so as to be thoroughly familiar with the paying habits of all customers. Some credit managers have the bookkeeper prepare

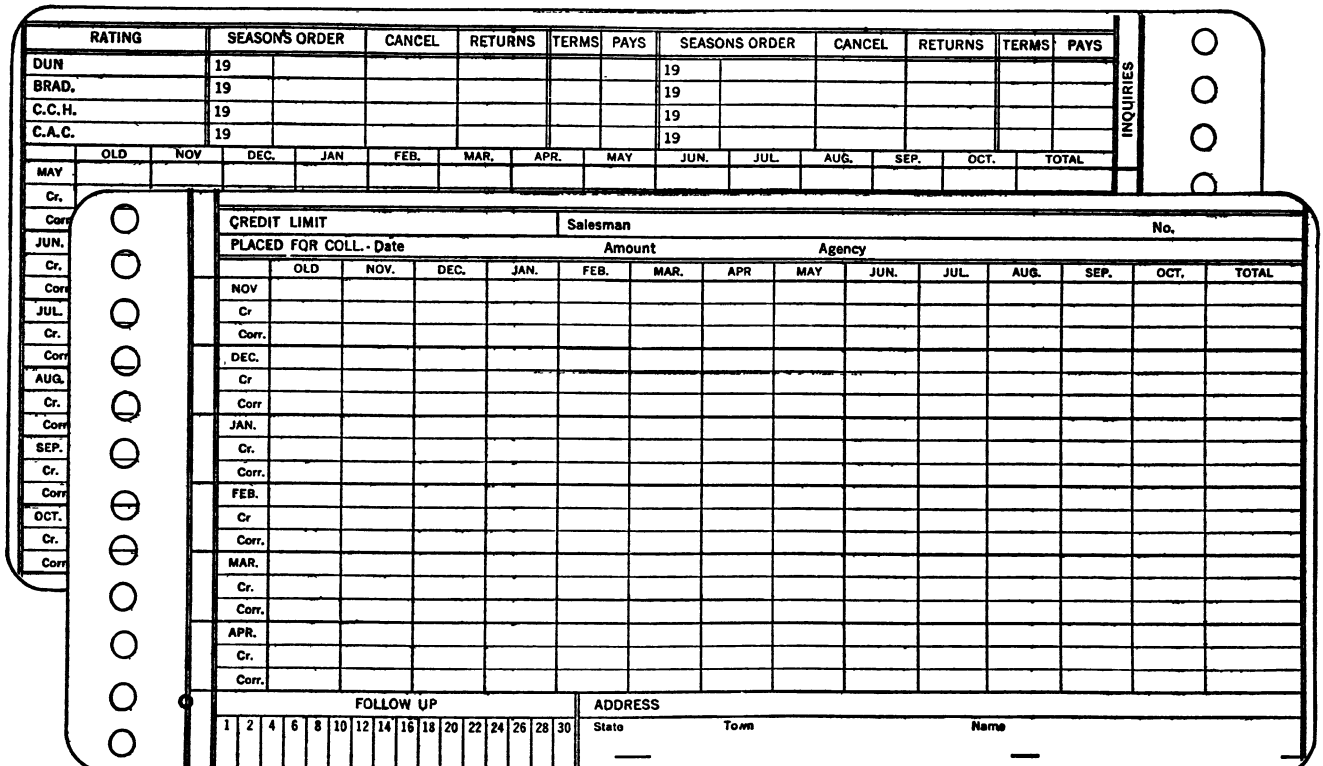
each month a list of customers whose accounts are past due and unpaid. Then the credit manager works from that list.

The right kind of statements mailed when due will do much toward keeping a credit business on a healthy basis. If statements are sent out at the end of the month, every effort should be made to see that they are mailed so as to reach the customer promptly on the first of the month. Laxness in sending bills, statements, and in following up collections only encourages the slow-paying customer. When a customer knows that nothing will happen if he delays payment, he is likely to be slow in paying those creditors who do not press him. He realizes, on the other hand, that by not paying promptly those creditors who do get after him, he is likely to lose his credit standing with them. It is obvious, therefore, which creditors will probably be paid first.

WATCHING THE PROGRESS OF COLLECTIONS

Month of	January		February		March		April		May		June	
Shipments for month	$3,650		$2,890		$3,360		$3,920		$3,230			
On first of month below	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
February	3,450	94.6										
March	2,220	60	2,640	91.5								
April	700	19	1,760	61	3,000	90.6						
May	400	11	650	22.5	2,300	69.5	3,750	95.7				
June			290	10	800	24.2	2,670	68.1	2,980	92.4		
July					380	11.5	710	81.1	2,090	65		
August							275	7	525	16 2		
September									175	5.5		
October												
November												
December												
January												

At the end of each month, the figures showing the shipments for the month are entered. Then, in the appropriate columns are entered the balances owing as of the first of each month. Dividing the balance owing by the total shipments gives the per cent outstanding on the first of the month. There should be some consistent correlation of the figures from month to month, or for the same months from year to year, depending, of course, upon circumstances.



Only one sheet is needed to show the entire year's credit and collection experience with a customer.

Following Up Collections

It is necessary to adopt some systematic method of keeping after the customer until the bill is paid. For this purpose many offices use a special collection record containing all the available information on the case. The record may be a card or a loose-leaf sheet. By the use of signals, attention may be called to the account whenever any action is called for.

Name Address City Bank														Date Due Amount $		
1	3	5	7	9	11	13	15	17	19	21	23	25	27	29	31	
Date Written					Dates of Payments				Amounts Paid				Balance			

Forms need not be complicated to be effective. Notice the simple provision for follow-up in this collection record card.

As stated above, the first step in collection procedure is to send the invoice promptly, and at the end of the month to send a statement. If the customer does not pay within a reasonable time after receiving the statement, the credit manager or an assistant sends another copy of the statement or writes the customer, reminding him that payment is due. If correspondence does not bring payment, the account may be given to a collection agency or to a lawyer with instructions to sue the customer if the bill is not paid within a reasonable time. The use of drafts in collecting past-due accounts is not so frequent as formerly, since the refusal of a debtor to pay a draft drawn on him by a creditor is no longer considered the serious reflection upon his

character and credit standing that it used to be. Drafts are still widely used in business, but not for collecting past-due accounts, except by mutual agreement between the parties concerned.

Collection Agencies

1. When a concern finds it difficult to persuade a customer to pay his bill, it is sometimes helpful to turn the account over to a collection agency.
2. A collection agency exists to collect money from those owing it.
3. For this service the agency charges from 10 to 50 per cent of the amount collected, depending upon the difficulty of collection.
4. Some debtors will not pay their bills until the collection agency starts proceedings against them.
5. Some collection agencies are local; others are national, with many branch offices.
6. In some states, as in Massachusetts, collection agencies are prohibited by law from doing business in the state.

Retail Collections

As we have seen, a wholesale customer expects to get enough money from the sale of his merchandise to pay his bill by the time it is due. Indeed, that is the only source from which he is usually able to get the money with which to make payment. Therefore, the wholesale credit manager follows his accounts more closely than does the retail credit manager. Furthermore, larger amounts are usually involved in wholesale accounts than in retail ones, and the chances of an appreciable loss from one account are greater.

The bulk of retail accounts, on the other hand, are not so large, and payments are not dependent upon the resale of the merchandise. Payment, even though long delayed, is more sure, because of the care with which the investigation is made at the time the credit is applied for. Especially is this true in the case of married women who have signed the blank referred to above.

In any case, retail stores do not press their customers closely, unless the information at hand shows some reason for doing so; such, for instance, might be an intention on the part of the customer to move away or out of the state. Before the issuance of Regulation W by the Federal government, many retail stores customarily allowed several months to elapse without any direct collection effort other than the sending out of a statement each month. Under Regulation W, payment must be made no later than the tenth of the second month following the purchase; that is, purchases made during April are due for payment no later than June 10, and a customer who has not paid the balance by the tenth of the second month following the charge cannot charge further purchases until the overdue balance is paid. This regulation exerts a very strong leverage upon the customer who knows that he cannot charge any more purchases until he has paid his past-due account.

Local Credit Bureaus

In many districts, a central retail credit bureau keeps its members informed of changes in the affairs of retail customers in whom they may be particularly interested. In such a bureau there is centralized the experience of all member stores who are selling or may have sold the same customers. Any doubtful condition that may call for collection pressure is thereby promptly indicated.

Since most of a retail store's customers live within easy commuting distance of the store, if not in the same town or city, the store credit manager does not depend upon letters for collecting accounts so much as he does upon a personal visit to his office by the customer whose unpaid bills are becoming old.

Questions for Discussion

1. Why should the greater part of business be transacted on a credit basis?
2. Explain credit basis.
3. What is meant by worthy of credit?
4. What is the main difference between wholesale credit and retail credit? Why is this difference important?

5. Would you say that a large customer, buying in very large quantities, might be called a wholesale customer? Explain.

6. Upon what does successful wholesale credit management depend?

7. How is the business ability of an applicant for wholesale credit determined?

8. When should the credit of a customer be approved? Why?

9. How does the credit department make an investigation of a customer?

10. Why should the credit department be responsible also for collecting the money from the customer? Is there any advantage in this arrangement? Explain.

11. How is the credit department set up for work?

12. Why should the customer be the best source of information for the credit man?

13. What advantage is there in having the salesman give the credit department a report on the customer? Might this requirement handicap the salesman in making sales? Explain.

14. Describe or explain the work of the mercantile agencies.

15. Describe or explain the mercantile agency rating book and what it shows.

16. What are trade references, and why are they helpful?

17. Why are local banks and attorneys not wholly satisfactory as sources of credit information? What is the meaning of local?

18. How is credit information arranged and preserved?

19. Describe or explain the credit file.

20. Describe or explain revising the credit files.

21. Why should all credit information be kept strictly confidential?

22. What is the meaning of strictly confidential?

23. Describe or explain how a credit manager proceeds when he has before him an order from a present customer of the firm.

24. What importance is attached to the quantity ordered, in passing credit?

25. Why is the manner in which a customer pays his bills important?

26. What features of the customer's balance sheet are significant?

27. What are two questions to which the credit man is trying to find the answer?

28. What relation, if any, is there between the customer's ability to pay and the fact that he will or will not pay his bill?

29. How is a customer's ability to pay determined?

30. What is the meaning of buying on open account?

31. What is meant by credit sense?

32. Why do some credit men have a cynical attitude?

33. Why does a retail credit manager prefer to interview personally all applicants for credit at his store?

34. How may the retail credit manager check the applicant's statements?

35. "Theoretically and legally, anyone who owes money is expected to pay it when payment is due, without demand for payment." Comment on this statement.

36. "The time to start the collection procedure is when the credit is passed." Explain.

37. Trace the steps taken in collecting wholesale accounts receivable.

38. What does the wholesale credit manager do if payment is not forthcoming?

39. Why are the monthly statements important? Or are they? Comment.

40. "Retail stores do not press their customers for payment so closely as wholesale credit men do." Explain and comment.

41. What is Regulation W?

42. What is the purpose of a central retail credit bureau?

Topics for Special Reports

In preparing the following reports it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Talk with the credit manager of a local retail store having charge accounts, and find out how he determines whether or not to open a charge account for a customer.

2. Ask some local credit man whether there is a central credit bureau in your town. If there is, ask the manager to tell you what the bureau does.

3. If there is a collection agency in your town, call on the manager and ask him to show you what the agency does.

4. If there is no local collection agency, call on an attorney and ask him what he does when a client asks him to collect a bill.

5. If there is a branch office of a mercantile agency near you, call on the manager and ask him to show you how the agency does its work.

6. Explain how you would find the rating of a customer, and what that rating means.

7. Design a card system for watching collections and explain how it is used.

8. Outline a form of daily report for the accounting department to make to the general manager, showing the standing of collections.

9. Prepare a series of collection letters, stating also when you would send the first letter, and how often you would send the others. Give your reasons.

10. Design a system for gathering credit information, and explain the meaning of each part.

Problems

1. In a large organization whose salesmen work from branch offices, while the credit department is located at the home office, what would be the most effective way to coordinate the sales and credit departments of the company? Give your reasons.

2. Mrs. Smith is a charge customer of our store. Her purchases are equal to the average and she has always paid her bills promptly. Now, however, her husband has been laid off temporarily, and she is unable to pay her current bill. We know that if we carry her she will eventually pay her bill once her husband returns to work. For how much and for how long should we carry her account without payment? Give your reasons.

3. What shall the grocery store do concerning the problem of extending credit to a good cash customer who has met some financial difficulties and will be unable to pay his bill for two or three months? Give your reasons.

4. A small grocery store has been granting credit to certain customers and now finds that many of these are so far behind

in their payments that to grant further credit would be folly. Yet these customers will be lost if credit is refused. What should the manager do? Give your reasons.

5. The chain-store policy is "no credit," but the manager is told to get the business. If he can increase his business about 10 per cent with good credit risks, should the chain give the manager this authority, or should the policy be strictly maintained? Give your reasons.

6. One company finds that the correspondence to overdue accounts is many times late in going out. Since the older an account gets the harder it is to collect, the manager wishes to find some means to prevent the delays. What do you suggest? Give your reasons.

7. How would you meet the problem of the customer who pays his bill after the due date, yet still takes the cash discount?

Legal Problems Involving Credit

1. Mr. Fall purchased a bill of goods amounting to $100 and paid for them with a check, which was accepted. The bill was marked paid. Is Mr. Fall now discharged from all liability? Explain.

2. A merchant sold a hat to Mr. Fast for $5 cash. The hat was delivered at Mr. Fast's place of business, but he never received it. Who is liable for the loss? Why?

3. Mr. Hunt agreed to buy an automobile from Mr. Howe for $950, provided the car was painted before delivery. Before the painting was finished, the car was destroyed by fire. Who was the loser? Why?

4. Mrs. Cone purchased some furs valued at $100, with the agreement that she could return them any time within a week if not satisfactory. Before the end of the week the furs were stolen. Who is the loser? Why?

5. Mr. True, a country merchant, ordered by mail a bill of goods amounting to $200. The goods were promptly shipped as ordered but were destroyed in transit. Must True pay for the goods, which he never received? Explain.

6. Mr. Small ordered and paid for a suit of clothes from his tailor. The clothes were finished and ready for delivery when the

shop and contents were burned. On whom does the loss fall? Why?

7. Mr. White takes cloth to his tailor to be made into an overcoat, for which he is to pay the tailor $20. Mr. White is notified that the coat is finished, but before he gets it the shop burns. Must Mr. White pay the $20, and must the tailor pay for the cloth? Explain.

8. A customer bought a table on credit. At the expiration of the time for which credit had been extended, he had not made payment. Can the merchant recover the table? Why or why not?

9. Mr. Ball agreed to buy a watch if it should prove satisfactory on 10 day's trial. The dealer agreed and let him have the watch. Before the 10 days had expired, Mr. Ball sold the watch to another man. Can the jeweler recover the watch? If not, why not? To whom must he look for his pay? Why?

15

Organization for Purchasing

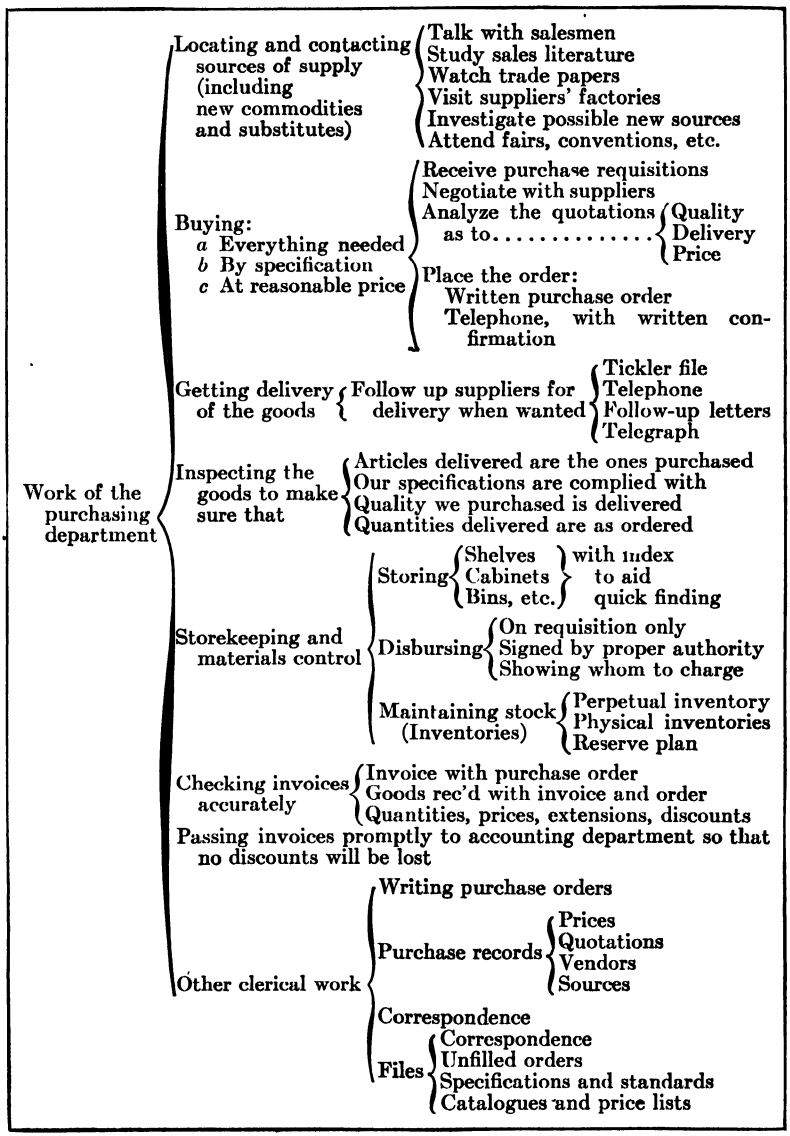
JUST AS every business has the sales function, so does every business have the purchasing function, though not always developed, perhaps, to the same extent that the sales function usually is. No business can get along without buying some things, and many businesses buy huge quantities of goods and materials.

Perhaps we can get a good start on our discussion of the problems of organization for purchasing if we look first at the four general types of items that are purchased and consider why there is a different aspect to each type. These four types are merchandise, materials, equipment, and supplies; and the purchase of each is more or less of a specialty.

Buying Merchandise and Materials

Merchandise, for example, is bought primarily for resale. The main features that the buyer of merchandise must look for are salability, style (in the case of style merchandise), and price. With materials, on the other hand, the prime essential is compliance with definite standard specifications, carefully drawn up by engineers after painstaking investigations to discover the material best suited for the purpose intended. Since materials are usually bought for manufacturing processes, it is imperative that they be of uniform quality if the manufacturing process is to turn out a uniform quality of product. Not that substitutes may not be used but that, before substitutes are used, their composition and suitability must be examined and tested. During the Second World War many concerns found themselves unable to procure metals and other materials that went into their products; they had to find substitutes or go out of business.

More than one concern found that the substitute that it had been reluctantly forced to use proved to be better than the material previously used for years.



The ability to buy merchandise that will sell is distinctly different from the ability to buy materials for production. The

technique of buying is different, the objectives are different, and so are the qualifications of the individual doing the buying. Even the titles are different: the buyer of merchandise for resale is called a "merchandise man," or a "merchandise manager," or a "buyer"; the buyer of materials for production is usually called a "purchasing agent"; if he specializes in one or a very few kinds of materials, he may be called a "buyer," also.

The merchandise buyer has in the back of his mind the customers to whom he hopes to sell what he buys. His whole success depends upon his ability to determine what will sell; some guesswork enters in. There is an element of gambling which attracts many individuals; but the wrong guess may well cost the buyer his job.

The materials buyer, on the other hand, has to locate dependable sources of the specified material, at a reasonable price, and get delivery. If the purchasing agent cannot get delivery of needed materials, things slow down right away, in the absence of stock piles. If the purchasing agent pays too high a price, the firm may have to raise its price on the finished product.

The merchandise buyer, when examining merchandise submitted to him, is always thinking "Can I sell this?" The materials buyer is thinking "Where can I get materials that measure up to the stated specifications?" The objectives are different, the outlook is different, the techniques are different, and so is the organization.

Buying Equipment

The third type of item purchased is equipment. Equipment is purchased because of the time and labor it will save in turning out accurate work. The huge press in an automobile-body plant turns out a sedan-body top in practically one operation from a sheet of metal, doing in seconds what formerly took hours. But unless the body plant can use the tops as fast as the press can stamp them, the machine may not pay its way. Before equipment of any kind is purchased, the requirements of the work to be done must be determined and the equipment examined as to its suitability for the purpose.

Take a very simple operation in an office, that of adding columns of figures. Machines are available that can add columns of figures with remarkable speed; but if there is only one column of figures to add each day, the purchase of an expensive adding machine might well be questioned. On the other hand, accuracy is equally important with speed.

In the case of a typewriter, two other factors enter into the consideration of whether a one-man office, for instance, should purchase a typewriter. The legibility of typed letters is a decidedly important factor; so is appearance. Furthermore, copies are readily made by using carbon paper.

Another point in this connection is that equipment purchased is expected to last some time—frequently several years. Consequently, in most firms, its purchase is attended with thoughtful care. Many firms require a vote of the executive committee before equipment costing over a stated amount may be purchased. Sometimes, this amount is $500; in one firm it is $50.

Buying Supplies

Supplies include soap, lubricating oils, greases, stationery, toilet paper, and similar items which are used within the company, which do not enter into the manufacture of the product, and are not resold to others. The purchase of supplies is, or should be, subject to the same considerations as the purchase of materials—upon specification. Since supplies, however, are used up within the concern and have no effect on customers, some companies are not so careful in their purchase as they should be. Unless attention is given to the problem, supplies are likely to be purchased on a price basis rather than on a quality one. This pennywise, pound-foolish policy is expensive, but one easily overlooked by everybody, unless someone who knows how expensive it is goes hunting for chances to save money.

The buying of merchandise for resale is generally confined to trading businesses, while the purchasing of supplies and equipment is common to all businesses. Furthermore, since the buying of materials has much in common with the buying of supplies and equipment, we shall concern ourselves with the organization for the purchasing of these three.

Standard Purchase Specifications

The use of standard specifications in getting quotations and placing purchase orders assures more uniformity than can be obtained by simply saying "1,000 like attached copy." Observe how clearly the following purchase specification covers every point.

Standard Specifications for Form 955

Print, perforate, punch, and bind 1,000 "Sales Contracts," Form 955, copy attached. Size 8 1/2 x 14. Print in purple copying ink on Yellow National Bank Bond, basis 17 x 28–25 1/2. Perforate 1/2 inch from the top of the form with perforating rule so that contract and receipt will be 13 1/2 inches long after being torn at perforation. Perforate 2 1/2 inches from the bottom of the form so that the contract will measure about 2 1/2 inches after being torn at perforation. Punch two 3/8-inch holes at top of form, 5 inches, center to center. Bind at top without covers or backing, using side wire stitch, 25 sheets to a pad. Printer will furnish stock.

Who Should Do the Purchasing?

One of the first questions to come up is "Who will do the purchasing?" The sales manager looks after the sales, the factory manager looks after the manufacturing, the credit manager passes on the credits. Who shall look after the purchasing?

Formerly, the purchasing in many concerns was done by department heads or by the officers. It is still done that way in some companies. But progressive firms are finding out that it usually pays to concentrate all the purchasing in one central department and make it responsible not only for procuring all materials, equipment, supplies, and services required for carrying on the company's business but for getting material of a

standard quality and at reasonable prices. The larger purchases that result make possible lower prices and more uniform quality.

An Argument for Centralized Purchasing

The general purchasing department of a national concern made an investigation to find out how much its branches were paying for motor oil for their automobiles and trucks. The figures reported by the branches show the brands of oil bought, the quantities purchased, and the price per gallon.

Branch	Brand bought	Quantities	Gallon price
Atlanta	C	1 bbl.	$ 80
Birmingham	K	1 qt.	1 00
Boston	E	Contract	.42
Chicago	A	Contract	.47
Cincinnati	I	1 bbl.	55
Dallas	G	5 gal.	90
Detroit	D	1 qt.	1 25
Indianapolis	J	1 bbl.	1 20
Kansas City	H	1 bbl.	1 03
Memphis	D	½ bbl.	.47
Milwaukee	D	½ bbl.	.45
Minneapolis	D	½ bbl.	.52
New York	C	3 bbl.	.54
Philadelphia	D	½ bbl.	.90
Pittsburgh	F	1 bbl.	.54
Rochester	C	1 qt.	1 20
St. Louis	B	Contract	50

As a result of this investigation, which showed 17 branches buying 11 different brands varying in quantity from 1 quart to 3 barrels, at prices ranging from 42 cents to $1.25 a gallon, a contract was made with one oil company to supply its brand direct to each branch as needed, in barrel lots, at a uniform price of 47 cents a gallon.

Furthermore, deliveries can be followed more closely by a man who does nothing else than by a department head who has many things on his mind. Besides, a man who is giving his entire time

Law for the Purchasing Agent

1. An offer to buy or sell may be withdrawn any time before it has been accepted.

2. Your offer to buy is made when your letter is delivered, not when it is mailed; but you may withdraw your offer before the offer is accepted.

3. The contract is completed when the letter accepting your offer is mailed; therefore you cannot withdraw an offer after the acceptance has been mailed, even though you never receive the letter of acceptance.

4. If an offer is worth accepting, accept it at once, or it may be withdrawn.

5. If an article is damaged when shipped or while in transit and the carrier is chosen by the seller, the buyer must either return the article to the seller or pay for it. If the buyer is compelled to buy a sound one at a higher price, he may recover the difference in price.

6. If an article you buy is not as represented, you can get your money back or collect damages actually sustained, provided that you return the article without unnecessary delay.

7. If, however, you purchase damaged goods after inspection, then you cannot collect damages. *Caveat emptor* means "let the buyer beware."

8. If you buy an article and leave it in possession of the seller, you are the loser in case it is stolen.

9. If you buy an article on trial, the seller is the loser in case it is destroyed before there has elapsed a reasonable time for trying it.

10. If you buy with the privilege of returning, you are the loser in case the article is lost.

11. There are differences in rules of law in the different states of the United States. Generally the law of the state in which delivery of the goods is to be made is the law that fixes the rights of the parties if the contract is silent on that point.

to purchasing can seek out sources of supply that may be advantageous in more ways than one. He can keep in touch with markets, watch the development of new products and substitutes, and keep his finger on price changes and trends. He has time to talk with salesmen, to visit and inspect the factories of those concerns who supply his wants, and to attend fairs and trade conventions where the progress of invention and manufacture is displayed. In other words, the purchasing agent provides the eyes and ears of the concern in many ways.

