their efforts and whose consumers' demand power tends to become correspondingly fixed. In other words, industrial society tends to become more stratified and stable. There is then the danger of a period of maladjustment when technical equipment and productive capacity have overreached immediate demand, and when, if other markets are not sought, a buyers' market succeeds a sellers' market as the dominant factor in the industrial situation.

14. There were signs before the war that the industrial development of the United States was approaching that stage of evolution. Natural resources had become pretty well appropriated and capitalized—not only such resources as mines, forests and natural transportation routes, but also agricultural lands, for there was before the war an increasing proportion of tenant farmers, paying rent in cash or shares. Serious students were concerned over this tendency. Technical productive equipment was at the same time greatly increased, and there was no sign of a plan or even a clear intent to develop foreign markets. President McKinley's turn, just before his death, towards a reduction of the tariff obstacle to the development of foreign markets made no impression on the dominant political party, and there continued a period of tariff policy which has culminated in the Fordney-McCumber bill. It seemed to thoughtful observers that the quarter century before the war was a period of conscious or unconscious eat, drink and be merry, for today we are getting ours and tomorrow will take care of itself.

15. Then came the war, which was a tremendous shock to the industrial system. On the one hand it caused a still greater development of productive capacity, financed out of future earnings through the mechanism of bonds and taxation, and caused a coincident decline in consumers' demand (the frenzy of 1920 was but an unsubstantial flare up), a decline which is likely to continue for some time because of the continuing heavy taxes and the maladjustments caused by the war. In short, the shock seems to have hastened evolutionary tendencies, which would have developed more gradually and with only relatively minor depressions, and to have thrown us suddenly upon a buyers' market which will last for some time and may be the beginning of a dominant buyers' market.

16. A buyers' market means, for industries that are not competitive, a more radical and restrictive control or regulation, for when buyers look long at the dollar before parting with it, they look longer at the conditions which create the necessity for parting with all of it; and it means, for competitive industries, a strife for the consumers' dollar which makes so-called competition on a sellers' market seem but a children's game. In view of all these considerations, I think you will agree with me that there was never a time when management should have more concern over future policy—and over the quality of its future management.

17. Management on a buyers' market is quite a different thing from management on a sellers' market. On a sellers' market selling is but order-taking; on a buyers' market it must be real merchandising. On a sellers' market production is but the hasty and wasteful process of giving material things a form or other quality which will satisfy insatiable and not overcritical demand; on a buyers' market it must be more precise and economical. On a sellers' market financing is largely borrowing on the assumption of unexploited natural resources or an unexploited upward market; on a buyers' market it is a borrowing on demonstrable future earned profits. On a sellers' market the conduct of a business is easy and management is simple—in fact there does not have to be any real management. But now that you appear to be face to face with a buyers' market and the necessity of developing real management, if you are to be successful in a most intense competition, if your competitor, instead of yourself, is to be the one to disappear in some readjustment of productive capacity to consumer demand, it is expedient for you to inquire into the nature of that real management.

18. The essential practical elements of the problem confronting that management may be summed up as follows: On the side of supply there is a tremendous production capacity involving heavy investments of capital in more or less specialized equipment, to preserve the value of which will require a continuation of the lines of activity for which it was designed. On the side of demand there is a conservative and hesitant market—in fact a buyers' market—which will continue for a considerable period. This will mean intense competition on the part of management to find the individual consumers and to sell them. In that competition selling price and cost of production will be critical factors. The hesitant market will tend to force selling price down, while higher prices of certain elements entering into cost will tend to keep that figure up. The fact cannot be disregarded that, as was the experience after both of our earlier great wars, wages have settled at a new high level, and that the strength of organized labor and new immigration policy seem sufficient to hold them there during such a period as will determine the success or failure of competing enterprises. It should be observed also that many of the basic materials of industry are more or less closely controlled, and that material costs are likely to remain high. Therefore, management will be faced by high prime costs in the face of great pressure to reduce the selling price of fabricated products. The way out for the successful competitor appears to be this: to develop an inclusive system of management which will more than compensate for high prime costs by cost savings elsewhere, thereby effecting lower factory costs and making possible lower selling prices or making possible a higher quality of product at the original cost and selling price.

19. In the first place that management will give more attention to such problems as we are considering tonight—long-run tendencies in the industrial environment. These matters will no longer be regarded as merely "theoretical"; they will be regarded as very practical. Certain major executives will give more thought to policy and general plans, and not permit themselves to become too much absorbed in operating details and worn out by late afternoon worries. They will not confine their reading to the news headlines and market quotations of newspapers, but will read under the headlines, search for the facts and do some thinking of their own. They will find time for—and consider as important as some of the things for which they now find time—the reading of magazines of fact and opinion relating to administration, management, economics, politics and industrial relations. They will have in their organizations a unit to study and interpret industrial statistics. In illustration, a major executive of a certain medium-sized plant inquired of the Taylor Society the other day where he could find a young man, a college graduate trained in economics and statistics, to study for him the periodic reports of statistical services, and interpret them for the management in terms of the particular business. That enterprise is getting the jump on competitors.

20. That management, in the second place, will provide for a more accurate judgment of the market with respect to the demand for the commodities it has to offer, competitors' ability to supply the demand, and what share of the market it can have reasonable expectation of securing. It is with the consumer that the impulse for industrial activity begins—"the consumer is king"; but on a sellers' market consumers are so numerous and insistent that we forget the source of the impulse and come to believe that it starts with the producer. Under the competitive conditions of a buyers' market, managers will see that in true perspective. Managers will learn that they cannot afford to misjudge demand, either with respect to what it wants, how much of that it wants, or what share of it competitors will permit a particular enterprise to provide. Excessive inventories are fatal on a buyers' market. An enterprise must avoid that by some unit of the organization, whether it be an individual or a group, which will make continuous and precise analyses of the market and provide the data for master plans and schedules. Call it what you will—market research, merchandise research, sales engineering.

21. In the third place, that management will set up in writing, on the basis of the data secured by market research, definite master plans, budgets and schedules of operations for a considerable period ahead, these being supported by definite and interdependent detail plans and schedules for the major operating departments—selling, production and financing respectively. These master plans and schedules, and these supporting departmental plans and schedules, will be standards of performance, goals to strive for, lines to which to hew. To do without such plans and schedules means guessing, taking chances, departments out of alignment, unbalanced inventories, higher costs—losses for which the consumer willingly pays the price on a sellers' market, but which, on a buyers' market, become a loss to the producer which he cannot afford when competition is intense.

22. That management, in the third place, will have to conduct its selling operations with more skill than it has ever displayed before. On a sellers' market the consumer seeks the producer; on a buyers' market the producer must search out the consumer and sell him, in the midst of a keen competition both of other producers of the same commodity and other uses of the consumer's dollar. Just as there must be no misjudgment of the market, lest there be unsold inventories; no failure to make precise plans and schedules, lest there be unsold inventories; so also there must be no failure to search out and sell to the estimated number of consumers, or there will be unsold inventories.

23. Are we able to imagine the detail changes which are likely to follow the development of the new merchandising? Is it not probable that there will be less of that advertising whose object is to create new wants in satisfaction of which consumers would spend surplus dollars, and more of that advertising whose ob-