ufacturing finished or semi-finished products, I should prefer at this point to narrow the subject under discussion by adding the words "of manufacturing companies" to the original question.

You will understand that our relationship with our clients is on an absolutely confidential basis and it is, therefore, necessary in instances which will be cited hereafter that all facts should be so disguised that the specific company in question cannot be recognized. Company "A" was a medium-sized manufacturer of an integral part of automotive vehicles. The company had grown at an astonishing rate from a very small beginning and it reached a position of pre-eminence in its particular field. The president of the company was a man of unbounded energy, enthusiasm and a wonderful personality. He had started as an apprentice in a machine shop and his ability as an economical producer was unquestioned. He had, also, a special ability for picking, training and controlling production men. Merchandising, however, was a closed book as far as he was concerned and unfortunately he did not exercise the same keen discretion in choosing his sales organization as was so evident in the building of his production division.

The company continued to grow in spite of, rather than because of, its selling organization. A promoter suggested that the company absorb two other companies manufacturing non-competing products, also applicable to the motor car industry. Based on past records and estimated future earnings the consolidation was readily financed. The important element in the estimated increased earnings to be effected by the consolidation was the sale of the products of the three companies by one group of salesmen and the elimination of two sets of sales executives, branch offices, billing clerks, collection departments, and so forth. Further substantial savings were to be effected by consolidating shipments from three plants in carload lots.

The three companies separately had earned in excess of two million dollars net in the year prior to the consolidation. Within three years after the consolidation, the company went into receivership. The cost of distributing the products of this consolidation actually showed an increase while the net sales showed a considerable decrease. As soon as the consolidation was effected, the general sales manager of the major company was given charge of all merchandising activities, with instructions that the best men in each organization were to be retained. Dissension developed immediately, accompanied by a feeling of uncertainty on the part of each member of the sales organization as to whether he was to be retained or discharged. Obviously very little effective sales work was done, for each man was primarily engaged in attempting to protect his own position and at the same time keep an eye out for other employment. By the time the final decision had been reached as to the eventual make-up of the consolidated selling force, it was ascertained that selling expenses had not been decreased to any material extent. Salary raises, based upon the assumed increase in responsibilities, had become rather general. In consolidating branch offices more expensive quarters were acquired so that branch rents for the consolidation were almost equal to the rentals paid by the three separate companies; traveling and entertainment expenses showed an astonishing increase and calls per salesman decreased by over 50 per cent. The excuse was that each salesman now had to discuss three products and usually had to see three different men in each automobile plant with the consequent delays in going from one man to another or from one department to another. Numerous accounts were lost for each product as the automobile manufacturers were absolutely unwilling to entrust to any one organization orders for three essential parts of their completed cars or trucks.

Some years later, "B" company in an entirely different field undertook a program of expansion. Careful consideration was given to all conditions prevailing in the particular industry in which this company was engaged and the decision was reached that expansion by consolidation should be effected, but that such consolidation should be with non-competing companies manufacturing products saleable in the same general market. The first step was a major merger, carefully worked out, not only with the stockholders of the respective companies but with the operating personnel including the minor executives and department heads. No attempt was made to eliminate any existing selling expense other than the duplication of branch offices. Branches were opened in numerous cities which neither of the separate companies had been able to afford. Therefore, where offices were consolidated one manager and some of the other employes were moved to new cities, retaining both

titles and salaries. The sales staff was not only maintained but was increased by the addition of salesmen to cover the newly opened territories. Each salesman continued to concentrate on the product with which he was best acquainted, but of course boosted all the products of his company, and exchanged information with his fellow salesmen as to prospective customers for the allied line.

After an eighteen months' interval, spent in working out the consolidation of the two organizations, building a real *esprit de corps*, a third company, manufacturing a different line of products, was brought into the consolidation and similar methods were followed. A year later a fourth company was added. The net result has been an actual increase in sales of approximately 33 per cent over the sales of the separate companies, a decrease of administration expenses equal to 3 per cent of net sales, a decrease in selling expense of approximately 4 per cent and an increase in net profits of almost 250 per cent. Everyone concerned has benefited, the consumer by receiving improved products, and better service at lower prices, the employes by increased earnings, and steadier work, and the stockholders by increased dividends.

In this particular case the answer to our question would obviously be an enthusiastic affirmative.

The results of the foregoing case were so entirely favorable that a promoter was able to interest a group of bankers in financing an even larger merger in the same industry, and the operation was carried out, not step by step, but simultaneously. Ten companies were merged at one time. The first word that the employes of any of these companies had was the appearance in their local paper of an Associated Press dispatch from New York that the consolidation had been effected. The resulting confusion is almost indescribable. For, after all, ten presidents, thirty-two vice-presidents, ten secretaries, ten treasurers, ten sales managers and an unknown number of assistant sales managers, branch managers, factory superintendents and salesmen are a difficult group to handle, particularly when they are both astonished and displeased at what has been done by their superiors, and when they are pessimistic as to the workability of the consolidation. In the first year after consolidation net sales were 40 per cent less than the separate companies had attained during the prior year; the substantial net profits of the individual companies had disappeared and were replaced by an operating loss. The total cost of distribution was decreased by the consolidation but the cost per unit was decidedly increased.

Some years ago two manufacturers of a standard commodity decided to merge. Each company had a moderately successful record. Some refinancing was necessary and the bankers who were approached were frankly skeptical. However, they finally agreed to underwrite the securities after it was pointed out to them that the consolidated companies would probably have sufficient volume of business to eliminate the middleman completely, and to conduct their merchandising direct to the consumer by a selling organization completely controlled by the new corporation. After the initial difficulties, always encountered in changing from one form of selling to another, the actual operating results attained considerably exceeded the prior estimates. The actual cost of distributing the merchandise through its own sales force proved to be almost 12 per cent less than the discounts and the commissions previously granted the middleman, and the sales of the consolidation were considerably expanded into new fields which the middleman had not discovered. In this case the decrease in the cost of distribution was very material.

About two years ago three highly successful companies manufacturing totally unrelated products were merged. The merger was based solely upon merchandising, as all of the products were sold to the same general market. The bankers were extremely skeptical. In fact some of them were quite unable to see any reason for the proposed merger.

The results to date, however, have demonstrated the move to have been unusually profitable. No savings in either production or administrative expenses were attained, nor were any expected. The amalgamation of proven high calibre executive talent and the additional efficiency, prestige and effectiveness of the unified sales organization made possible by the consolidation have effected both a marked increase in sales and a decrease in expense of selling. In this short time net earnings are approximately 25 per cent higher than they were before.

An instance comes to my mind almost immediately, wherein several companies manufacturing trade-marked commodities were merged. The sole