It is also important for the purchasing agent to know what makes a contract valid, to be able to gauge the value of warranties, to be familiar with the liabilities of common carriers for loss or damage, and to know under what circumstances orders may be recalled or canceled.

Specialists

Some of the assistants in a large purchasing department may be specialists in buying certain articles. For instance, a man who is a good buyer of printing and stationery would specialize on those items, while one or more other men would be specialists in the materials used in manufacturing the company's products, such as marble and tin in a concern making soda fountains, woolens in a clothing factory, or steel in a tool concern. Another assistant will supervise the writing and telephoning of purchase orders; still another will attend to following up suppliers for delivery; one person will be responsible for checking invoices and another for operating the files. There is always considerable correspondence requiring the services of stenographers and typists. Calculating-machine operators are helpful in checking invoices and figuring discounts. As with the credit department, the office work of the purchasing department includes gathering information and keeping it where it may be quickly referred to, requiring records and files.

Routines are established to make sure that no unauthorized purchases are made, that purchase orders are placed promptly, that suppliers are followed up for delivery, that supplies are received as ordered, and that payment is made for what has been

received, at the prices agreed upon, in time to take the cash discounts.

Authority to Purchase

There are relatively few nontrading concerns where the purchasing agent buys without having a specific request to make the purchase. In other words, no matter how good a buy may be at any time, the purchasing agent is not ordinarily supposed to purchase anything unless he has been authorized to do so. You will see that this arrangement is logical when you recall that one reason for having a purchasing agent is to relieve department heads of the work of purchasing. That is, the purchasing agent does the buying for the department heads instead of each department head doing his own purchasing. Since this is the case and since department heads know what they want and when they want it better than any one else can, the purchasing agent is not authorized to buy anything without a request to do so from a department head or someone else in authority.

However, there is nothing to prevent a purchasing agent from suggesting to a department head that now is a good time to buy certain materials because of low prices, special conditions, or other circumstances affecting the market. For instance, he may learn that, because of some happening in the locality where material used by the firm is produced, a particular item is going to be very scarce and that, by buying now instead of waiting until later, he may be able to get very favorable prices. He may not have any orders to buy this material but, by inquiring of his associates whether or not some more of that material will be wanted before long, he can learn if it is wise to buy it now and save money as well be sure of the supply.

The Purchase Requisition

The real work of buying, then, starts with a request to purchase something. The purchasing agent receives requests for materials, equipment, and supplies from all departments of the company. These requests are called "purchase requisitions," and it is from them that the purchasing agent finds out just what is wanted and how much he is to buy. A form of purchase requisition used by one concern is shown on page 425. This

requisition furnishes a simple means of communicating to the purchasing agent the requirements of a department, as well as

No._____ PURCHASE REQUISITION Date_____

Purchasing Agent Wanted_____

Please furnish_____ Department with the following:

(State quantities, sizes, approximate prices if known, and sufficient description of the articles desired to identify exactly what is wanted.)

Requisitioner_____

The requisitioner must not write below this line. Department head_____

Ordered from_____ Date_____

Order No._____

Delivery expected_____ Approved_____

From this form the purchasing agent learns what the other departments desire purchased.

the authority for buying the material wanted. It should, therefore, be signed by the department head and by the person requesting the purchase.

Usually, two copies are made of the purchase requisition. Just how many copies should be made depends upon the requirements of the concern. The purchasing agent must have one, of course. Then if the person making out the requisition keeps a copy, he will know just what he ordered; when the material comes in, he can use his copy to check the accuracy of the count.

In some concerns both copies go to the purchasing agent, who notes on the duplicate when delivery may be expected and returns it to the requisitioner. This duplicate also serves as an acknowledgment from the purchasing department that the original requisition has been received and acted upon.

Selecting the Supplier

As soon as the purchasing agent receives the requisition, which has been approved by the department head, he proceeds to buy the goods requested. He may know just where to get

exactly what is requested, or he may have to make a search for it. If the item is one that is frequently ordered, the purchasing agent's records, if properly kept, will show him the best source of supply of that item and the price last paid.

Every purchasing agent has occasion from time to time to refer to his record of invoices from concerns with whom his house has previously dealt. In some offices a card is made out for every kind of article purchased, giving the name of the firm from whom bought and a complete record of prices, discounts, and allowances, together with pertinent remarks as to service, quality, and other items of interest. Sometimes it is helpful to maintain a price record like that shown on this page, which shows quotations received on the material that the company uses or is likely to use, with details as to prices, terms, and delivery.

QUOTATIONS

Article_____

Size and quality_____ Quantity_____

Date	Firm	Catalogue file	Terms			Time needed for delivery
			Price	Discount	Freight	

A quotation record helps the purchasing agent to know when he is getting a reasonable price.

In addition to the record of prices and the record of quotations, the purchasing agent should be able readily to find catalogues, price lists, and other circulars received from different supply houses. These are usually filed by a numerical plan described later on.

The Haddon Craftsmen.

INCORPORATED

Where Federal crosses Nineteenth

CAMDEN NEW JERSEY

Gentlemen —We take pleasure in submitting you the following quotation, based on your specifications submitted to us

Description and No of Copies

Size

No. of Pages

Composition

Electrotyping Engravings

(plates to be of uniform size and thickness if furnished by customer)

Text	Cover	Wrapper	Illus	End Paper

Presswork and Color Ink

Stock, Body

Stock, Cover and Inserts

Binding [Saddle Side Sewed]

(see Trade Customs on reverse side)

Delivery F. O. B.

All quotations and offers are based upon the assumption that the work will be done under conditions existing on date of estimates Should costs be increased or decreased by Government regulation or otherwise beyond our control before orders are filled, increased or decreased cost to complete and ship shall be added to or subtracted from prices quoted, unless otherwise arranged at time of placing order, conditions permitting. Also subject to Trade Customs on reverse side.

Price

Terms

This quotation is made subject to rechecking and to the approval of our sales manager or an officer of the company, and the terms of payment are to be approved by our Credit Department.

The Haddon Craftsmen Inc (and its Associated Companies in its plant, at Camden, N. J.), except fire, cyclone, tornado, sprinkler leakage, and other insurance on the buildings and contents, but recommends that all persons of the Company property and adequately insure any and all of their property of any substantial value that may be placed on the premises, as The Haddon Craftsmen, Inc., cannot assume and therefore does not undertake any express liability or liability for loss of or damage to by fire, water, tornado or other cause the property of others on its premises.

This proposition and detail on reverse side covers your specifications completely.

We shall be pleased to answer any questions and to assist you with your printing problems.

When accepted this constitutes a contract which must completely cover specifications. Instructions and agreements must be in writing, and receipt of same must be acknowledged in writing. The Haddon Craftsmen Inc., cannot be held responsible for verbal communications

Hoping to receive your order, we remain,
Very truly yours,

THE HADDON CRAFTSMEN
(INCORPORATED)

Per.... . .....
Sales Dept.

ACCEPTED

Date 193 .

Firm or Company ... ..

By ....

Title or Position . .

New York Office· Equitable Life Assurance Building, 393 Seventh Avenue. Phone· PEnnsylvania 6-9790

Courtesy of The Haddon Craftsmen, Inc.

It may happen, and often does, that there are available no recent prices of the material to be bought, making it necessary to get quotations or estimates from reliable firms. Where several firms are asked to "bid," as it is called, a specification blank like that on page 427 may be used. When the bids have been received from those concerns which are interested in getting the order, the buyer decides where he shall place the order, keeping in mind these requirements: quality, price, and delivery. Some concerns manufacturing a very high quality of goods ask correspondingly high prices, while others, who make good grades at low or reasonable prices, may be handicapped in delivering on time; a third concern may be able to make quick deliveries, and the price may be right, but the goods are not up to standard. The buyer must watch all three factors.

The Purchase Order

When the purchasing agent has decided to which supplier he will give the order, the next step is to write out the order on the regular purchase-order blank. A standard purchase-order form is shown on page 429. Even when the order is telephoned to the supplier or given directly to the salesman, it is customary to confirm it in writing. Sending the regular purchase order is the simplest way, provided it is marked "Confirmation of Order Placed by Telephone on Jan. 16," so that the supplier will not think it is another order and duplicate the shipment. Frequently, the purchasing agent, in telephoning, will give the supplier a purchase-order number, which then identifies that order.

As many carbon copies of the purchase order are made as is necessary. The original is sent to the firm from which the purchase is made. One copy is sent to the receiving department, so that the shipment can be checked when received. Some firms omit the number of articles ordered by using a short carbon on this second sheet; this makes it necessary for the receiving clerk to count articles carefully. Other firms feel that the receiving clerk can do his work faster if the quantity ordered is included.

One copy of the order remains in the purchasing department and is filed by purchase-order number. A fourth copy is made on a card and used for follow-up purposes. This follow-up copy

ORIGINAL

THIS ORDER FORM COMPLIES WITH THE NATIONAL STANDARD PURCHASE ORDER FORM.

PURCHASE ORDER

OUR ORDER NO 3750

DATE

National Association of Purchasing Agents Inc.
11 Park Place, New York

RENDER INVOICE TO

We prefer invoices on Simplified invoice form.

ENTER OUR ORDER AS FOLLOWS FOR DELIVERY TO:

VIA

DELIVERY TO BE MADE ON OR BEFORE PLEASE ACKNOWLEDGE

UNLESS OTHERWISE STATED IT IS UNDERSTOOD THAT THE INVOICE COVERING THIS ORDER IS TO BE SUBJECT TO A DISCOUNT OF 2 PER CENT FOR PAYMENT ON OR BEFORE THE TENTH OF THE MONTH FOLLOWING DATE OF INVOICE

OUR ACCOUNT NUMBER	DESCRIPTION	PRICE
	TOTAL	

National Association of Purchasing Agents Inc.

PER

Courtesy of National Association of Purchasing Agents, Inc.

If all purchasing departments used a standard purchase order form, there would be only one place to look for the same items of information, thereby saving time in handling the order.

is filed with other unfilled orders, alphabetically by name of supplier. A tab signal is used to show when the order is to be followed up.

Following Up Suppliers

Unless ordered goods are received by the time they are needed, important work may be held up for lack of them. A

careful follow-up is therefore important. Each morning the follow-up clerk takes out of the unfilled-order file those cards which are to be followed up that day. If the supplier is located in the same city, or near by, the follow-up clerk will telephone and ask when the goods will be delivered. If the supplier is located out of town, the clerk will telephone, telegraph, or write the supplier, depending on how badly the goods are needed. If the complete order cannot be delivered, sometimes the follow-up clerk will ask the supplier to deliver part of it. Whatever response is received, the clerk makes a note on the card copy of the purchase order and refiles it in the unfilled-order file to come up again later on.

Daily Follow-Up On Purchase Orders

Ordered from	Date ordered	Order	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31

A form like this helps the purchasing agent to keep track of purchases.

Instead of using a card for follow-up, one purchasing agent uses a sheet about 8½ by 11 inches in size, ruled with 31 columns to represent the days of the month, as shown on this page. In the wider columns at the left of the sheet are written the name of the supply house and a brief summary of the goods ordered, together with the date ordered. A pencil check mark is then made in the column under the date when delivery is to be expected.

Follow-up Routine. Purchase orders are followed up in this fashion: from 2 to 5 days before the date set for delivery, the purchasing agent or his assistant calls up the supply house and asks what progress is being made on the order. The reply will fall into one of three classes, thus,

1. Delivery will be made on time.
2. Delivery will be made at a later date than originally agreed.
3. Cannot tell when delivery will be made.

If the supply house says the order will be delivered at or before the time agreed upon, then no mark is made on the follow-up sheet. But if delivery is going to be late, a red check mark is placed against the new date; each time the date is postponed, a new red check mark is made against the new date. When delivery is finally made, a blue check is made on the date of delivery. This shows that the order has been completed and that no further follow-up is necessary.

The red check mark serves a double purpose; it not only shows that deliveries are late, but it also shows which firms do not make deliveries when promised. This information may be helpful when the purchasing agent is placing orders in which prompt deliveries are an important factor.

Every morning the follow-up sheet is checked with the shipments received during the previous day, as shown on the list that the receiving clerk sends to the purchasing department every night.

Receiving and Checking Deliveries

All deliveries by suppliers are made to the receiving department. The clerk there signs for the goods on a driver's receipt, then has the goods unpacked and the contents counted and compared with his copy of the purchase order. Any discrepancy is noted on the order, which is then sent to the purchasing department as notification of the arrival of the goods. Meanwhile, the goods are sent to the storeroom or to the department that originally requested them. Many concerns require the receiving department to keep a daily report of shipments received. Two copies are made, the original going to the pur-

chasing department at the end of the day, and the carbon copy remaining in the receiving department as a control.

MATERIAL RECEIVED AT STOCK ROOM _____ 19___

FROM	P.O. No.	MATERIAL	QUANTITY	LOCATION

_____
Stock Clerk

A mimeographed form like this is just as effective as a printed one with colored ruled lines.

Inspection. Inspection of the goods for quality may take place in the storeroom, in the department ordering the goods, or in a testing room or laboratory designed for the purpose. A report of the result of the inspection is made to the purchasing agent and filed.

Two Effective Controls. Some material may be received for which the receiving clerk has no duplicate purchase order. Before accepting such delivery, the receiving clerk may telephone the purchasing department to find out whether the goods were ordered. If not, he refuses to receive them from the delivery man or else lays them aside to be returned later.

Most concerns also require the supplier to place the purchase-order number on each package delivered. Should any be received not bearing the number, the receiving clerk may refuse to accept delivery; where many deliveries are being received every day, there is not always time to check on packages on which the supplier has neglected to place the purchase-order number.

When the purchasing department receives the receiving-department copy of the purchase order as notice of delivery, the follow-up clerk in the purchasing department goes to the

file of unfilled orders, takes out the card copy of the purchase order, attaches it to the receiving-department copy, and puts it back in the file to await the arrival of the invoice from the supplier.

Checking Purchase Invoices

As soon as the invoice is received from the supplier, the card copy of the purchase order, with the receiving-department copy attached to it, is taken out of the unfilled-order file and clipped to the invoice. The invoice clerk in the purchasing department proceeds to check the invoice against the purchase order, by comparing the information on the invoice with that on the purchase order.

First he compares the supplier's name and the purchase-order number, to be sure that they agree. Then he checks the descriptions of the goods and the quantities, and finally the prices and terms. If these agree, all that remains is to check the extensions and footings by multiplying the quantity of each article by the unit price and adding the resulting amounts. He may also compute the discount. If his computations show that the invoice is correct, he approves the invoice by writing his initials on it or by using a rubber stamp to show approval; then he attaches the invoice to the receiving-department copy of the purchase order and sends both to the accounting department for payment. The follow-up card has no further value and is usually destroyed, unless the purchasing agent wishes to keep a record of deliveries by this supplier.

Sometimes the supplier's invoice arrives before the goods are delivered. When that happens, it may be attached to the follow-up card of the purchase order and refiled in the unfilled-order file to await the arrival of the goods. If this is done, there is a danger that the goods may not arrive until after the discount date of the invoice. To prevent losing the discount, many firms place a follow-up on the invoice, so that it will come up again to be paid in time to take the cash discount. There is no objection to paying bills of reputable suppliers before the goods arrive. In any case, it should not be forgotten that the time within which a cash discount may be taken is reckoned from the date of the

The Work of the Purchasing Department

1. The primary function of the purchasing department is to buy needed material of the desired quality at the lowest price obtainable. Sometimes this department is responsible also for receiving and checking goods when they arrive, as well as for their subsequent storage.

2. By having all purchasing done through one department, it is possible to secure the lowest prices and close uniformity of material; also to check accurately deliveries of material bought.

3. The purchasing agent keeps close watch on the market conditions relating to price and supply.

4. When the supply is plentiful, prices are usually favorable. For this reason purchases should be made at such times, if possible, even if the material purchased is not needed at that particular time. By the time the material is needed, prices may be considerably higher.

5. A carefully kept set of records helps to eliminate mistakes and uncertainty in buying.

6. If a farsighted purchasing agent foresees a shortage, it may be well for him to purchase more than enough to satisfy the present demand, counting on saving the difference in higher prices later on.

7. A purchase requisition is a written request for the purchase of supplies and must be signed by the manager as well as by the person requesting the purchase.

8. In getting estimates, the quality, the price, and the time an article can be delivered must all be considered.

9. The location as well as the reliability of a firm may affect the prompt delivery of an order.

10. A careful check should be kept of the time of delivery of goods, in order to avoid delays on subsequent orders.

invoice and not from the time the goods arrive, unless some other understanding is had with the supplier. Regardless of when the goods arrive, if the bill isn't paid within the time allowed for discount, the discount is not earned and should not be taken.

The Catalogue File

There is a continuous stream of catalogues, circulars, and price lists pouring into the purchasing department from suppliers. It is not necessary, of course, to keep everything that is received. The purchasing agent and his assistant can usually determine very quickly what should be kept and what destroyed. But without some definite method of sorting and classifying what is kept, it would be of little or no value, since the purchasing agent would be unable to find any desired catalogue. For this reason some provision should be made for arranging this material so that it can be quickly referred to. To do this involves providing a place for keeping the catalogues and devising an index system for locating them.

Some concerns use bookcases for such filing; others use vertical-file drawers. One Chicago concern has a cabinet which was built especially for the purpose and is very effective. This cabinet, which is about 6 feet high, 5 feet wide, and 10 inches deep, has built into it shelves and compartments of varying heights and widths, so as to accommodate the different sizes of catalogues. Each compartment bears a number to identify it.

As a catalogue arrives to be filed, it is assigned to a compartment large enough to hold it comfortably. A small gummed label is pasted on the catalogue, bearing the number of the compartment to which it was assigned and the date the catalogue was received. Two 3- by 5-inch index cards are then made out, one showing the name and address of the supplier and the other the general nature of the material listed in the catalogue and also the name of the supplier. The compartment number and the catalogue date are also placed on each of the two index cards, which are then filed alphabetically in two drawers built into the cabinet at a convenient height for easy reference. The catalogue is then placed in the compartment assigned to it.

Since each compartment is wide enough to hold only five or six catalogues, any desired one may be easily and quickly found. Two swinging doors keep out the dust when the cabinet is not in use.

Questions for Discussion

1. Why isn't the purchasing function of a business usually developed to the same degree that the sales function is?
2. What are the four general types of items purchased? Can you think of any items that do not come under these four heads?
3. Comment on the buying of merchandise.
4. Contrast the buying of merchandise with the purchasing of materials.
5. How is uniform quality of materials brought about?
6. What advantage is there sometimes in having to buy substitutes?
7. What should be considered before equipment of any kind is purchased? Illustrate your answer with examples.
8. How is the purchase of equipment often restricted in many concerns?
9. What does the term "supplies" include?
10. Should supplies be purchased on specification, the same as materials? Explain.
11. What may happen if supplies are purchased on a price basis rather than on a quality one?
12. Why is the question, "Who should do the purchasing?" important?
13. What are the advantages of centralization of purchasing over decentralization?
14. What are some of the features of the organization of the purchasing department?
15. What routines are established in the purchasing department?
16. Why shouldn't the purchasing agent ordinarily make purchases without specific authority? Or should he?
17. Do you think that the restriction mentioned in question 16 is likely to impair the value of the purchasing agent to the company? Why or why not?

18. What is the purchase requisition, and what is it for?

19. Explain fully the routine of the purchase requisition.

20. What are some of the records used by the purchasing agent in handling the purchase requisition?

21. In deciding where to place a purchase order, the purchasing agent keeps in mind the three factors of quality, price, and delivery. Why? Comment.

22. Describe or explain the routine of the purchase order.

23. Why are several copies of the purchase order made by some concerns?

24. How does the purchasing department follow up purchase orders?

25. Describe or explain the routine of the receiving department.

26. Where and why are purchased goods inspected?

27. What happens when the receiving clerk receives material for which he has no duplicate purchase order?

28. Why should the supplier place the purchase-order number on each invoice and each package?

29. How does the receiving clerk notify the purchasing department of the receipt of goods from a supplier?

30. Describe or explain the purchase invoice routine of the purchasing department.

31. Comment on the practice of taking cash discounts before the goods have been received.

32. Describe or explain a system for filing catalogues and price lists in a purchasing department.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Ask some purchasing agent to show you how he makes out a purchase order.

2. From the purchasing department of a local concern, get a complete set of purchase orders. Across the face of each copy, write what is done with that copy, and why.

3. Describe the arrangement of a storeroom in a local concern.

4. Watch a clerk in some purchasing department check several invoices. Then describe what he did and why.

5. Find out how catalogues are filed in some local concern.

Problems

1. Purchasing agents usually place orders upon the basis of price, delivery, and quality, sometimes referred to as "P.D.Q." Which of these three factors do you think is the most important? Why? Ask three of your classmates this same question. Then ask a purchasing agent, a factory manager, and a mechanical engineer. Compare the answers you receive and then revise your own conclusions in the light of this information. If the three men gave different answers, can you explain why they were different?

2. The work of the purchasing department includes placing orders, following up suppliers for delivery, and checking the invoices for payment. Which of these do you think is the most important? Why? What answer would a supplier probably give you? Why?

3. Prepare a standard practice manual for use in the purchasing department of an insurance company's home office. (If some concern other than an insurance company is preferred, there is no objection to substituting it.) This manual should describe every step taken by the purchasing department from the time it learns that something is wanted until the goods are received from the supplier and placed in the storeroom or delivered to the department that wants them, and the bill checked and turned over to the treasurer for payment.

Prepare the forms used in the purchasing department, and in your manual show how the forms are used.

You might also prepare an organization chart of the purchasing department, indicating clearly the duties of *each* person in the department.

a. What items does the purchasing agent of an insurance company buy?

b. Where does he buy these items?

c. Are these items, when received from the supplier, stored until they are used up?

d. How does the purchasing agent know when they are used up?

e. What steps are necessary before an order is placed?

f. How is the order placed with the supplier?

g. Does every supplier deliver the goods ordered when they are wanted? If not, what does the purchasing agent do to get the goods in?

h. How does the supplier tell the purchasing agent the price of the goods delivered?

i. What does the purchasing agent do with this information?

4. How can a purchasing agent check on how much to order if he believes the requisition to be either too much or too little? Explain.

5. The purchasing agent of a certain manufacturing concern orders his hardware and plumbing supplies through a dealer. An order comes through every other week for certain standard sizes of fittings. If the agent could order large quantities two or three times a year, he believes that he could get jobber's prices. How can he find out how much to order? Should he try to do as he proposes? Explain.

6. Following usual practice, the purchasing department of a manufacturing concern buys certain standard articles only when requested. One item, used only by the production manager or engineer, is always requisitioned at the last minute, when, of course, they are in a rush to get it. What should the purchasing agent do? Give your reasons.

7. The buying for a five-and-ten-cent store is divided between the manager, the assistant manager, and the floorman. Each buys for a certain number of departments. All the orders for each week should be in by Wednesday of that week, but usually they are late. The men say that their other work keeps them busy. The manager, who O.K.'s all orders, is always behind. He is limited to a certain amount each week for buying. Usually the orders have to be reduced, and often the goods that are most needed are cut down. What is the problem, and how would you solve it? Give your reasons.

16

Organization for Storeskeeping

THE STORESKEEPING function is concerned with providing a place or places for safely and conveniently storing materials and supplies that are not needed for immediate use, for disbursing or issuing such materials as required, and for seeing that the supplies do not run out before additional quantities are ordered and received. One person is usually placed in charge of all stored materials and supplies and made responsible for everything in connection with them. He may be called the "storeskeeper," the "stock clerk," or the "stockman." In a large concern he may have several assistants, including one or more record clerks. Sometimes the stock clerk is also responsible for receiving and shipping, which would then include packing.

Two Purposes

The storeroom, where are kept the stores, stock, supplies, raw material, merchandise on hand, or whatever name may be applied to the material kept there, serves two purposes, which are of nearly equal importance: The stores must be safe from fire, theft, and deterioration, and they must be accessible when wanted. These two purposes must be served, whether the stores are kept in a small supply closet or in a ten-story building called a "warehouse"; whether they are kept in tanks, as oil is kept; or whether they are spread out over acres of ground, as in a lumberyard. In some instances, fireproof vaults are required for safety; in others metal bins, racks, shelving, or containers are needed for convenience. If the equipment is movable, adjustable, and interchangeable, it can be adapted to meet the changing requirements of the storeroom.

Handle Like Cash

In any case, stores must be kept under lock and key, with access to them strictly limited to a very few persons. When materials and supplies are kept haphazardly and not under adequate control, there is certain to be waste due to careless handling and, sometimes, theft. There is no reason why stores should not be handled as carefully as cash is handled, with strict accountability. In one respect, stores are a form of money, in that stolen goods are often readily exchangeable for money.

Deterioration may arise from dust, heat, sunlight, falling, dampness, dryness, and so on.

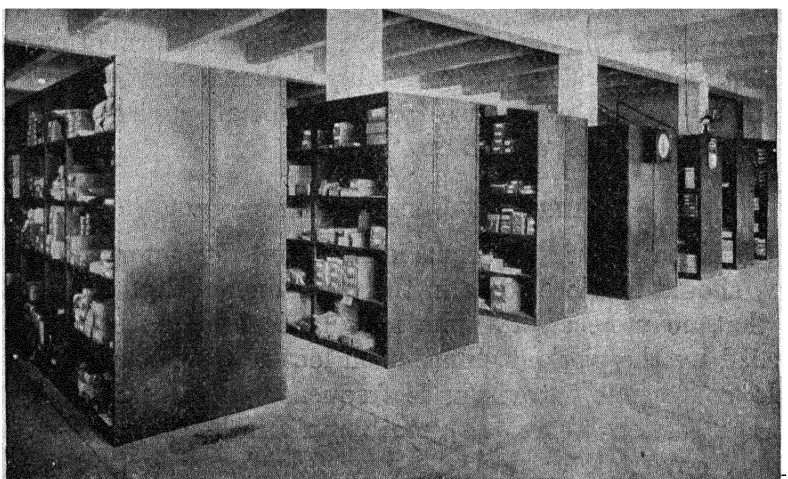
Where to Locate Storerooms

The location of storerooms is an important factor. Logically, they should be close to or in the departments that they serve, so that no unnecessary time may be lost in procuring items needed by the workers. Since such location is not always possible or feasible, provision is frequently made for a central storage section where the main supply is kept, and for local supply centers in or near the department served. Any modification of this plan may be used which best suits the circumstances and the type of work carried on. The principles of storeskeeping are the same, whatever plan is followed.

If small local supply depots are used, care should be exercised and a close check maintained to be sure that no item runs out. The main argument against small local supply stations is the expense of carrying the larger total stock required, and the larger spoilage and deterioration likely to accompany decentralization. Against this larger cost should be placed the saving of time in being able to get quickly what is desired. Often a compromise between the two is necessary. At its Nela Park offices, the General Electric Company provides for each desk worker an individual supply cabinet attached to the wall, so that she can reach it without moving from her desk.

