

BUSINESS
ADMINISTRATION

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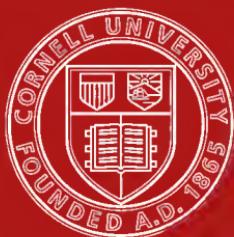
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BUSINESS ADMINISTRATION

THE PRINCIPLES OF BUSINESS
ORGANIZATION AND SYSTEM, AND THE
ACTUAL METHODS OF BUSINESS OP-
ERATION AND MANAGEMENT

BASED ON A SERIES OF LECTURES DELIVERED
AT THE UNIVERSITY OF MICHIGAN BY CARL C. PARSONS
SUPPLEMENTED BY INVESTIGATIONS OF
THE EDITORIAL STAFF OF
SYSTEM



THE SYSTEM COMPANY
CHICAGO NEW YORK
A. W. SHAW COMPANY, LTD., LONDON
1909

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PREFACE

When the University of Michigan established its course in Commerce and Business Management, it appointed as lecturer on the principles of business method and system Mr. Carl C. Parsons—an accountant, branch manager of an office equipment concern, and a contributor to SYSTEM.

Out of his own experience, from the descriptions of actually-used methods published in SYSTEM, and with the collaboration of its editors, this series of lectures was prepared.

The lectures were more fully attended at the University than any other series in the course. The number of hearers often was greater than the enrollment of the entire School of Commerce, because outside students attended. For all realized the practical value of these lectures: that they were based upon facts—not upon theory, but upon business principles actually tried out and found successful.

This was the first time that the methods and systems of business, as actually used in operation, were reduced to their fundamental principles. No untried theories or abstract generalities were exploited; only plans of organization and methods of management in successful every-day use were given place.

With these lectures as a basis, this book has been prepared. The material has been rewritten by the editorial staff of SYSTEM and much new matter has been added to bring it up to date and to give it a broad scope covering the whole field of business. The operating systems and managing methods of more than a hundred businesses were studied and the wide experiences of the contributors of SYSTEM were drawn upon by the editorial staff to insure the accuracy and practicality of every principle presented and every method described.

New charts and forms have been prepared throughout, which show the most modern methods and recent improvements in organization and system.

The matter in this book, therefore, has passed an unusual series of tests. As to accuracy, it has measured up to a high university standard; as to practicality, it has stood the test of actual use in business; as to thoroughness, it has passed the critical eyes of the editors of SYSTEM. It covers the entire field of business—not one line or department, but every activity—and thus supplies a broad view of all phases of business and their relations to each other.

This makes the book useful to both students and business men—as a text-book in schools of commerce and business colleges, and as a guide to improved methods and better results in a business. To colleges it offers the only complete exposition of business principles, based on actual practice in office, factory and selling fields—a course tried out and found successful in use by a great university. To business men it affords a complete and broad analysis of the methods of conducting all departments of an organization, every one proved good in actual operation.

THE PUBLISHERS.

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CHAPTER I

THE EVOLUTION OF BUSINESS SYSTEMS

One of the most striking examples of the advance made in recent years along all lines of human progress is the change in methods of conducting business. The revolution that mechanical invention has accomplished in the industrial world has its counterpart in the changes effected in business methods by modern system and modern accounting. The business office of today is as different from the old time "counting room" as is the modern factory from the workshop of a generation ago.

Business has been reduced to an exact science. There is no more guess work, no more inaccuracy. With increased competition in all lines of business, and with the great increase in the size of individual enterprises, has come the necessity for perfection in methods and organization.

The perfected business machine, with its intricacy of detail and its multiplicity of forms, may appear complicated in its structure, but, like one of the wonderful and intricate labor-saving machines in a factory, it should be judged entirely by its results. These results are the promotion of accuracy and dispatch, and an increase in output.

Two factors have contributed chiefly to this vast expansion in the mercantile world; have indeed made these enterprises possible: improved transportation facilities and organization.

Transportation Facilities and Business Growth

Not many years ago, all business was circumscribed by the lack of transportation facilities. It was limited to the small territory lying immediately about the seat of manu-

facture, because either there was no practical way of handling freight consignments to a great distance or, where such facilities existed, the charges were so high as to be almost prohibitive. The Pittsburg manufacturer, therefore, had his own territory, and the Chicago manufacturer had his, with limits determined by the transportation facilities, more or less well defined, between the two cities. Little competition existed between the two.

Now, however, the railroads have made it possible for a manufacturer to place his goods at a low cost in any part of the country; and with favorable conditions, he can undersell a rival at the gate of the latter's plant.

Then comes the test of organization and system. Each firm must count the cost, must eliminate all waste, must secure the benefits of large scale production, must buy cheap, produce economically, route scientifically and market its product without waste. Other things equal, the victory comes to the best organization. Systematization of office and factory has developed side by side with large production and a national market.

The Growth of the Modern Idea of Corporations

The old idea of a business was a one-man enterprise or a partnership, a conception which had serious limitations. It was limited, first, by the fact that such a firm lacked stability. Its success depended upon one or two men, and ordinarily it was either discontinued or at least materially weakened at their death or retirement from business.

In the second place, the plan was of limited desirability, because each member of the firm became individually responsible for all of the obligations of the firm. He could not invest a part of his fortune in a business without risking all of it. He could not tell at what time his partner's action, which bound the firm, might jeopardize his property.

These disadvantages have given rise to the corporation, a business institution which may be regarded in a two-fold

character: a contract among the stockholders and at the same time an organization to effect certain purposes. Under modern law, it is given a charter by the state.

The first corporations to conduct business were government grants of monopoly, such as the East India Company, which was granted a charter by the English crown to develop trade with England's eastern colonies.

From this form of chartered organization arose the semi-public corporations of the present day, such as railroads and other public service companies. While they are private corporations in their organization, at the same time they perform a public function and do a work which is of such importance to the community that they are of necessity governed by certain special laws imposed by authority of the state.

It was early recognized by business men that the corporate form of organization was peculiarly adapted to the carrying on of a large enterprise. The reasons for this are evident. Private concerns depend upon the fortunes of one man; corporations are self-perpetuating and stable.

Personality in Partnerships and in Corporations

In the one-man business or the partnership, the value of personality was strongly emphasized. As instances of large enterprises built upon strength of personality, we have such institutions as the Armour Company and the Pullman Company, which were started, and built up for a period, mainly upon the personality of one man.

But it must not be understood that corporations eliminate personality. By system this personality is spread over the entire business, as is the case with the Armour Company under its present form of management. While one man does not and cannot personally supervise all the work, yet through organization, his personality becomes the vital force of the concern.

By sound, systematic upbuilding, the organization can be made so perfect that it can almost take the place of person-

ality itself. As long as the Pullman Company was operated by its founder, the strong characteristics of this man pervaded every part of the organization; but today, although no one has arisen who is his equal, the organization which he built up has been able to take the place of his personality and to increase the business faster since his death than before.

There has been, during recent years, a tendency toward widespread organization because business men have realized that all of the advantages tending toward success and stability are with the large organizations as against the smaller ones, or the private enterprises.

How Retail Stores Have Gained Centralization

Typical among great modern organizations are various centrally-controlled retailing systems. Manufacturing alliances and associations of wholesalers have long lost their novelty. Economy in overhead or operating expenses and in selling cost formed a firm basis for such combinations. To eliminate competition was to minimize selling expenses. But combination seemed to afford retailers no such saving. Sales would still depend on store personality, upon advertising, upon locations numerous and costly.

