who are using the established channels. Most of the complaints seem to come from the manufacturer whose product is difficult to move through jobber and retailer, or from the middleman who complains that the profit obtained is less than the middleman's average cost of doing business, forgetting that this average cost may be based on four turnovers a year, whereas a fast moving article may turn seven or eight times a year and so really be more profitable.

Higher wages and a better scale of living have increased the demands of the consumer. This has brought with it a discrimination which has hurt the manufacturer of shoddy goods. On the other hand, a number of makers of luxuries have suffered from competition through substitution. Many people buy plated ware who formerly purchased sterling silver, or ready-made in place of custom-made clothes. However, in every industry there has been at least one leader who, through skillful management, has made money during good and bad times.

Advertising since the days of P. T. Barnum has become a respectable member of society and must, of course, be reckoned with as a distributing force. But I can barely touch on a topic which could, of itself, be the subject of a paper on distribution. When a solicitor for the Curtis Publishing Company I saw its value and learned that national advertising is a high-powered salesman who needs skillful handling. Since then I have used it successfully as a selling force. A few concerns who have made authoritative statements about their sales costs have said that as their advertising increased the selling cost per unit decreased. No manufacturer with a high cost or inferior merchandise can expect advertising to raise him from the dead. Neither can those who lack patience or surplus cash expect that their one plunge will bring real returns. A director of one of the large soap manufacturers said that to his surprise their business showed profitable increases in proportion to the amount of national advertising.

I believe that many concerns will find that the profitable solution of the problem of distribution and production rests on the production of a larger volume of goods at a moderate profit, rather than on a limited volume at a large profit. In the automotive industry, Ford, General Motors and a limited number of other concerns are giving real values as a result of quantity production. In the packing business giant concerns convert livestock into food products and distribute them at a few cents profit on the dollar.

"But how shall I increase my volume without spending more money for selling?" is the question. It is the old quandary: "If I had more business I could afford to employ more salesmen to get more business." One way out is by lowering the price so that the increased volume may be secured. "'Suicidal,' you probably say, but perhaps you will agree with this—that if a number of people prize a commodity differently a fall in price will enable more individuals to gratify their desire. For example: I have $20.00 with which to purchase either a Victrola, a tire for my automobile or a suit of clothes. Each was priced $25.00 but suits are now reduced to $20.00 while the other articles remain at the higher price. Which do I purchase if there is an equal desire on my part for all of these articles? Again you say, "But how can I reduce my price before my costs are down?" Costs are made up of labor, materials and overhead, all of which can be reduced per unit if the output is increased and more efficient methods are introduced. Suppose a factory has been producing 100,000 units and it is found to have a capacity of 150,000 units. If the output should reach 150,000 units the cost will decrease 20 per cent. It is believed by the sales department that a reduction of 10 per cent will bring out the increased volume. In an active market a reduction of price up to 20 per cent will bring out an increased volume and also greater net profits to pay for the venture. Take two illustrations: In the first case a limited volume of a high priced product was being sold and its volume was slow to increase. This volume took only 40 per cent of the potential output. At the same time there was a large demand for a similar product which could be produced with cheaper materials in less time. The cheaper product had to be sold at a price which covered only the cost of the material and the actual cost of manufacture. There was no surplus to cover general overhead or profits. It was decided to take orders for the low-priced material at competitive prices and inside of a year the department had been brought up to 80 per cent of its capacity. The economies of manufacturing a greater volume effected a small profit on the highly competitive product and a larger profit on the high-priced one. In the second case a department had a potential capacity of 300,000 units and an output of 100,000. In an active market it was found that the sales could be increased to 200,000 and next to 300,000 units by selling at prices which would have been justified by the actual production. Producing at the rate of 100,000 units we lost money through under-production. Producing at the 200,000 rate we broke even by absorbing the overhead, and producing at the 300,000 rate we made a small profit through factory economies. When we reached 300,000 units the factory told us that they could produce 1,000,000 units, due to the knowledge gained from the factory forcing process. The sad joke was on us.