It would seem obvious that storerooms, in addition to being conveniently near those departments which they serve, should be located so that they may be reached from the receiving

department without too much handling and transportation; yet this point is sometimes overlooked. Unnecessary handling of materials adds to the cost but not to the value. For our purposes, we shall consider that the stores are kept in one or two rooms, adjacent to the receiving and shipping department, and that metal bins and shelving like those shown on this page are used to hold the materials stored.



Courtesy of Burroughs Adding Machine Company

A place for everything and everything in its place, where it can be found quickly when wanted.

Analyzing the Situation

The arrangement of the storeroom itself has a bearing on the effectiveness of the service it renders. If careful and intelligent thought is not given to this point, some items will be misplaced, others will not be easy to get at quickly, and both time and energy will be wasted in issuing stored materials. Three factors are involved in storeroom arrangement:

1. Where shall incoming stock be received and unpacked?
2. Where should the delivery window or door be placed?
3. Where can each kind of item be best stored?

The area chosen for receiving and unpacking in the storeroom should be large enough to allow freedom of movement and should be located so that it is generally equally distant from all parts of the room and thus save unnecessary travel. Also, since

this section may be untidy at times, it should not be visible from the delivery window. In addition, provision should be made for prompt disposal of packing material on account of the fire hazard. Daily inspection of all stock rooms is not too frequent. The storeskeeper should be a good housekeeper and take pride in the appearance of his department. Neatness and orderliness in the stock room are indications of good management; like all housekeeping, however, constant vigilance and attention are necessary, but the results are well worth while.

This Saves Steps

The delivery window, like the unpacking section, should be equally distant from all parts of the storeroom. Within easy reach of the window should be placed those items that are most frequently called for. In some cases, one or two day's requirements may be so kept, the supply being replenished daily from the main stock kept in a less accessible part of the stock room. Care should be exercised, however, not to have too many places for storing the same item, lest some of them be overlooked. That has happened. Ordinarily, there should be only one place for the entire stock of each item, never more than two places—one for the current day-to-day supply, and the other for all the rest. The amount of space alloted to each item will depend on the maximum quantity to be kept on hand. Heavy items should be stored near the floor, so as to require little lifting either when being stored or when being issued. In laying out the stock room, as it is decided where each item is to be put, the location should be marked on a diagram of the room, and the bin and shelf also marked, so that when the stock clerk is away, the manager or any other authorized individual can find any material needed. An alphabetical index is of real help in locating desired items; this may be posted on the wall near the delivery window, or in some other convenient place where it can be referred to quickly.

Control Disbursements

Nothing should ever be given out from stock without proper authority. In well-managed concerns this is shown by a slip of paper indicating what is wanted, who wants it, who is getting it,

and to whom it is to be charged. This slip of paper, called a "stock requisition" or "material requisition," bears the signature of a department head or other person authorized to approve requisitions for withdrawal from stock.

When the requisition is presented to the stock clerk, he examines it to see if it has been properly approved and if the number of the account to which it is to be charged also appears. Then he looks at his index to see in which bin the material is stored. Going to that bin, he counts out the quantity called for and delivers it to the requisitioner. The stock clerk then makes a check mark on the requisition to show that it has been filled.

A Timesaving Plan

In some concerns, instead of delivering stock supply items to persons who present themselves at the delivery window, provision is made for collecting from each department, on certain days of the week, requisitions for supplies needed for a predetermined period, such as for the coming week. The stock clerk picks the items from stock, loads them on a delivery truck or wagon, and takes them around to the departments concerned. This plan has a number of advantages. Employees do not have to leave their workplaces in order to get supplies; they simply notify their supervisors in advance of their needs; or, as in the General Electric Company's office referred to, a supply clerk checks the quantity on hand at each workplace and replenishes the supply to bring it to the amount determined as standard. This method is in line with the modern tendency to bring work and materials to the worker and take away the finished work, thus enabling him to concentrate on doing the work rather than on hunting up the needed materials and supplies.

A Point Sometimes Overlooked

One point should be mentioned. If a truck or wagon is used, the aisles in the stock room should be wide enough to permit its passage, so that stock can be placed on it directly from the shelves or bins, without unnecessary lifting and carrying. We might as well get all the benefit possible, instead of only part

of it. Wide aisles and trucks also facilitate placing stock on the shelves when the supply is being replenished.

Do It Now

As stock is received, it should be inspected, counted, recorded on whatever stock record is kept, and placed upon the shelf or bin assigned to it, making sure that the new supply is placed in back and the old supply moved to the front or placed on top, in order to ensure its being used first. The use of the truck or wagon will save considerable energy otherwise expended in toting stock from the place where it is opened to the place where it is to be stored.

How Much Stock on Hand?

The work of the stock clerk does not end with putting material in the most convenient places, knowing where those places are, and issuing stock. In many concerns the stock clerk is expected to be able to tell exactly how much of every kind of material is on hand at any time. There are four reasons for this:

1. Since the stock on hand is part of the assets of the company, the manager must know how much stock is on hand in making up a balance sheet.

2. If insurance is carried on the stock, the manager must know how much insurance to carry.

3. A third reason is so the manager can tell whether enough material is available to fill certain orders or to carry out certain plans. In Chap. 13 we saw how one concern checks its stock on hand before putting through sales orders for stock items.

4. The fourth reason, and one of the most important, is to obtain a new supply before the present supply runs out, so that operations may not be held up for lack of materials or supplies. A good stock clerk never lets his stock of any article run completely out before ordering a new supply. On the other hand, he does not want to have so much ahead that it will deteriorate before it is used, to say nothing of taking up space for which the company may be paying rent.

Setting the Order Point

satisfactory method of watching stock is to set certain quantities as a minimum below which the stock on hand will not be allowed to go before a new order is placed. This "order point," as it is called, is the largest quantity that may be needed while a new supply is being provided. It is set for each item of stock and is based upon the character of the materials or supplies, the rate of use shown by experience and the time required for manufacture and delivery, as well as upon the trend of prices. When the quantity on hand reaches the order point, the stock clerk makes out a purchase requisition for a new supply and sends it to the purchasing department. The amount to order is not left to chance but has been previously determined for each item in stock. When the new supply arrives, the stock clerk puts it behind what is left of the old supply, so that the old supply will be used up first. If estimates of quantities have been carefully made, the old supply will have been nearly used up by the time the new comes in.

This Will Save Money

Right here it might be well to mention a point that is sometimes overlooked. No item should be reordered merely because the supply is running low. In well-organized and carefully managed businesses, provision is made for a review of all purchase requisitions for stock items by someone who knows what items should be reordered and which ones should be allowed to run out. In the case of printed forms, for example, when the supply reaches the order point, the stock clerk sends a copy of the form to the head of the department using the form, accompanied by a question sheet about the use of the form. The department head jots down his answers to the questions and sends all to the office manager, who then makes whatever investigation is necessary and approves or disapproves the reprinting of the form. This also gives everybody an opportunity to make any desired changes in the form before it is reprinted. By making this procedure a regular routine, there is slight chance of any item slipping by.

The Reserve Plan

A plan that many concerns find effective in preventing stock from running out is known as the "reserve" plan. A quantity equivalent to the order point previously mentioned is set aside as a reserve, wrapped or placed in a small box, bag, or envelope of the proper size, and plainly labeled in red, "Reserve." This reserve supply is placed back of the regular supply. When the regular supply is all used up, it is necessary to open the reserve package and place a new order at once. Under this plan it is not necessary to keep stock records for the purpose of maintaining a supply on hand. Notification is automatically brought to the stock clerk's attention when the reserve package is opened. With materials stored in racks, the quantity representing the order point may be banded or tied together with red tape and

RESERVE!

OPEN THIS PACKAGE LAST

AS SOON AS YOU OPEN IT

Give This Label to Miss Ladd for Reordering

Contents_____of_____

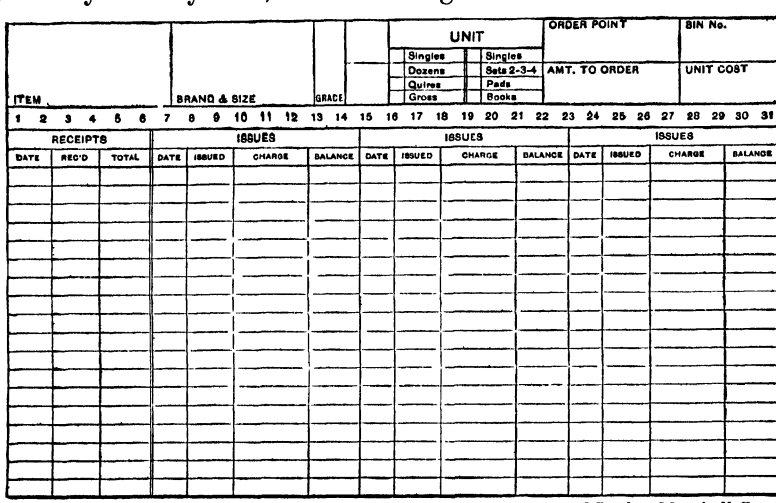
This label, printed on red paper, is pasted on the outside of the packages set aside as a reserve.

not disturbed until the rest of the material in that rack is issued. With heavy or bulky material, a red dividing board may be placed above the quantity representing the order point. If a full bin or shelf is an order point, that fact must be indicated by the red label.

How Often Should an Inventory Be Taken?

Many firms keep their stock records on cards showing quantities received and quantities issued. The difference should,

of course, be the balance of stock on hand. Whether it is or not can be determined only by actually counting the stock. Such a count, called a "physical inventory," is taken by some concerns once a year and by others monthly or weekly. Usually two people work together in taking inventory, one person doing the counting while the other records the quantities counted as they are called off. If the records are carefully kept, a complete physical inventory may not be necessary oftener than every 6 months or once a year. On the other hand, some concerns keep a continuous check on their stock records by having a stock clerk take one section of the stock room each day and compare the actual amount on hand with the stock record, correcting the record if necessary. In any case, items no longer used should be taken out



ITEM _____ BRAND & SIZE _____ GRADE _____ UNIT: Singles, Dozens, Quires, Gross; Singles, Sets 2-3-4, Pads, Books — ORDER POINT — BIN No. — AMT. TO ORDER — UNIT COST

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

RECEIPTS			ISSUES				ISSUES				ISSUES			
DATE	REC'D	TOTAL	DATE	ISSUED	CHARGE	BALANCE	DATE	ISSUED	CHARGE	BALANCE	DATE	ISSUED	CHARGE	BALANCE

Courtesy of Parker Marshall Company

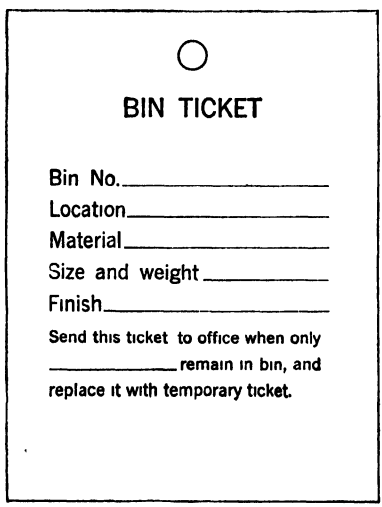
This stock record card is devised to reduce to a minimum the amount of work required to watch stock.

of stock and disposed of, to make room for "live" items. Some concerns examine their stock-record cards at intervals and investigate all cards on which there have been no issues since the last inspection. In this way, obsolete items are cleared off the shelves.

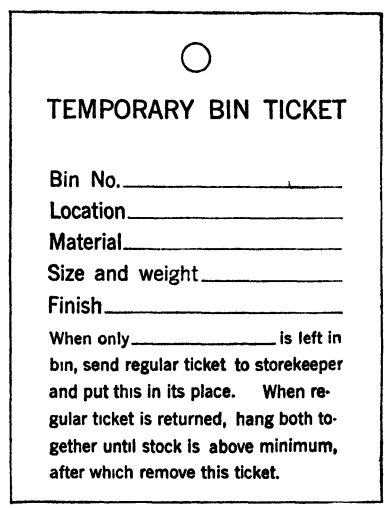
Perpetual Inventory

Some concerns keep what is called a "perpetual inventory," which in its simplest form is really only a stock-record card

showing receipts, issues, and balances. Sometimes a perpetual-inventory record also shows quantities marked, scheduled, apportioned, allocated, or set aside for designated jobs or orders, so that the material thus indicated will not be used otherwise. Effective production control requires needed materials to be on hand before the manufacturing process is started, to avoid delays due to the lack of materials.


BIN TICKET

Bin No._____
Location_____
Material_____
Size and weight_____
Finish_____
Send this ticket to office when only _____ remain in bin, and replace it with temporary ticket.


TEMPORARY BIN TICKET

Bin No._____
Location_____
Material_____
Size and weight_____
Finish_____
When only_____ is left in bin, send regular ticket to storekeeper and put this in its place. When regular ticket is returned, hang both together until stock is above minimum, after which remove this ticket.

To be of real value, it is obvious that a perpetual-inventory record should be kept strictly up to date at all times. Items received and issued must be entered on the cards the same day, every day. The perpetual-inventory record shows the minimum stock to be kept on hand and, as withdrawals are entered, the clerk compares the balances with the minimums. The stock requisitions, from which withdrawals are usually posted to the stock records, may then be sent to the accounting department for pricing and charging to the departments concerned. Some companies have the record work done by the stock clerk; others have it done in the purchasing department; in still others the cost accounting department does this work. If the records are kept elsewhere than in the stock room, the storeskeeper should keep a "bin tag" on each bin and for each kind of material in the bin, specifying the name and symbol of the material, the

quantities received, on hand, and delivered, and the manufacturing orders to which they are issued or apportioned.

Sometimes it is necessary to keep a perpetual inventory of certain items only. In such cases it would obviously be a waste of time and money to operate a perpetual inventory of all items. Once the purpose of any record is clearly determined, it is relatively easy to select the type or combination of types of records necessary to accomplish the purpose.

Questions for Discussion

1. What is the meaning of the word "stores"?
2. With what is the storeskeeping function concerned?
3. Describe or explain the organization of the personnel for storeskeeping.
4. What is the person in charge of the storeskeeping called?
5. Why is the stock clerk sometimes responsible also for receiving and shipping?
6. What two main purposes does the storeroom serve?
7. What difference in the purposes of the storeroom is made by the size of the building or space and the nature or quantities of materials to be stored?
8. Why should stores be kept under lock and key?
9. Compare the handling of stores with the handling of cash.
10. From what causes may stores deteriorate?
11. What are the main factors in locating storerooms?
12. Comment on the centralization of storerooms versus decentralization.
13. What three factors are involved in the arrangement of the storeroom? Comment on each briefly.
14. Comment on the area chosen for receiving and unpacking.
15. How often should stock rooms be inspected? Why?
16. Comment on the delivery window.
17. Comment on the location of various items of stock and give your reasons.
18. How would you know where each item in the stock room is located?

19. "Nothing should ever be given out without proper authority." Why? Explain.

20. What is a stock requisition and for what is it used?

21. Why is a stock requisition sometimes called a material requisition and vice versa?

22. What does the stock clerk do when a material requisition is presented to him?

23. Instead of delivering supply items at the window, what practice is followed by some concerns? What are the advantages and disadvantages of such a practice?

24. How wide should the stock-room aisles be? Why?

25. Describe or explain what the stock clerk does with stock received.

26. "The work of the stock clerk does not end with putting material in the most convenient places, knowing where those places are, and issuing stock." Explain.

27. For what four reasons might a stock clerk be expected to be able to tell how much of every kind of material is in stock at any time? Comment on each of these reasons.

28. Describe or explain a satisfactory method of watching stock.

29. What is meant by the order point?

30. What is meant by the amount to order?

31. What relation has the order point to the amount to order?

32. In some concerns the terms "maximum" and "minimum" are used to designate stated quantities of stock. Can you explain what those terms might mean?

33. When the new supply of an item arrives, where does the stock clerk place it? Why?

34. "No item should be reordered merely because the supply is running low." Explain.

35. Describe or explain the reserve plan of watching stock.

36. Describe or explain stock records in general.

37. Describe or explain physical inventory.

38. How often should physical inventory be taken? Why?

39. Describe or explain perpetual inventory.

40. What does a perpetual inventory show?

41. What factor makes or destroys the value of a perpetual inventory?

42. If perpetual inventories are kept, should they be kept of all items? Why or why not?

43. Who does the record work of the stock room? Why?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Visit five retail stores and find out how merchandise is unpacked, inspected, marked, and placed on the shelves.

2. Ask the cost accountant of a manufacturing concern what he does when he finds that his physical inventory shows less stock than his stock records.

Problems

1. A national concern with several branches requires all stationery needs to be filled from the home office. Transportation charges are lessened by packing stationery items with goods shipped from the home office plant. The stationery stock clerk, who also supplies the home office force of several hundred persons, finds that he is so often interrupted by stationery requisitions for the home office that he gets behind with the branch stationery orders. How can this situation be remedied without adding another stationery stock clerk? With proper organization and supervision, one stock clerk can fill all stationery orders, in both branch and home office. What suggestions have you? Give your reasons.

2. In a department or business which feels that it is too small to afford a supply clerk and in which it is suspected that there is a considerable loss from wasteful use of supplies, what would be the best way to secure control of supplies?

3. Although the display stock on the shelves of a chain store was arranged according to a definite pattern, the reserve stock in the stock room was not arranged in any special manner but was simply piled there as it came in. Because of this fact, a great deal of time was lost looking for stock, and it took much longer

for new clerks to learn the stock. What would you suggest? Give your reasons.

4. When goods are received and are needed immediately in the sales department, should they first be checked into the storeroom and then sent to the sales department, or should they first be sent to the sales department and then a receipt sent to the storeroom by the sales department? Give your reasons.

5. The storeroom of a small manufacturing company is located in the mill. As the demand for materials is not very great, the superintendent keeps the key, and the workmen come to him when they want supplies. Since each workman has a different way of obtaining his materials or supplies, there is always disorder in the storeroom, and some items are lost or damaged. How may this be corrected if the mill cannot afford a storeroom clerk?

6. The chief clerk of a stock room finds that several articles of stock are quite low; yet his records show that there should be a sufficient supply of each on hand to meet requirements? How can this situation be improved? Give your reasons.

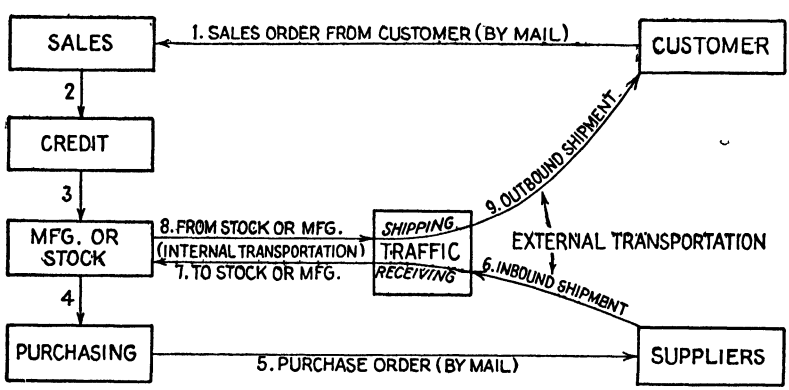
7. A fruit store with an outside display has the problem of passers-by taking an apple, banana, and so forth, without paying. During the course of a week the loss is considerable. What can be done to eliminate this loss, without putting the display inside the store?

8. A manufacturing concern sends in this inquiry, "We have a very effective purchasing department in that it gets the goods to the plant, but our storage department often misplaces goods, and we find ourselves making out orders for goods which are in stock but which we can not find. Can you help us?" What suggestions can you give? Give your reasons.

17

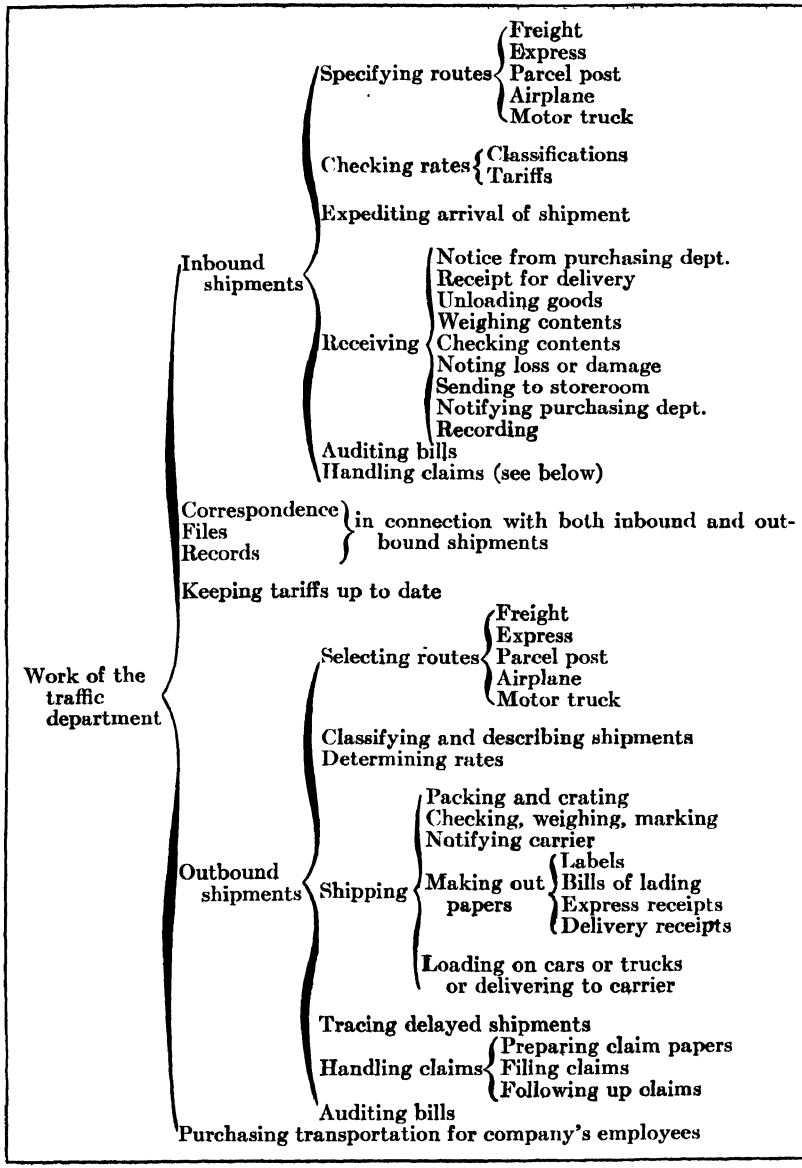
Organization for Traffic Management

THE TRAFFIC department is responsible for the safe, rapid, and economical transportation of goods and materials, whether incoming or outgoing. For outbound shipments, it selects the best method of transportation, notifies the carrier selected, delivers the goods to the carrier, and frequently follows the shipment to its destination to see that there are no delays in delivery. For incoming shipments, the traffic department frequently specifies the method of transportation and follows the shipment to ensure its safe and prompt arrival.



Position of the traffic department in the organization.

Although the main requirements of the traffic department are as just stated, a glance at the chart on page 455 will show the other duties to be performed if the responsibilities of the department are to be completely discharged.


Work of the traffic department
Inbound shipments
Specifying routes
Freight
Express
Parcel post
Airplane
Motor truck
Checking rates
Classifications
Tariffs
Expediting arrival of shipment
Receiving
Notice from purchasing dept.
Receipt for delivery
Unloading goods
Weighing contents
Checking contents
Noting loss or damage
Sending to storeroom
Notifying purchasing dept.
Recording
Auditing bills
Handling claims (see below)
Correspondence
Files
Records
in connection with both inbound and outbound shipments
Keeping tariffs up to date
Outbound shipments
Selecting routes
Freight
Express
Parcel post
Airplane
Motor truck
Classifying and describing shipments
Determining rates
Shipping
Packing and crating
Checking, weighing, marking
Notifying carrier
Making out papers
Labels
Bills of lading
Express receipts
Delivery receipts
Loading on cars or trucks or delivering to carrier
Tracing delayed shipments
Handling claims
Preparing claim papers
Filing claims
Following up claims
Auditing bills
Purchasing transportation for company's employees

Many concerns do not have traffic departments. Instead, a shipping clerk performs the traffic function, and his department is called the "shipping room." Most concerns have receiving rooms, which receive all goods delivered to them; in others the stock clerk may handle the receiving work, or he may handle both receiving and shipping, acting as both shipping clerk and receiving clerk. Sometimes the receiving room is a part of the purchasing department, since the purchasing agent buys what is received. Where there is a traffic department, both shipping and receiving are usually a part of the traffic department.

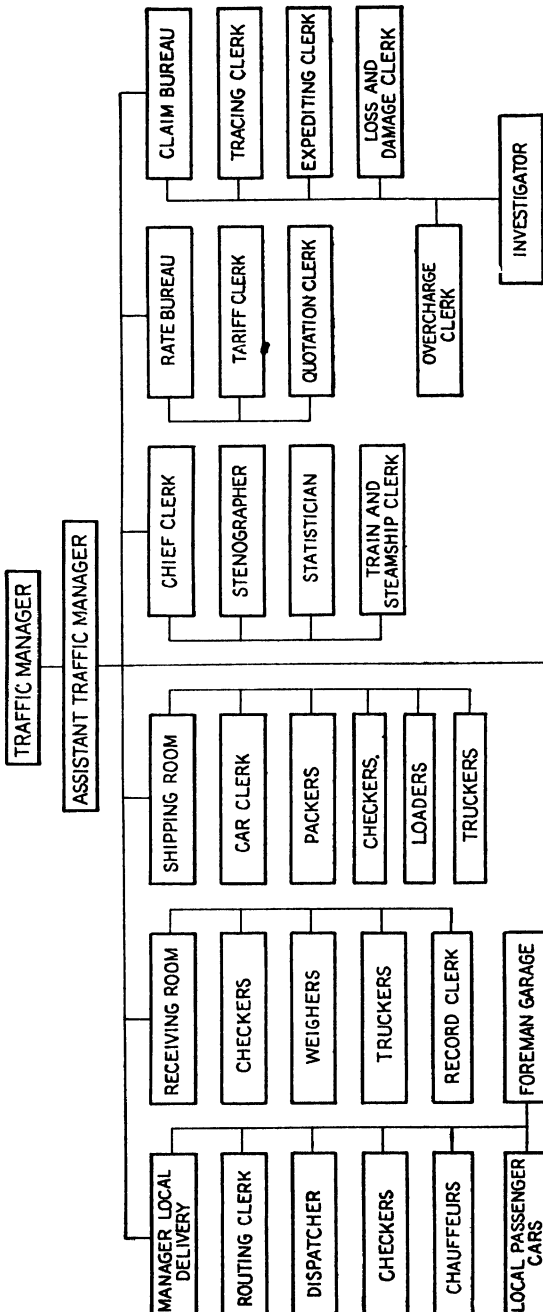
Traffic Manager

In charge of all traffic matters is the traffic manager, who is an expert on everything connected with his function. Not only is he responsible for the proper operation of the department, but he also conducts negotiations with carriers and appears before state and Federal commissions concerned with transportation. The most important of these is the Interstate Commerce Commission, with jurisdiction over the transportation of goods between states by every means except by water, which is under the jurisdiction of the Maritime Commission.

