

The world is a big place and the opportunities for expansion are unlimited. But the field must be studied. Factors of an economic, political, geographical, sociological, financial and physical character enter into the problem. If we would build a business soundly as well as profitably, it is necessary that our plans be laid not only with respect to conditions as they are today, but more particularly with respect to what they are likely to be in the future. Otherwise we may find ourselves some day with a lop-sided organization on our hands while a competitor walks away from us, particularly a foreign competitor.

The much-quoted, supposed saying of Von Moltke, when he was awakened the night of the declaration of the Franco-Prussian war, still holds good: "The plans are in the drawer of my table." What are the probabilities with respect to taxation, foreign trade, inflation of credit, supplies of raw material, labor situation, political situation, merchant marine, profit sharing and so on down a rather long list? It is not meant that men must necessarily be prophets. It is suggested, however, that these matters should be studied in advance, on the basis of intelligently gathered and carefully analyzed data, and that plans be laid providing at least for a course of action in the event that or that combination of events happens. Von Moltke did not know that there would be a Franco-Prussian war. The liquor-dealers did not know that prohibition would become a fact; yet some of those who studied what was going on were prepared; the majority were not.

It would be possible to cite a number of concrete cases in this connection also. For example, there is one concern, let us say in the shoe business, whose chief source of supply depends solely upon the personal relationship of the heads of two concerns. It is almost a foregone conclusion that upon the death of one of them there will be serious trouble. Even in this case, with a knowledge of the possibility, no plans have been made to provide for the contingency.

I know of another case where a manufacturing concern's output is gradually being completely absorbed by a distributing concern and sold under the buyer's trademark and name. I happen also to know that in this case the buyer is planning to build a factory to produce his own product while the manufacturer is making no plans to protect himself.

#### PLANNING SCHEDULES

The result of planning, such as we have been discussing, is the preparation of a series of schedules, each intended to serve as a guide for some part of the or-

ganization or for some function of the organization. These schedules are prepared, of course, after all of the work of adjustment and coordination between conflicting departmental plans has been done. They would naturally vary with different concerns.

The following list is offered merely as an example of the general character of such schedules:

#### FACTORY

1. Schedule of weekly or monthly production quantities divided into basic classes of product.
2. Schedule of costs per unit and total, corresponding with the above.
3. Schedule of cash outlays for payroll, new equipment, purchases and expenses.
4. Departmental and miscellaneous schedules, harmonizing with the three main schedules just mentioned.
  - a. Departmental production quantities.
  - b. Bills of material to be purchased.
  - c. Number of workers planned, etc., etc.
  - d. Equipment to be purchased.

#### SALES

1. Schedules of weekly or monthly sales, in units and in dollars, of each class of product for each branch.
2. Schedule of advertising appropriations distributed monthly.
3. Schedule of monthly sales expenses by departments and branches.
4. Internal departmental and miscellaneous schedules; for example.
  - a. Allotment of sales geographically.
  - b. Allotment of sales to individual salesmen.
  - c. Allotment of sales to individual customers.
  - d. Layout of advertising campaigns.
  - e. Allotment of sales and expenses to Mail-order Department, etc., etc.
  - f. Departmental expense budgets.

#### WAREHOUSE

1. Schedule of weekly or monthly receipts from factories.
2. Schedule of monthly allotments to branches or warehouses based upon sales schedules and transportation factor.
3. Schedules of anticipated stocks at each branch or warehouse at the end of each month.

#### FINANCIAL

1. Schedule of monthly cash receipts and expenditures.
2. Schedule of anticipated monthly borrowings, loan liquidations, loans outstanding and bank balances.
3. Monthly schedules of profit and loss for each department and branch.
4. Detailed Collection Department schedule calling for monthly collections, based upon sales and terms of credit.

#### FUTURE DEVELOPMENT

Detailed plans covering

1. Expansion
2. Foreign
3. Personnel
4. New Lines
5. Distribution
6. Organization
7. Financing
8. Miscellaneous

#### MISCELLANEOUS

1. Schedules of purchases.
2. Departmental expense budgets.
3. Profit Distribution Schedule.

Most of these schedules, of course, are capable of summarization into a simple budget of profit and loss, and a budgeted balance sheet for the use of administrative officials in observing the gradual progress of the business in perspective.

Naturally, also, the reports of actual accomplishment from time to time are prepared so as to indicate the comparison of results with plans.

#### CONCLUSION

The chart which is in your hands (Chart 1) is an attempt to illustrate, in somewhat condensed form, the administrative planning procedure which I have been discussing. I should like to call your attention particularly to what seem to me to be the three essential features:

First: The coordination between the future plans and policies of the business, on the one hand, and the current operation of the business on the other. This is represented by the subordinate and dependent position of the operating plans to the panel at the top labeled "Business Development."

Second: The close inter-functional relationship between the operating plans. For example, "Planned Production" is shown to depend, in part, upon "Sales Requirements," while "Planned Sales," in turn, is shown to depend in part upon "Production Capacity." Every plan is dependent upon some other plan. The necessity for intensive administrative planning at once becomes obvious.

Third: The two objectives of the business in concrete terms are shown to be profits and financial stability. Administrative planning must definitely lead to these two goals; whether large or small profits are planned, whether or not outside financing is to be done, how the profits are to be distributed, etc., are subjects really outside of the scope of this paper. The point to be emphasized here is that the administration of any business is not fulfilling its function until it has planned or scheduled or budgeted (whatever term you choose to use) toward these two definite objectives.

I am aware that it would be desirable to present data from my files demonstrating the results that have been

CHART I  
ADMINISTRATIVE PLANNING