Henry Ford says, "Our policy is to reduce the price, extend the operations and improve the article. You will note that the reduction of price comes first. We have never considered any costs as fixed. Therefore, we first reduce the price to a point where we believe more sales will result. Then we go ahead and try to meet the price. We do not bother about costs. The new price forces the costs down . . . The low price makes everybody dig for profits. We make more discoveries concerning manufacturing and selling under this forced method than by any other method of leisurely investigation."

The doctrine that lowered price will bring out increased volume, although such a price may not be justified by the then existing costs, may seem radical, but I have applied it in actual practice and have seen it work out successfully. I can hear you say, "But where will my net profits go if I follow such a wild plan?" But I maintain that unless labor, machinery, land and buildings are more and more efficiently employed a manufacturer will not even obtain the gross profit which represents the wages of management, plus interest on the money invested. James H. Bliss in his book, "Financial and Operating Ratios in Management," shows that 93 representative concerns earned only 7.2 per cent on their sales in a 6 year period dating back from 1921. One hundred and twenty-two Companies from 1914 to 1921 earned only 8.5 per cent on their net worth. Of 250,000 concerns investigated by the Federal Trade Commission a few years ago, one-half operated without profit and only 5 per cent of the remainder had an accurate knowledge of costs. If large and supposedly well-managed concerns are operating on such a small margin of profit what may a concern whose organization creaks at every joint expect in the way of profits? An old-time treasurer recently said, "We used to expect 15 per cent net on our sales; now we try to make 10 per cent." The mental attitude of the manufacturer who blames his associates and general conditions because things are not as they used to be reminds me of a Christmas experience. In the role of Santa Claus it was necessary for me to repair an electric locomotive for use on Christmas morning, but, unfortunately, I put the body back on the truck so that the headlight pointed toward the rear and the tail-light to the front. And, although the locomotive would run, my youngest son was so disturbed that I had to remedy Santa Claus' error before the locomotive was permitted on the track. Many manufacturers make the mistake of having their headlights focused on the past.

There has been much talk about the deflation of wages. A deflation of war-time ideas and a clear understanding of economic principles is even more necessary. There are concerns who have no economic excuse for existing. The business man who argues that the world owes him a living simply because he is in business may be disappointed. Successful business today depends on the soundness of its management which, either by chance, or through understanding, relies on economic principles.[3]

In a pastoral age a few of you would have been sitting tonight behind the lee side of a rock awaiting a possible attack on your herds while the rest would have been asleep in huts devoid of heat and light. But, living in an industrial age, we all have problems of production and distribution to consider. And I believe that the principles of scientific management can be as profitably applied to a sales organization as they have been to production. Further, that even when both distribution and production are efficiently organized, the operations of a business cannot be successful unless there is close cooperation at every step between distribution, production and finance.

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[3]For the following statement of these laws I am indebted to Dr. E. V. R. Seligman in his "Principles of Economics." "All wealth that is created in society finds its way to the final disposition of the individual through certain channels or sources of income . . . . If everyone consumed what he individually produced there would be no exchange, no price, no distribution." Again, "'Competition, therefore, is not simply a contest to divide an existing sum, but a struggle to share in an increasing stock, and the first requisite of securing an additional share is to produce more. In this struggle to dispose of the increased product to the whole body of consumers, the victory will lie with those who can create better and cheaper products. Thus, competition as a business principle means a struggle to augment wealth through a lowering of cost." And again, "Profits are always a surplus." "Profits are the surplus of the intramarginal (low cost) over the marginal (high cost) producer . . . . It is evident that in the long run profits could not exist in a state of normal equilibrium. In actual life, however, there is continual change,—population varies, wants are modified, capital increases, the process of industry and methods of enterprise alter. Competitive profits are due wholly to such changes. He who can take advantage of the market secures the gain."