In a large concern there may be an assistant traffic manager or a chief clerk who looks after the details of the department management, leaving the manager free for outside conferences. Other members of the traffic department may include rate clerks, tracers, packers, checkers, record clerks, file clerks, stenographers, and typists. Each of these has specific duties to perform; sometimes one person handles several different duties, and in very large concerns several persons may be required to handle one duty, such as rates. Considerable correspondence passes through the traffic department, and the department files are very important in keeping track of correspondence and other papers.

Incoming Shipments

Let us first consider the work of the traffic department concerned with incoming shipments, that is, shipments made by other concerns, usually those from whom goods have been



From L. A. Bryan, "Industrial Traffic Management"

This chart shows how one traffic department is organized to do the work shown. Every function is provided for.

bought. Such goods are shipped as a result of a purchase order placed with the supplier by the purchasing department, as described in Chap. 15.

Method of Shipment. The supplier may ship goods in any of several ways. If he is located in a distant city and there is no special hurry for the goods, or if the goods are very heavy and not costly, they will probably be shipped by rail freight, since freight charges are lower than other forms of transportation. Motor freight is also widely used, especially in thickly settled regions.

If there is a hurry for the goods and they are wanted quickly, they may be shipped by express, which is more expensive than freight, but very much quicker. When an emergency exists, such as a broken machine standing idle while awaiting repair parts, the parts may be shipped by airplane in a matter of hours. Packages up to certain limits of size and weight may be shipped by parcel post. Deliveries within the city or neighboring towns are usually made by truck; small items are frequently delivered locally by a messenger, either on foot, bicycle, or motorcycle.

Selecting the Route. If the purchasing department has a choice of the method of transportation, the purchasing agent will state in the purchase order the method and route by which the goods are to come. The choice will depend largely upon the urgency and expense, although sometimes other factors enter in, such as safety from breakage or pilfering, care of perishables and livestock, and special services. Ordinarily, if there is no hurry, the supplier will usually ship the best way, which means the least expensive and, of course, the slowest. To determine which method and route is best under the circumstances, the purchasing agent depends upon the traffic manager, who is an expert in all such matters and can indicate not only the best route but also the exact cost of each route and method.

Notice of Shipment. When a supplier makes a shipment, he sends notification of when the shipment was made and by what carrier and route. This notice, which in the case of freight shipments is a bill of lading and in other cases is an invoice, is received by the purchasing department, which immediately notifies the traffic department that a shipment is on the way

from a certain supplier and by a certain route. From then on the traffic department watches for the shipment. If it doesn't arrive in due time or if there is great need of it, the traffic department will follow up the carrier in an effort to find out where the goods are and get them delivered. This process is described later in this chapter under Tracing Delayed Shipments.

The Receiving-clerk's Part. When the shipment arrives, the receiving clerk takes charge, giving the carrier a receipt for delivery (usually by signing a receipt), unloading and unpacking the goods, and checking them against the packing slip which accompanies the goods and against the copy of the purchasing order if he has one. He also examines the shipment for signs of damage. If he finds any, he has the carrier's agent note the damage on the bill of lading, on the freight bill, or on some other memorandum. The traffic department then presents a claim to the carrier as described below under Following Up Claims. If there is a shortage, the receiving clerk notifies the purchasing department and asks whether he should make a claim against the carrier for the loss. The goods are then sent to the storeroom or to the department for which they are intended. Finally, the receiving clerk makes a record on his shipments received sheet for that day.

Outgoing Shipments

Whereas incoming shipments are the result of purchase orders placed by the purchasing agent, outgoing shipments are the result of sales orders placed by customers or taken by salesmen. In other words, our purchase orders are our supplier's sales orders, and our customers' purchase orders are our sales orders.

Selecting the Route. When a customer places an order, he should indicate how he wants it shipped, and he usually does so. To many customers, however, it does not make much difference so long as they get their goods promptly and economically. If, therefore, a customer has not specified how to ship his order, it is the duty of the traffic department to select the route and method of shipment. The same considerations apply that

The Functions of the Shipping Department

1. The purpose of the shipping department is to check, route, and deliver shipments to the transportation company.

2. This department is important because it is the last place an order stops before it goes to the customer.

3. The shipping department is, therefore, often responsible for the satisfaction or the dissatisfaction of the firm's customers.

4. To ensure that the right quantities are delivered, the shipment is checked against a copy of the order.

5. The method of packing shipments is determined by the character of the goods shipped, the mode of transportation, the distance to be traveled, and any legal or other requirements.

6. A stove handle might be safely shipped if wrapped in a piece of burlap.

7. An expensive cut-glass dish might require a substantial container, built for the purpose and carefully stuffed with excelsior.

8. Packages containing breakable articles should be marked "Glass" or "Handle with Care."

9. Packages containing fruits or flowers should be marked "Perishable."

10. The person making a shipment is called the "shipper" or "consignor."

11. The person to whom the shipment is addressed is called the "consignee."

12. The transportation company is called the "carrier."

13. All packages should be plainly marked with the names and addresses of both the consignee and the consignor, as well as with the name of the carrier.

14. In many offices the label is made out in the order department, to ensure the correct address.

15. In some concerns the shipping clerk decides the route by which shipments shall be made.

16. In very large concerns a traffic department determines the routing of shipments.

were stated above, due regard being given to speed, cost, and safety of transportation.

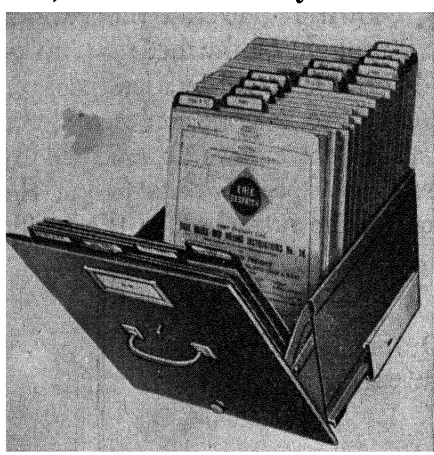
Importance of Classification. In connection with freight shipments, a feature with which the traffic department is very much concerned is what is known as "classification" and its effect upon freight rates. Under the regulations of the Interstate Commerce Commission, there has been prepared an alphabetical list that includes every known article and the various forms it may take, such as crude, rough, or finished; set up or knocked down; loose, in bulk, boxed, or otherwise packed; liquid or dry; and so on. Each of these listings comes under a designated classification, and the freight rate is determined by the classification. Obviously, every company wants to get the lowest freight rate it can; therefore, the rate clerk in the traffic

Factors That Determine Freight Rates

1. Description
   - *a.* Class or commodity name
   - *b.* Material composing article
   - *c.* Purpose or use of article
   - *d.* Condition (finished, unfinished, raw, damaged, scrap)
   - *e.* Tariff classification of article
   - *f.* Value of article per pound
2. Size and weight
   - *a.* Weight of individual article
   - *b.* Minimum weight of carload
   - *c.* Size of crate or package
   - *d.* Method of packing
3. Destination
   - *a.* Point within same state
   - *b.* Interstate shipment
   - *c.* Same classification territory
   - *d.* Another classification territory

(Courtesy of System.)

department looks up the classification of the company's product to see what the rate will be. Curiously enough, an article may sometimes come under more than one classification. In such cases, the shipper naturally chooses the lowest classification; if the choice were left to the carrier, a higher classification might be chosen. There are also special rates, called "commodity rates," which are usually lower than the classification. An article with a commodity rate takes that rate, provided the rate clerk finds it.



Courtesy of Automatic File and Index Company

Tariffs. Now we are not concerned in this book with how classifications and commodity rates are established; those are highly technical matters for the traffic manager. But we are interested in the fact that changes are constantly being made in the "tariffs," as the books of rates and classifications are called. Therefore, three things are important: to be sure we have the latest tariffs; second, to be sure the tariffs are filed so they can be quickly found; and third, to be sure that our products take the lowest classifications and rates available.

The tariffs, giving the rates from the shipping point to all other points in the country on different classes of merchandise, are furnished to shippers by the transportation companies. These tariffs, arranged alphabetically by the names of the transportation companies issuing them, are filed in special filing equipment devised for the purpose. One of the most approved tariff files in use by transportation companies and large shippers is arranged so as to bring all the tariffs into view, keep them in good condition, and permit the alphabetical filing of folders, with papers of different sizes.

A Real Timesaver. Almost every concern has customers or cities to which it makes frequent shipments of the same articles. Instead of having to look these up in the tariffs every

time a shipment is made, it is helpful to prepare and keep a file of rate cards showing the express, freight, and parcel-post rates to the different localities. These are filed by states, the towns being arranged alphabetically under each state, and the customers under the towns where they are located. Of course, this card file must be kept up to date by examining new tariffs as they are issued.

Hutchinson, Cornell & Co.	C.,R.I.,& P. .72	Arkansas
246 Roosevelt Street	Ry X 1.10	Desert Co.
Sandstone, Arizona	Zone 3	Sandstone

Special directions:

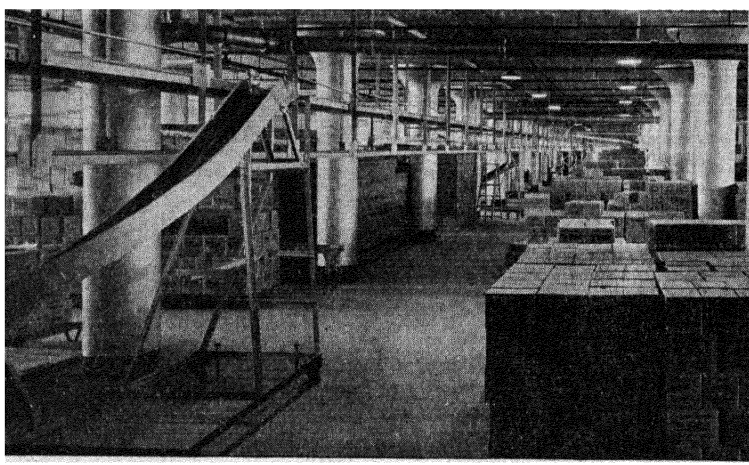
This rate card shows freight, express, and parcel-post information from Chicago to Sandstone, Arizona. If desired, it could be kept in visible record form for quick reference.

Packing. Proper packing is another important duty of the traffic department. It is often possible to save not only a great deal of unnecessary breakage in shipment, but also unnecessarily high freight charges if the best method of packing is adopted. Usually the responsibility for packing is with the shipping clerk, although, where large quantities of material are shipped, there is sometimes a special packing department, which may or may not be under the supervision of the shipping clerk. In some concerns the method of packing is standardized by the traffic department for each product the company handles.

As goods are packed, they are also checked against a copy of the sales order. This copy is called the "packing slip" and

is often placed in the shipment after it has been checked to be sure that all items ordered have been included. Many concerns have both packer and checker put their initials or other identifying symbols on the packing slip, thereby fixing the responsibility.

The package is then weighed and the weight marked on it. Next comes the labeling of the package, or "marking," as it is called. Many concerns make out the label in the order depart-



Courtesy of Bristol-Myers Company

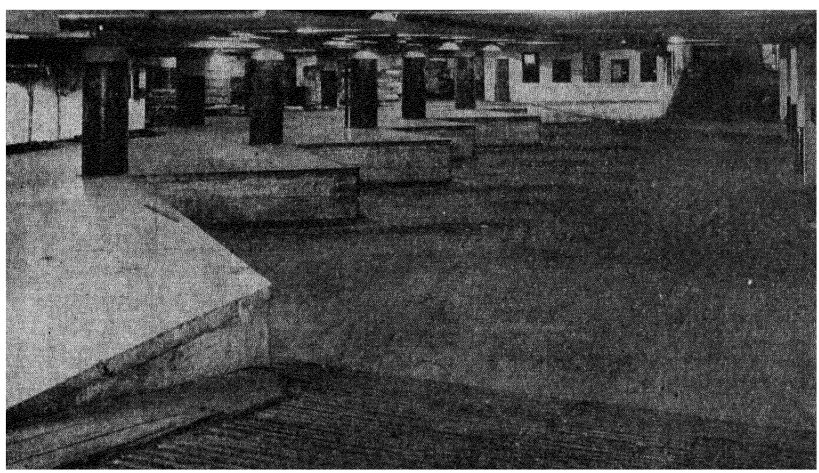
Chutes and conveyors speed up the moving of finished packages in this shipping room.

ment at the same time the order is copied, sending the label to the shipping department. In other concerns the shipping clerk makes out the label, which may be a gummed piece of paper to be pasted on, or simply a tag. On crates and boxes, instead of labels or tags, the name and address of the customer (called the "consignee") may be printed by placing a stencil on the box or crate and brushing it with an inked brush.

Shipping Papers. The next step is to make out the papers. If a shipment is to be made by freight, a bill of lading is made out. This is really a contract between the shipper and the transportation company, in which the transportation company agrees to convey the goods described, subject to certain rules and conditions. It also serves as a receipt for the shipment. Three copies are made, the original usually being sent to the customer as notice that the goods have been shipped, and as

his authority to get the goods from the transportation company; the second copy, called the "shipper's order," is retained by the freight agent; and the third; called the "memorandum bill of lading," is filed by the shipper.

Some concerns save a lot of time in making out bills of lading by having the items they ship printed on them, as shown on page 466. Of course, only those items are printed that are fre-



Courtesy of American Furniture Mart, Chicago

Trucks can back up to this saw-toothed loading platform with only slight "cutting" of the wheels. It is then practically a straight pull to the exit.

quently shipped. Any item not included in a shipment can be easily crossed out.

If a shipment is to be made by express, an express receipt is made out, describing the goods shipped; this is signed by the express company's driver when he calls for the goods. Often express receipt blanks are bound in books and kept in the shipping room for reference, should occasion arise.

If delivery is to be made by motor truck or if the customer's truck or wagon is to call for the goods, no bill of lading or express receipt is necessary. Instead, a delivery receipt, sometimes called a "driver's receipt," is made out for the customer's receiving clerk or truck driver to sign. If a copy of the sales order is used for this purpose, much writing can be saved.

Has Credit Been O.K.'d? The shipment is now ready to go. If the sales order bears the O.K. of the credit department,

N Y 880 150 M 7-35

(Uniform Domestic Straight Bill of Lading, adopted by Carriers in Official, Southern and Western Classification territories, March 15, 1922, as amended August 1, 1930)

Subject to all the provisions and conditions of the bill of lading form appearing in classification effective at this time which provisions and conditions GENERAL FOODS SALES CO Inc guarantees are correctly shown hereon It is stipulated that the signature of the carrier's agent to this bill of lading is not to be understood as certifying to the nine dimensions composition quality or other similar description of the property mentioned herein such description being for the convenience of the shipper only except as required by the carrier's classification and tariff as part of the description of the freight

UNIFORM STRAIGHT BILL OF LADING

ORIGINAL—NOT NEGOTIABLE

Shipper's No.

Agent's No.

Company

RECEIVED subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading.

From GENERAL FOODS SALES COMPANY, Inc.

the property described below in apparent good order except as noted (contents and condition of contents of packages unknown) marked consigned and destined as indicated below which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination if on its own road or its own water line otherwise to deliver to another carrier on the route to said destination It is mutually agreed as to each carrier of all or any of said property, over all or any portion of said route to destination and as to each party at any time interested in all or any of said property that every service to be performed hereunder shall be subject to all the conditions not prohibited by law whether printed or written, contained herein including the conditions on back hereof which are hereby agreed to by the shipper and accepted for himself and his assigns

at 19

(Mail or street address of consignee—For purposes of notification only)

Consigned to

Care of

Destination

State of County of

Route

Delivering carrier Car Initial Car No

Packing No.	Packing Kind	Description of Articles Special Marks and Exceptions	*Weight (Sub to Cor.)	Check Column
		Postum Cereal (Cereal Coffee Substitute)		
		Grape-Nuts (Food Product, Cereal Breakfast)		
		Post Toasties (Food Preparations Cereal, Flaked, Not Compressed)		
		Post Bran Flakes (Bran and Wheat Combined Flaked)		
		Whole Bran (Food Preparations, Cereal, Cooked Bran)		
		Grape Nuts Flakes (Food Preparations, Cereal, Flaked, Not Compressed)		
		Jell O (Dessert Preparations Dry)		
		Jell O I C. Powder " "		
		Jell-O Inst'l Size " "		
		Swans Down Cake Flour (Wheat)		
		Instant S D Cake Flour "		
		Swans Down Bran "		
		Swans Down Biscuit Mix. (Flour Edible, N O I B N)		
		Minute Tapioca		
		Pearl Tapioca		
		Lightning Tapioca		
		Minute Gelatine N O I B N		
		Cocoanut Prepared		
		Baking Powder (In Metal Cans In Boxes)		

Packing No.	Packing Kind	Description of Articles Special Marks and Exceptions	*Weight (Sub to Cor.)	Check Column
		Chocolate (In Bbls or Boxes)		
		Cocoa (In Metal Cans In Boxes)		
		Chocolate Coatings		
		Syrup (Not Medicated N O I B N, In Metal Cans In Boxes)		
		Syrup (Not Medicated N O I B N, In Glass In Boxes)		
		Maxwell House Coffee (Roasted) (In Cans, Paper Bags or Cartons In Bbls. or Boxes)		
		Maxwell House Tea		
		Certo, Pectin, Fruit (Packed In Glass In Boxes)		
		Tanka Coffee, Roasted (Packed In Cans, In Boxes)		
		La France, Laundry Soap		
		Satina, Laundry Wax		
		Cleaning Comp (N O I B N, Powdered)		
		Salt (In Cartons In Bbls. or Boxes)		
		Salt (In Cloth Packets In Bags)		
		Edible Nuts Shelled N O I B N Dry Not Salted Not Sweetened (In Double Bags Boxes or Bbls)		
		Edible Nuts Roasted Salted or Sweetened ( )		
		Edible Nuts In Shell, N O I B N (In Double Bags Boxes or Bbls. Market Baskets with Solid Tops)		

Subject to Section 7 of conditions If this shipment is to be delivered to the consignee without recourse on the consignor the consignor shall sign the following statement

The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges

(Signature of Consignor)

If charges are to be prepaid write or stamp here, To be prepaid "

TO BE PREPAID FREIGHT CHARGES PUTTY PREPAID

Received $ to apply in prepayment of the charges on the property described hereon

Agent or Cashier

Per (The signature here acknowledges only the amount prepaid)

Charges Advanced

$

†The fibre boxes used for this shipment conform to the specifications set forth in the Box Makers certificate thereon and all other requirements of Rule 41 of the Consolidated Freight Classification

‡Shipper's imprint in lieu of stamp not a part of bill of lading approved by the Interstate Commerce Commission

*If the shipment moves between two ports by a carrier by water the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight"

NOTE—Where the rate is dependent on value shippers are required to state specifically in writing the agreed or declared value of the property The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding

per

GENERAL FOODS SALES COMPANY, Inc., Shippers Per Agent Per

Permanent post office address of shipper

Courtesy of General Foods Corporation

By printing its products on the bill of lading, this concern saves the time of writing them in for each shipment.

there is nothing to prevent the goods being shipped. If the O.K. of the credit department has not yet been received, the shipping room must hold the goods until the credit department either

releases them or orders them back into stock. If the goods are ordered back into stock, the shipping clerk simply turns the package over to the receiving room, which unpacks the goods and sends them back to the stock room just like any other incoming shipment.

Use Full Freight Car Capacity

To make the most efficient use of car capacity, all shippers and receivers of freight should keep daily check of their operations to see that the following plan is carried out in so far as it is possible:

1. Give advance notice of requirements, but do not order cars placed for loading until commodities are ready to load.
2. Unload cars promptly on arrival and notify railroad when empty car is available.
3. Load cars to maximum journal carrying capacity or full visible capacity, whichever governs.
4. Remove all dunnage, blocking, and rubbish from cars after unloading, to permit immediate reuse and eliminate necessity of delay to cars for reconditioning.
5. In industries where 5-day work week is in effect, some plan should be worked out to provide at least 6-day basis for loading and unloading cars.

(Courtesy of Association of American Railroads)

Asking the Carrier to Call. If it is O.K. to ship, the next step is to notify the transportation company. In some places, the railroads have pick-up service; they will call and get the shipment. In most places, however, freight shipments must be

taken to the freight house by truck or local expressman, unless there is a spur track so that the railroad can place cars right at the shipping platform; then freight can be loaded directly into the cars. The railroads make a charge for "spotting" cars, as this placing is called and, if the car is not released within a certain time, an additional charge, called "demurrage," is made

Courtesy of Railway Express Agency, Inc.

Some idea of the volume of business handled by express may be gained from this scene at an express terminal.

for each day the car is held. Parcel-post shipments must be delivered to the post office. The express company will call and pick up shipments to go by express, as will motor freight carriers. Where regular shipments are made by the same carrier, arrangements are made with the motor carrier and the express company to have their trucks call at the shipping room at a stated time every day. In this way, plans can be made to have shipments ready for the driver when he calls.

Notification of Shipment. As soon as a shipment has been delivered to the carrier, the shipping clerk notifies the sales department, which then notifies the customer. As has been stated, this notification of shipment may be a bill of lading, an invoice, or a special copy of the sales order. Sometimes a letter or postal card is sent, and in urgent cases a telegram so that the customer may know his goods are on the way.

If the goods arrive safely at their destination, the traffic department has no further responsibility. But any one or more of a number of things may happen.

Note Evidence of Loss or Damage

The goods may arrive at their destination in a damaged condition. The carrier is responsible for damages, and his agent should note the damage, as described above under the work of the receiving clerk. It is the responsibility of that clerk to see that this damage is noted by the freight agent and that a claim is filed as described below.

Sometimes a shipment is completely lost and never turns up. In such cases the shipper's traffic department asks the carrier to prove delivery to the customer. Unless the carrier can prove delivery (usually by a receipt signed by the consignee or his receiving clerk), the carrier is responsible for the price of the goods and must pay for them. The carrier is also responsible for any partial loss. Of course, the shipper must prove that he made the shipment and must prove what the shipment contained. The bill of lading or express receipt is sufficient proof of shipment, and a certified copy of the invoice is proof of the contents. A comparison of the weight when shipped with the weight when received by the consignee will often show up any discrepancy, since a decrease in weight would indicate that a shortage occurred while the carrier had the shipment.

Filing the Claim

When shipments are lost or damaged, the traffic department presents to the carrier a claim for the loss or damage: this is called "filing" the claim. A special form, approved by the Interstate Commerce Commission, is used for presenting claims. This form must be carefully filled out and accompanied by the

necessary evidence of shipment and of loss or damage, as indicated above and listed in the form given on this page. These papers, by the way, are called the "supporting papers," since they support the claim.

Standard Form for Presentation of Loss and Damage Claims

Approved by the Interstate Commerce Commission, December 2, 1913,
The Freight Claim Association and National Industrial Traffic League

_____ 19

_____ §(Claimant's Number)_____
(Name of Person to whom Claim is Presented)

_____ (Carrier's Number)_____
(Name of Carrier)

_____ (Amount of Claim)_____
(Address)

This claim is made by_____
(Name of Claimant)

_____
(Street and Number, P. O. Box or R. F. D.) (City or Town) (State)

for_____ in connection with the following described shipments:
(Loss or Damage)

Description of shipment_____

Name and address of consignor (shipper)_____

Shipped from_____ To_____
(City, Town or Station) (City, Town or Station)

Final Destination_____ Route via_____
(City, Town or Station)

Bill of Lading issued by_____ Co.; Date of Bill of Lading_____

Paid Freight Bill (Pro.) Number_____; Original Car Number and Initial_____

Name and address of consignee (Whom shipped to)_____

If shipment reconsigned en route state particulars_____

DETAILED STATEMENT SHOWING HOW AMOUNT CLAIMED IS DETERMINED
(Number and description of articles, nature and extent of loss or damage, invoice price of articles, amount of claim, etc.)

Total Amount Claimed

IN ADDITION TO THE INFORMATION GIVEN ABOVE, THE FOLLOWING DOCUMENTS ARE SUBMITTED IN SUPPORT OF THIS CLAIM*

( ) 1. Original bill of lading, if not previously surrendered to carrier.
( ) 2. Original paid freight ("expense") bill.
( ) 3. Original invoice or certified copy.
4. Other particulars obtainable in proof of loss or damage claimed.
5. If for concealed loss or damage, statement of shipper and consignee on standard forms, The Pennsylvania Railroad forms No. F. D. 1591 and F. D. 1593, or like forms of shipper and consignee.

Remarks_____

The foregoing statement of facts is hereby certified to as correct:

_____
(Signature of Claimant)

§ Claimant should assign to each claim a number, inserting same in the space provided at the upper right hand corner of this form. Reference should be made thereto in all correspondence pertaining to this claim.

* Claimant will please place-check (x) before such of the documents mentioned as have been attached, and explain under "Remarks" the absence of any of the documents called for in connection with this claim. When for any reason it is impossible for claimant to produce original bill of lading, or paid freight bill, claimant should indemnify carrier or carriers against duplicate claim supported by original documents.

Claimants will please show correctly and distinctly their name and address including street and number, Post Office box number or Rural Free Delivery (R. F. D.) number.

Claimants will please advise carrier promptly if claim is for shortage and missing property is received or located after presentation of claim. (See quotation from Section 10 of the Act to Regulate Commerce, appearing on back of this form.)

©3F51e

Courtesy of Pennsylvania Railroad

The time to get the detailed information that is required for the presentation of a claim to the carrier is right away—as soon as the loss or damage is discovered.

Since the law requires that claims be presented within a certain time, it is important for the traffic department to get together as soon as possible all the evidence required to support the claim.

Following Up Claims

A follow-up card index covering claims against the transportation companies is often maintained. A card for each claim is made out and filed alphabetically under the consignee's name. Each card bears the same number as the original order, and correspondence about the claim is filed under that number. The correspondence may be filed chronologically with information as to its location on the card, or adjustable signals may be used on the card to show the date when the claim is next to come up for attention. The transportation companies are sometimes slow about settling claims, and unless they are followed up, claims may be sidetracked.

