OPERATING REPORT - 7 Months to August 31st, 1921
(Expressed in Thousands)

	Sales At List	Cost Actual	Cost Standard	Variation Good	Variation Bad	Percent Variable Cost August	Percent Variable Cost Standard
Pres. & Gen. Mgr.							
Com. A. Cor.							
Com. B. Cor.							
Development							
Personnel							
Industrial Relations							
Purchasing							
Finance							
Accounting							
Credits							
MANAGEMENT	16,000	2,447	2,467	20		.0489	.0500
Production		2,817	2,467		80	.0831	.0500
Depn.		4,760	4,000	60		.2469	.2500
Renting		3,200	3,000		120	.2062	.2000
Cost		9,787	9,467		120	.5362	.5000
Stores							
Maintenance							
Production Overhd.	16,000	2,817	2,467		80	.0831	.0500
Materials	16,000	4,760	4,000	60		.2469	.2500
Direct Labor	16,000	3,200	3,000		120	.2062	.2000
PRODUCTION	16,000	9,787	9,467		120	.5362	.5000
Distribution							
Sales Infor.							
Advertising							
Merchandise							
Depn. & Amort.	16,000	615	597		16	.0300	.0296
Comm'l Sales	9,280	21	27	6		.0015	.0030
Com. A Bran.	2,000	428	420		8	.1440	.1400
Com. A Jobb.	7,000	911	872		39	.1206	.1150
Com. A Exp.	250	50	51	1		.1420	.1480
Com. B Sales	6,750	19	13		6	.0019	.0010
Com. B Bran.	5,000	877	827		50	.1200	.1100
Com. B Jobb.	1,000	148	168	20		.1350	.1560
Com. B Exp.	750	103	104		1	.1365	.1560
DISTRIBUTION	16,000	3,170	3,065	21	125	.1565	.1600
SALES	16,000	15,384	15,200	91	271	.7114	.7000
COST	16,384	Equal to increase in Net Assets as shown on					
PROFIT	$616	ASSETS AND LIABILITY STATEMENT.					

Exhibit L

OPERATING SUMMARY EXPRESSED IN PER CENT OF SALES AT LIST
7 Months to August 31st, 1921.

ELEMENTS	Commodity A Standard	Commodity A Actual	Commodity B Standard	Commodity B Actual
Management	.0600	.0489	.0500	.0487
Production Overhead	.0500	.0831	.0800	.0831
Materials	.2500	.2469	.2500	.2469
Direct Labor	.2000	.2062	.2000	.2062
INVENTORY COSTS	.5600	.5549	.5800	.5549
Distribution Overhead	.0290	.0300	.0290	.0300
Commodity Sales Supervision	.0010	.0015	.0010	.0019
BASIC SALES COST	.5900	.5864	.5800	.5868
Branch Sales Supervision	.1400	.1440	.1100	.1200
BRANCH SALES COST	.7300	.7304	.6900	.7068
Basic Sales Cost	.5800	.5864	.5800	.5868
Jobbers Sales Supervision	.1150	.1206	.1550	.1350
JOBBERS SALES COST	.6950	.7070	.7350	.7218
Basic Sales Cost	.5800	.5864	.5800	.5868
Export Sales Supervision	.1480	.1420	.1107	.1117
EXPORT SALES COST	.7280	.7284	.6907	.6985

Exhibit M

You will remember in connection with Exhibits E and F that sales values are based on list price rather than on net sales price. The discounts under different methods of distribution are treated as expense in making up the organization unit budgets as per Exhibit G, and in making up operating statements as per Exhibit J. This is to assure that the per cent of cost to sales price under different methods of selling will be comparable. If we used net sales prices and should give only 10 per cent to our own branches because we have to carry the branch cost, and 15 per cent to jobbers because they carry their own branch cost, you will see that the net results would be misleading. Under the method used the figures shown in this exhibit for cost of goods sold under different conditions are comparable, and it is possible to see at a glance the relative merits of the different methods of distribution.

All of the figures on this statement are with reference to Variable Cost, but because we know the Fixed Cost for each item and that the total Fixed Cost is $6,000,000 a year, we are able to figure the effect upon profit and loss which any change in policy would make.

For the sake of clearness I shall work out the effect on profit if we should reduce the price on Commodity B five per cent with the expectation of increasing the business an additional $2,000,000.

The present Variable Cost of Commodity B, we shall say for easy figuring, is 70 per cent of sales. This leaves a Contribution to Fixed Cost and Profit of $.30. If we reduce the price 5 per cent this would be $.05 on each dollar of sales, which would leave us $.25:

		Prospective Sales.	$8,750,000
		Prospective Contribution	.25
Present Sales.....	$6,750,000		$2,187,500
Present Contribution	.30		2,025,000
	$2,025,000		
Advantage of 5 per cent reduction in price provided it results in an increase of sales of $2,000,000...			$162,500

I have already said that few individual commodity prices are based on a uniform margin of profit. Most successful businesses are based on prices for different commodities which produce very different profits, yet which produce the greatest aggregate profit for the business as a whole.

Certain articles are sometimes sold at cost—or even at a loss—as a leader, to meet certain competition, to keep the plant going or for other reasons. Therefore, in order to work out the combination of prices to produce the greatest aggregate profit, we must know the cost of each individual commodity.

In Exhibits L and M we have used average figures. Therefore, to get figures for any one commodity, we must find the difference between the individual commodity and the average, and add or deduct this amount to or from the average.

Take, for example, Commodity A 1 A sold to jobbers. From Exhibit F we find the material and labor cost is $.5472, but also from Exhibit F we find the average is $.4500. The difference is $.0972, which must be added to the average total cost of Commodity A sold to jobbers as shown on Exhibit M of $.7070. This means the Variable Cost of Commodity A 1 A is $.8042 as compared with an average of $.7070 for all Commodity A items sold to jobbers. The Contribution to Fixed Cost and Profit is then $.1958 as compared with the average of $.2930.

Again let us see what the Contribution to Fixed Cost and Profit will be if we reduce the price five per cent. Since the figures are already on a per cent basis, it would reduce the contribution as many cents per one dollar of sales as is taken off of the price in percentage. The contribution would then be $.2430.

Again let us see what the result would be if the cost of material and labor were increased say 10 per cent. Material and labor are 45 per cent of the total Variable Cost, so 10 per cent added to them would be equal to $.045 on each dollar of sales. The contribution would then be $.2480.

Or if all of the foregoing possibilities were taken into consideration in connection with the same item, namely, Commodity A 1 A, the result would be as follows: Starting with an average contribution of $.2930 we should deduct $.0972 to bring it to the cost of the individual item. This would leave us $.1958. We should then deduct $.05 representing 5 per cent reduction in price, bringing it to $.1458, and then $.045 representing a 10 per cent increase in cost of material and labor, bringing it to $.1008.

It is not likely that all of these things will happen at one time to any one item, yet such things have happened within the past year. I have made these figures merely to show you the flexibility of figures when expressed in terms of Fixed Cost and Variable Cost.

6. FINANCIAL FORECASTS

Finance is too usually regarded as separate and apart from operating. Many concerns have gotten into trouble, especially in the last year or so, through too complete separation of these two major functions. Actual records show that many of the difficulties of