These very factors, however, are now the retailer's advantages. Economy in buying has coupled itself with multiplication of convenient stores and shrewd exploitation of the firm's personality. The many units, all successful, have made striking totals.

Selling Direct from Producer to Consumer

A step beyond the organization of the retail stores and containing another factor of economy, is the scheme of organization in which the manufacturer sells directly to the consumer. The plan is not as new as the retailing combination, but its success, extending over a longer period of years, has been equally as great. Some of the shoe companies are types of this method. Ordinarily the manufacturer sells to

the jobber, the jobber in turn to the wholesaler, the wholesaler to the retailer, and from him the product passes to the consumer. In each one of these transactions there must be a profit to the person handling the goods, and there must also be the expense of the transfer from one to another and the expense of accounting.

To overcome this, various manufacturers have placed their own retail stores in every large city and sell directly to the consumer, cutting out the jobber and the wholesaler. In order to make the work a success, perfect organization and perfect system have been required.

So much has been written on combinations such as the steel industries and the harvester companies that it is only necessary for our purpose to point out the additional saving which such organizations as these bring about. It is possible for several manufacturing plants organized under one leadership to materially decrease the cost of manufacturing because the production of various parts for the whole combination can be limited to one institution. Instead of one factory manufacturing complete machines and making every part of the product, the work can be divided, and by specialization, which always means decreased cost of manufacture, the various parts may be apportioned to different branches of the combination. At the same time, the selling expense is materially decreased, because in each case the combination is in a position to control and regulate the prices of its products the country over. The same elements of economy of operation are true with them as with the retail organization: decreased advertising expense, less stock to carry and a very marked decrease in the overhead and accounting expenses.

The Incentive to Personal Effort in Corporations

As the institutions have increased in size, a perfect system has been demanded and, as usual, where such a demand has been made, it has been met. So perfect is the organization of the steel companies that the working ability not only

of each plant, but of each individual employee, is known. When Charles M. Schwab was asked what was the great factor in these institutions that took the place of the incentive of ownership he said: "The deadly parallel." By this he meant that an exact report concerning each man is kept. There is an average below which no man's work can go, and as any man shows ability to advance, the position is always waiting for him. Each man knows that his work is more carefully watched than if an employer were with him all the time. He knows that his efforts are measured, that there is a dead line below which he cannot drop, and possibilities of advance ahead if he shows ability above the average. The inducements for individual effort are even greater in a large corporation than in a business of one's own founding, for the possibilities of promotion offered by the large scale enterprises are so much higher. There is always the keenest competition between the several branches which are manufacturing the same product. If it costs a quarter of a cent more to manufacture a certain class of steel in Joliet, Illinois, than it does in Youngstown, Ohio, the superintendent of the former plant knows that he must explain the cause of this difference. If the difference prevails for any length of time, he knows that either someone else will take his place or that his plant will have to go to manufacturing some other article. The central organization, perhaps located in New York City, can detect an imperfect piece of work turned out by any factory, indeed can almost hear the sound of the hammers.

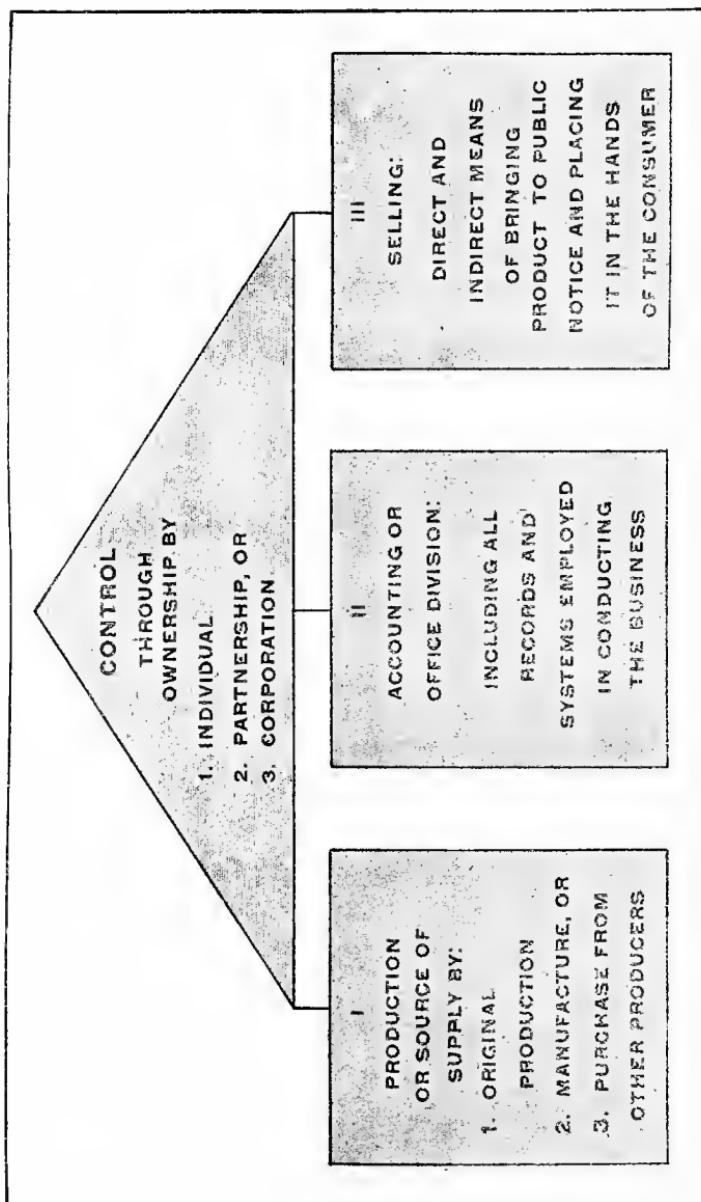
The business man of today constantly fears what he calls "too much system." This is not the danger, because systematization means the conducting of the necessary details of a business in the most economical manner. The proof of the successful system is that it does its work in the easiest possible manner, and gets results worth while. Some concerns undoubtedly waste both time and money gathering worthless statistics. But this error is not a case of too much system,—it is too much red tape.

CHAPTER II

THE PRINCIPLES OF BUSINESS ORGANIZATION

In defining business organization, we must not take for our unit of measurement a complete modern corporate institution. We must go back of this to the two fundamental elements governing all business transactions between members of the human race. These two elements we can class simply as "producing" and "selling." Any individual or any body of individuals doing either one or both of these things becomes a business organization. Joining together these two primal elements there is a third element which becomes a most important factor in any business. This can be described under the title of "accounting" or "reckoning." When a farmer raises a bushel of turnips, takes them to market, sells them and records the transaction in the back of the family almanac, he has performed all the functions of a business organization.