Tracing Delayed Shipments

Instead of being damaged, the shipment may be simply delayed. The traffic department first learns of the delay when the anxious customer writes, wires, or telephones in to ask where his order is. The clerk in the traffic department in charge of tracing gets out his file copy of the bill of lading, calls up or writes the railroad freight agent if it was a rail shipment, and asks him where the shipment went from his station. The tracing clerk then calls up the freight agent at that point and asks him the same question.

This procedure is kept up until an agent on the route is found who should have received the shipment but has not. The shipment must, therefore, be between that point and the point from which it was last forwarded. The tracing clerk now asks the railroad company to locate the freight car containing the shipment and speed it on its way, and to notify him when they have done so. In some cases the tracer himself goes to the point where the car might be, locates it, and personally gets after the railroad to move the car again.

It is not necessary for the tracing clerk himself to do this tracing station by station; the railroad will do it for him if he

asks the railroad freight agent to trace the shipment. But the railroad has several hundred other customers, who must be waited upon in turn. The customer wants his goods, and we are more interested than anyone else in seeing that he gets them. If he has a traffic department of his own, he will probably do his own tracing instead of asking others to do it; legally, there is no obligation to trace outbound shipments when they are delayed;

F. D. 2923
5½x3¼w-20M-9-5-29

We are forwarding today from.....

Via.....R. R. care THE PENNSYLVANIA RAILROAD at.....

CAR No.	INITIAL	COMMODITY	CONSIGNEE AND DESTINATION

☐ As information ☐ Advise junction passing ☐ Trace to delivery

.....19.....

.....
Shipper

Courtesy of Pennsylvania Railroad

This form is used in requesting the railroad to trace a shipment, that is, to find out where the shipment is.

that is wholly between the customer and the transportation company. But many small concerns do not have traffic departments; consequently, we render them a service by using ours and at the same time create good will.

Don't Do This. Some concerns make the mistake of asking the carrier to trace every shipment, under the impression that doing so will hasten delivery. The carriers soon cease to pay attention to such tracers, and the shipper finds it difficult to get attention and service when a serious delay does occur. A reasonable time for delivery should be allowed to elapse before the carrier is asked to trace a shipment.

Auditing Transportation Bills

Another very important task of the traffic department remains to be considered, that of auditing or checking the bills of

the transportation companies, especially freight bills. This work involves seeing that the quantities are right, the weights correct, the routing the proper one, the classification the right one, the correct rate applied, the extensions correctly figured, and the footings accurate. Any discrepancies are taken up with the carrier for adjustment, using the printed form especially designed for this purpose. In large traffic departments, one or more clerks may spend their entire time auditing freight bills. Sometimes associations of manufacturers provide this auditing service for their members, who send their freight bills in to the association office. A nominal charge is made for this work, which saves thousands of dollars annually to the members of the association.

A Special Service

The officers, department heads, salesmen, and sometimes other employees of a concern do more or less traveling by train, airplane, or boat. If a concern has a traffic manager, he will usually be asked to arrange for such transportation. A decision to take a fast train is sometimes made at the last moment, and it is up to the traffic manager to reserve the accommodations, get the tickets, pay for them, and have them at the station ready for the passenger. A good traffic manager is often able to get accommodations that might be difficult to get at the last minute.

Questions for Discussion

1. "The traffic department is responsible for incoming and outgoing shipments." With respect to each, for what is it responsible?
2. What other duties does the traffic department have?
3. "Many concerns do not have traffic departments." Explain.
4. What is the difference between the shipping clerk and the receiving clerk?
5. Describe or explain the organization of the traffic department.
6. Why should the traffic manager be an expert on traffic matters?

7. Why is the Interstate Commerce Commission concerned with traffic matters?

8. What are incoming shipments?

9. Describe or explain the work of the traffic department with respect to incoming shipments.

10. In what ways may deliveries be made?

11. Who designates the route by which incoming shipments will come? Why? Explain.

12. What is meant by ship the best way? When should goods be so shipped?

13. How and when does a supplier notify us of a shipment? Why?

14. What does the traffic department do when it receives notice that a shipment has been made? Why?

15. What happens when the shipment arrives at the receiving room?

16. Suppose the receiving clerk notices that part of the shipment is missing or that there are signs of damage. What does he do?

17. What is a shortage?

18. Who designates the route by which customers' orders are shipped? Comment.

19. Describe or explain classification, and state why it is important.

20. What effect has classification upon the freight rate?

21. May an article come under more than one classification? Explain.

22. What are commodity rates, and why are they important?

23. What are tariffs? Comment.

24. What three points should be observed with respect to tariffs? Why?

25. How are tariffs filed? Why?

26. How can one avoid the necessity of looking up a tariff every time a shipment is made?

27. Why is proper packing important? What do you mean by proper packing?

28. Would you wrap a china dish the same way you would wrap a baseball bat? Why or why not?

29. Have you ever received a package that was improperly packed? If so, how did you know it was not properly packed?

30. Why is proper packing the duty of the traffic department?

31. What is the packing slip? How is it made out, and what does it show? How is it used?

32. When should shipments be weighed? Why?

33. Describe or explain marking the shipment.

34. What information should markings show?

35. Why is the customer called the "consignee"?

36. If the customer is called the "consignee," what would you expect the shipper to be called? Why?

37. Describe or explain the papers in connection with an outgoing shipment.

38. Describe or explain the bill of lading, stating what it is, what its hows, what its purpose is, how it is used, how many copies are made of it, and what is done with each copy.

39. What papers are made out for an express shipment?

40. What papers are made out for a shipment by motor truck?

41. When a shipment is all ready to go, what may hold it up?

42. How are goods actually delivered to the different kinds of carriers for transportation?

43. Why shouldn't the post office call for parcel-post shipments, as the express companies do?

44. What is a spur track, and what is it for?

45. What is meant by spotting a freight car?

46. What are demurrage charges? How may they be lessened or avoided?

47. Is the carrier responsible for the safe transportation of all goods entrusted to his care? Why or why not?

48. What should the shipper do when a shipment is totally lost?

49. How are claims for loss or damage filed?

50. What is the meaning of the word "filed"?

51. What are supporting papers? Why are they necessary?

52. How are claims followed up?

53. Why is it necessary to follow up claims?

54. If a shipment does not arrive at the destination within a reasonable time after shipment, what should the traffic department do?

55. Explain the method of tracing shipments.

56. Who does the tracing? Why?

57. Should all shipments be traced? Why or why not?

58. What is meant by auditing transportation bills? Why do transportation bills have to be audited? Who audits them?

59. Why do passenger travel accommodations have to be secured? Who does this? Why? How?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Visit the traffic department of some concern in your town and ask the manager to show you what the department does.

2. Visit the receiving departments of three concerns in your town and find out how shipments are received. Ask for a copy of the sheet or card on which the receipt of shipments is recorded. If one of the concerns does not have such a sheet, find out why.

3. From a traffic department or from a railroad freight agent, borrow a copy of the classification and make a report to the class on what you find out about classifications.

4. Ask a traffic manager, a rate clerk, or a freight agent to explain to you what a commodity rate is and how it is made.

5. If there is a mail-order house near you, ask permission to visit the packing room.

6. From the local freight agent, find out what demurrage charges amount to and for what they are made.

7. Ask a traffic manager to show you his claim file and to explain an actual claim.

8. Ask a traffic manager to show you how to audit a freight bill.

9. Get a list of the motor trucking concerns in your town, showing what they haul, between what points they travel, and what their rates are. Do not list more than 10 concerns.

10. Talk with the postmaster or parcel-post clerk about parcel-post shipments and about express shipments. Then talk with the expressman about express and parcel-post shipments. Then write a report on the advantages or disadvantages of shipping by parcel post or by express.

Problems

1. From a map pick out 25 places at least 100 miles distant from your town. Using 3- by 5-inch cards (or slips of paper cut that size), write the name of one town on each card. Then write down on each card the various ways by which merchandise might be shipped from your town to the town named on the card. Show the name of each carrier and indicate the time or times of day when goods destined for the point named must be in his hands. If any carrier named will call for the shipment, put down his telephone number and the time before which he must be notified to call.

2. Prepare a parcel-post rate sheet, showing the parcel-post rates from your town to 48 other places in the United States, one in each state. If the rate sheet is properly prepared, you should be able to reckon from it the postage required on any weight parcel to each place mentioned on the sheet.

3. Devise a system for keeping track of and following up claims filed with carriers. Use a 4- by 6-inch card, show what information you would put on the card, and explain how the system would work.

4. In the town where a certain company is located, there are two trucking concerns, one good and one not so good. Every afternoon the better concern sends its trucks to pick up the outgoing shipments and load them on the five o'clock freight. Of late the trucking company has been giving poor service. The trucks arrive too late to make the train, and there is no other until the next morning. The reputation of the other trucking company for promptness is not too good. What should the traffic manager do? Give your reasons.

5. In a traffic department that has control and supervision over both the shipping and the receiving, rising costs have forced the department to hire only one gang to load and to unload

the boxes and supplies. It so happens that incoming and outgoing freight occur at nearly the same time each day. One job is just as important as the other. What can the department do to alleviate the double strain and work on the labor gang? Give your reasons.

6. A large department store offers free delivery to its customers. Its trucks are growing old, and the store is faced with the problem of replacing them. Should the management buy new trucks or turn the delivery over to a trucking firm that makes such deliveries? Give your reasons.

7. Is it better for a community grocery store to hire two or three delivery boys than to operate a motor truck for delivery purposes? Give your reasons.

8. A drugstore has decided to have a delivery system. What kind of delivery vehicles shall be used? Give your reasons.

18

Organization for Production (Manufacturing)

PRODUCTION, or manufacturing, as it is usually called, is concerned with making things. Although the word "manufacture" means "making by hand," very few articles are made solely by hand; some tools are necessary for even the simplest type of manufacture. There are hand tools and machine tools. The chisel is a hand tool; the lathe is a machine tool. Many hand tools have their counterparts in the machine tools—for example, a hand saw and a band saw; a sledge hammer and a trip hammer or a pneumatic hammer; a pickax and a pneumatic pick.

A lathe is a device for holding the material to be worked on. On the simplest type of lathe, the material is revolved while a hand tool—a modified chisel—is held against the material to remove part of it and attain the desired shape. From the simple lathe there have been developed some marvelous machine tools for performing intricate operations and combinations of operations in a relatively short time and at an incredible speed.

In addition to tools, various types of equipment are often necessary, depending upon the nature of the manufacturing process. In some industries, large tanks or vats are used for mixing chemicals or curing materials. Conveyers of various types may be needed to move material from one part of a plant to another. Such are pipes, chutes, elevators, and gravity or mechanical conveyers.

Assembling Industries

Manufacturing industries are sometimes divided into two main types: assembling and continuous. An assembling industry

Records That Facilitate Manufacturing Control

- Production control records
- Material control records
- Time records
  - In and out
  - Job start and finish
- Payroll records
  - Computation
  - Deductions
  - Distribution
  - Paying
- Cost records
  - Labor costs
  - Material costs
  - Indirect or overhead costs
  - Comparison of actual costs with estimated or standard costs
- Maintenance records
  - Work done and cost
- Personnel records
  - Employment
  - Progress and performance
  - Separations and reasons
- Engineering records
  - Drafting-room records
  - Research records
  - Specifications and formulas
  - Test and inspection records
    - Records of quality of work turned out in factory
  - Laboratory records
  - Industrial engineering
    - Methods and procedures (standard practice instructions)
    - Layouts
    - Times (motion analysis and time study)
    - Schedules
- Receiving department records
  - Items received and disposition
- Shipping records
  - Items shipped and destinations
  - Items holding for shipping orders or credit release

takes parts and assembles them into a complete product; such are the automobile and airplane industries. Essentially, an automobile is a frame on which are mounted the engine, the gas tank, and the body; the frame rolls on wheels. An automobile assembly line starts with nothing but the frame. As the frame goes along on a slowly moving conveyer, the other parts are added to it in order: the gas tank, the motor, the radiator, the wheels, the body. At the end of the assembly line a worker steps into the car, starts the motor, and drives the car off under its own power. So well synchronized are the various operations on the assembly line that at the height of its production in peacetime the Ford Motor Company was turning out 7,000 Ford cars a day, which is at the rate of one every 12 seconds. This does not mean that on one assembly line a finished car rolled off every 12 seconds; there were several assembly lines. On 7 assembly lines, 7,000 cars a day would mean 1,000 cars on each, or approximately one car every 15 minutes on each line.

Synchronizing. In order to attain this seemingly incredible output, very careful planning is necessary. Before it can be

Objects of Planning and Scheduling

1. To overlook no necessary details
2. To arrange details in proper sequence
3. To have concurrent steps meet at proper points and at stated times

placed on the car frame, the motor itself must be assembled. This series of operations is called a "subassembly"; and there are parts of the motor which themselves have to be assembled before they can be attached to the motor, such as the timing apparatus, the generator and charger, and the air filter. The problem in an assembling industry is to arrange the subassembly lines so that each part is ready to attach to the larger part at the

precise moment the larger part is ready for it. This is called "synchronizing." The failure of one part to be ready at the required time may cause an expensive delay all along the line.

Not all assembling industries are so well coordinated and synchronized as is the automobile industry.

Other Assembling Industries. The manufacture of ready-made clothing is an assembling industry—fabrics, thread, buttons must be brought together to make a complete garment, which starts with several layers of the piece of cloth, cut by electric knives according to a pattern, and then assembled by skilled tailors into a garment, each tailor specializing on some part and passing his finished work on to the next specialist to do his part.

The typewriter and the furniture industries are other types of assembling industries. Parts of the machine or table are fabricated and then assembled.

Continuous Manufacturing

In contrast to the assembling industries are the so-called "continuous" manufacturing industries, which take raw materials and either break them down into other materials (called "analytical" manufacturing) or put raw materials together to form other products (called "synthetic" manufacturing).

Analytical Manufacturing. The oil-refining and the packing industries are good examples of analytical manufacturing industries. Crude petroleum is broken down by the refining process into a startlingly large number of products, ranging from gasoline—probably the most familiar one—to petroleum jelly, well known under the brand name Vaseline. The packing plant takes the live animal, slaughters it, and, in addition to the familiar forms of meat cuts for eating, recovers some 300 other products with medicinal value, such as insulin, liver extract, and adrenalin.

Synthetic Manufacturing. The soap and steel industries provide good illustrations of synthetic manufacturing. To various oils or fats are added certain chemicals that produce the well-known soaps and soap powders. To iron is added carbon or other metals to form different kinds of steels for many purposes,

varying in hardness, ductility, rust resistance, and so forth, according to the use to which the steel is to be put.

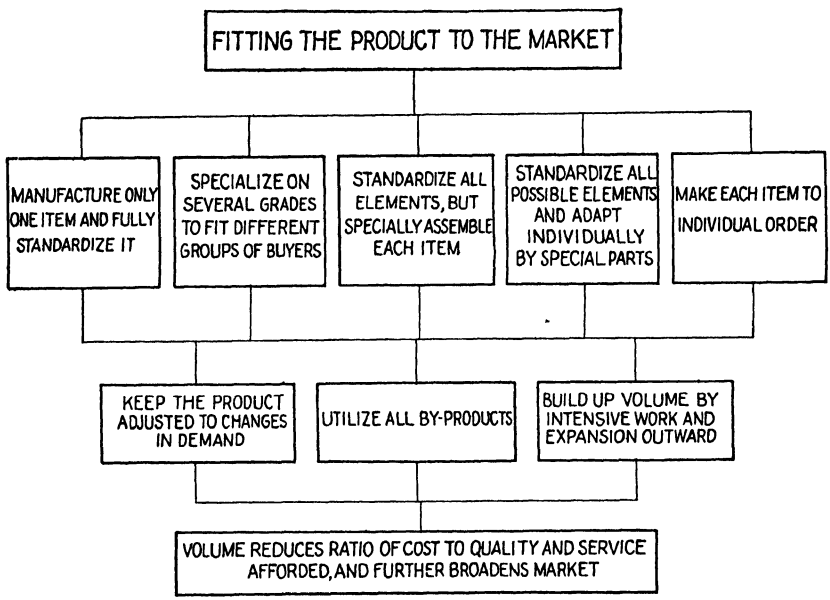
Printing is also usually classed as synthetic manufacturing, although the raw materials of the industry are all finished products of other industries. In letterpress printing, type is set to form words and sentences. Locked in a frame and placed in a press, the type is inked and a sheet of paper pressed against it, forming an impression of the inked type. The type is then disassembled ("distributed" is the correct technical word) and used again and again in setting up other jobs. There are many other kinds of printing now besides letterpress. One of the commonest is offset printing, in which the impression of the type or plate is made on a rubber roller, which in turn transfers the impression to a sheet of paper, producing the lithograph-like smooth surface. Letterpress printing often shows where the type has been pressed *into* the paper, instead of *against* it.

Now that we have examined various types of manufacture sufficiently to distinguish between them, we can disregard the differences and, for our purposes, proceed to examine those elements of manufacturing which are in many respects essentially the same for all manufacturing industries, namely, the processing of materials by the application to them of labor, machines, equipment, and, in some cases, chemicals, as well as, of course, heat.

Shall We Manufacture to Order or for Stock?

There is one other difference, however, which should perhaps be brought out, since it affects, to some degree, the problems of production. Some concerns manufacture only to order; that is, they wait until they receive the order before proceeding to manufacture it. Other concerns manufacture "for stock," as it is called. Manufacturing for stock sometimes causes embarrassment since, if the estimate of the quantity to be manufactured is too high, more stock will be carried than can be readily disposed of, resulting in abnormally high inventories and slower turnover of stock, with possible consequent deterioration, or at least, depreciation in value. On the other hand, if the estimate

is too low, the stock runs out before a new supply can be made up, causing delays in filling customer's orders.



Manufacturing to order likewise means that the customer has to wait while the goods are being made up, whereas if the goods are in stock he could get them immediately. There are advantages and disadvantages to both plans. Customers do not like to wait; nor do they like shelfworn stock. It is obvious, therefore, that manufacturing is something more than simply buying materials at the lowest possible price, hiring labor to do the work at the lowest possible wages, making up the goods in the cheapest way, and selling them at the highest price obtainable, as some people seem to think.

This Takes Brains

Careful planning is necessary if a concern is to remain in business and provide continuing employment for its employees. A nice balancing of sales against inventory control and production control is necessary for the most favorable results; and since estimates sometimes take the place of facts, the estimate may turn out to be what one wit has called a "guesstimate."

There is enough skill involved in the successful administration of a manufacturing enterprise to warrant the application of the best brains available.

Have you ever had the fun of watching a champion billiard player click off a long run at the balk-line game? The deft touch of the cue that marks the professional, the bit of English, each shot figured with mathematical precision, the whole business so absurdly easy, it seems. And after the billiard is made, there's the cue ball sitting exactly where it is most urgently needed, all ready for the next shot.

Playing "position," it is called. That is the real secret of the magical ease with which the play is executed. Well, isn't factory management something like that? Playing "position," looking and planning ahead, anticipating obstacles that may slow down the game?

At 7 A.M. on Thursday, let us say, a certain setup will be needed at a given machine. At 3 P.M. Wednesday the requisition goes to the toolroom. Closing time finds the tools at the machine. Everything set to begin first thing in the morning.

A trivial example, you say? To which the obvious rejoinder seems to be that it is the fine points that count when playing "position."

(Courtesy of Factory Management and Maintenance.)

Requirements of Design

The manufacture of any article involves design, materials, and processing. The design may be standard, static, and unchanging, as in some articles of staple merchandise; or it may be variable and subject to change overnight, as in some lines of style merchandise.

Consumer Acceptance. The design of an article must meet four requirements: it must have what is called "consumer acceptance"; that is, it must appeal to the consumer's taste or desires. A shoe manufacturer, for example, who would manufacture women's high shoes, such as nearly all women once wore, would find no sale for his product. No woman today will wear high shoes except for sports or because her physician has prescribed them—and some women will not wear them even then. There just simply is not any demand for such shoes. The manufacturer of women's shoes also faces another problem—the changing of styles so fast that production for stock is well-nigh impossible. The same is not so true of men's shoes.

Utility. The second requirement of design is that the product shall adequately serve the purpose for which it is intended. A beautifully designed and attractive chair may not be strong enough to serve as a chair for day-to-day use. Not too many families can afford purely decorative furniture, especially where there are lively children. Utility, in an article designed for utilitarian purposes, must not be neglected.

Can Be Processed Economically. The third requirement that the design of an article must meet is its noninterference with economical manufacturing processes. If the design slows down the process of manufacture, redesign is called for, unless the market for the product is limited. The design of glass bottles is a case in point. As long as bottles were filled by hand, their shape was not too important; the fancies of the designer might be given unlimited rein, as borne out by some of the fantastic shapes of early bottles. When, however, bottles came to be filled and capped by fast-moving machines, consideration had to be given to the structural aspect of their design in order to lessen breakage. That is one reason why milk bottles are so sturdy in appearance. That is why certain widely marketed proprietary remedies are put up in plain bottles. Even the universally marketed Coca-Cola bottle, although of a distinctive shape, nevertheless is strongly built for filling and capping on fast-moving bottling machines. Following the repeal of prohibition in 1933, the manufacturers found that their fancy designs had to be modified to reduce the tremendous breakage in bottles.

Consistent with Material to Be Used. The fourth requirement of design is that it must suit the material of which the article is to be made. The availability of new materials in the years following 1920 has made possible designs and manufacturing processes in creating products in those designs which were the despair of manufacturers hitherto. There are very definite limitations to the use of iron, for example; its brittleness indicates little strength in delicate designs. Steel is an improvement over iron, especially in recent years, with the development of special steel alloys. Iron has to be forged or cast; steel may be forged, cast, or drawn; steel may also be stamped, an almost impossible process with iron. But both steel and iron are subject to rust and require some protective coating as a preservative, except in the so-called "stainless" steels. Steel and iron are also heavy.

Aluminum may be cast, forged, drawn, or stamped; it requires no protective coating; indeed, paints made from aluminum are themselves used as protective coverings for iron and steel; and aluminum is one-third as heavy as iron. Copper is also impervious to corrosion, except under long exposure to certain acid fumes. Copper is more ductile than any other common metal, thus explaining its universal use in electrical wiring, although some aluminum wiring has been developed. Copper may also be stamped easily; it is an easily workable metal. For certain types of products it seems to have no peer. Alloyed with zinc to form brass, copper takes on properties that are highly desirable. Alloyed with tin to form bronze, it is used in the imperishable monuments and statues seen all over the country. Postwar uses of magnesium, a metal similar to aluminum but much lighter, will be interesting to watch.

The plastics, which have developed amazingly since 1920, have introduced new possibilities into the manufacturing of articles whose designs lend themselves to molding. Some of the plastics have unbelievable strength, being practically unbreakable; in addition, they are impervious to acids, weather, corrosion, and so on. And combinations of plastic materials may result in beautiful finishes. There is even a plastic house paint, which is said to be impervious to sun and rain.

Choice of Materials

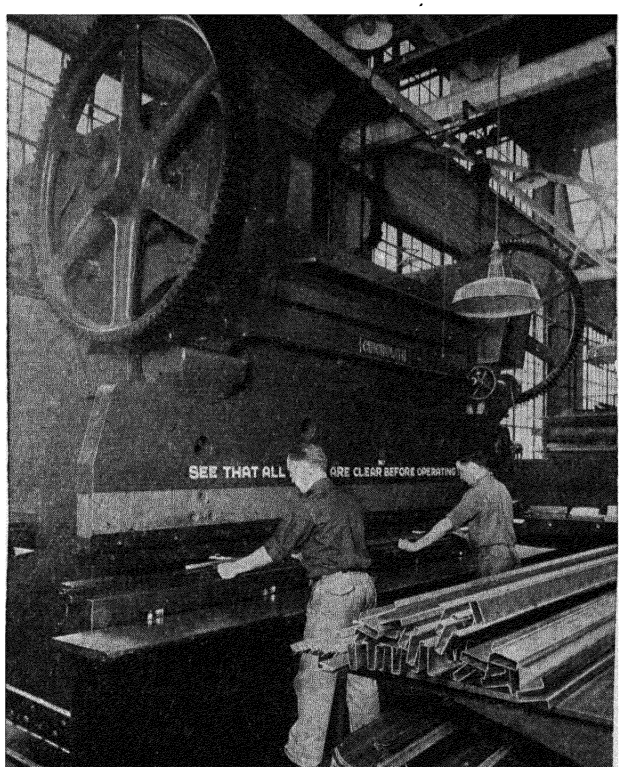
Our discussion of the fourth requirement of design has included most of the second factor involved in the manufacture of any article—materials. In addition to what has already been said about materials, it may be stated that the choice of them depends upon the purpose of the article to be manufactured, upon the comparative cost and availability of various materials that may be used, and upon the relative cost and availability of processes for working those materials.

Utility or Decoration. Articles may have either a utilitarian purpose or a decorative one—sometimes both. An ornament probably has little utility. Its purpose is to decorate something, such as a Christmas tree, a garment, a mantel, a desk, a wall, a house. Decorative articles may be intended for temporary purposes only, in which case their durability is of secondary consideration; the main considerations are cheapness of material and inexpensive methods of manufacture.

Durability. Articles with a utilitarian purpose, on the other hand, should be made with some consideration for their durability. Choice of durable material is desirable, and yet an economical manufacturing process is also desirable in order to keep the cost down. Until consumers have been educated to distinguish between good quality and poor quality goods, however, there will continue to be produced supposedly durable items which do not last and which were not made to last, despite their appearance of possessing that quality. Stove bolts, nails, and some other items of hardware are available in lasting materials and in materials that will not last. Since the superficial appearance of both is much the same, the ordinary consumer naturally buys that which is priced lower. He does not know the difference in value; and in many cases it must be admitted that he does not very greatly care. Perhaps there are too many consumers who feel that life on this planet is so uncertain and impermanent that it is not worth while to live other than from day to day. "Here today and gone tomorrow" is their defense for doing things that have no justification from a long-time view. And as long as such a market exists, there are those who will

supply it. When a man buys a razor blade at a low price, there is some question as to whether he is buying a bargain or a shave; often he gets neither.

On the other hand, there are consumers who believe that anything worth doing is worth doing well. They want and



Courtesy of The Glenn L. Martin Company

demand durable goods, not shoddy. When such a buyer purchases nails, he expects to get value for his money. When he buys house paint, he doesn't want to get what one manufacturer called "applesauce." But as long as such a market for poor quality goods exists, it will probably be supplied.

Processing

The third and last factor involved in manufacturing is processing. This requires machinery and labor, although the

proportion of each is seldom the same in the manufacture of two different products. The manufacture of safety-razor blades, for example, uses highly automatic machines, several of which may be tended by one person. Other processes may require two or more attendants to a machine, as with a huge stamping machine.

