liability to the car maker, and hence we are safe in stating that the best sales executives in the ranks of the car makers must come to regard these problems as their own, and must join with their dealers in working out a solution.

Increases in Productive Capacity

The relation between factory capacity and market demand offers food for thought to the factory executives.

In 1923 the public demand for automobiles topped all records formerly set by the industry. The principal makers, almost without exception, were working at full speed on back orders and many manufacturers felt that lack of proper facilities for increasing output resulted in fewer sales than could have been made. The inevitable result was a program of building and expansion.

At the outset of 1923 the industry's capacity was sufficient for an output of 4,300,000 cars and trucks. The actual output for the year was 4,086,997. At the beginning of last year factory capacity had been increased until it was sufficient for an output of about 5,600,000 cars as compared with an actual output during the past twelve months of 3,617,602 motor vehicles. The slackening of demand for automobiles during the spring months of 1924 forestalled any additional increase in factory capacity, and the industry has come to the current year with a factory capacity sufficient for an output of approximately 5,650,000 motor vehicles. From present indications the percentage of this factory output that will be utilized in 1925 will be about the same as for 1924 unless the market shows a strength which has not as yet manifested itself.

These figures show that factory capacities in many instances are temporarily in excess of current demands, and this in turn throws on management the burden of keeping down production costs and general overhead, while at the same time building a public demand sufficient to utilize a greater percentage of production facilities.

The Changing Dealer Organization

Turning back again to the industry's retail sales machinery, we find some complications which now face management as a result of the rapid growth in the number of retail outlets for automobiles.

Records for the past few years show the following growth in car dealers:

1920	32,245	1923	38,592
1921	35,373	1924	48,216
1922	35,337	1925	48,151

An increase of 45 per cent in five years in any national sales organization is certain to carry in its train a number of serious complications. Frankly, the dealer organization has been suffering from "growing pains." It has been impossible for the industry to add 15,906 units in five years without some fatalities. One of the most costly drains on the purse of the car makers has been the direct results of dealer mortality.

In 1920 about 13 per cent of the car dealers went out of business. In 1921 the percentage had increased to 21. In 1922, 25 per cent of all the car dealers went out of business. In 1923 dealer mortality climbed to the astounding figure of 26 per cent. Present records show that mortality during 1924 was about 21 per cent.

The most significant fact in this connection is that the highest dealer mortality was coincident with the greatest output of motor vehicles. If we are to judge from 1924 figures, we can assume that, for the time being at least, dealer mortality has passed its crest. The low rate of mortality for the past twelve months suggests that a greater degree of stability has been established in the retail trade.

This mortality has affected alike both manufacturer and distributor: the manufacturer on account of the great cost of replacing defunct sales units; the established dealer because of unsettled trade conditions and credits.

One of the most hopeful signs for prosperity at the outset of the present year has been the substantial decrease in dealer failures for the last twelve months.

Most of the leading car makers are facing and conquering this problem of dealer failures. Other industries have in some cases shown a higher percentage of dealer failures, but the automobile dealer is commonly rated as a leading business man in his community and the records cited above are too high for this substantial type of business.

Automotive executives must continue to offset this mortality record through exercising greater care in the selection of trade units, and through cooperation with dealers in working out economies and developing additional sources of revenue.

Again we repeat—the success or failure of the automobile manufacturer will be founded on the success or failure of his dealers.

Used Car Sales and Their Effect

The biggest retail selling problem facing the industry today is that of clearing used car sales. More losses have been sustained through improper trading than through any other form of business error. When we remember that there are 15,460,649 registered passenger cars in the United States today, or about one for each two families, the prospects for many future sales not involving a "trade in" seem rather remote. The car dealer cannot hope to find each year an increasing number of buyers who are entering the market for the first time. He is learning to make more and more of his sales to customers who wish to turn in old cars, and he must show a profit, not only in new car sales, but on resales of old cars.

In a recent survey, twenty-five typical Eastern dealers selling well known makes of cars reported 1924 sales involving 5,123 new cars and 4,349 used cars; fifty typical Middle Western dealers reported 1924 sales involving 10,850 new cars and 13,208 used cars.

These figures, if accepted as typical, show that dealers today are selling more used cars than new cars. The effect of this can be illustrated by the actual experience of a well-established dealer selling a popular make of car. In 1924 this dealer sold 400 new cars and 300 used cars. His *gross* margin on used car sales was $765, but his *net loss* on these sales, after deducting all expenses, was $13,000. His average sale per new car was about $1,000. If we assume his net profit per new car to be 5 per cent, his used car *losses* were equivalent to net profits on about 260 new car sales. Under the circumstances his financial showing for the year was unsatisfactory, and the answer rested with his used car department.

The concern of the factory executive is this; where the dealer is selling more used cars than new cars, his interest is divided and his energies dissipated. He is serving as the representative not only of the car for which he holds the agency, but also for all the other car makers whose used cars are being sold through his establishment. A real problem of management for automotive executives will be the development of ways and means for cooperating with the retail sales organization in minimizing the troubles arising from faulty trading practices.

Extent to Which the Market Has Been Developed

Finally we come to a consideration of the basic condition of the market for new cars. More than one and a quarter million cars were scrapped last year and were replaced. Within two or three years the number of cars scrapped annually will be over 2,000,000. This will clear the market for a substantial number of new car sales.

But how many *new* buyers can we expect to enter the field in the next few years? The record of new buyers for recent years has been as follows:

1920	1,666,495	1923	2,853,862
1921	1,231,254	1924	1,981,000
1922	1,775,080		

More than nine and a half million new buyers have thus come to light in five years. Such a rate of increase in the size of the car buying public cannot continue indefinitely. Already the number of those entering the field each year for the first time is beginning to show a drop.

It will be a problem of management during the next few years to establish a proper production schedule to synchronize with retail demand and to help the selling organization readjust itself to changed conditions where the bulk of buyers will not be entering the market for the first time.

Conclusion

The automobile industry is gradually passing from the era of development to the era of stabilized merchandising. Engineering practices and production methods already show unmistakably the effects of stabilization. Production costs have been reduced so drastically that today the automobile manufacturer seems to have justification for his claim that he is offering more for the dollar than any other industry.

There is one place, however, where the car maker still has a major problem before him. That has been the reason for stressing sales statistics in this discussion. For five years the industry has been reducing manufacturing costs and cutting down on production wastes. The next five years will be given over quite largely to reducing the costs of distribution.

Management's greatest task in the next period of development will be to establish closer contact with the retail selling organization, and to make factory direction a real influence in building future sales.

The automobile business has grown in a few short years to be America's major manufacturing enterprise. Continued wise supervision of national sales effort will entrench the industry in the enviable place it now occupies in our national commercial structure.