The name "production" need not necessarily imply original production, nor the transformation generally known as manufacturing. Its meaning signifies, rather, the bringing of the product from a certain source of supply to the hands of the selling medium. A retail merchant who sells dress goods has a "production" division in his business,—the department which searches out goods and brings them to his shelves from the wholesale house. The latter finds its source of production in the manufacturing. Even the manufacturer is not the real producer, but the farmer is who owns the sheep from which came the raw material. In each of these business organizations, however, the two prime factors of producing and selling constitute the fundamental basis of the business,



Form 1: The factors fundamental in any business are here represented. Producing, accounting and selling are the three indispensable mercantile activities, over which control is exercised by some form of ownership

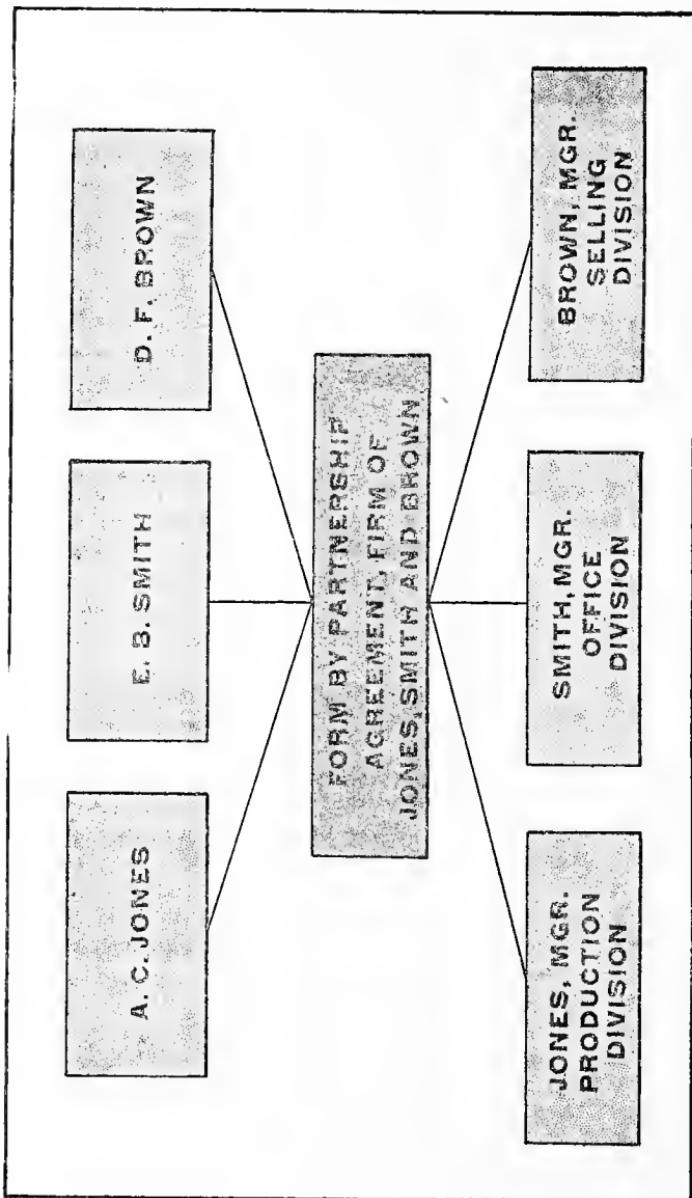
and in each organization recording or accounting is necessary to the accurate and quick exchange of commodities no less than to the revelation of profit or loss.

How Control is Vested and Exercised in Business

Turning now from the analysis of the functions of a business to an examination of its sources of authority, we find a variety of methods in which control may be exercised. In every organization there is an ownership element which constitutes its primal authority and control. Fundamentally, the form of this ownership is of no material importance, whether it is vested in an individual, in a partnership or in a corporation of stockholders. The essential fact is that this ownership constitutes the fountain head of all business organization, and subordinate to this authority, however it may be vested, are ranged the three departments of production, accounting and selling, by which the purposes of the owning power are put into effect. The form of any business organization so far as developed up to this point can be illustrated in a simple diagram such as shown in Form 1.

Such an organization is characteristic and complete. It applies to any business enterprise, whether the yearly volume of business is numbered in three or eight figures. The corner groceryman who constitutes his own business organization performs all the functions of the great department store. He becomes the "production" division when he buys his goods from the wholesaler and prepares them for the shelves. He becomes the "sales" division when he writes a price card to put in the window and sells some of the goods to a customer over the counter, and he becomes the "accounting" division when he goes to his desk and makes an entry of the sales in his order or cash book. At the same time he is exercising these offices by power of the appointment received at his own hands as owner.

It is the purpose of this chapter to analyze and subdivide a perfected modern business organization, such as would be



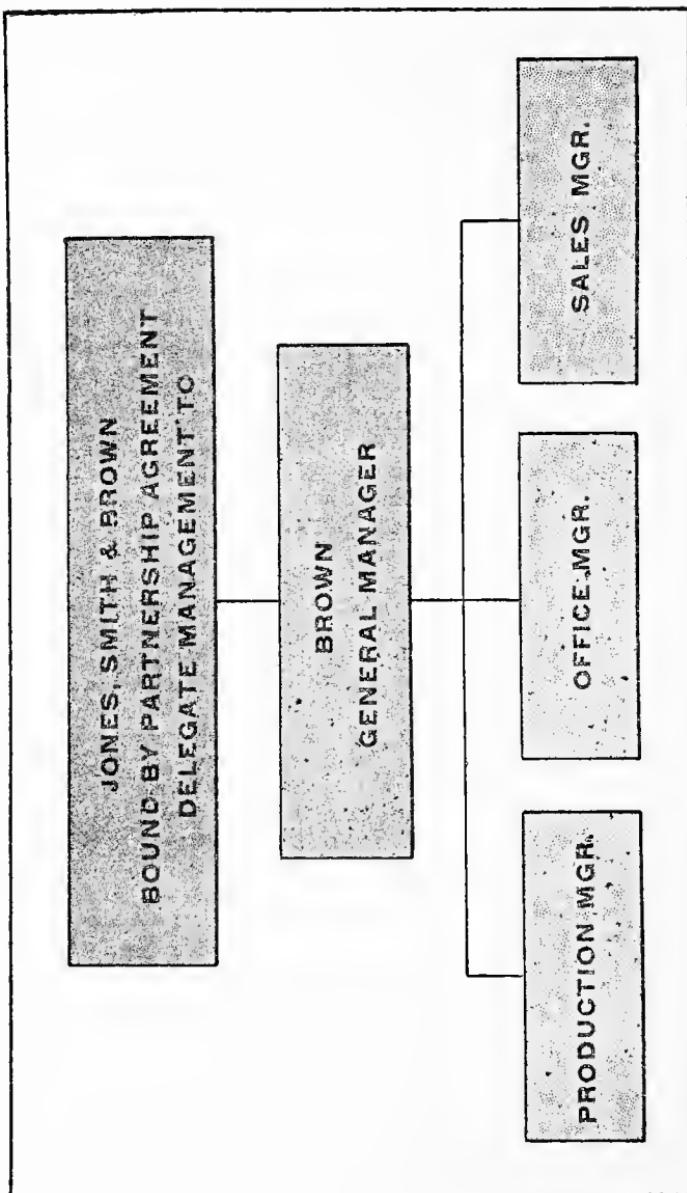
Form 2: This chart and the two which follow represent three common methods of business control exercised through a partnership. In this case, three partners put their capital together and manage their own business, each member of the firm taking charge of one department.

used for conducting a business enterprise in the most thorough and systematic manner.

When ownership is vested in one individual, the matter of control and authority is of the simplest form. The owner may have a factory manager, an office manager and a sales manager, but all three divisions are under his absolute control and dictation. It is possible that the individual owner may arrange his organization so that he need not give it his actual personal supervision and yet retain a cohesive and co-operative administration. This can be done by forming an executive committee made up of his division managers, who, while retaining their respective positions in the organization, will be bound by united action of the committee on all important matters of business policy, the owner delegating his control to such a committee under general instructions.

