Factors in the Elimination of Distribution Waste[1]

A Case in Which Research Predetermines Jobbers' Inventories of Rugs by Seasons, Prices, Weaves, Grades, Sizes and Patterns

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YOU MAY remember the phonograph record of the blackfaced comedians, Moran and Mack. Mack tells Moran about his experiences as a farmer.

Moran asks, "Well, what did you raise?"

"We raised horses and pigs," is Mack's reply.

"Oh, you raised pigs, eh?"

"Well, we didn't zackly raise 'em. We bought little pigs in April for foh dollars each and sold 'em in August," explained Mack.

"And what did you sell 'em for?"

"Uh—foh dollars each," is the reply.

"What! You mean to tell me you bought little pigs for foh dollars each in April and sold 'em for foh dollars each in August? You can't make any money that way," said Moran.

"Yeah; we found that out."

The present-day manufacturer is not in quite this distressing predicament but he *has* found out that he can't make *as much* money as he should because it is costing him too much to distribute his products. His selling expense has been increasing constantly. It is eating up more and more of his profits. "What to do about it," is the question manufacturers in practically every industry are asking themselves.

It is my purpose today to tell you what *has* been done about it in *one* industry, not because I believe that the particular remedy which I shall describe will prove a panacea for all distribution ills but because I think that its underlying principle may have general application.

Just as in the past the engineer was drafted to reduce excessive production costs, so today the analyst is being requisitioned to solve the problem of mounting sales costs. Production problems were solved by eliminating waste; time was being wasted, energy was being wasted, material was being wasted. But at the root of this waste evil was ignorance and indifference.

The cost of distributing merchandise is also high because of tremendous waste. Here, too, ignorance forms the cornerstone upon which waste builds its edifice.

Most distributing mechanisms as they exist today are the result of haphazard evolution. Few are the result of plans conceived out of facts and organized by logic. Each part of the distribution channel regards itself as an entity only distantly related to the preceding or succeeding link. Each part is encumbered by traditions; past experience is a guide for the future.

In the past the manufacturer has sold either direct to the consumer, to a retailer, to a jobber, to a broker or a combination of several of these. Generally there were four links in the chain of distribution. The contact between each two links in the chain was in the nature of a vendor-buyer conflict. The more links in the chain, the more of these conflicts. Such conflicts are of course a great source of waste. That this waste existed has long been recognized and has caused much talk and some action tending toward "the elimination of the middleman." Such companies as the Realsilk Hosiery Company sought to deal directly with the ultimate consumer. Companies like Simmons cut out the jobber entirely and sold directly to retailers. This elimination of the middleman has not as a general rule helped to solve the problem of reducing selling costs as was expected. In fact many of those who were ardent supporters of the "direct to consumer" principle have now discarded the idea as

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theoretically sound but practically difficult to operate at a profit. One of the well-known former exponents of the idea gave, several weeks ago, as his reason for the failure of the mechanisms which eliminated the middleman, the substitution of an employe for a man in business for himself. The employe cannot possibly have the incentive to do more than the employer can force out of him. The distributor, if he has his own business, will have the incentive. He may require education and training but he has always before him the incentive of greater profits for himself.

The real solution would appear to be the planning of a new distribution mechanism designed to meet the demands of each industry, its products and its markets, supplemented by a thorough training of its personnel. There is only one agent in industry who can take upon himself this task of planning and training; that is the manufacturer. No doubt many of you know some companies which have made considerable progress in organizing such a system for themselves. It has been my good fortune to participate in the planning and execution of such a project. The fact that definite results are in evidence makes me feel that some small part of that which is to follow may prove helpful to those of you who are also wrestling with sales problems.

What I am about to describe to you is a portion of the work done by W. & J. Sloane, as selling agents for a group of manufacturers of floor coverings, in the organizing of their distributing machine. Our company acted as marketing counselors to Sloane in the development of this plan.

In November, 1928, W. & J. Sloane were confronted with the problem of selling the output of four large mills, Alexander Smith and Sons Carpet Company, C. H. Masland & Sons, Inc., The Barrymore Seamless Wiltons, Inc. and the W. & J. Sloane Manufacturing Company, makers of linoleum. This represented a combined annual volume of about $45,000,000. Sloane then had a few salesmen covering the retail trade. They also had a sales force selling to jobbers. Most of the jobbers carried a host of other products besides floor coverings. Their interest was consequently divided.

Distributors' Sales Areas

After considerable study it was decided to coordinate a group of existing jobbing organizations into a distribution network rather than to establish a direct selling force. We first determined on the distribution centers. Then we selected those jobbers who appeared to have the best management and the best facilities for rendering service. In a number of places we had to leave blanks in our original set-up.

A written sales policy was then drawn up in such a manner as to place the jobber in the position of an integer in the distribution system instead of a customer of the manufacturer. It was necessary to hammer on this continually in order to convince the jobber of his true status. His past experience had been diametrically opposite to this and we had difficulty in convincing him of our sincerity. We had to eliminate all reference to the word "jobber." We can definitely say that today he regards himself as a "distributor," a part of our machine, interested in the success of our policy *because he has profited under that policy.*

The next job was to solve a riddle; namely, the confused price situation in the floor-covering industry. As late as 1928 a large part of this industry's output was disposed of by auction to jobbers and retailers. This resulted in an infinite number of prices everywhere. No one knew what the price on a rug should be since he did not know what that rug cost him. He bought a job lot and tried to average out a profit for himself.

We solved this riddle by establishing zone prices on all our merchandise for all our distributors. This pricing involved the determination of basic factory costs, transportation and handling costs and the establishing of definite profit mark-ups for our distributors. We then made all our distributors adhere to our price schedules. We were told again and again that we were attempting the impossible, but now, two years later, I can report that the plan is operating successfully. Even in this year of depression, schedules have been maintained and distributors are enthusiastic in their support of the plan. I am sure that none of them would care to return to the chaotic distributing methods of the past. The work of organizing that machine is far from finished, for the element of time is all important. It was planned that this basic work should extend over a period of five years. We are now beginning only our third.

Although Sloane now had a distributing machine, they still had to make it work effectively. They made it work and it is working better every month.