Trend to Automaticity. Right here it might be well to state that the tendency in machine design is to make machines more and more automatic in their operation, so that less and less labor is required. In operating the early job printing presses, the press feeder had to kick the foot treadle to keep the press running, at the same time that his right hand took a sheet of paper off a pile and placed it in the press, while his left hand took the printed sheet out of the press and he still remained on the alert to manipulate the "throw-off" lever in case a sheet of paper was fed in crooked. Verily, in those days, the capacity of the press was limited, as one manufacturer advertised, "only by the expertness of the operator!"

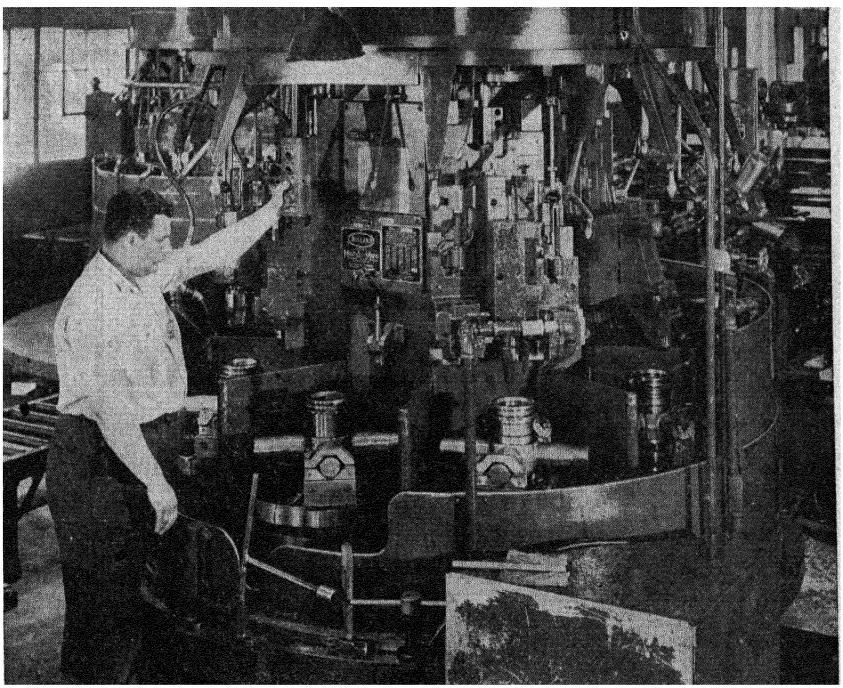
Contrast the above picture with that of the modern job printing press, which is run by an electric motor and fed automatically by a suction hose which lifts one sheet of paper from a pile several feet high and places it with precision in exactly the correct place for printing. One person can tend a number of such machines, occasionally replenishing the supply of paper and ink, but for the most part just standing by and watching.

Even with machine tools, automaticity is an increasing factor. Automatic screw machines will take a rod of metal and, once set and started, will perform a number of consecutive operations automatically, until the rod is entirely used up. A certain make of huge lathe has eight spindles; while the operator is setting one, the other seven are working. The trend is definitely toward more and more automaticity.

Advantages of Automaticity. It is obvious that the more automatic an operation is, the less labor is required and, consequently, the less costly the operation is. Since the cost of manufacturing has a very definite effect upon the price at which a product can be sold, it is possible for one of two or more competing manufacturers of similar products to outdistance his competitors in the same field. A lower price brings the article

within reach of more purchasers and thus opens up a wider and wider market.

Efficiency of Labor. Nevertheless, the efficiency of labor also has a marked effect upon price and market. When Henry Ford in 1914 set a $5-a-day minimum wage for all his workers,



Photograph by Frigidaire, Courtesy of Hamilton Standard Propellers
This automatic lathe has eight spindles. While the operator is setting one, the other seven keep on working.

he took a step that assured him the pick of the mechanical workers in the country. When in 1940 James F. Lincoln paid each of his employees a minimum of $5,000, he was able to cut his manufacturing costs to a fifth of those of his nearest competitor. In 1942, William Jack took a similar step, increasing production tremendously and reducing costs strikingly.

Continued Operation Desirable

With effective machines and equipment and with efficient employees, the successful manufacturer realizes that his remain-

ing in business is dependent upon his ability to continue to make what the market wants at a price it is willing to pay. Costs of material and labor affect the price; but so does idleness. The overhead cost of an expensive machine goes on whether the machine is operated or not. Consequently, a manufacturer tries to keep his machines in operation. This involves careful schedul-

> A schedule is made up of two fundamental elements:
>
> 1. A series of events in a prescribed order of sequence;
> 2. A list of times at which each event is to occur.

ing of operations, orders, and materials. The ideal, approached by the Ford Motor Company, is to have materials arrive at the plant just in time to be processed, without being stored. Storing uses space and requires rehandling. Yet, as we have seen, a stock pile of materials is often necessary to keep machinery running, lest a delay in the arrival of needed items cause a shutdown. Stock piling is good insurance.

Layout

The sequence of manufacturing operations often determines the arrangement of machines and equipment. Two general plans are used: one is the straight-line production plan, usually exemplified by the movement of work from one machine to the next in line, one operation being performed at each machine; the other is the production center plan, whereby several operations are performed by a related group of machines, after which the work moves to the next center.

Maintaining a Steady Flow

The number of machines needed to perform the various operations depends upon the volume of orders going through

and upon the capacity of each machine used. A large volume of orders makes possible a more steady flow of work than a smaller one. It is also possible to schedule the work to better advantage and to lay out the machines and equipment more effectively. Suppose, for example, that five different machines are involved consecutively in a certain manufacturing process. The capacities of the various machines differ: machine A has a capacity of 10 units an hour; machine B can turn out 6 units an hour; machine C is rated at 4 units an hour; machine D will handle 2; and E will take only 1.

Shop System

The purpose of a shop system is, primarily, to show where we are at, that is, to watch the progress of work and to see that no delays occur. We must consider where delays are likely to occur:

Materials:	Running out of stock
	Not getting the right kind
	Not ready at time and place needed
Equipment:	Not in running condition
	Not set up
	Not available (busy on other work)
Help:	Not competent
	Not on the job
	Not assigned to the work
Working conditions:	Poor light
	Too hot or too cold
	Too much preventable noise
	Not enough space

If orders are put through at the rate of 5 units an hour, machine A will be idle half of the time, and machine B one-sixth of the time; while work will pile up at each of the other machines. If more of the lower-capacity machines are procured, there will be less delay in putting the work through. For example, with a rate of flow of 5 units an hour, we would need two C machines,

Records That Facilitate Production

Production control records:
- Condition of the work
  - Work ahead
    - Not scheduled
    - Scheduled
  - Progress of work
  - Work finished
- Machine situation
  - Machines available
  - Machines running and on what
  - Machines idle and why
    - Waiting for work
    - Waiting for repairs or parts
    - Down for repairs
    - Waiting for operator
- Help situation
  - Men working and on what
  - Men available, now or shortly
  - Men needed: when, where, on what work

Material control records (inventory control records)
- Material on order
  - When ordered
  - When due
  - Items, quantities, suppliers
- Material received
- Material issued or allocated (allotted) (requisitions, orders)
- Balances on hand and where located (perpetual inventories)
  - Raw materials
  - Finished goods
  - Goods in process

3 D's, and 5 E's. Machine A would still be idle half of the time and machine B one-sixth of the time, but the work will not pile up. If there is a sufficient volume of orders to step up the rate of flow to 10 units an hour, we should need 2 B's, 3 C's, 5 D's, and 10 E's. There would then be a minimum of delay in putting work through.

A Job for the Sales Department. But suppose there was not a sufficient volume to sustain a flow of work of more than 5 units an hour. Our problem then would be to schedule production accordingly, and see if it were not possible to get orders of a kind that would keep machine A busy on other work half of the time; or possibly certain operations might be performed on it for another manufacturer who has no A machine. Sometimes a rearrangement of the work is possible; if not, it may be better to replace machine A with a more economical one. In any case, one might well question the soundness of the reasoning that led to the purchase of machine A in the first place.

Operating Principles

Proper recording of the order
Planning of the work
  Routing the job
  Scheduling the job (always includes the time factor)
  Laying out materials and tools
Assigning tasks to competent individuals
Keeping track of the work as it progresses
Checking up finished product to see that it fits specifications
Delivery of the goods

Routing

Routing of work is concerned with the order in which the various operations are to be performed and with the depart-

ments through which the work is to pass. To a great extent the order of processes is governed by the work to be done—some steps cannot be taken until other steps have been performed. The simple illustration of a job printing plant may help make this point clear.

A Good Example

Suppose that a job printing plant receives an order. It is obvious that the job cannot be printed until the type has been set, locked up, and placed on the press. Also, the right ink and paper of the specified grade, color, and size must be ready. But none of these steps is effective if the press itself is tied up with another job. It is conceivable that all the preparatory work may have been done, only to find that some simple factor has not been provided for. Here is where planning and scheduling come in. The job printing plant will furnish a clear illustration for us; the principles are applicable in practically every kind of manufacturing business, even though the methods of application may vary. Let us follow through a job order and see what can be done.

Facilities Available. In the job printing shop that we are to examine is an office, a stock and shipping room, a composing room, and a pressroom. In the stock room are certain quantities of various kinds of paper and cardboard, determined by the general run of the work of the shop. There is also a guillotine paper cutter. In the composing room are cabinets of display type, a typesetting machine for body type, one or more imposing stones on which to make up forms, and an assortment of "chases" (iron frames for locking up forms of type for the press). In the pressroom are five presses of varying sizes and styles, each adapted to certain kinds of work.

An Order Is Received. When a job comes into the office, it is in the form of copy. Suppose it is for a display circular or poster. The wording is definite. The customer has an approximate idea of the size of the finished sheet; he knows how many he wants; the styles and sizes of type may or may not have been indicated; the color of ink is probably black. The job is wanted within three days.

Let's see what is involved.

What This Order Requires. The styles and sizes of type must be indicated and the type set. The grade, weight, and color of the paper must be determined and the paper cut to size without waste, if in stock; if not in stock, it must be ordered. The ink must be selected to match the paper—bond ink would pull off the surface of coated paper, and news ink wouldn't even stick to bond paper. The press best suited to this job must be indicated and its availability ascertained.

Req. No._____ **REQUISITION FOR STOCK** Job No._____

STOCK CLERK:-
*Have ready following stock for Job No.*_____

Quantity	Size	Description and Quality	SPACE BELOW IS FOR STOCK CLERK TO FILL IN No. Sheets	Size	No. to Sheet	Ready

*Signed*_____
Rec'd_____ Sheets ___ x ___ for Job No._____
FEEDER
Charged _____
BOOKKEEPER

Ordered _____ by _____ No._____
From_____
Rec'd. _____ by _____
Cut by_____
O. K._____

Advance notice to the stock clerk enables him to have the material ready at the time it is needed.

Information Needed. The proper carrying out of these details depends upon the information in the office. There the following information should be available:

1. Paper and cardboard in stock
   a. Grades, weights, colors, sizes, quantities, costs
   b. Names and telephone numbers of suppliers
   c. Sample books of suppliers
2. Styles and sizes of types in the composing room and on the machine
3. Progress on jobs ahead in the composing room
   a. Jobs not yet started
   b. Jobs partly set
   c. Jobs set, but not made up

d. Jobs made up, but not locked up
e. Jobs locked up, but not sent to the pressroom

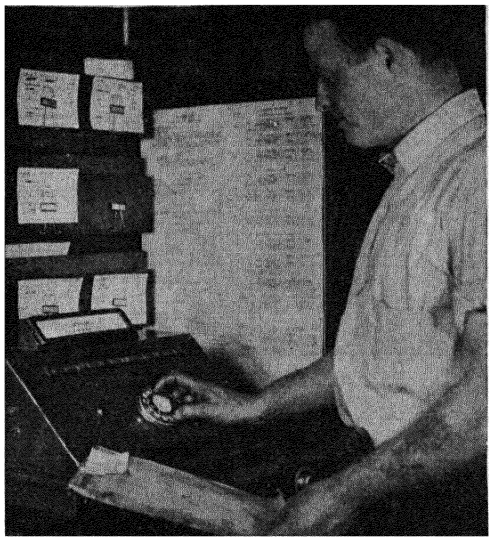
4. Progress on jobs ahead in the pressroom
   a. Forms waiting for a press, and press indicated
   b. Forms being made ready on press
   c. Forms in press, ready to run, waiting for something
   d. Forms on press, now running
   e. Jobs finished, drying
   f. Work ahead for each press

Intelligent Handling Possible. With the information above, the office can see the condition of work in the plant and is thus in position to take several actions:

A. Give the customer a reasonable delivery date
B. Know whether the desired paper is in stock
   1. If in stock, give stock clerk cutting directions and date stock should be delivered to pressroom
   b. If not in stock, order from supplier and notify stock clerk
      a. That it has been ordered
      b. To inform office when the stock arrives
      c. To cut according to directions
      d. To deliver to pressroom on a certain date
C. Mark the copy for styles and sizes of type
D. Send the copy to the composing room with date to be delivered to pressroom
E. Notify pressroom, indicating press, and date promised as well as the details of the order, such as size, paper, ink, and so forth
F. Follow the progress of all orders through the shop

Control Starts with Knowledge

For this shop, daily reports from the three departments involved will be sufficient. For some manufacturing plants, hourly reports are none too frequent; and in one well-known concern the completion of each part of a job is reported at once by an electric device to a central production control desk, which is thus constantly and immediately informed of the progress of work. The breakdown of a machine is learned instantly, making it possible to reschedule work planned for that machine. All details are so planned and scheduled that they meet at the proper

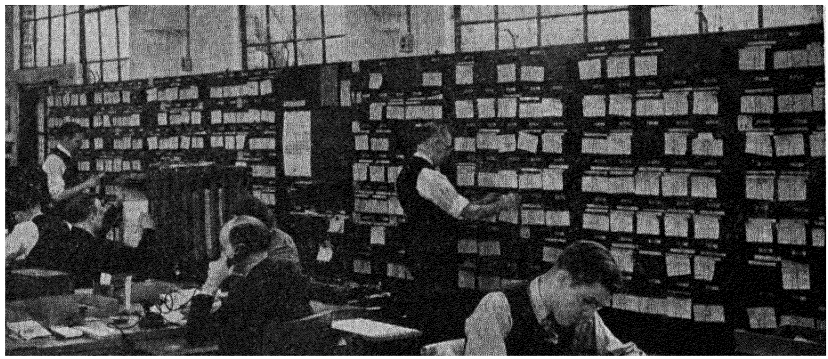


Courtesy of Boston Gear Works, Inc.

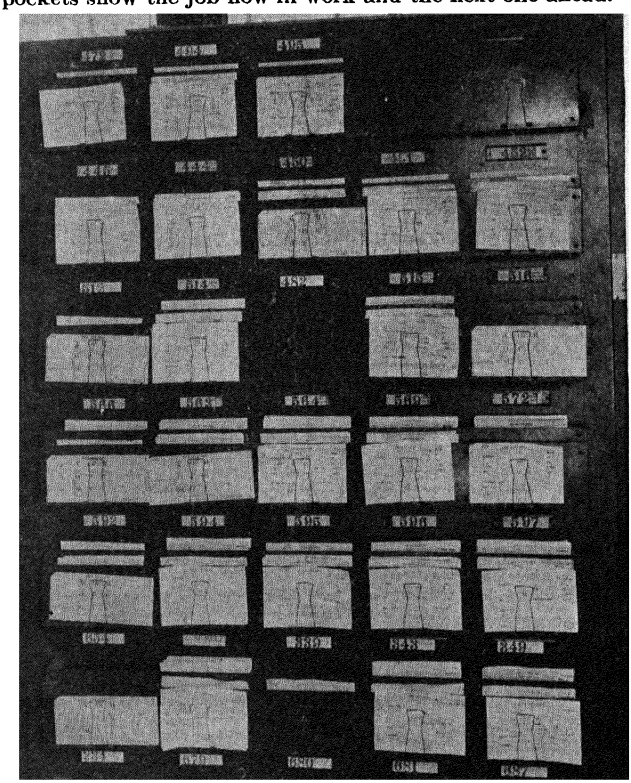
Dialing here notifies the control desk that a job is finished in this department.

Courtesy of Boston Gear Works, Inc.

As jobs finished are dialed to this central control desk, the next job is assigned to the machine involved. The control clerk takes the machine operator's time card from the rack at his left and stamps it in the time clock to show that one job has been finished and another one started.



On this production control board are two box pockets for each machine in the plant. The pockets show the job now in work and the next one ahead.



Photographs by courtesy of Boston Gear Works, Inc.

This is a close-up of the production control board shown above. The spring clip on the outside of each pocket is for special information about the machine: idle, down for repairs, available, and so on. The nature of the information is indicated by a distinctively colored card or slip.

points without delay. Nothing is left to chance; the management *knows* at all times the condition of work. That is why *scientific* management is so called; it is based on facts, not hunches.

Control of Quality

The manufacturing end of a business is responsible for production, for producing quickly at a reasonably low cost. But it is also responsible for the quality of the product. Quality is controlled by having precise specifications and conscientious inspection of the product to see that the specifications are adhered to. Usually, certain tolerances are allowed; that is, limits within which the product may vary one way or the other. In many concerns, an engineering department is responsible for design, specifications, and inspection. Careful inspection has a direct effect upon costs; the earlier in a manufacturing process that defects are discovered, the less labor will subsequently be wasted on defective material. If a defective product does reach the customer, he will not think too highly of us. Some large customers send their own inspectors to the supplier's plant before the goods are shipped, to make sure that no delays will result from imperfect goods, which would only have to be returned, incurring transportation expense both ways.

Questions for Discussion

1. Compare hand tools with machine tools.
2. Comment briefly on equipment used in manufacturing.
3. Name and explain the two main types into which manufacturing industries are divided.
4. How could the Ford Motor Company turn out 7,000 cars a day?
5. Describe or explain synchronizing.
6. Why is the manufacture of ready-made clothing an assembling industry?
7. Name two other types of assembling industries.
8. Into what two types are continuous manufacturing industries divided?
9. Why is printing usually classed as a synthetic manufacturing industry? Comment.

10. What is the difference between manufacturing to order and manufacturing for stock?

11. What are the advantages and disadvantages of each?

12. Why do some concerns manufacture for stock, while others manufacture only to order?

13. "There is enough skill involved in the successful administration of a manufacturing enterprise to warrant the application of the best brains available." Explain and comment.

14. The manufacture of any article involves three factors. What are they?

15. Is a design necessarily stable? Why or why not?

16. What four requirements must a design meet?

17. What is consumer acceptance?

18. What is meant by utility in the design of a product?

19. Comment on designing a product so that it does not interfere with economical manufacturing processes.

20. What is an economical manufacturing process?

21. "Design must suit the material of which the articles are to be made." Comment.

22. What choice of materials has a designer today?

23. Comment briefly on each of the following as materials for manufacturing: iron and steel; copper, aluminum, and magnesium; plastics.

24. Upon what three factors does the choice of materials for manufacturing a product depend?

25. What effect upon the choice of materials has the purpose of an article? Explain.

26. What effect upon the quality and design of a product may the inability of many consumers to distinguish between good quality and poor quality goods have?

27. Processing requires labor and machinery. In what proportion would each be used?

28. What is the tendency in machine design? Why?

29. What effect upon the cost of a product has automaticity in machine design? How?

30. Based on the experience of Henry Ford, James Lincoln, and William Jack, would you say that increasing wages always increases efficiency? Explain and comment.

31. Why is it desirable to keep machines in operation?

32. What steps do manufacturers take to keep their machines in operation?

33. What is a stock pile, and what is its purpose?

34. What determines the arrangement of machines and equipment in a manufacturing plant?

35. Describe or explain the straight-line production plan.

36. Describe or explain the production center plan.

37. How many of each kind of machine are needed in a manufacturing plant? Explain.

38. Describe or explain routing of work, and illustrate your answer.

39. What information should be available in the office of a job printing plant? Why?

40. With the information indicated by your answer to question 39, what is the office able to do?

41. How is the information in question 39 obtained, and when?

42. How is the quality of a product controlled?

43. Explain tolerances.

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Select five manufacturing concerns in your locality and determine what kind of manufacture each is engaged in, explaining those features upon which you base your opinion.

2. Select any local manufacturing concern and list the materials used in making its product. Find out if any of the materials have been changed within recent years and the reasons for such changes, if any. Find out also if other substitutes could be used, if necessary, for materials now being used, and what the advantages and disadvantages of such substitution would be.

3. Ask a local manufacturer if he has recently changed the design of any of his products, and the reasons therefor.

4. Ask permission to follow a production order from the time it enters the shop until the manufacturing job is done. Take

notes of all you see and afterward write a description of the route of the order.

Problems

1. A certain well-known manufacturer of electrical apparatus had a chief engineer with complete authority over manufacturing and design. Every now and then he would order a change in the design of certain apparatus, the factory would put out the equipment with the change, and the sales department would sell the installations. Within six months complaints from customers would necessitate removing the unsatisfactory equipment and substituting new. This situation had continued for years until one day one of the directors insisted that something be done about it. The chief engineer was too valuable to be released and, since he was highly temperamental and supersensitive, any steps taken should not lessen his prestige. What suggestions would you make for meeting a situation such as this? Give your reasons.

2. A shoe buyer, a good customer, came into a factory to buy some shoes that were to be constructed to his own specifications. He was advised at that time that such specifications would not allow the shoe to be constructed correctly and that the shoe would not stand up. He insisted. So, finally, the manager agreed to make the shoes to the buyer's specifications. The shoes were made and shipped. A few weeks later some of the shoes were returned with the soles cracked across the vamp. The buyer maintained that the shoes had not been made according to his specifications, stating that he was going to return the whole lot, and that he now wanted a new lot made according to the specifications. What could the manager do under these circumstances? Give your reasons.

19

Organization of the Individual

> He who every morning plans the transactions of the day carries a thread that will guide him through the labyrinth of the most busy life. But where no plan is laid, all things lie in chaos.
>
> —Victor Hugo

There are always opportunities for well-prepared and thoroughly trained individuals, although such opportunities are more obvious at some times than at others. The position of the worker who wants a job is similar to that of the salesman who wants an order. Each must find someone who wants what he has to sell. On the other hand, the most difficult problem facing employers *at all times* is the problem of finding workers *upon whom they can depend* to accomplish the work that has to be done.

Unlimited Opportunities

Opportunities are all around us. They are not to be had for the asking, however, and sometimes real salesmanship is necessary to land a job. Few employers are willing to hire the first applicant who presents himself, any more than a woman shopper expects to buy the first piece of merchandise shown her by the store salesclerk. An employer is not simply looking for someone to hire; he wants someone to do the work that is to be done, someone who can do that work the way he wants it done, and

upon whom he can rely. Altogether too many employees look upon a job as a necessary evil which must be tolerated for the sake of the few dollars it pays; they do not consider the employer's side at all. Many an employee feels that he is doing his employer a favor by consenting to work for him and by continuing to do so. Anyone with such an attitude need not expect to get very far in business.

What Employers Are Looking For

A large number of employment managers met in Chicago for the purpose of discussing the subject: "Positions I find the most difficult to fill, and why." It was generally conceded that it is difficult to find trustworthy and competent employees with the qualifications listed below. Here is what these employment managers decided they wanted in the people they hire:

1. Loyalty, reliability, and truthfulness
2. Will power or tenacity of purpose
3. Accuracy and attention to detail
4. Memory and ability to follow directions
5. Perseverance and willingness to be workers before being bosses
6. Interest enough to do their best and cooperate
7. Initiative to plan for their future
8. Observation and care in their work of today
9. Judgment and discrimination of relative values
10. Wisdom to know when to keep their mouths shut

Although there are probably few employees with all these desirable qualities, the acquiring of most of them is largely a matter of self-training and development. Everything depends largely on one's own efforts.

Essentials to Success

There are five essentials to success in any line of endeavor:

1. Thorough preparation
2. Selection of the right employer

3. Proper presentation of qualifications
4. Continued and intelligent application to the job
5. Alertness for opportunities to serve an employer

If you have not been thoroughly prepared, you cannot expect too much consideration, either from a prospective employer or from your present one. The world is full of people who believe that the world owes them a living, but who do little or nothing to justify that belief. The fact that a person needs work is perhaps the least qualification he can have for any given job. The most that such a person can expect is charity, in whatever form it may appear. Josh Billings, the noted humorist, expressed the thought pointedly when he wrote, "The cent pieces wuz made for charity." Just as no merchant ever made a success simply by hanging out a sign "Store Open for Business," so no prospective employee can expect much by simply announcing that he is open for a position. The merchant must have goods the people want; the applicant for employment must have something that employers want. As some clever writer has said, "No one ever made a howling success by simply howling."

Selecting an Employer

It is assumed that every reader of this chapter has by this time thoroughly prepared himself and is ready to place his time and ability at the service of some employer who wants the kind of ability he possesses. How shall he find such an employer?

At all times, regardless of general business conditions, there are present in every concern five conditions that create opportunities:

1. Employees are being released for incompetency; someone must do the work to be done.
2. Employees are being promoted; someone must do the work formerly done.
3. Employees are leaving to get married; someone must do the work they were doing.
4. Employees are leaving to take other positions; someone must do the work they were doing.
5. Employees are leaving on account of sickness, travel, death, accident, and so on; someone must do the work they did.

To these may be added, in normal or boom times, a sixth:

6. Since the business is expanding and creating new jobs, more people are required to handle the increased volume of work.

From the foregoing, it is obvious that there is a large amount of work to be done and that there are real opportunities for applicants who are thoroughly prepared. The question each individual must answer is, "How can *I* take advantage of these opportunities?"

Analyzing Opportunities

The answer to the question just asked involves an analysis of the opportunities afforded by local business concerns. What concerns are there in this locality? What work do they require done? How satisfactorily is this work now being done? Is the business of these concerns increasing or decreasing? How do I know?

If local concerns do not seem to offer opportunities, the scope of the survey must be widened to take in an increasingly larger

How a Railroad President Started

Daniel Willard began railroading as a track laborer and became president of the Baltimore and Ohio Railroad. His philosophy of "getting on" was:

I have always tried in every position to suit my employer, to make myself as useful as I knew how, never bothering about the number of hours I put in if there were things that needed to be done. I have always been an early riser. It is well to read up everything within reach about your business; this not only improves your knowledge, your usefulness, and your fitness for more responsible work, but it invests your work with much more interest.

I had no special advantages. I had no superior education, no unusual mental gifts, no physical advantages, no influential friends, no money. I worked my way out of the rut by determination to keep right on doing the best I knew how to fill my job, plus, and losing no opportunity to increase my fitness for my job.

field. Let the applicant seeking a position take the same attitude as the salesman seeking orders: "Somewhere there is a concern that wants what I have to sell. If the only way I can find that concern is to ask every firm, then I am going to do just that. Sooner or later I shall find just what I want. Meanwhile, I shall keep right on asking."