How a Partnership is Formed

In a partnership, two or more individuals are bound into one controlling factor by a certain partnership agreement. This agreement is in legal form and should be of the most exact, detailed and binding character to avoid any misunderstandings or complications. This legal partnership becomes in reality the controlling ownership in itself and the members of the firm are circumscribed by its provisions. The partnership agreement defines the shares that each member of the firm shall have in the conduct of the business, his duties, the voice that he shall have in deciding any matters of policy. It determines the division of profits, the proportionate assessment for losses, and the manner and methods by which the business shall be conducted. The agreement may also provide for a receivership or sale of the respective interests in case of vital disagreement among the partners. In the matter of determining the control of the business, the partnership agreement may provide for a division of duties and of authority among the various partners (Form 2), or delegate the entire management to one of the partners (Form 3), or



Form 3: In this partnership arrangement, two members of the firm are not actively engaged in the business. By a general agreement, the third member is placed in entire charge, with authority to appoint his assistants, at the head of the three branches of the work.

all the members of the firm may form an executive committee under whose general control and authority the division managers carry on the business (Form 4). It is frequently the case that some member of the firm is a "silent partner," known to the world only under the title "and Company."

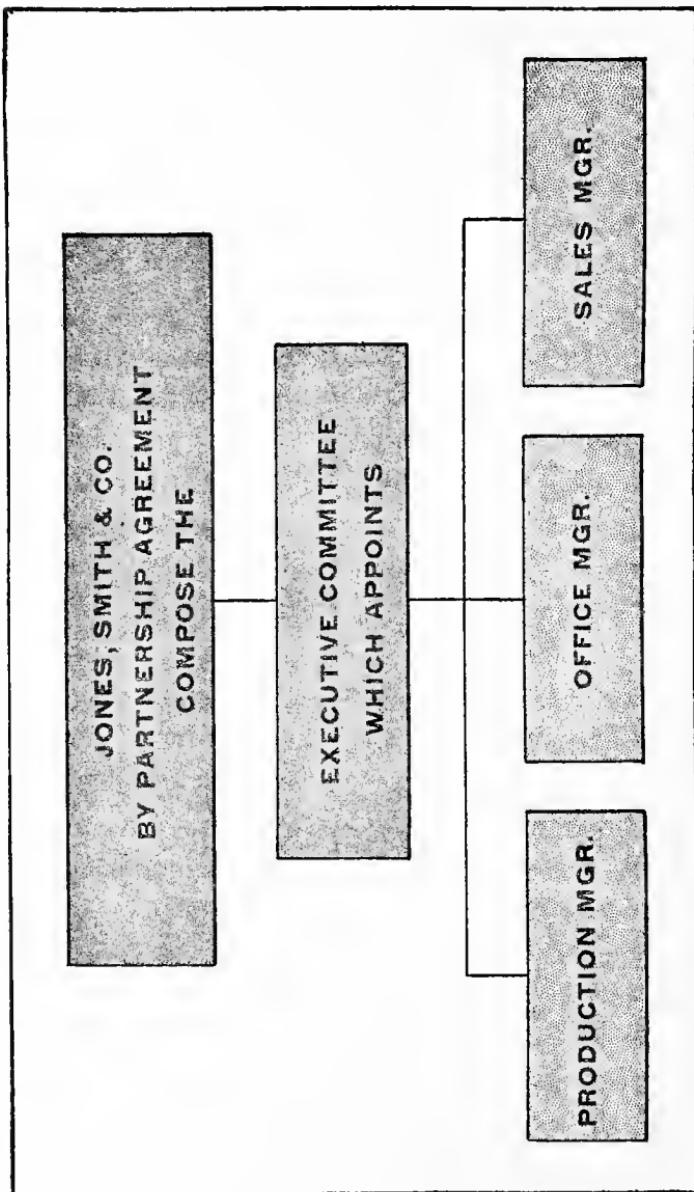
In Form 4 it will be noted that the managers of the producing, accounting and selling divisions are given the actual working or operative authority over the business, under guidance of a committee made up of the partners of the firm.

Owing to the various advantages of a corporation, as described in the introductory chapter, such a form of ownership is best adapted to modern business conditions. Such ownership also permits a more systematic and cohesive organization and more successful co-operation of the working parts because of the definiteness of its control and its accurate and fairly defined limits of authority.

In a corporate organization, ownership is vested in the stockholders of record, and these stockholders are bound by the stock subscription list, the articles of incorporation and the constitution and by-laws. These documents provide for the election of a board of directors, an executive committee and various officers, to whom the administration of business is thus delegated by vote of the stockholders. Form 5 shows the analysis of a corporate organization.

Formation of an Incorporated Stock Company

The process of forming an incorporated stock company is somewhat complex and varies in different states. The general plan, however, is based on a stock subscription list to which those who wish to become stockholders attach their signatures and state the number of shares for which they subscribe. Heading this subscription list is the form agreement stating the purposes of the organization, its name, the amount of capital stock, and the par value of each share. After the required amount of capital has been subscribed, a stockholders' meeting is held, at which a constitution and

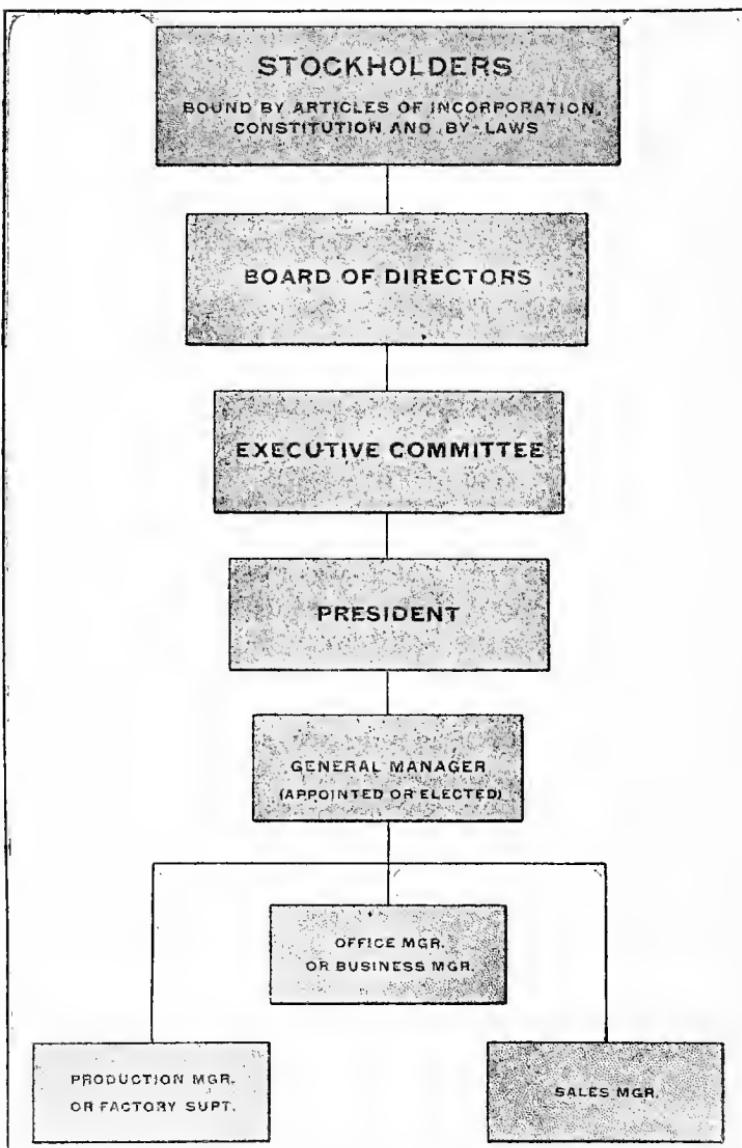


Form 4: In this partnership scheme, one or more silent partners are represented by the word "Company." The members of the firm here exercise general appointing power and oversight, while delegating everyday control to their chosen managers.

by-laws are adopted and directors are elected who subsequently choose the officers. The amounts subscribed having been paid in, in whole or part, the state charter of incorporation may then be obtained and the company may commence business.

