Discussion

Paul T. Cherington.[3] After each period of serious commercial disturbance or financial depression some rearrangement of merchandise distributing methods is likely to occur. After the Boston fire of 1872 had destroyed the fall supply of shoe samples, shoe selling never again resumed its old concentrated market form. After the panic of 1873, dry goods jobbers in western railway centers were able to give retailers quicker service and therefore to set in process the final dissolution of the great general dry goods jobbing houses of the eastern seaboard.

To be sure other factors entered. The growth of ready-to-wear clothing, the development of larger store units, the migration of industries, and changes in transportation facilities or freight rate structures all have been a factor, but in case after case some definite financial or commercial shock of this sort has caused a new alignment of business.

This hand to mouth buying movement of the past three years seems to me to be quite manifestly a development of this sort, following the shock of general shrinkage in inventory values during our recent so-called "period of deflation." To be sure, the recovery of the railroads from the ministrations of public operators, the betterment of freight movements and of freight train performance, the construction of new and better warehouse facilities, the better facilities for financing bulk transit movements—all these, and perhaps other changes, have helped the movement along; but the fact remains that this change in business methods first developed in about 1920-21 and has since given evidence of being here to stay. The wise manufacturer will adjust to this apparently permanent change.

Perhaps a nucleus of advance orders can be got to serve as a basis for manufacturing operations, but as a rule these must be paid for at about whatever terms the buyer chooses to impose. Perhaps the line may be one which will lend itself to stock production so that staple items may be made on speculation and stored at convenient points to meet demand when it develops. This means added risk, and when it cannot be hedged, must, in the long run, be allowed for in the price. Perhaps it may be possible to curb in some measure the wildest vagaries of the consumer's will so that staple items may play an increasing part in the business. Perhaps other forms of minimizing the worst features of the new situation will be found. But the fundamental thing is to recognize the presence of this change in business methods, and to attack it, not as an evil to be eradicated but as a new condition to be met.

[3]J. Walter Thompson Company, New York.

Mr. Paul H. Nystrom.[4] Mr. Jelleme has stated the facts about "Hand to Mouth Buying" very well, indeed. There can be little or no disagreement with all of his conclusions. I must, however, take exception to his statement on how "Hand to Mouth Buying" originated.

You will recall that Mr. Jelleme said that "The depression of 1920 and 1921 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."

This statement places heavy responsibility on the retailers, but can hardly be justified by the facts regarding that period, now available to everyone.

Retailers began to cut down their purchasing about the middle of 1920, as evidenced by the fact that wholesale trade began to decline in July of that year. It is true that wholesale prices had begun to fall sharply as early as March, but the volume of sales continued for at least three months longer.

In the meantime manufacturing had begun to decline as early as February or March and with it unemployment gradually began to assert itself.

Prices of farm products showed declines beginning in March and prices of live stock had started downwards as early as the middle of 1919.

The indexes of retail trade do not tell an accurate story for the reason that they are not sufficiently comprehensive. Chain stores sales for the most part showed increased volumes throughout the year, but chain stores were almost alone in this tendency. Department store volume continued to hold its own throughout the year, but the available indexes for department store trade do not show how this volume was maintained. Mail order sales had begun to fall off sharply as early as February, 1920, and the failure rates of retailers generally began to rise in March. Department store volume was maintained at the expense of profit and by artificial stimulation of special sales. The so-called "consumer" strikes and "over-all parades" began early in the Spring of 1920. Taking all these facts into consideration, it seems too much to assume that the decline in business and buying began with retailers. As a matter of fact, retailers stopped buying when they could no longer sell and a very large proportion of them, to their sorrow, did not stop buying soon enough with the result that they, in common with most industries, lost a great deal of money during 1920.

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The origin of "hand to mouth buying" goes back much farther than 1920. It can probably be said to have started in the period back in the 90's when nationally advertised branded goods first began to be important. Some of these advertisers became dissatisfied with their distribution through wholesalers and established means of selling direct to the retail trade. Wholesalers naturally resented this and used such methods as were at their command to check this development. One of the methods used was to show the retailer the advantage of dealing with wholesalers rather than manufacturers direct and the main advantage offered was the opportunity for more frequent buying and in small quantities. "Buy little and buy often" was preached by the wholesalers to the retail trade for years.

In 1911 there occurred three events which helped to emphasize the education of the retail dealer in buying little and buying often.

First of all, scientific management was popularized and advertised to the business world by the Hearings before the Inter-State Commerce Commission, conducted by Justice Brandeis, with the help of the leaders of this movement. Scientific management did not, of course, start with these Hearings but the news about them brought this subject to the attention of great numbers of people who had never heard of it before. Retailers, among others, began to consider whether they might not also profit from such practices as time and motion studies, standardized operations, perpetual inventories, etc., and it is a very short step from the establishment of a thorough working perpetual inventory to hand to mouth buying.

Later, in 1911, the Supreme Court handed down the Dr. Miles Medical Co.'s Price Maintenance Decision, which made price maintenance by contract illegal. Manufacturers of branded goods, in their efforts to reduce price cutting, had observed that a large part of price cutting on the part of retail dealers was due to ignorance of the costs of selling; hence, when direct methods of controlling resale prices were declared illegal, both manufacturers and trade associations of manufacturers began campaigns to educate retail dealers on accounting and particularly on keeping a proper account of expenses.

There had also been beginnings before 1911 in certain educational institutions towards promoting the study of retailing and of retail accounting, but during that summer the Harvard Bureau of Business Research undertook its first investigation on the costs of selling among retailers. This study has been followed by many others. Harvard University has earned a very creditable place for itself in the history of business by this work. While the number of accounts collected from retailers was actually not very large, the influence created by the effort spread very widely. A closer attention to accounting and the costs of selling led directly to a comparison of buying by various methods and frequently to the conclusion that it was more profitable to buy little and buy often.

Following 1911, there was scarcely a retail dealer's meeting of any magnitude in which the subjects of scientific management and costs of selling in their relation to retailing were not discussed in one way or another, and in connection with these discussions the subject of better buying, often with the emphasis on buying less and more frequently, was brought out.

These educational movements among retailers continued in a flourishing way down to the time of the war. During 1917 and 1918 all principles of business were more or less upset and during 1919 and the early part of 1920 the insatiable demands for goods from consumers were such that retailers had apparently forgotten all they had learned before the war about scientific management, turnover, buying, etc.

When the consumers' strikes began in 1920 retailers received sharp reminders of the sound principles of buying they had been taught before the war and which they now sought rather abruptly to reestablish.

Retailers are now practicing the good lessons that they had been learning gradually for at least