If local concerns seem to offer several opportunities, the choice of the right one is important. You may wish to enter a certain type of business, such as banking, insurance, retailing, manufacturing; or a business handling a commodity such as lumber, hardware, or woolens. An examination of the field will help you to determine the businesses for which you have some preference or aptitude. If you decide to learn a business such as lumber or hardware, you should expect eventually to know that business from top to bottom, inside and out. In other words, you will become an expert in that particular industry and you will know little about any other. Therefore, it is wise to give considerable thought to your choice.

Get Both, If You Can

A person has two standards by which to choose: one, the kind of work he feels would interest him most; the other, the kind of work that would probably be in most demand—in short, the line in which he could do the best work, as compared with the line that would pay him the most money for his efforts.

Practically all human activity can be expressed in the terms used in the Declaration of Independence—the providing and maintaining of the factors essential to "life, liberty, and the pursuit of happiness." What things are essential to life? Food, clothing, and shelter. To liberty? Protection and education. To the pursuit of happiness? Nearly everything that is not included in the other two.

Another division into which all these factors can be separated is that of necessities and luxuries. Some foods are necessities; others are luxuries. Some clothing is a necessity; some palaces are luxuries. The dividing line between necessities and luxuries is not clearly defined, nor will it ever be, probably; but it will be found that, as the things essential to life and liberty approach

Is a Lowly Start a Handicap?

1. Henry Clay began his career as a clerk in a lawyer's office.

2. Daniel Webster worked his way through college by teaching school.

3. William A. Clark, the multimillionaire copper magnate, at one time sold maps for a living.

4. George B. Cortelyou, former president of the Consolidated Gas Company of New York, began life as a civil service stenographer.

5. Benjamin Franklin was the son of a tallow chandler and did without meat in order to buy himself books.

6. John Adams was the son of a poor farmer.

7. The father of Shakespeare could not spell or write his own name.

8. George W. Perkins, a New York financier, was a stenographer in his younger days.

9. Robert Burns was the son of a bankrupt.

10. James A. Garfield was a boy of all work; he was too poor even to have a trade.

11. Ulysses S. Grant was a tanner by trade.

12. Abraham Lincoln was a boatman and rail splitter.

13. Edward Bok, formerly editor of the *Ladies' Home Journal*, was once a stenographer.

14. James J. Hill, the great railroad builder, began work as a section hand.

15. Frank A. Vanderlip, formerly president of the National City Bank of New York, was once a stenographer.

16. Andrew Carnegie, who at the time of his death had given away more millions than any other man, began business without a dollar.

17. A prince is born to be a king, and he can never rise above his station because he thinks he is already at the top.

the description of luxuries, they also become more or less essential to the pursuit of happiness.

Be Persistent

This survey of opportunities may seem like a lengthy job and rather tedious, perhaps. But you are planning for your life work, and a few days or a week, or even a month or more, spent now in finding where you belong will be well spent. Consider the answers to these questions: How old are you now? How many more years do you expect to live? What proportion of the years you expect to live is the number of years you have already lived? Is it worth while, then, to plan for those years ahead? You are not planning only for the next two or three years; you are planning for the next 20, 30, or 40 years, depending upon how old you are now. And what you do in those 20, 30, or 40 years will depend largely on the nature of the steps you take now.

The trained job seeker should pick out two or three of the really big men in the lines of business chosen and call on them, asking them questions about their work and what opportunities it offers. If they are approached in an earnest, sincere, business-like way, these men, whose time is so valuable that it cannot be bought, will ordinarily give a young person their attention. He will be able, perhaps, to go through their offices and shops and plants and find out at first hand whether the work would appeal to him or not. Thus, the young job seeker can get a line on almost any business and determine more easily which one to enter. Of course, he can hardly expect to include everything in one or two hasty trips, but he can at least get some ideas.

This Is Good Advice

The following advice, given by one manager to an applicant, is interesting;

When you have determined the line of endeavor you want to take up, two ways of getting a position are open to you. One is to scan the classified advertisements in the newspapers and trade journals; the other is to select the most progressive concerns in your line and write to the manager or to the employment manager. Whichever way you choose, the information desired by your prospective employers is much the same—the main points on which you will be judged are what you can do and how well you can do it. That is, if you are

selected for a position, it will not ordinarily be because of your knowledge but how well you can apply that knowledge.

In many instances you will be given an application blank to fill out. The care with which you fill out this blank, and your answers to the questions asked, will go a long way toward determining whether or not you are fitted for the job.

If, on the strength of your written application, the manager is interested enough to consider you further for the position at his disposal, he may ask you to call and see him. Or, if you are in his office when you make out the application blank and he is in a hurry to fill the job, he may see you then and there. Some managers, unless the need is urgent, do not like to decide at the time of the first call but will ask you to come again the next day, or possibly later the same day. This also gives the manager an opportunity to look up your references and satisfy himself as to your character.

A Big Man's Secret of Success

The late Judge Elbert H. Gary, who was chairman of the huge United States Steel Corporation from its organization until the day of his death, compiled the following prescription for the young man ambitious to attain success:

1. He should be honest, truthful, sincere, and serious.
2. He should believe in and preach and practice the golden rule.
3. He should be strong and healthy, physically and morally.
4. His habits and mode of living should be temperate and clean, and his companions selected with regard to their character and reputation.
5. He should possess good, natural ability and a determination constantly to improve his mind and memory.
6. He should possess a good education, including particularly the fundamentals, such as mathematics, grammar, spelling, writing, geography, and history, and also a technical education concerning the lines he proposes to follow.
7. He should be studious and thoughtful, keeping his mind upon a subject until it is mastered.
8. He should be conscientious, modest but courageous, energetic, persistent, even-tempered, economical, faithful, and loyal to his friends and the interests he represents.

Use These Agencies

Just as a salesman calls on *all* prospects, so should the seeker after employment use every available means for getting a job. The employment agency is one such logical source of positions. Although all managers do not use employment agencies, enough do to enable the agencies to continue in business year after year. Such a service must be worth while or it could not continue. The United States Employment Service is really a nationwide employment agency, operated by the United States government; it is well organized and staffed and is in touch with opportunities all over the country. Its services should always be taken advantage of to the fullest extent.

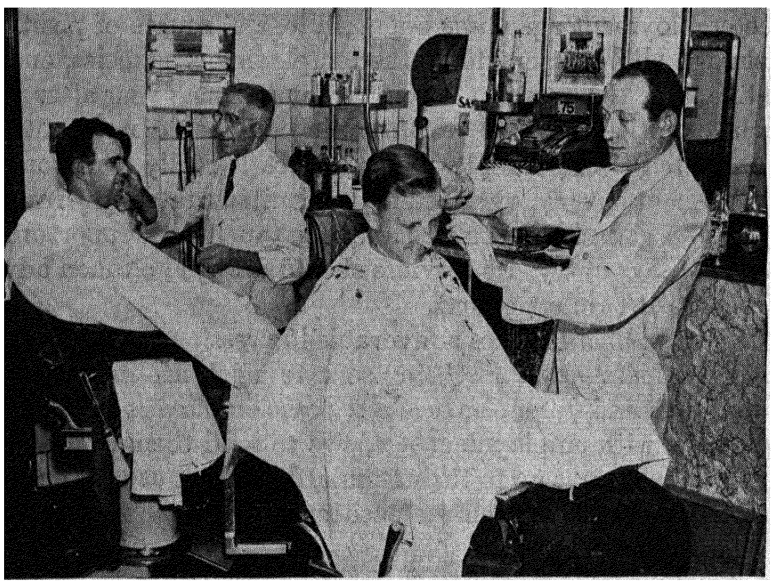
If an applicant makes a favorable impression upon an agency manager, his chances for being sent to a job are much greater than if he is indifferent or careless. Some employers leave standing orders with employment agencies to send them every applicant who measures up to their standards. Others use the agencies only when they have definite positions to fill.

First Impressions Are Lasting

The first point about an applicant that impresses an agency manager and that makes one applicant stand out above all the rest is appearance. A favorable appearance is created by neatness, absolute cleanliness, an erect bearing, and an air of alertness. Just why anyone should be so careless of his chances as to neglect important points like these is hard to understand. And yet hundreds of applicants receive little or no consideration simply because their poor appearance causes the agency manager to hesitate to send them out as coming from his agency. The agency manager wants to create with the employer as favorable an impression as possible, and he cannot afford to refer the wrong kind of applicants lest he lose the employer's business altogether.

The agency application blank should be filled out with very great care. You cannot be too careful. It is so easy to make this sample of your work stand out above the rest of the applications received by the agency that there is no excuse for not

making the effort. Be sure to answer every question, lest it be thought you are trying to conceal something. And be sure your answers are truthful.



Courtesy of National Association of Manufacturers (Acme Newspictures)
An investment in good appearance may well start with a visit to the barbershop.

Follow These Instructions

Merely filing an application is not enough, however. The applicant should ask the agency manager when he should call again and how often. Some agencies wish their applicants to call daily at certain hours. After ascertaining the wishes of the agency manager in this respect, the applicant should follow them strictly. Whatever else is done, the applicant should not make the mistake of telephoning the agency and asking "if anything has come in." With so many applicants coming in daily, it is almost impossible for the manager or his assistant to remember every one. For that reason, a personal call is always more effective, since the manager can then see what the applicant looks like. Furthermore, repeated calls help to fix one's features and qualifications in the manager's memory so that even though the applicant may not be in the office when the right job

comes in, the manager may remember him favorably and send for him in preference to others.

Courtesy of National Association of Manufacturers

"When the president dies, we hire another office boy," is the policy of one concern. That's why this employment interview is so important—not always so much for what the applicant is, as for what he may become.

All private employment agencies charge a fee for their services. This fee, which is ordinarily paid by the applicant, is usually one week's salary, payable in weekly installments, after getting a position. A few employers pay the agency fee, but that practice is by no means universal. A qualified applicant should not hesitate to use the services of an employment agency and pay the fee, since the value of the time saved in getting a position will often more than offset the fee. If a person is out of work five weeks, he is out five weeks' salary; if, by going to an agency, he could have been placed in two weeks, he would be paid for three weeks, even though one week's pay went to the agency. In one case he is out five weeks' pay; in the other, only three.

The suggestions as to appearance apply with equal force when interviewing a prospective employer. Neatness, cleanliness,

Some Personal Questions

1. Am I physically fit? Am I up to standard for my age in weight and height?

2. Am I fond of outdoor recreation? Do I excel in any athletic games?

3. Have I decided on my vocation? Am I doing anything that is directly preparing me for my life work?

4. Am I neat and careful in my work? Do I give enough and yet not too much attention to my personal appearance?

5. Am I a coward physically or mentally? Do I have the tenacity and will power to stick to my work and face difficulties?

6. Do I perform my mental and physical work to the extent of my possibilities? Am I above the standard in my line of work?

7. Am I a shirker? Am I interested and attentive to detail, or am I looking for the easy job?

8. Am I punctual in all my work and appointments? Have I attended school or kept other engagements for several years without failure?

9. Am I a knocker or a grouch? Am I as cheerful and polite at home as I am with strangers or in business?

10. Do I choose the right kind of associates? Am I fond of gambling or any game of chance?

11. Do I enjoy reading good books or magazines? Am I interested in the things that have made others successful?

12. Am I fond of music or art? Do I have a hobby that may be of permanent value?

13. Do I control my temper? Am I invariably courteous to others?

14. Am I truthful at all times? Do I deceive myself as to my honesty?

15. Am I accurate and rapid in my work? Am I interested in improving my efficiency?

16. Did I ever get a job by my own effort? Am I capable of filling some position well? Have I cultivated my observation and memory?

17. Am I loyal to my employer and friends? Can I be relied upon in time of trouble? Do I talk too much?

18. Have I a savings bank account? Do I save money because I am stingy or selfish? Do I want money to spend in self-indulgence?

19. Have I formed habits of thinking and doing that may some time injure my health or character?

20 Do I wish to succeed for the purpose of showing off, to have an easy time, or to satisfy my ambition or appetites?

erectness, and alertness impress an employer more quickly than any other feature about an applicant. Employers know how hard it is to get help who are really interested in their work; therefore, they are eager to talk with someone who looks the part.

Give the Employer a Chance

Perhaps the greatest mistake made by an applicant at an interview with an employer is talking too much. He is eager to get the job, and in his eagerness he tries to impress the employer with his ability by talking about it.

During the interview the applicant should sit quietly and respectfully (but not abjectly), answering such questions as the employer may ask but not ordinarily speaking unless spoken to. It is better to be thought stupid by keeping quiet than to prove it by opening one's mouth. But no employer thinks the quiet applicant is stupid; he respects the applicant's ability to "hold his peace," giving the employer a chance to frame questions that will bring out the information desired. The employer knows what information he wants; most applicants do not, and they should therefore wait for questions before volunteering information that may disrupt the employer's train of thought.

Watch This Point Carefully

Occasionally, an employer will be found who prefers to have an applicant tell his story. With such an employer, the applicant should be very, very careful. He should not "spill over" but speak clearly and distinctly, emphasizing the excellence and thoroughness of his training and the valuable experience he has had (if he has had any). Above all, he should beware of dwelling on any unfortunate experiences he may have had on his previous jobs. It were better to say nothing about them than to give a prospective employer the idea that the applicant cannot forget his troubles. For whatever reasons an applicant left his previous positions, he should not expatiate on them but simply state the plain fact and then, just as though there was nothing more to be said about it, ask the employer a question about his business or the work to be done. This can be done so naturally that undue emphasis will not be laid where it does no good. A plain state-

Questions Employers Ask

Here are some of the questions that must be answered by applicants for a position. They were taken from the application blanks of several different firms. Why do you suppose that any company would care to know the answer to each of these questions? Do you think you could answer them satisfactorily?

1. Give your name, age, height, weight, the color of your hair and eyes, your complexion, and nationality.
2. What education have you had?
3. What school did you last attend?
4. How long has it been since you left school?
5. Why did you stop school when you did?
6. Why did you leave your last position?
7. If you are now employed, why do you wish to change?
8. Do you live with your parents?
9. Have you anyone dependent on you?
10. Do you attend church?
11. Are you addicted to the use of tobacco, liquor, or opiates?
12. Is your health good?
13. Do you have any defect of sight, hearing, speech, or limb?
14. What are your favorite forms of recreation?
15. To what club, union, or society do you belong?
16. Have you done any studying since leaving school? If so, what?
17. Have you ever been discharged? Give full particulars
18. Have you ever been charged with being in arrears in any position?
19. Did you ever give a surety bond?
20. Would you be willing to do so, if required?
21. Are you financially interested in any business?
22. Have you any income aside from your salary?
23. To what extent have you engaged in speculation?
24. To what extent are you in debt?
25. Do you carry any life insurance?
26. Do you carry any accident insurance?
27. Have you ever been involved in any lawsuits?
28. Do you own any real estate?
29. Have you a savings-bank account?
30. If married, give the name and address of your wife or husband.
31. Give the name and address of your parents, if living.
32. If you are not married and your parents are not living, give the names and addresses of your nearest relatives.
33. Are you subject to dizziness or fainting spells?
34. What long or serious sickness have you had?
35. Have you ever been injured? If so, to what extent?
36. Were you ever operated on? If so, for what?
37. What languages do you speak or write?
38. If you subscribe regularly for some magazines, state which ones.
39. Name some book of fiction, travel, science, or business which you have read and liked.
40. What newspapers do you read, and which sections of these papers interest you most?
41. What kind of work do you like best?
42. What work do you think you are best qualified to do?
43. Do you have any hobby, such as music, painting, or drawing?
44. Give the names and addresses of your last three employers.
45. Give the names and addresses of three persons, not relatives or employers, who can certify as to your character.
46. What leads you to make this application, and why do you think you could succeed in this business?

ment of the work done (as distinguished from the name or title of the position held) will give the employer a clear idea of how well the applicant knows his job. Sometimes a question or two may be interspersed, such as "Is that the way you do it here?" or "Perhaps you do it differently."

What the Employer Wants to Know

Both the applicant and the employer have certain questions to which they are trying to find the answers. The employer has in front of him the application blank, stating the main facts and demonstrating the neatness (or lack of it) of the applicant's handwriting. Beside his desk sits the applicant, on dress parade. The employer's problem is to determine the answers to these questions:

1. Can this applicant do well the work we want done?
2. How will he get along with our other employees?
3. How much salary does he want?

A moment's thought will show that the second question is dependent upon the first being answered in the affirmative, and the third upon the second. If the applicant cannot do the work, he will not have a chance to get along with the others, and if the employer decides that the applicant would not be a desirable addition to his working force, the question of salary is not important.

Information Desired by the Applicant

The questions the applicant wants answered are these:

1. Do I want to work for this company?
2. If I do, and they want me, how soon do I start work?
3. What will my work be?
4. What are the working hours?
5. What will my pay be?

An Interesting Angle. It may seem rather peculiar to bring up the question of whether or not the applicant wants to work for this company, especially after getting as far as the interview. But the interview is not one-sided; its primary purpose is to bring together employer and applicant, to let them see

and talk with each other and to size each other up. If the employer has the privilege of deciding whether or not he wants to hire this applicant, hasn't the applicant an equal privilege of deciding whether or not he wishes to work for this employer? Most certainly! Any other course would be slavery; the law compels no one to work for someone he doesn't wish to work for. Until both employer and applicant agree, there is no contract; and unless each likes the other, the result is not likely to be happy. Of course, the applicant may need a job so badly that he is willing to take any position that is offered to him. Under these circumstances he cannot afford to be too independent but must decide to make the best of things. After all, he may find that the employer is not so terrible as he thought; it has happened that way time and again.

Get Your Answer Ready Beforehand. The second question of the applicant to himself is, "If they want me, how soon do I start work?" Since nearly all employers put off hiring additional help as long as possible, the need becomes pressing and most employers expect the applicant to be willing to start at once, either the same day or the next morning at the latest. So many applicants, otherwise favorably considered, try to put off the starting day to the beginning of the next week, or the first day of the next month. Hence, an employer is likely to be agreeably surprised if an applicant answers the question, "When can you start?" with the answer, "Just as soon as you want me. Today, if you wish." The employer has work to be done and, if the applicant shows that he appreciates that fact and is ready to pitch in and help do it, the right kind of employer cannot help being favorably impressed.

As a rule, the applicant should not ask the question about starting, unless the employer overlooks it. Usually the employer will ask, and it is better that he should. If he should not ask, the applicant can readily put the question casually, "When would you want me to start?"

You Must Know This. The third question of the applicant is "What will my work be?" The answer to this question will usually develop in the course of the interview, but it is well for the applicant to be sure that he understands definitely

just what will be required of him. Should he be in doubt, he may say, "I understand that I am to do this, and take care of that, in such and such a department, and also keep my eyes open for any other duties that may come my way." Such a statement, if correct, will indicate to the employer that the applicant understands what is wanted. The lack of a clear understanding at this point has resulted in many embarrassing consequences. If either person overlooks the point, the other should bring it up.

Don't Ask This Question. The fourth question is one that the applicant wants to know, but he should never ask of the employer, "What are the hours?" Many employers have the feeling that the bulk of their employees are "clock watchers," with more concern for the closing time than for finishing the work in hand. When an employer hires people to assist him, he is likely to have the feeling that they should take the same enthusiastic interest in their work that he does in his, and that they should pay no more attention to working hours than he does. Although it must be admitted that this attitude is unreasonable, the fact remains that it does exist and, if an employee can turn it to his advantage, there is no reason why he should not do so.

Of course, the applicant must know at what time he is to start work and quit, but he need not ask the employer for that information. Usually the employer will volunteer it, or the company may have a handbook of rules and regulations containing this and other helpful information. If hours are not mentioned, the applicant may ask, *after he has been hired* (and not before), this simple question, "What time is the door open in the morning?" This way of putting the question is bound to bring out the desired information, at least as to starting. The closing hour may be ascertained next day from fellow employees; meanwhile the employer has not received an unfavorable impression.

How Much Salary to Ask For. The fifth and last question of the applicant is, "What will my pay be?" The employer may state the starting salary and leave it to the applicant to take it or leave it. Or he may ask the applicant what salary he would be willing to start at. This puts the applicant in a difficult

position, which must be handled carefully. If the applicant states too high a figure, the employer may conclude he cannot afford to pay that amount and declare the interview at an end. If the applicant states too low a figure, the employer may decide the applicant is not so good as he looked; or the employer may agree to pay the low figure, which may be less than the job is really worth, in which case the applicant is working for less than is necessary or desirable.

When the employer asks the question, "How much would you be willing to start at?" the applicant should say something like this, "You know what that work is worth better than I do. How much are you now paying the persons who do it?" This response turns the question back to the employer. It should be stated right here that more and more concerns are setting up a system of salary standardization, which provides maximum and minimum salaries for each kind of work. Under such a plan, an employer does not ask what the applicant would be willing to start at, but tells him what the standard salary is for the job. The applicant then has the choice of deciding whether he wants to start at that figure. Generally speaking, a concern that has a carefully worked out plan of salary standardization should be a good concern to work for.

Leaving a Good Impression Helps

After the interview is over, if the applicant has been hired, he should bid the employer good morning or good afternoon in some such words as these, "I have enjoyed our talk very much. I shall be on hand tomorrow morning at eight o'clock. Good day."

If the applicant was not hired, he should leave the employer with as pleasant an impression as possible by saying, "Thank you for the interview. I have enjoyed meeting you. Good day."

Starting in the Position

The first day on a new job is often a trial to all concerned, but particularly to the new employee. Everything is strange—the work, the workers, the equipment, the surroundings, and everything else—all is confusing. The only consolation is the

assurance that before long everything will straighten out and the confusion clear up. All that is required is patient, determined effort and continued application to the job.

Listen Closely to These. Usually some instructions for doing the work will be given, either by the department head or

How Would You Answer These Questions?

1. Is it your fault or the employment manager's if you do not get the position for which you apply?
2. Is it better to be able to do a number of things fairly well or one thing exceedingly well?
3. What would you think of greatest importance in preparing yourself for an office position?
4. Suppose you could write 100 words a minute on the typewriter but your application blank revealed an untruth; do you think you would get the job?
5. Suppose you were interested in your work, accurate and rapid in execution, but talked outside about the secrets of the office; how long would you hold your job?
6. How would neatness, accuracy, speed, and perseverance as a bookkeeper compare with trustworthiness?
7. How would ability, experience, and initiative as a stenographer compare with reliability?
8. Would an employer keep an experienced and capable employee who did not have good health?
9. Would an employer keep an expert stenographer who was careless and slovenly in appearance?
10. Would an employer keep a clerk with ability and perseverance if he was grouchy or impolite?

by some other supervisor. Frequently the new employee will be turned over to an older employee to break in. In any case, the new employee should do everything in his power to please his fellow worker; the best way to do that is to pay strict attention to everything that is told him and *to remember it*, doing just as he is told. Many new workers make notes of what is told them, so that they can refer to them from time to time and refresh

Some Points to Remember

1. The difference between good work and bad work may be due to the difference between good training and poor training.

2. The cost of hiring, placing, and training employees has been estimated at from $50 to $150 for each new worker.

3. If workers are carefully selected before they are hired, they will usually prove more satisfactory than if they are hired without regard to their qualifications or disqualifications for the job.

4. Tests are used to determine an applicant's mental maturity, observation, memory, alertness, accuracy, speed, and general fitness for performing certain mental and physical operations.

5. The tests also show for just what kind of work each applicant's training and ability fit him.

6. In breaking in a new employee, many concerns use standard practice instructions in preference to having an older employee do the teaching.

7. Standard practice instructions show the very best way to perform each operation.

8. Standard practice instructions for any job are usually prepared only after that job has been thoroughly analyzed and carefully studied.

9. The advantage in using standard practice instructions in training employees is that they give the worker the three essential points necessary for a proper start: complete instructions, the reasons back of those instructions, and the conduct expected of him while he remains an employee of the concern.

10. The manager whose employees are contented will not need to worry about their leaving him for better positions elsewhere.

11. Other things being equal, employees will usually be contented if they are paid what their work is worth.

12. To find out what an employee is worth, a careful check must be kept on his work.

13. The usual methods of checking work are counting and measuring, comparing and inspecting, supervising and reporting.

14. Some companies pay bonuses for work that is up to or beyond a reasonably attainable standard.

15. Every employee is or should be looking forward to the job ahead.

16. This is the reason why many companies fill vacancies by promotion wherever possible.

17. Some companies have an understudy in training for every position. Thus someone is always ready to take the next job.

their memories. This is an excellent idea and, in addition, causes the instructor to be more cautious and accurate in his instructions.

Some concerns have prepared written standard practice instructions which tell exactly how to do the work. With these, the new employee can learn the right method quickly without any loss of time. But there are still many concerns that have not prepared written instructions, and it is in these concerns especially that the new employee must depend on his alertness to carry him through the beginning period satisfactorily. If something doesn't seem right, he should ask about it; he should never be afraid to ask for help. He cannot be expected to do his work properly if he doesn't know how; but he *is* open to criticism if he doesn't ask for instructions.

Five Principles of Effective Work

Plan	Schedule	Execute	Measure	Reward
To plan rightly you must know: 1. What work is to be done 2. How it is to be done 3. When it is to be done 4. Where it is to be done 5. How fast it can be done	The work must be scheduled. A schedule to be effective must be: 1. Definite 2. In harmony with other schedules 3. Difficult to accomplish, but 4. Possible to accomplish 5 Rigidly kept	It must then be executed: 1. Skillfully 2. Accurately 3. Rapidly 4. Without unnecessary effort 5. Without unnecessary delay	The work accomplished must be measured: 1. As to your potentiality 2. As to your past records 3. As to the past records of others 4. As to quantity 5. As to quality	If your work is accomplished effectively, you should be rewarded with 1. Good working conditions 2. Health 3. Happiness 4. Self-development 5. Money

Don't Forget This!

It might be well, at this point, to restate a fact mentioned earlier in this chapter: employees are hired to do certain work that has to be done. They are not hired simply because the employer wants the privilege of paying out salaries. The only reason the employer doesn't do the work himself is that there is too much of it; he hasn't the time or the energy. It is necessary to distribute the various tasks among others upon whom the

What Is There to Think About?

Many years ago the late William H. Leffingwell prepared the following questions for his clients' subordinates who felt that they were not getting ahead so fast as they thought they ought to.