The board of directors may arrange the further details of organization as it sees fit, but it frequently transfers its authority largely to the president, who may become the general manager. Or any director or an outside individual may be appointed by the directors as general manager and given full authority, subject to the board. The board may elect an executive committee to which its authority is delegated, and in some cases another committee is chosen as an advisory committee, at the head of which stands the general manager. This advisory committee, in most large institutions, is made up of the general manager, who is closely connected with the operation of the factory and the organization of the office; the treasurer, who is interested in the financial work; the legal advisor; and in many instances some officers of the banking house through which the institution conducts its financial work. This advisory committee is able to meet successfully the difficulties of administration which come up from time to time.

But although authority is passed from stockholders to directors, from directors to an executive committee, and again to an advisory committee, there must be some positive limitation that will prevent any of these bodies violating the general policy of the institution. For example, one of the largest organizations in the country places a limit of \$10,000 upon the expenditures which can be made by the advisory committee. Any expenditure under this amount could not seriously affect the policy or the finances of the company. If an expenditure between \$10,000 and \$25,000 is to be made, it must first be approved by the executive committee, and if an expenditure of more than \$25,000 is deemed necessary, it must be passed upon by the board of directors. It is im-



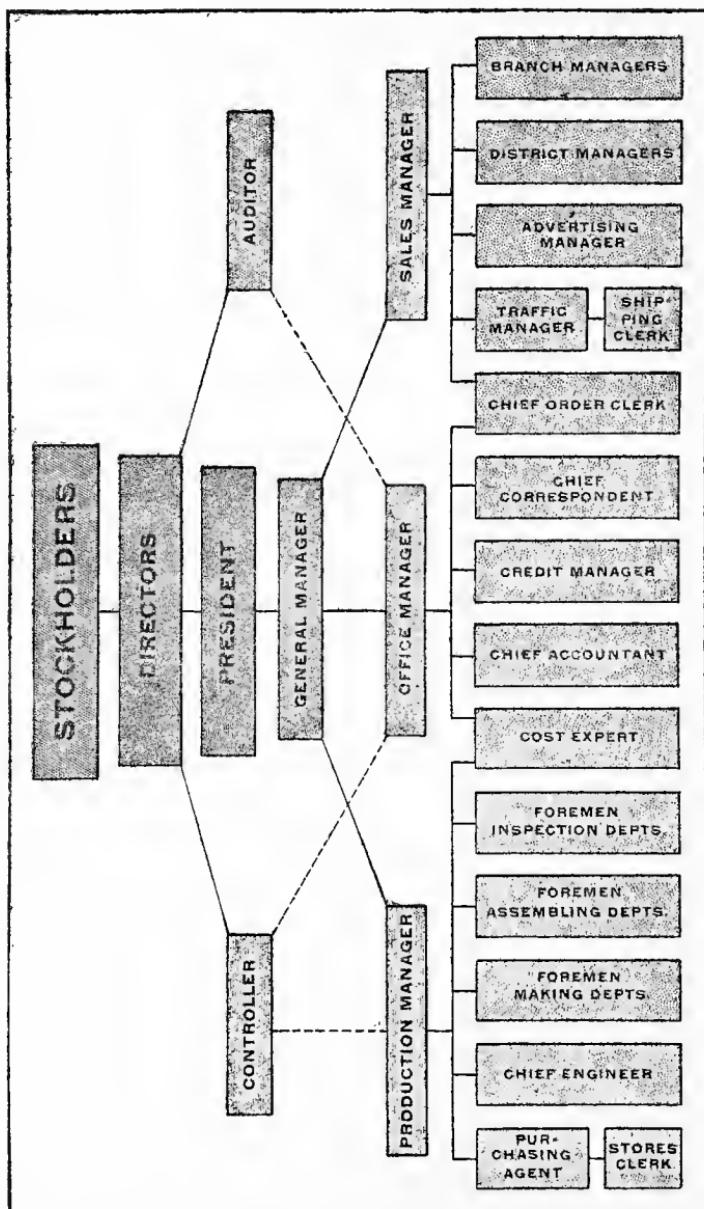
Form 5: The usual organization plan for a corporation is here represented. A nice adjustment of authorities to duties results from the several centers of control, each with a definitely limited power

practicable for any unimportant details of such a business as this to pass beyond the general manager or the advisory committee, but the financial limit which has been placed upon their actions makes it impossible for any step of a serious nature to be taken unless it has the approval of the executive committee, or, in the most vital matters, of the directors themselves. Thus details are decided by the lower officials and only questions of general policy reach higher.

All Business Organizations Based on One Principle

The details of the business organization following ownership control are practically the same, whatever form that ownership takes. No matter how complicated an organization may appear, when properly analyzed it can always be reduced to the rudimentary form shown in the diagram: that is to say, ownership concentrating its power of control into a central authority, known as the general manager, whence such power is administered through the medium of three executives over the main divisions of the organization, thus carrying out the three functions of the business: production, accounting and selling.

The special organization of these three divisions varies according to the nature of the business, its size and the perfection of the system to which its operation has been reduced. The complete function of each division which will be performed through the different departments of work may be so closely involved as to make their separation not easily distinguishable. Frequently a general manager is his own production manager, sales manager and chief accountant combined, and when acting as such performs all the duties of the minor executives of each division. It is also true that the heads of divisions or departments are sometimes so named as to make their real position in the organization seem uncertain. For example, an official may hold the title of "business manager" and have charge of both the accounting and sales divisions, when, in fact, his proper title is that



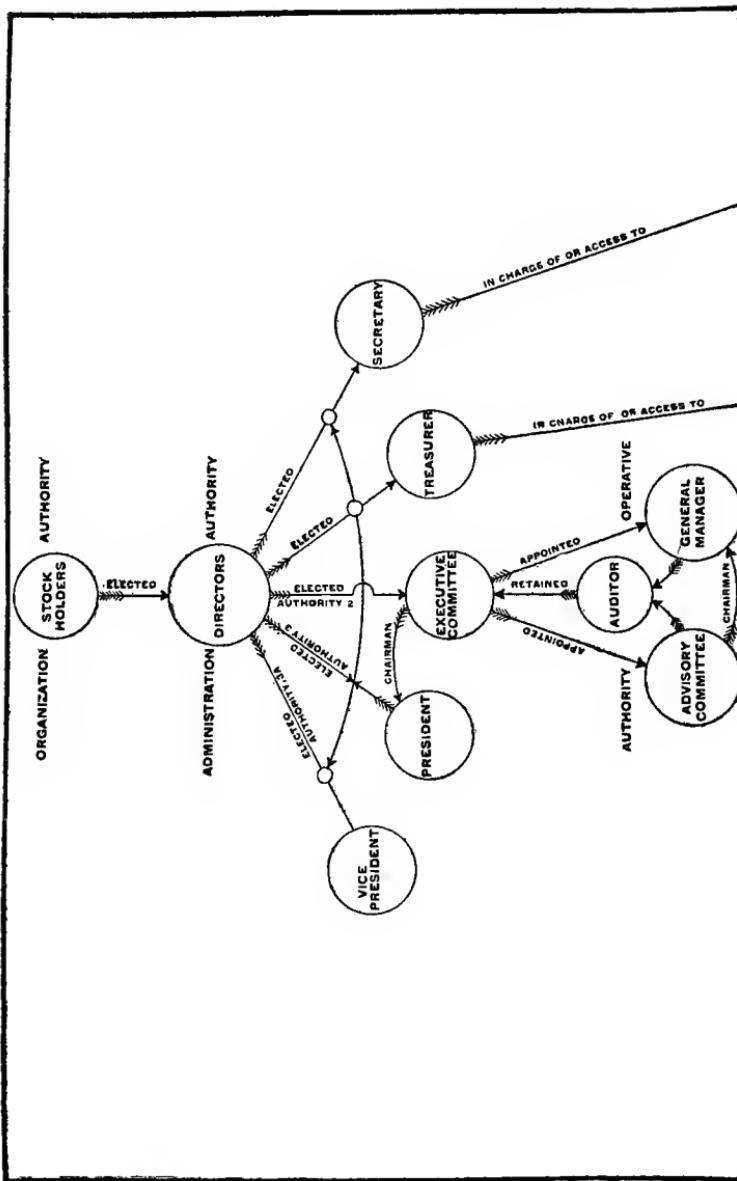
Form 6: In this chart are shown the same elements of corporate control as in Form 5. Here, however, are added the many smaller factors that are more or less necessary in any business, arranged according to their duties and the authority to which each is subordinate

