# Hand to Mouth Buying[1]

## An Appraisal of Current Buying Practice

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SO MUCH has been written and said of late concerning hand to mouth or current buying, that there can be no doubt that this habit is the problem having greatest effect upon the policy of distributors today. It has passed through its first or emergency phase, when it was considered something of a fad, soon to be abandoned, and has become the settled policy and habit of hundreds of buyers. As such it necessarily affects the man on the other side of the equation—the seller. His methods of operation, his merchandising policies, must follow altogether new plans, rather than those which have guided him in the past. He is striving to find new sources of information which will give him a better insight into what is going on in his own business and how that business relates itself to general conditions in his industry and in the country.

As in mathematics, the statement of a problem is a great step toward its solution, so this attempt is made to set forth some of the effects of the current buying habit on merchandising practices, that in the setting forth a solution for some of the difficulties may be suggested. This study is offered, not as a remedy, in no sense as a cure-all, but simply as an effort to think the problem through.

The depression of 1920 and 1921[2] came about through a decline in purchasing by retailers who feared a fall in the price level. Retail sales of the country held their volume long after there had been a radical decline in wholesale sales, indicating that the decline of buying by retailers was caused by fear—fear of a decline of prices and a realization that their stocks were too large. The consequent slowing of manufacturing and of industry in general caused a decline in individual incomes and consequently a later decline in retail sales, after which business could be resumed only through an adjustment in the general price level.

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[2]For full explanation see "Money," by Foster and Catchings.

The period from 1900 to 1920 had been one of notable development in production, culminating in the great production of 1918, the greatest, when price level is considered, which the country has known. During this period attention was given by managers to methods of production, to improved machinery, to methods of planning and scheduling, and to any means which would produce more goods at lower cost.

At the same time some attention was being given by a few retailers to the application to the business of selling of the same principles which were being successfully applied in the field of production. Probably the earliest application of this sort was Filene's, though a few other department stores ran close second. By 1920 a considerable number of stores had accurate records showing them their merchandise position, and when the change in selling conditions came, with turnover the watchword, they were ready for it, and similar methods were rapidly adopted by many others. Almost over night conditions changed from a seller's market to a buyer's market, and instead of a scale of rising prices in which only the carrying of an inventory was necessary to make money, a downward trend of prices ensued, in which a large inventory meant a large loss.

In order to clarify this discussion a few definitions are offered:

- Distributor—the sales function of a manufacturer or producer, distributing goods from primary sources
- Jobber—an agency which buys from many distributors and sells to retailers, usually within a restricted area
- Retailer—that agency which sells directly to the ultimate consumer

Formerly, when the retailer bought the bulk of his season's goods at one time, the jobber did likewise, depending on his knowledge of the wants of the retailers in his territory. Confident in a stable or rising market, he placed his orders well in ad-



vance. The result was that the distributor needed to produce very little for stock, but could manufacture against firm orders. As the retailer has decreased his orders the jobber has done likewise, until the slogan of both has become "Buy small and often."

Especially in the textile field, spurred by the intense competition of excessive production facilities, rapidly changing styles have added to the difficulties. New styles brought out to aid sales have frequently upset the entire industry and have made everyone wary of heavy buying.

Small purchases by the jobber have forced on the distributor practically the same operating problem of small unit shipments as he would have if selling direct to the retailer. In many cases he has taken the step and is selling direct to the retailer, getting a higher margin of profit, but having an increased selling cost and an increased operating cost. To meet these conditions he must be able to make quick deliveries of goods from stock, and must, therefore make up goods for stock at his own risk, depending upon his knowledge of style and market conditions. If he has a large unsold stock or commitments and the market declines, he again faces a loss.

For these reasons the jobber is losing his old place in the channels of distribution, and the habit of current buying in all fields concentrates its effects on the distributor, both as an operating problem and as a merchandising problem: an operating problem through costs and methods, and a merchandising problem through market and style risk.

In the operating costs, some expenses vary with the unit of quantity but some vary with the package. For example, handling and shipping costs, when reduced to unit quantity, are higher for small package lots than for large ones. This may pay, especially from the standpoint of the retailer, for he will feel he is in the best position when he can replenish his stock, almost day by day, at the same rate at which it is depleted by sales. In the office, operating costs vary to a large degree with the unit shipped. Therefore, a small shipping unit raises the cost per unit of material. In some instances this has been successfully met by combining several operations in one writing, as for instance the fanfold order and billing combinations.

In distributing to trade channels several methods are to be considered. The same method will not be the best to meet all situations that may present themselves.

*Central*—one shipping point, forwarding to all territories. This is well adapted to large quantity shipments, but if the unit of shipment decreases, its cost increases. When a buyer orders in small quantity, as a rule he wants a quick delivery, and the large central warehouse is not effective in meeting this condition over long shipping hauls. On the other hand, one warehouse means one warehouse and shipping force, which is an economy, as also one rent item and one inventory. The total space used can be kept lower when concentrated than when broken into several units, owing to greater flexibility.

*District*—a number of warehouses, each serving its adjacent territory and able to deliver quickly. Quantity shipping rates are enjoyed on the long hauls from point of origin, and the high package rates apply only in the final delivery. The chances are, however, that with several warehouses the total inventory will be higher than with one. Other disadvantages are the several warehouse and shipping forces, and the several rents.

*Jobbers*—If the distributor markets his product through jobbers, he retains the advantages of one concentrated inventory to be had under the central warehouse plan, as far as his own stocks and investment are concerned. He must depend upon the jobber to push his product with the retailer. How well this is done will depend upon how closely in touch he is with the jobber, how much follow-up and how much sales help is given. For the jobber in turn must carry an inventory on which high turnover is expected, and he is likely to favor those goods which to the greatest degree sell themselves. The contacts of the jobber with his customers, especially if he operates principally in contiguous territory, can be very close. Under such conditions the distributor's selling costs depend entirely upon the average size of order placed by the jobber.

Except with very large production, branch warehouses are expensive to maintain. The smaller distributor can get his product into any territory by combining with other products through the agency of the jobber.

The merchandising problem may far exceed in importance the operating problem, or it may be relatively insignificant. In staple commodities it is