

And I venture to predict that when that control has been perfected we shall find in operation the same principles that we are now developing in The Hills Brothers Company or the Hood Rubber Company.

We must know the facts.

We must have a plan.

We must use standards.

We must simplify the operation of our plan so that it can be worked.

We must find the right persons to operate.

This job cannot be done by individuals. It demands co-operative, co-ordinated work, and I know of no organization better fitted to lay the foundation, to develop facts, to evolve a plan, to set standards, and to reduce the problem to simple terms, than the Taylor Society. I am glad to see that later in your program you are to devote a session to this subject.

All of this grew out of a discussion of Administrative Control. I hope you will pardon the liberties I have taken and I thank you for the opportunity to be with you.

Arthur E. Cameron.³ Mr. Davis has given us a brief but comprehensive statement of the methods of The Hills Brothers Company, in controlling production and inventory. With all due respect to Mr. Davis' associates, we cannot but feel that the proper symbol for the office of comptroller is that of a searchlight—a forward-looking searchlight—rather than a chisel. A chisel may be a necessary corollary but without the floodlight of facts it would be worse than useless, even dangerous. The procedure as described appears to be based on the intelligent use of records as a tool in planning purchases and shop operations.

The importance of continued analysis of all the facts bearing upon sales and production schedules cannot be stressed too strongly. A change in the buying habits of the public—a change from the purchase of a prepared product to the preparation of that article at home—will have far-reaching effects upon the sales curve. At the present time, for example, canned goods manufacturers are suffering and preserve jar manufacturers are rejoicing because the low price of fruit has revived home canning.

A business built upon distribution of its product to large wholesale users such as bakers, canners, confectionery manufacturers, may suddenly find that the public is now buying the same product prepared and

distributed through different channels. Propaganda for or against the use of certain foods reacts quickly on sales. There is need of a sixth sense in correlating such changes, actual or impending, to projective activities.

In the food industry there is always the problem of spoilage which destroys profits. In this era of ever-falling commodity prices and a more than corresponding decline in the volume of purchases, this problem of spoilage is intensified. Mr. Davis has intimated that this budget and production schedule are subject to frequent corrections. It might be of interest to know some of the factors that guide The Hills Brothers Company management in determining how far previous trends and experience should be disregarded.

W. H. Leffingwell.⁴ The problem of control, as Mr. Davis pointed out, is one of thinking and planning. A particular system is not important.

I recently ran across a sales manager who had records showing exactly what each customer of his company had bought for two years. When I asked him what value the record had, all he could tell me was that he "looked at it every once in awhile." When I asked him what his average sale per customer was he could not tell me. He said he would consider a customer who bought \$1,000 worth of his product a good customer; one who bought only \$100 not a customer at all. I then took one of his records, counted out five hundred customers, and pointed out to him that 52 per cent of them bought less than \$100 a year. He claimed that if I had picked Pennsylvania instead of Montana the figure would have been quite different. And it was. I picked out Pennsylvania and the figure was 54 per cent.

H. S. Person.⁵ Mr. Brett pointed out that our program begins with a session on administrative control in an individual plant and ends with a discussion of administrative control on a collective plane. This was not entirely an accident.

It is my opinion that industry has reached a stage of complexity and resulting disorganization that requires at least some inquiry into the possibility of a collective budgeting of industry if it is to operate for the social good. Control began in the production department, spread to the factory and then, under the

⁴President, W. H. Leffingwell, Inc., New York, N. Y.

⁵Managing Director, Taylor Society, New York, N. Y.

³Comptroller, Pie Bakeries of America, Newark, N. J.

compulsion of a buyer's market, to merchandising and selling. Almost simultaneously responsibility thrown upon the general executive resulted in the enlargement of the general technique of control to take in the administration of the whole enterprise.

The technique described here tonight can only be successful in large enterprises consisting of numerous plants if it harmonizes centralization and decentralization. Certain standards are set up centrally, as guides and measures of accomplishment, but individual executives express their own individualities in applying these standards.

This whole matter of harmonizing centralization and decentralization is basic to any discussion of a technique of collective administration and control of industry. Any such collective control makes necessary intimate, detailed direction of decentralized operating units. I hope everyone here tonight, therefore, will carry over this general discussion of basic technique for use at the last and one of the intermediate sessions of this meeting.

Henry P. Kendall,⁶ Chairman. Dr. Person has put his finger on a very important feature in this program of control.

I was interested in Mr. Davis' story of their periodic review of the importance of reports in the interest of simplification.

Through the efforts of two or three men in our organization a rather interesting form of report has developed for my use and the use of the men in control. We operate on thirteen four-week periods and under four divisions. Five cotton mills in the South make up one division, two mills in Canada which manufacture surgical dressings for the retail and wholesale drug trade and have headquarters in Chicago make up another, the parent company which markets textiles and surgical dressings to the hospital trade is another, and a finishing plant in Rhode Island makes up the fourth division.

The week following every four-week period I receive a folder of forty to fifty pages. It is a photostatic copy of the charts kept in the comptroller's office. One sheet shows graphically the expected gross sales and the actual gross sales, the expected gross profit and the actual gross profit and the expected net profit and the actual net profit for the entire company. Cumulative averages are also given. On the second page all these things are shown for all thirteen periods of the

⁶President, The Kendall Company, Boston, Mass.

previous year. A typewritten sheet opposite each chart gives the figures on which they are based.

There are four more sheets which give the same thing for each of the four divisions just described. This gives me a bird's-eye view of how things are going.

Then I turn over another sheet and there are profit-and-loss statements for the period and cumulative for the year, both for the company as a whole and for each of the four divisions.

I turn over another sheet and there is an analysis of the surplus account for the period and for the year.

For me the most valuable part of all is a six- or eight-page analysis by our comptroller, which gives the reasons for variations in the reports. They call my attention to both favorable and unfavorable trends, and I have the story. The remaining twenty-five or thirty pages are made up of detailed analyses which are used by the accountants, office managers and general managers of the divisions.

These reports represent the culmination of several years of attempts to get satisfactory executive reports. In these times the knowledge that they give of where we are expecting to go and what kind of performance we are getting against that expectancy is tremendously important.

Dr. Person. For the sport of it I should like to stimulate a little controversy. Might not John Williams say that Mr. Kendall's reports do not constitute a real budget—for control purposes? Like a sextant they do tell periodically how much he may be off a predetermined course, and enable him to set a new course, but not in time to save the distance lost. On the other hand Williams' flexible budget is like a compass which enables the helmsman watching it to turn the steering wheel to meet constant variations of wind and wave and current and thereby keep the ship on its course. The device in Williams' budget which turns the trick is a ratio derived by dividing the difference between estimated maximum and minimum sales by the difference between the respective costs of securing maximum and minimum sales. At any moment the executive can multiply actual sales by this ratio and secure a reasonably accurate determination of what the variable costs should be for that volume of sales. Knowledge of the correct variable costs for any actual sales is the compass which guides the manager to economical, profit-making adjustment of his operations to fit existing conditions.