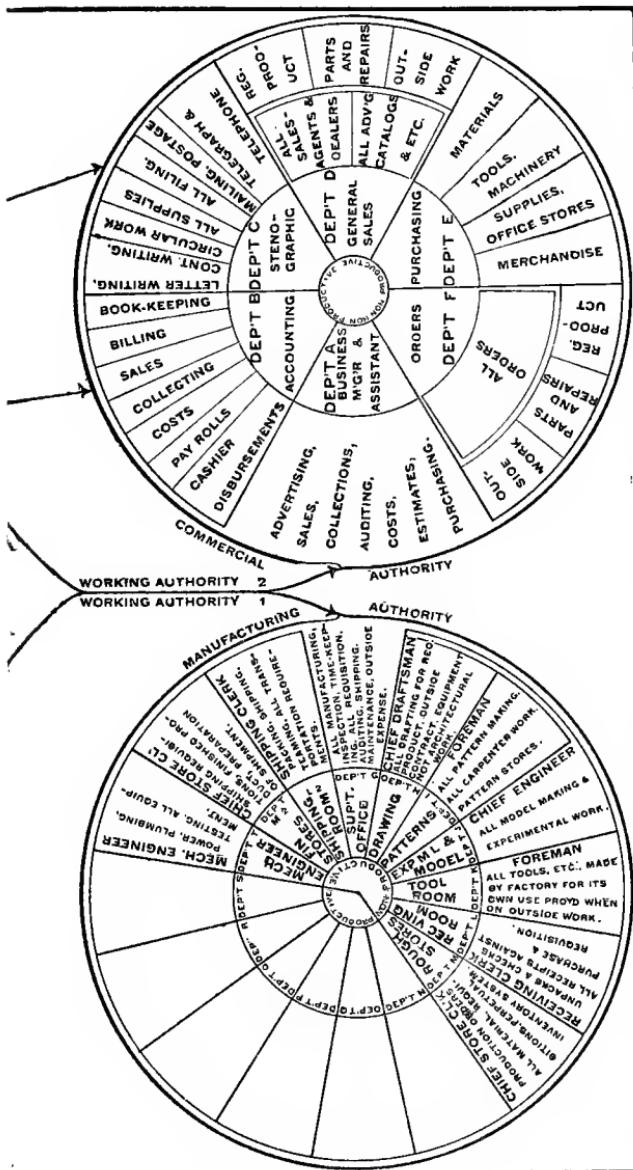
of assistant general manager, as he simply represents the executive in his detail work.

When we analyze the organization of a business further than the three great subdivisions of producing, accounting and selling, we enter the realm of administration, which will be treated in a subsequent chapter. The general subdivision of these three departments, however, showing how all the functions of the business are related to each other, may be illustrated as in Form 6, which outlines the principal departments to be found in a fully organized manufacturing business under corporate ownership. In this diagram, the purchasing agent is the buyer of material for the factory, but he might in some cases be in the accounting division instead of under the authority of the factory superintendent. Some of the other sub-executives might be shifted to different divisions of the business to suit local conditions, but the general relationship will be in most cases that shown in the diagram. Another analytical chart, showing the organization of a manufacturing business in all its details, is presented in Form 7.

The Auditor an Official of Peculiar Independence

It will be noticed that the office of auditor is peculiarly situated, subordinate only to the board of directors. The position of auditor may be filled in either one of two ways. There are at present large auditing companies which from time to time go over the work of an entire business organization in order to prove the accuracy of the work in each department. The position of auditor on this chart, however, means that there is a certain official retained by the executive committee as an active member of the organization. The work which the auditor performs in an organization of this kind is usually of a statistical and reportorial nature, such as drawing up comparative tables of the work done, particularly that of the accounting department. For this reason he is not put under the general manager nor under the secretary or





Form 7: This double page diagram sums up the foregoing charts. It represents in detail the various branches of a large manufacturing concern. First the origin, elective power and executive heads of the company; then the producing, accounting and sales departments more fully than heretofore, with all their miscellaneous duties

treasurer, who may be interested in the conduct of the work, but keeps an independent position and is responsible only to the executive committee. Only in this way can he be so independent that he can criticise either favorably or unfavorably the work that has been done. He must be able to act without fear or bias, and bring before the executive committee the exact details of the business which they need most to know. They have given up their authority, but at the same time they must know that the trust they have imposed is carried out.

The Functions of the Controller

Another important official whose duties demand that he be independent of the department heads is the controller. Sometimes the work of this official and of the auditor are performed by the same man, but the functions should be discriminately named if not separated in fact. The controller is, as his title suggests, the safety check on a business. He has absolute control over disbursements and all purchase orders are submitted to him before leaving the office. He also may check the work of the plant superintendent if he thinks that production is being carried on too rapidly for economy. His power of limitation extends also to the credit manager, whose decisions on the extending of credit he may review and reverse. He is accountable only to the board of directors from whom he receives his authority.

In a stock corporation, as earlier stated, the officers play an inconspicuous part in the actual operation of the business, and yet, by special act of the directors or by authority of the by-laws, they may become active elements of the working organization. The president, by virtue of his position, is at the same time chairman of the executive committee. Working along with him, with authority received from the same source, are the vice-president, the treasurer, and the secretary.

The vice-president ordinarily has no other duties than to take the place of the president in case of the latter's inability

to perform his usual work. However, in many modern organizations, in order that the vice-president may be more closely associated with the organization and because, in many instances, he is financially interested to a large extent, he also acts as general manager, sales manager, or in some equally responsible position.

The secretary and treasurer may have charge of different departments of the office work. Where these offices are held by different men, the secretary may have charge of the general stenographic and office work, and the treasurer may have oversight of the accounting functions which are closest connected with the finances of the organization. Officers of the company are frequently appointed to executive positions and retain their corporation titles, while in reality those titles should be used only in their connection with the stock corporation itself. For example, the treasurer of a corporation might be appointed to or given the position of a controller, and his work in the latter capacity might be done under the title of treasurer, but in reality he is simply controller while he occupies the controller's desk. In large corporations, however, the secretary and treasurer, instead of directing any department, will be busied with the more important statistical and financial conduct of the company.

