likely that the operating problem of handling small quantities will be of prime importance. In some staples, especially those having a large possible variation in market price, and in practically all non-standard or fancy goods, the merchandising phase of the problem receives extra weight.

Fortunately, and unfortunately, styles change. Sometimes these changes can be predicted with certainty, but again there is a complete reversal almost over night. There appears to be no way of combating the risk due to changing styles except by keeping inventories of finished goods at a minimum. This requires accurate knowledge of the stock and movement of every commodity.

Again resorting to definition for a clearer understanding:

Stock—merchandise the title of which has passed to the dealer, so that he has either paid or assumed the liability for it. It may or may not be in his physical possession.

Orders—the new orders booked, whether for immediate or for future delivery.

Unsold stock—that amount of stock which cannot be applied against any orders on hand.

Commitments—materials for the acceptance of which the dealer has obligated himself—purchases for delivery at a future date.

Total unsold—the balance left after applying the orders to both stock and commitments

If the actual stock, the unsold stock, the total unsold, and the orders are known at very frequent intervals, it is possible, by manufacturing only according to sales developments to keep turnover active and the stock low. To obtain such a result means not alone having records, but using them constantly; making the information which they contain a part of the basis of every decision. In starting any new material a market test can be made to determine its sales possibilities, and only after such a test should quantity production be started. This may mean a slight delay in getting the article on the market, but at any rate stocks which will be difficult to move have not been piled up. In order to obtain such knowledge as that mentioned—orders, unsold stock and total unsold—very carefully planned and run stock and sales records are necessary. This may seem to involve an additional burden of clerical expense, but without it merchandising control is a matter of mere guesswork and hunch.

The risk due to fluctuating market conditions has its effect through, and may be controlled by, the same means as are used to reduce the style risk. In order to know the total market risk, however, it is necessary to know not alone the unsold surplus of each commodity, but also the total unsold of the entire business, for it is this figure which truly represents the speculative risk; that is, the amount which we are long of the market. Again, the effect is not nearly so great if the unsold is stated in yards, pounds, or any other unit of quantity, as it is if stated as value in dollars. If stated in dollars, it is very easy for the executive to see what his loss will be should the market decline ten percent, whereas a statement in quantity does not bring out this phase so vividly.

For some commodities, protection of the unsold surplus may be secured by hedging sales in the future contract markets; that is, sales of future contracts in the same amount as the total unsold. Certainly full protection of the market risk cannot be obtained without a study of market conditions—not alone those of the immediate industry, for that is absolutely essential, but those of other industries, and the general economic condition of the country. This is doubly necessary if hedge sales are to be used at all. Again in these instances information which is a matter of record is of more value than is information gleaned from a variety of irregular sources, which simply leaves a more or less unreliable "impression."

Since hand to mouth buying manifests itself in a large proportion of immediate delivery or spot sales, it is of value to know at all times what the relation is between the spot and future delivery business and the total new business booked.

Knowledge of unsold surplus, of sales, and of stocks can best be made use of in directing buying policy. With such knowledge available it is possible for the executive to make his inventories practically anything he wants, buying only enough to bring the inventory back to standard. If the actual sales do not come up to expectation, then of course the inventory will be higher than expected and a revision of plan must be made immediately if the inventory is to be kept within bounds.

Such a plan of merchandise control, whereas often known as a budget, is in reality very flexible, and the entire buying schedule is automatically revised

every time a statement of position is made. In each statement the correction for actual sales performance is used instead of the estimated sales for the latest period.

By such a plan everything depends upon the accuracy of the sales budgets or estimates, and the same is true in practically all fields of merchandising. If that is so, does not a part of our solution lie in bringing closer some of the links in the chain of distribution, developing working agreements among those who ordinarily trade, so that the estimates of consumption may be passed along the line. This is done to some extent in certain fields today, where, commodities having been agreed upon, estimates of consumption are given, the actual orders to come later. In this case no sale is actually made until the orders are placed, but the producer and distributor are not left entirely on their own judgment, but are given an estimate on which to work.

If such estimates are possible in some fields, are they not capable of further extension? Perhaps the eventual step lies in an integration of production and sales schedules, all the way from producer to retailer. An integrating plan might take any one of several forms, for example—

1. In specialized fields of manufacture with little or no competition it will first take the form of definite orders for each style or number traded in. Such a condition of absence of competition may appear to be ideal from the standpoint of the producer, but by its own nature cannot last long. The regular flow to the consumer of the special articles produced soon attracts other producers who will make the same or at least similar ones.

2. In fields in which competition enters, but in which the articles manufactured retain to some extent an individuality, even though closely paralleled by other products, it might take the form of estimates of consumption of each group of similar articles. It is then necessary for each producer to decide to what extent he will take the risk of preparing stocks against expected orders. This phase is common in the textile field; as, for example, several companies may offer printed cretonnes of about the same type of printing on identical grey cloths. The retailer, having selected a group of patterns from several distributors, can probably make a fair estimate of the volume he can sell of all the patterns together but the task of making an estimate of the sales potentiality of each pattern individually would be a much more hazardous undertaking, and the estimates much less likely to work out in practice. The only safe plan is therefore to replenish stocks of individual patterns of finished merchandise as sales developments warrant. The estimate given of consumption of the group would, however, serve as a guide to the manufacturers in purchases of raw materials.

3. A third phase of the problem appears in staple or near staple articles in which there is general competition. Some individualizing of product has recently been obtained in this field by carefully prepared marking and advertising, but there will remain a vast quantity of production in the staple or near-staple field. These articles are fully competitive, capable of easy substitution one for another. In this field would it not be of great assistance to know at all times what the national production and consumption are for the class of merchandise? To do this would, perhaps, require some super-agency through which producers and distributors could report; but when the reports had been accumulated each producer could know what proportion his capacity was to the total.

4. Still another group may be cited of goods which have only a temporary appeal, or highly styled goods, as they are sometimes called. Here again because the appeal of the product is solely one of passing style it would be hopeless to attempt to estimate the consumption of any one such article.

These are but a few examples of the possibilities. They can be brought about only by better understanding and closer cooperation in the field of distribution. An actual combination of organizations or companies is not necessary; in fact, the greater latitude inherent in separate companies with differing interests will retain greater freedom of distribution and wider market contacts. A very close understanding of one another's problems would be necessary, a close working together in a cooperating competition such as we have not yet attained.

The results, when combined with those obtained from close control of inventories, and from careful study of markets, would be enormous savings in capital employed, in markdown losses not suffered, in freedom in the use of capital where most profitable, in faster movement of goods through the entire cycle of distribution, with both capital and workers released for new enterprise.