1. *Analyze yourself.*
   - *a.* Have you a goal in life?
   - *b.* If so, have you a definite idea of it?
   - *c.* How long will it take to reach it?
   - *d.* Are you on the right track?
   - *e.* What are your handicaps?
   - *f.* Are you trying to overcome them?
   - *g.* Are you making progress every hour?
2. *Analyze your job.*
   - *a.* What are all the things you are supposed to do?
   - *b.* How many of these things do you do?
   - *c.* Can you do more?
   - *d.* Can any one do better than you?
   - *e.* Do you do things that can be delegated?
   - *f.* Have you trained an understudy?
   - *g.* What would happen in your job if you were promoted?
   - *h.* If promotion has been denied you, do you know why?
   - *i.* What is the goal (in your job) that you are working for?
   - *j.* When will you reach it?
   - *k.* Are you making progress every hour?
3. *Analyze your employees.*
   - *a.* Are they competent?
   - *b.* If not, whose fault is it?
   - *c.* What have you neglected?
   - *d.* Do your employees waste time and energy?
   - *e.* Who is at fault?
   - *f.* Do you treat your helpers as you would like to be treated?
   - *g.* Do you encourage them?
   - *h.* Do you recognize and commend good work?
   - *i.* Do you complain too much?
   - *j.* How many different ways are there of doing the same thing in your department?
   - *k.* Which is the best way?
   - *l.* Why do not all use the best way?
   - *m.* Who is the judge as to the best way?
   - *n.* Do you influence the methods?
   - *o.* Do you get many suggestions from employees?
   - *p.* If not, why?
   - *q.* Do employees like their work?
   - *r.* Is overtime necessary?
   - *s.* If so, what are you doing about it?

employer depends for their performance. It would seem clear, therefore, that the obvious way for an employee to get ahead would be to find out what his employer wants and expects, and then see that he gets it. What could be simpler? And yet hundreds of workers never grasp this vision but plod along day after day, wondering why nothing ever happens and blaming their condition upon circumstances. "Circumstances?" said Napoleon. "I make circumstances!" And any alert, capable employee can make circumstances favorable by doing a little more work than is expected of him and by doing it a little better than is expected. In every concern there are multitudes of little tasks that are neglected because "Nobody has the time to look after them." What an opportunity for the worker who wants to get ahead!

"But," asks the interested worker, "how can I find out what my employer wants?"

Use Your Eyes!

Nature has endowed us all with these helpful senses—hearing, seeing, speaking. The alert employee hears everything, sees everything, and says little, except to ask questions about what he does not understand. Let him see how his employer does things; let him cultivate the power of observation. Let him ask himself why things are done in certain ways. The inquiring mind (not the inquisitive one) can constantly add to its store of useful knowledge. Let the worker make copious notes of his observations. Gradually he will build up a manual of practice which will be invaluable to him. He cannot know too much about his work, about the work of his associates, and about the business itself.

Interesting and Helpful Facts

Let him find the answer to such questions as these: How long has this business been established? Who founded it? Who are its competitors? What standing has the firm in the business world, as well as locally? What products does it handle? Are there others it could handle with profit? How long have different people been with the concern? How did they start? What did they do to deserve advancement?

Business Maxims That Have Helped Others

1. The only helpless people in the world are the lazy.
2. The wise man learns by experience, but fools never learn.
3. Procrastination is the thief of time.
4. Time is money. Thou shalt not steal.
5. Have a time for everything and everything in its time.
6. "By and by" leads to the road "never."
7. No man has any right to say he is of no account.
8. He who moves not forward goes backward.
9. Our work counts for more than our talk.
10. Trifles make perfection but perfection is no trifle.
11. One today is worth two tomorrows.
12. The deepest rivers flow with the least sound.
13. No man can contradict his own deed.
14. He who comes into court must come with clean hands.
15. Many promises lessen confidence.
16. No one can be profited by his own wrongs.
17. He that wrongs his friend wrongs himself more.
18. The bigger the work, the greater the joy in doing it.
19. Luck consists in always being on the job.
20. It is not enough to be good—be good for something.
21. Concentration is the secret of strength.
22. A damaged reputation is hard to repair.
23. God helps them who help themselves
24. Diligence is the mother of good luck.
25. A penny saved is a penny earned.
26. He is poor whose expense exceeds his income.
27. Better go to bed without supper than to rise with debts.
28. See'st thou a man diligent in his business, he shall stand before kings.
29. Love not sleep lest thou come to poverty.
30. Whatsoever ye would that men should do to you, do ye even so to them.
31. Don't let your wishbone take the place of your backbone.
32. Folks who never do any more than they get paid for never get paid for any more than they do.
33. A wise man will make more opportunities than he finds.
34. It may be a little farther around the corner of a square deal, but the road is better.
35. To rest content with results achieved is the first sign of business decay.
36. The talent of success is doing what you can well and doing well whatever you can.
37. Success does not consist in never making blunders, but in never making the same one a second time.
38. Even the fool when he holdeth his peace is counted wise.
39. I know what pleasure is, for I have done good work.
40. The only man who never makes a mistake is the man who never does anything.
41. Our doubts are traitors and make us lose the good we oft might win by fearing to attempt.
42. Blessed is the man who has found his work.
43. Talk less and listen more.
44. When in doubt, mind your own business.
45. Failure is only for those who think failure.
46. Plow deep while sluggards sleep, and you will have corn to sell and keep.
47. Today is short. Yesterday is gone. Tomorrow may never come. If you have anything to do, get busy.
48. Getting things done is largely a matter of getting things started.
49. Anything that is worth doing is worth doing well.
50. The world generally gives its admiration not to the man who does what nobody else ever attempts to do, but the man who does best what multitudes do well

The employee should put himself beyond competition. There is no limit to the amount of information one may gather. In a relatively short time a new employee who is alert may know more about the business and its policies than other employees who may have been with the concern for years but who have

Factors Entering Into the Individual's Personal Management of Himself in the Business

1. The viewpoint of the individual worker
2. Relation to other workers and to the rest of the organization
3. Understanding what is required of him
4. Compensation and incentives
5. Opportunities for advancement: recognizing them; taking advantage of them
6. Records and reports

kept their eyes shut and their ears plugged up, lest they see or hear something that would be useful to them.

Make Yourself Indispensable

It is possible for an employee with the proper attitude and energy to make himself so nearly indispensable that the firm would not consider letting him go. And let such an employee always remember that for every competent employee released during retrenchment periods, there are hundreds of less competent ones who are let out at the same time. Let an individual resolve to put himself *beyond competition*, and he will not have any competition; he will be so far ahead of those who might be his competitors that he has the road to himself. Is it worth while? Is it worth the effort? Let each answer the question for himself. No one else can or will.

How to Get Along with Others

One very important point has proved the stumbling block in the path of many an otherwise successful and ambitious

employee. That is, getting along with others. The ability to get along with people is a valuable possession for any employee, since every job is full of petty details which, in the pressure of the day's work, may become very annoying.

The secret of getting along with others lies in gaining their confidence and respect. When your fellow workers really believe

> When you go to work for a man—and of course you will have superiors—make it a practice to see how much work you can take off the boss's shoulders. If you see him doing some work that looks reasonably simple, such for example as keeping a little record or tally, go to him and say, "Can I do that work for you?" Nine times out of ten he will be delighted to have you do it. The next day you perhaps see something else that you might do to relieve him. Soon you will have become so necessary to him that he cannot let you go, no matter how expensive you are, because it would mean taking back into his own hands a large amount of work of which you have relieved him. That is the way to get ahead in business.
>
> *(From Charles R. Gow, "Foundations for Human Engineering." By permission of The Macmillan Company, publishers.)*

that you are sincere, that you are not trying to take undue advantage of them but are willing and able to help them and work with them, the fear that lies at the bottom of noncooperation vanishes, and a real spirit of teamwork takes it place. The motto of the Sherwin-Williams Company is "Merit begets confidence, confidence begets enthusiasm, and enthusiasm conquers the world."

If one can get a group of people interested in working together for a common end, there is no limit to the possible accomplishment of that group. And what does "interest" mean? Primarily, it means that which is of advantage to one. That is, it is to our interest; things are interesting to us because we believe they are to our interest. Most people will work unremittingly for the accomplishment of those things in which

they are interested; that is, those things which they believe are to their interest, which they believe are of advantage to them. Try it and see!

Setting Up Your Own Business

"What about getting into business for myself?" Good idea, if you know what business you want to get into, if you have the training for that business, and if you have had enough actual experience in it to be aware of the pitfalls that beset the path of every business.

Before setting up your own establishment or taking over a going business, you should make a thorough analysis.

One of the first points to be considered is the product or service the business has to sell, and the market for that product of service. Don't assume that there is a market because someone has told you so. Get the facts. Talk with some of the customers;

> **Believe It or Not!**
>
> If you try to sell something people don't want—you'll think there's a depression. If you try to sell something people want and can use—business will be good.
>
> *(Courtesy of Weis Manufacturing Co.)*

find out why they bought the product and how well satisfied they are with it. What competition is there? Is it worth the money, time, and effort that may be required to meet this competition? Is the product in the form that will best meet the demand? Or should it be redesigned? Is it a novelty or will it have a permanent market? What is the reputation of the present company? Is the company well thought of by *both* customers and suppliers?

Market research specialists can get the answers to many questions, and their fee will be much less than it would cost you if you picked a lemon.

Some Fair Questions for the Investor

The Product

1. Is it useful?
2. Is it practical?
3. Has it a ready market?
4. Is demand seasonable, steady, or subject to influence of abnormal conditions?
5. Is it sold at a reasonable profit?
6. Is it patented?
7. Is it a secret process in the hands of a few persons?
8. Does demand exceed supply?
9. Will there be repeat orders?
10. Does its price depend on special conditions?

The Company

1. How long established?
2. Has it gone successfully through a period of depression?
3. Is it on a sound basis commercially and financially?
4. What facilities has the plant as to
   a. Railroad?
   b. Shipping?
   c. Power?
   d. Water?
   e. Light and heat?
   f. Nearness of raw material?
5. What is company's reputation as to credit standing and business dealings?
6. What is total
   a. Capitalization?
   b. Outstanding?
   c Common stock?
   d. Preferred stock?
7. Do current earnings justify above capitalization?
8. Amount of bonded indebtedness?
9. Kind of bonded indebtedness?
10. Nature of sinking fund (if any)?

The Management

1. Are active officers and managers experienced, successful, reliable men?
2. What were their previous connections?

Earnings

1. Is there a published balance sheet?
2. Does it publish a statement covering a number of years?
3. What is the ratio of net quick assets to net quick liabilities?
4. Has the surplus or undivided profit fund shown a steady increase?
5. Have earnings increased?
6. How many times over have bond interest and dividend requirements been earned?
7. Are the balance sheet and earning statement simply and clearly arranged?

Dividends

1. When was company established?
2. When was first dividend paid?
3. Have dividends been paid regularly?
4. Any distribution of stock dividends?
5. If preferred stock dividends have been paid regularly, are the earnings sufficient to allow dividends on common stock?

(*Courtesy of Herkimer County Trust Company.*)

Get the Real Story

Consider also the fact that things are not always what they seem to be. The phonograph record business seemed headed for the scrap heap with the coming of the radio. But more records are being made and sold now than ever before, and to owners of radios who want to be able to listen to any desired music or opera or other work whenever they feel like it.

How Important Is Capital?

The factor of capital is important, although probably not so important as some believe. Few business managers ever have as much capital as they would like to have, or as they feel they ought to have. But that does not prevent them from trying to do the best they can with what they have. The danger is not so much in having too little capital as in not using the capital you have to the best advantage. It is very easy to make unwise purchases, and equally easy to overextend oneself. A rereading of Chap. 5 on finance will help you to appreciate this point and avoid one of the results of money mismanagement. After all is said and done, you may keep this thought in mind: There is plenty of capital money waiting for men who have demonstrated their ability to use it to advantage.

Four Qualifications

for the highest degree of achievement

1. A clear, well-conceived ambition
2. Persistent struggle to surmount vast obstacles
3. Thorough accomplishment of the objective set
4. Great significance and human value of the success achieved

(Courtesy of Walter B. Pitkin.)

In closing this chapter, your attention is called to the fact that, although you cannot always determine the correct answer to a question, you can usually approach it with a fair degree of accuracy. In order that we may not be too cocksure of what we know, consider two axioms which many business men have uttered with respect to capital. The two are inconsistent, yet each has considerable truth in it. Here is the first, so well known as to be practically a copybook maxim: Never put all your eggs in one basket. Here's the other: Put all your eggs in one basket, and watch that basket.

The choice is yours.

Questions for Discussion

1. In what way is the position of an applicant for work similar to that of a salesman looking for orders?
2. What is the most difficult problem facing employers at all times? Do you believe it? Why or why not?
3. "Opportunities are all around us." Explain.
4. Why doesn't an employer always hire the first applicant for a position?
5. What is the attitude of some employees toward their jobs?
6. What are the five essentials to success in any line of endeavor? Do you believe it? Why or why not?
7. Why is thorough preparation important?
8. What is meant by thorough preparation?
9. Do you believe that the world owes everyone a living? Why or why not?
10. Do you believe that the world owes you a living? Why or why not?
11. What did Josh Billings say about charity? What did he mean?
12. Why can't a merchant make a success by simply hanging out a sign reading "Store Open for Business"?
13. Why can't a person get a position by simply announcing that he is open for a position?
14. What six conditions create opportunities in every concern?

15. Why should an employee be released for incompetency? Or should he?

16. If you were an employer, would you hire an incompetent applicant, knowing that you might have to discharge him later for incompetency?

17. Why are employees promoted?

18. Under what circumstances might the promotion of employees within a business not leave positions open for outside applicants?

19. Why should an employee leave a position with one concern to take a position with another?

20. For what other reasons might an employee give up his position of his own accord?

21. Why are more employees needed when a business is expanding?

22. How does a business expand, and when?

23. How may an individual take advantage of the opportunities created by the six conditions stated?

24. Which offer better opportunities, local concerns or others? Why? How would you know?

25. How would you determine the opportunities in your community or city?

26. What advantages would you expect to gain by analyzing the local opportunities?

27. What would you do if your analysis showed no local opportunities?

28. What is the attitude of the salesman who is trying to get orders?

29. Do you believe a job seeker has the same problems as a salesman? Why or why not?

30. If you decide to enter a certain kind of business, how much would you eventually expect to know about that business? Why?

31. What two standards help a person to choose the right kind of work?

32. Which of these two standards seems to you the more important? Why?

33. What is the difference between necessities and luxuries? How do you know?

34. Is it worth while to spend much time choosing your life work? Why or why not?

35. When should one start to think about his life work—when he thinks he is ready to start on it, or before? Explain.

36. Do you believe that really big men will take the time to talk with you about their work? Why or why not?

37. What advice did one manager give an applicant? Why do you suppose he gave this advice?

38. In filling out an application blank, what should you try to do? Why?

39. What are some of the questions asked on application blanks? Why are those questions asked?

40. Why does a prospective employer want to know where you have worked and what you did there?

41. Of what value are references? How do you know?

42. Should a person seeking employment visit the employment agencies?

43. Why is the United States Employment Service an excellent place to register and keep in touch with?

44. Why is it desirable to make a favorable impression upon the agency manager?

45. Why should an applicant not be careless of his appearance?

46. What should an applicant do after he has registered with an employment agency?

47. Why are personal follow-up calls at the agency likely to be more effective than telephone calls? Do you believe they are?

48. Why should a private employment agency charge a fee for its services?

49. What is the weak point in the argument of some people that they will not go to an employment agency because they have to pay a week's salary for a job?

50. Why do some employers pay the agency fee?

51. What is the purpose of the employment interview?

52. Why is one's appearance important in an interview?

53. Why do employers sometimes find it difficult to get people who are really interested in their work?

54. What is the greatest mistake that an applicant for work is likely to make at an interview?

55. What should the applicant do during the interview?

56. Why is it better for the applicant not to make conversation during a long pause?

57. What should an applicant do when he is being interviewed by an employer who wants him to tell his story?

58. Why should an applicant beware of dwelling on unfortunate experiences that he may have had on previous jobs? How can this be best handled?

59. To what three questions is the employer trying to find the answer during the interview?

60. What five questions does the applicant want answered?

61. Why should an applicant for employment ask himself if he wants to work for the company giving him the interview?

62. What circumstances might affect the applicant's attitude?

63. When the employer asks the applicant how soon he can start work, what should the applicant say? Why?

64. How may an applicant find out what work he would be expected to do?

65. What is the one question the applicant should never ask the employer? Why?

66. How may an applicant find out what the hours are?

67. What answer should an applicant give when asked what salary he would be willing to start at?

68. What might happen if the salary question were not handled with care?

69. Why is a system of salary standardization a good thing for a concern to have?

70. If the applicant is engaged by the employer, how should he close the interview? Why?

71. If the applicant is not engaged, how should he close the interview? Why?

72. Why is the first day on a new job a trial to all concerned?

73. What is required on a new job to straighten out all the apparent confusion?

74. From whom is a new employee likely to receive his instructions?

75. What should a new employee do when receiving instructions?

76. What good does it do to write down instructions as they are being given?

77. What are written standard practice instructions?

78. What should an employee do if he does not understand what is desired of him?

79. How may an employee make circumstances favorable for him?

80. What is meant by the suggestion "Use your eyes"?

81. What is the difference between an inquiring mind and an inquisitive one?

82. How can a worker build up his own standard practice manual?

83. What information about the business and the company should the new worker try to get?

84. What good does it do to get this information?

85. Are competent employees ever discharged? Explain.

86. How can you put yourself beyond competition? Explain.

87. Why is it desirable for one to have a good reputation for getting along with others?

88. What is the best way of getting along with others?

89. What is the motto of the Sherwin-Williams Company?

90. Explain what interest means in connection with one's work.

91. Why will most people work harder if they are interested in what they are doing?

92. In answer to the question, "What about getting into business for myself?" what three facts lead to an affirmative answer?

93. Why should you consider the product or service of a business you are contemplating entering?

94. Why is a consideration of the market vital?

95. How can you be sure of what the market and competition are?

96. How important is the factor of capital? How would you know?

97. "There is plenty of capital money waiting for men who have demonstrated their ability to use it to advantage." Do you believe this statement? If so, where is this money?

98. Into how many baskets should you put your eggs? Why?

Topics for Special Reports

In preparing the following reports, it may be advisable for the members of the class to work in groups or committees, as explained on page 85.

1. Visit 10 concerns in your city and procure an application blank from each one. Compare the 10 blanks with each other and make a list of those questions that appear on all of them.

2. If there are any questions on any of the application blanks referred to in topic 1, which are not on any of the other nine blanks, write them down and see how many such questions you can find. Below each such special question, give your explanation of the reason for including it in the application blank.

3. Try to procure an application for a fidelity bond with a bonding company, and count the questions to see how many are asked.

4. Call on from 25 to 50 concerns in your city and find out how many have written or printed standard practice instructions. At the same time find out how many of those you visit have some plan of salary standardization for their employees. Compare the two kinds of information you have obtained and see how many concerns have one, the other, or both. See if you can give any reasons for the results of your survey and analysis.

5. Select some business in your town and write a 1,000-word report on why you would like to work for that concern, what you could do for the concern and why you think so, what position you would like to hold in it and why, and what position you think you could start at and why. Give the name of the concern, the name of the manager (or whoever is in charge), and the number of workers it employs.

Problems

1. Read the following extract carefully:

One of the questions asked at one time or another by most men is as to the advisability of going into business for oneself. The successful head of a business is apt to owe his success more to a well-rounded balance of qualities than to any one ability. If he is a manufacturer, he must know something about the technical design of his product. He must be intelligent on accounting and

financial questions. He must be something of a salesman, or at least possessed of a sales sense. He must get along with people and command their confidence. He must be an organizer, capable of seeing the correct relationship between individuals and the activities of the business. Similarly, with the merchandiser, sales ability alone is not sufficient to secure success.

One often wonders why salesmen who have made spectacular successes on the road sometimes go under so quickly when they start their own stores or factories. Sometimes, of course, it is temperament—for a successful salesman is apt to be a confirmed optimist, a special pleader, or a plunger—of diametrically opposite type to the balance and unflinching acceptance of fact that are characteristic of the successful executive. But often it is simply that he does not know the business. He knows selling, but he does not know credits, or buying, or finance, or management, or some other of the abilities vital to the running of a successful business.

It may well be that a man's special abilities are worth more to society when he is employed by a large balanced organization with the capital and resources necessary to exploit them to the utmost than they could possibly be were the individual to attempt to use them alone. Many executives, engineers, and specialists are given by their position as members of a great organization a scope for the effective exercise of their special abilities which would be quite impossible to them as individuals.

Of course, there is such a thing as undue conservatism and timidity. Determination and a ready wit may compensate in part for lack of experience, and the responsibility and stimulus of planning and managing and meeting the crises which arise in one's own business sometimes bring out abilities that would otherwise remain latent. Sometimes they do not, as appears to be true of the farmer who turned down an agent selling books on agricultural science, and being pressed for a reason, replied in a discouraged way, "I ain't farming now as well as I know how to."[1]

a. What qualities are necessary for success in one's own business?

b. Should every individual go into business for himself sooner or later? Why or why not?

c. Why do salesmen not always make good business managers?

d. What are the advantages of working for a large company?

e. How would you apply the farmer's answer to a person who did not believe in studying business and office methods?

f. Write a 30-word summary of this article.

[1] DUTTON, H. P., *Business Organization and Management*, pp. 109–111, McGraw-Hill Book Company, Inc., New York, 1929.

2. The following statement was made about John D. Rockefeller, Sr.:

He started work at the age of sixteen, doing odd jobs about the office of a Cleveland commission house. Soon he was advanced to assistant bookkeeper at a salary of $25 a month. Then he became a bookkeeper. He gained the attention and affection of his employers by his unceasing diligence and his ability to save them dollars by his continuous vigilance over the company's affairs.

He learned all there was to be known about the commission business. Then he started in for himself. But although he prospered, he did not remain long in the business. Quick to note the possibilities of oil as the basis of a rapidly growing industry, he established himself in that field. Here he concentrated his will and intelligence toward the development of his tremendous fortune.[1]

Comment.

3. In May, 1923, a well-known investment analyst made the following statement in all seriousness:

In three months the automobile companies of the United States have manufactured 1,000,000 automobiles. I think they have lost their senses. Where are they going to sell 1,000,000 automobiles with 12,000,000 already in use and with only a little over 20,000,000 families in the United States? It seems certain to me that the automobile companies of this country are riding to a fall.

The final production figures for that year were 4,034,000 automobiles. Since 1923 up to Dec. 31, 1941, 65,702,000 more automobiles were manufactured in the United States. In 1924, the total number of passenger cars registered in the United States was 17,593,000; in 1942, the figure was 33,000,000, not quite double the 1924 figure.

The same analyst mentioned above made the following statement at the same time, "Henry Ford is making 6,000 automobiles every day; he said his orders are coming in at the rate of 10,000 a day."

In June, 1936, an official of the Ford Motor Company said the profit on every car is $20. "In 33 years this company has sold 24,500,000 cars," he said. These were the Model T Fords, all exactly alike in every respect except for the body style, and all were painted black. When someone objected to the black

[1] *System*, August, 1929, p. 89.

color, Mr. Ford said, "You can buy a Ford in any color you desire, so long as it is black."

Here we have some interesting figures on one industry—automobiles. From these figures it is possible to draw a number of conclusions, one of which is the inability of a competent authority to foresee the remarkable increase in automobile production and use.

How do you explain this lack of foresight?

A comparison of the figures will bring out other interesting points, also. As an example, compare the number of automobiles manufactured since 1923 with the numbered registered 20 years later. How do you explain the difference?

Again, if Ford made $20 profit on 24,500,000 cars, how much was his profit per year, and his total profit on the total number of cars?

See what other findings you can make by a study and comparison of the automobile figures, then tackle the following assignment.

4. The automobile industry is a twentieth-century industry. Although its antecedents extend back into the nineteenth century, there were less than 4,200 cars manufactured in 1900 and only 25,000 in 1905. How do you account for the rapid rise of this industry?

Recently developed and developing industries are radio, television, electronics, airplanes, plastics, air conditioning, automatic house heating, and so on, not to mention the synthetic chemical industry which has produced artificial rubber, quinine, penicillin, insulin, the sulphonamides, the vitamins, and others.

Select one of the above industries and see what you can find out about its progress and development. Try to get the following facts:

Early beginnings and pioneers in its development

Obstacles encountered and how removed or circumvented

Expansion, in terms of production and geographical distribution

Present status and outstanding companies in the industry

From your findings, give your opinion as to the future possibilities in the industry selected. Sources of information are the

Encyclopaedia Britannica, The World Almanac, *Business Week*, *The New York Times Index.*

5. An interesting test which gives an idea of your mental alertness is the following:

In preparation for the test, write the numbers 1 to 15 down the left-hand side of a sheet of paper and the numbers 16 to 30 down the left-hand side of a second sheet. Do not write in this book.

Place a cross like this (X), on your paper after the number of each statement or definition that is reasonable and correct. If you think that it is not reasonable and correct, you may write the sentence as you believe it should be written.

1. Living expenses are higher in the country than in the city.
2. There is a greater variety of amusements in the country than in the city.
3. It is pleasant to hear the birds singing and the roosters crowing and the horses neighing at dawn.
4. Our best business men were brought up in the country.
5. More people attend church since the automobile has come into general use because it is so easy to get there.
6. People owning automobiles save money because they do not spend so much carfare.
7. Driving a car is not so dangerous as driving horses; so there are fewer accidents since automobiles came into use.
8. To write is to make words on paper with a pen or pencil.
9. To solve a problem is to make figures and put them in the proper places.
10. A chair is a piece of furniture on which we may comfortably sit.
11. The boundary between two states is a line that shows where one state begins and another ends.
12. If Sunday were called Monday, then Thursday would be Friday.
13. Edison invented the Bell telephone.
14. The laws of England do not permit a man to marry his widow's sister.
15. Richard wrote *Poor Richard's Almanac.*

16. The boys are not allowed to wear soft collars and cuffs on their pants.

17. The Indian was eighty years old and looked twice his age.

18. A woman said she had no children and that her mother was afflicted in the same way.

19. The unfortunate patient lay speechless for six long weeks in the month of August, crying incessantly for water.

20. With these few words he lit a cigar.

21. If 18 eggs cost 18 cents a dozen, 1 egg costs 1 cent.

22. If three cats catch three rats in three minutes, one cat will catch one rat in one minute.

23. If three men standing on a mountain can see 9 miles, one man can see one-third of 9 miles or 3 miles.

24. If a calf weighs 75 pounds standing on three legs, it will weigh 100 pounds while standing on four legs.

25. Moses drove the animals into the ark two by two.

26. Americus discovered America in 1492.

27. Thomas Jefferson wrote Franklin's autobiography.

28. Samuel F. B. Morse invented the wireless telegraph.

29. Robert Fulton invented the steam engine.

30. George Washington wrote the Declaration of Independence.

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