CHAPTER III

ADMINISTRATION

A business organization, no matter how complete and perfect in detail, is as useless as a steamless locomotive unless it is put in motion and kept in motion by a strong driving power. That power is known as administration. Its source is the ownership-control, the basis of the organization, and from that source this power must be transmitted through the person of the general manager, diffused through the division heads, and applied to every component part of the business machine. If this machine is not constructed on right principles so that its parts will work in harmony, then power will be wasted and energy will go for nought.

In a perfected business machine, individuals are united into a body so harmoniously that they will work together for a common end. To accomplish this result, the various parts of the organization must be brought into systematic relationship. There must be no conflict of authority, no duplication of effort, no waste of energy. Every individual must have his work and his duties, all in harmony, to accomplish the one common desired end.

It is the purpose of this chapter to define the authority of the various department heads and to show how each part of the organization co-operates with all other parts.

Departmental division is a necessity not always well understood, and means much more than a mere division of authority. It is necessitated by the fact that different methods of procedure in the manufacture or marketing of goods require widely varying experience with the authorities that govern them; so that the division of business into departments is controlled by two elements, namely: the character of the labor it is necessary to employ, and the character of the

materials processed. Therefore, in order to secure the proper division of a manufacturing business into departments, it is necessary first to trace the essential processing of material from a raw state into a finished product by progressive steps, and then to mark out the departments along this line of progress in accordance with the difference in the elements above designated.

Having shown in the previous chapters how authority is handed down from the ownership through the directors to the general manager, and how he passed on his authority to the managers of the three great divisions of the business, the details of the organization of these divisions will now be shown. When it is stated that the general manager passes on his authority to the division heads, it must not be understood that he in any way relinquishes such authority, but rather that he obtains assistance in his work of supervising and controlling the operation of the business and that these division heads are, in fact, representatives of or assistants to the general manager, with certain specific duties and authority under his direction.

Organization of the Production Department

In analyzing the production division of a business organization, it is difficult to find a standard, for this division varies more materially than any other, and must be arranged to suit the needs of each particular business. It will be profitable to examine the make-up of several varying kinds of organizations.

The real head of the producing division of a mercantile enterprise is the head buyer or merchandise manager. Upon him devolves the duty of finding the goods which the selling division is to sell. In a large house there would be several buyers, each responsible to the general manager and independent of each other. The buyers are frequently the heads of their respective departments and thus become managers of both producing and selling divisions. Under them are the

retail salespeople and also the clerical force required in the purchasing department. Under their authority also in each department are a receiving clerk, a stock clerk and a delivery clerk, with the necessary force of employees. This theoretical division is often modified in practice by providing a common receiving and delivery system for all departments.

In a wholesale mercantile house the buyers have nothing to do with the selling, and the chief stock clerk or receiving clerk is directly responsible to the general manager.

Division of Work Under a Superintendent

In a manufacturing or mining enterprise, the superintendent is in full charge of all details of production. Directly under him rank the foremen of the various departments, the chief stores clerk and the purchasing agent. In some cases the two latter, however, might be responsible only to the general manager, the superintendent simply having the authority to make requisition for materials required. The chief stores clerk has in charge the handling of both the raw material and the finished product. In such cases he has under him a receiving clerk and shipping clerk and is the medium through which the selling division obtains the goods sold to customers. A traffic manager might also be attached to the production division to protect the house from undue and excessive freight charges on incoming stock and to route properly outgoing shipments.

The Duties of the Sales Organization

Upon the sales manager devolves the duty of selling the products manufactured or purchased by the production division. The selling organization of a business enterprise is in a sense its most important factor. There is no use in producing unless the product can be sold at a profit, and the success of any enterprise is based upon the successful work of its selling force. To sell anything, a market must be created, and it is to assist in creating this market that the

advertising department becomes necessary. The advertising manager may simply have charge of all publicity effort and have under him a superintendent of printing, a manager in charge of circularizing and follow-up work, and a catalog editor.

In some cases, the shipping and care of stock may be under the authority of the sales manager, and as far as expense goes the shipping department is certainly chargeable to sales expense.

A modern national sales organization is perfect in every detail. The country is divided into specified territories, each in charge of a branch or division manager. Under these are the field salesmen, each with his specified territory, so that the entire country is thoroughly covered, and some definite person is responsible for every section.

The Accounting Department a Clearing House

The accounting department is the clearing house for all the business of all departments. Upon its records the general manager and all those above him rely for information to guide them in the conduct of the business. The central figure of the personnel of the accounting division is the chief accountant. He may have the title of business manager, or of head bookkeeper, but whatever his title, if he has control of the "private" or general ledger, he is the head of this division. He may engage a head bookkeeper to do the clerical work required on this ledger, but if so, such bookkeeper has no authority except such as may be conferred upon him under special orders of the business manager.

Next in importance to the head bookkeeper are the sales ledger bookkeeper and the purchase ledger bookkeeper. To them all the records of the work done by the producing and selling divisions of the business must come.

Under the purchase bookkeeper is an invoice clerk who takes charge of the bills received for goods purchased; a purchase order file clerk, who sees that all orders given out

for goods are filled; a receiving record file clerk, who checks up the receiving department to prove that goods ordered are promptly received and conform with the order; also a disbursement clerk or cashier, who is entrusted with the checks or currency with which to pay employees, expenses and properly audited bills.

The sales ledger bookkeeper has under him an order filing clerk, who sees to the duplication of the orders on a billing machine or other device and the proper distribution of the duplicates to the various departments as required.

Records of the Sales Division

There is also in this department a sales record clerk who makes proper entry of all sales reported by the selling division and who has charge of the daily, weekly and monthly reports of sales required by the higher executives. This department receives all moneys from the sales division and all collections, and the sales bookkeeper frequently has under him a cashier, or is himself cashier, especially in a large cash business where all or most of the sales are cash transactions.

The producing or purchasing division of a business has its own office force, which, while not under the direct authority of the accounting division, is more or less involved with it in the routine of work. Under the buyers or purchasing agent are various clerks whose duties cover the securing of information to guide the buying, the actual transactions, the making and filing of the records of such transactions and the forwarding of a record of the order to the desk of the purchase ledger bookkeeper.

The selling division also has an office force and is closely in touch with the accounting division. Through an order clerk and sales record clerk, the sales ledger bookkeeper is promptly informed of every transaction of the sales division. There is also usually a clerk in charge of returned goods, rebates and overcharges. Thus every department concerned with actual barter and exchange, or the settlements of claims,

