

twenty-five years from wholesalers and for at least fifteen years from manufacturers and from the teachers of scientific management. Hand to mouth buying is one of the outgrowths of the retailers' understanding of the principles of scientific management. If the war had not occurred I feel sure that we should have had all of the present effects of hand to mouth buying that we now have except that they would have come about by gradual processes instead of in the abrupt way in which they sprang into attention in 1921.

Hand to mouth buying, in my opinion, for most retailers is sound and economic. It has undoubtedly been over done in many cases. Interesting and profitable modifications are possible but it is a movement which is undoubtedly here to stay.

Richard A. Feiss.<sup>6</sup> As Mr. Jelleme has pointed out, it would be useless to argue much about hand to mouth buying. Whether we like it or not, it is here, and it seems to be here to stay, at least so far as the final user or distributor is concerned.

The discussion this evening centers about the relationship of retailer and manufacturer in the normal instances where the retailer purchases directly from the manufacturer. The picture is very clear as to the effect on the retailer, but we do not seem to take into consideration the effect of hand to mouth buying on the problems of the manufacturer who is supplying the retailer.

What really has occurred is a shifting of the burden. The retailer has materially reduced the stocks that he formerly carried, and has to a great extent eliminated the risk in style purchases, but the conditions so far as the manufacturer is concerned are the reverse. In a large percentage of cases, the minimum time required to manufacture an order from raw materials and get it to the retailer is not a period of hours or days, but of weeks and months. In order to supply the retailer under conditions of hand to mouth buying, it has become necessary for the manufacturer to develop a large "stock on hand" department. It is in this way that the burden has been shifted.

There should be an advantage in this for the buying public in that the sum total of the value of stocks carried by the manufacturer under these conditions is considerably less than it was when the retailer anticipated the season's wants.

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On the other hand, the problems of the manufacturer have been distinctly increased. The fact that maintenance of continued production is essential, not only to low costs but to the maintenance of any production service, has not been altered. Manufacturers' costs have been substantially increased by the building up of "stock on hand" departments, and the element of risk has been considerably increased. To the fundamental requirements of cost and quality has been added that of service. As a compensation for this service the manufacturer is undoubtedly entitled to part of the savings made by the retailer under these conditions, but he is not likely to get it, at least not while the present buyers' market continues; and I believe it is likely to continue for an indefinite period of time.

There has never been a time when the necessity for applying the fundamentals of scientific management to all phases of the manufacturers' problems has been so apparent. I also feel that these same fundamentals of scientific management are essential to the solution of the problem involved in the relationship between manufacturing and retailing.

In this connection, I must remark that I have been surprised at the failure of anyone to mention direct selling in connection with hand to mouth buying. The growth of this method of distribution since the war has been very great. Where it has been applied to a particular type of merchandise, direct selling has been generally successful. In such instances it has made possible continuous production together with a reduced total inventory and a resultant lower cost to the consumer. There is no question in my mind that the success of direct selling has occasioned the large retailer a great deal of thought. I believe that syndicate buying and a constantly improved relationship between retailer and manufacturer are a direct result of this thinking.

While I believe that direct selling has come to stay, I do not believe it applicable to all classes of commodities. It has the limitation of being unable to give that kind of retail service which a greater part of the shopping public unquestionably demands.

When I hear Mr. Nystrom tell of the developments in syndicate buying, even to the point of building a large number of warehouses, I feel bold enough to predict the direction towards which such developments are tending. I believe that sound economic theory sees the production process as a whole, from the original obtaining of raw materials

in commodities or services to delivery to the ultimate consumer. The solution, therefore, seems to me to be along lines of so-called vertical integration. As I see it, this does not necessarily mean a common ownership of the elements of production in the vertical line, but it does mean a much more intimate tie-up of all the steps, including retail distribution. The developments involve going further than syndicate buying has yet gone. The syndicate corporation should not only include retailers, but manufacturers. This would put the manufacturer into the retail business and the retailer into the manufacturing business. Their interests would be identical, and the common objective of service to the consumer at the lowest cost would be possible of accomplishment.

Sanford E. Thompson.<sup>7</sup> Current buying, a term logically replacing that of "hand to mouth" buying, appears to be a natural sequence of the more thoughtful and systematic business policies that have been developed of recent years to avoid the cyclical extremes so prevalent heretofore. Naturally, as was indicated by Mr. Jelleme, the depression of 1920-21 coupled as it was with the studies of the business cycle instigated by Mr. Hoover was the primary cause of this present change in buying trend.

Because of its historical importance in business progress, a further word in regard to this depression may be of interest. The cause of this depression can be stated even more specifically than has been done by the author of the paper. It was due, unquestionably, to over-accumulation of stock, an accumulation, however, not simply on the retailers' shelves, but particularly in the process of shipment on the railroads, which had not then recovered from the meagre replacement of equipment under Government ownership, and in the process of manufacture at the plant. The distinction between this point of view and that expressed by Mr. Jelleme is important because, if simply excessive inventories of the retailer were to blame, we might expect a frequent recurrence of the difficulties, whereas the combination of causes is less apt to occur, espe-

<sup>7</sup>President of the Thompson & Lichtner Co., Inc., Boston, Mass.

<sup>8</sup>"Business Cycles and Unemployment," McGraw-Hill Book Company, New York, 1923, cf. Chapter X "Methods of Stabilizing Production and Distribution," by Sanford E. Thompson.

cially with the wonderful improvement that is taking place in railroad management throughout the country.

Returning to the subject of current buying, it is evident that this should create no problem for either the retailer or manufacturer of *staple* merchandise because demand can be measured and production planned accordingly regardless of whether a few large orders are placed or a multitude of small orders.

In style merchandise, however, many manufacturers, in times past, have depended on advance orders from wholesalers or retailers to gauge the demand for the various styles; and, in fact, have gone to the extreme of manufacturing only those goods for which they have actual orders. "Hand to mouth" or current buying is particularly prevalent, naturally, in merchandise which is affected by the style factor.

With the development of current buying, the manufacturer of style merchandise has been confronted with the problem of anticipating the demand for the various styles which he produces and, in fact, for his entire line. If he guesses wrong, he is confronted with the disagreeable situation of a large stock which must be disposed of at a loss.

Notwithstanding this situation, however, we find, contrary to general belief, the rather astounding conclusion that the progressive manufacturer, even of style goods, is overcoming this handicap and accepting current buying as a benefit to his business.

This has been brought to our attention directly in three industrial surveys covering the boot and shoe, the knitted underwear and hosiery, and the cotton dress goods industries in New England just completed by the Thompson and Lichtner Company, for the New England Council. A number of manufacturers testify to the steadying influence in their production and planning departments of current buying if assisted by in-stock departments. Almost one-half of the shoe manufacturers, whose operations were studied—and these were among the most progressive concerns—were found to have minimized the effect of seasonal fluctuations by in-stock departments which coordinated current buying with production. The most successful underwear and hosiery manufacturers have established these in-stock departments and report a steadying influence on their production, these departments