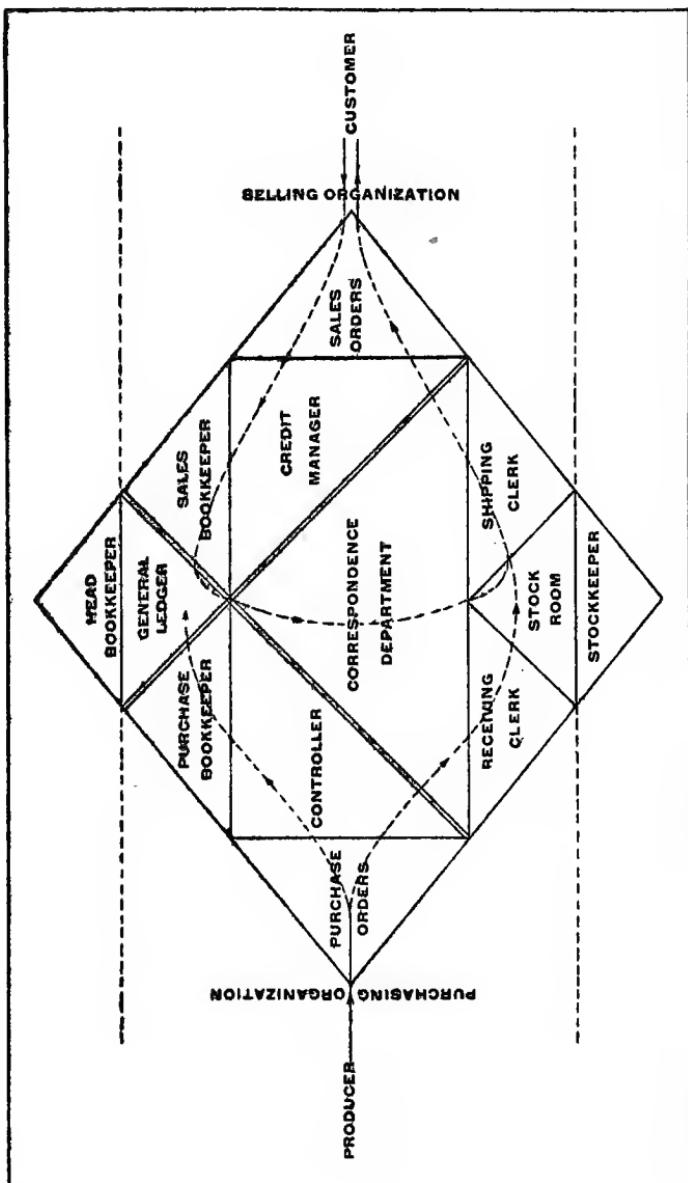
appears in the accounting, where all the various transactions are brought to a focus and reduced to the common denominator of cash assets.

Subordinating a Department to Several Officials

Another necessary part of every organization furnishes an example of interlocking double authority; that is the subordination of one department to two or more superiors. Subsidiary to the production or purchasing division is the receiving department; yet both these departments of receiving and shipping are subsidiary to the chief store room clerk or chief stockkeeper. The store room or stock room is the medium for the transfer of the product of the business from the productive division to the customers through the selling division. Goods are received from the factory by the receiving clerk, the invoice is checked, the goods are distributed to the proper storage places and a record of receipt signed by the stockkeeper is sent to the purchase bookkeeper, who, through his inventory clerks, keeps a perpetual inventory of all goods in his charge. When sales are made or stock is required by the selling division, a duplicate of the original order passes through the hands of the shipping clerk and becomes a requisition on the stockkeeper for the goods called for. He delivers them to the shipping clerk, taking receipts. The shipping clerk, through his sorters, inspectors and packers, properly fills the orders as they come from the sales division, and the goods are ready for delivery.

Centralizing Correspondence in One Department

While the routine of office organization has been shown, no mention has yet been made of a medium through which almost every business transaction must pass in due course, and which we will call the department of communication or correspondence. Each department requires more or less stenographic, typewriting or clerical work in every trans-



Form 8: A single department, that of accounting, is here analyzed. The dotted line at the left represents material purchased from the producer. The bill for this purchase goes to the records; the material passes to the stock room to be met by orders from customers and shipped in satisfaction of these sales.

action. While employees performing such work may be directly attached to certain departments, there is usually a general department related more or less to all other departments. It is generally in charge of a head stenographer, office manager or chief correspondent. Under him are the stenographers and typists whom he sends around to the department officials as their services are needed. The filing clerks and mail clerks are also usually a part of the personnel of this department as well as the exchange, the messenger service and all other employees not attached to particular departments.

The office or accounting division organization is complete as described to this point and competent to carry on all the details of the business; yet it lacks two features of the utmost importance, without which the conduct of a large business would be unsafe and uncertain. These two features are the credit department and the controller's department, both fitted into the organization as safety checks, one upon the purchasing division, the other upon the sales division.

No order for goods should be sent out unless it has the approval of the controller. It is this official who has in his charge the protection of the house's bank accounts, as stated in the preceding chapter. He knows to what extent the financial condition of the house will permit the purchase of stock, and on his advice, stock orders are cut down or cancelled. No check in payment for goods purchased or for other expense can go out unless it has his approval. In some cases, the general purchasing agent holds the office of controller, and in other cases the treasurer of the corporation occupies this position.

The safeguard to business on the sales side is the credit department. No order calling for credit can be filled unless it has the approval of the credit manager. Upon his judgment the house depends for its protection from losses by bad debts. Having to judge regarding the acceptance of orders, it becomes also the duty of the credit department to see that

payment for such orders is secure. The collecting of accounts is therefore placed in the hands of the credit manager, who supervises the work of the chief collection clerk and his subordinates.

In Form 8 is shown a diagram of an accounting division organization sufficiently analyzed to indicate the relation each department holds to every other. It will be seen that the complete routine of a purchase order requires it to pass through the hands of the controller to the purchase bookkeeper's desk and back through the receiving clerk to the stock clerk. A sales order must pass from the sales division through the credit man to the sales bookkeeper's desk and thence to the shipping clerk. While this system would vary somewhat, according to the character of the business, yet the same general plan would be followed in any organization.

CHAPTER IV

ACCOUNTING

While the driving power of a business organization is derived from its administration and management, no business could be operated successfully without the use of a complete and satisfactory system of accounting. The accounting department could be likened to the nervous system of the human organism. It keeps the entire organization in perfect working order, each department in harmony with every other. Any ills or breakdowns in any part of the structure are promptly signaled through this medium to the controlling brain, enabling that brain promptly to apply the remedy.

The term "accounting" must not be confused with book-keeping. The latter is simply the mechanical operation of recording business transactions. Accounting has a higher and more complete meaning, in that it embodies not only the mere bookkeeping, but all the methods and processes and systems through which such lucid statements of the condition and progress of the business may be obtained as will constitute an accurate guide for those in authority.

Executives of an enterprise must not only be assured that all the transactions of buying and selling are properly recorded, but they desire to know that such transactions are profitable, that the business is increasing in volume and that there is no unwarranted increase in expense of operation. If the reverse is the case, they desire to be informed of the fact at once, and to know just where every loss occurs, as a matter of self preservation. It is therefore apparent that the accounting department is fully as important to the success of the business as either the producing or the selling division; and the more complete and accurate the system employed, the greater will be its aid to the managing authorities.

The position of bookkeeper or accountant has changed much within the last few years. While it was necessary in large institutions a few years ago to have many high priced men acting in the capacity of bookkeepers, today a large concern has only one or two men upon whom the responsibility is placed, while assistants are employed at a lower price to carry out the details of the work. This change has been brought about by a simplification of methods, by the systematic organization of the work and by an improvement in ledgers and office devices.

For this reason, it is well for any man who is engaged in office work and who aims to improve his position as a bookkeeper or accountant to become thoroughly familiar with the work in all its various branches, for only as he becomes acquainted with it will he be sure of advancement. It is not enough to know how to take a trial balance from a ledger and how to make the various entries in his books, but he should be familiar with the most improved systems for handling the work of an order department and the records of the sales department; he should know what information it is necessary that the credit man should have; in fact, he should be able to bring the work of the several departments of a business closely together.

The Function of the Ledger in Accounting

No matter how great or how small a business enterprise may be, its transactions are all condensed in one commercial volume known as the ledger. This forms the center and heart of all accounting systems. To its pages eventually comes a record of every transaction connected with the business, and from it must be made the statements by which the condition and progress of the business are shown. It is therefore of the utmost importance that the entries made in this book shall be absolutely correct and that there shall be some method by which its correctness can be proved. Otherwise the owners or managers of a business might deceive themselves

or be deceived by others. The system of bookkeeping by which this correctness is assured, is shown as the double entry method and is the only system now in general use where a large volume of business is handled.

Every entry which is made in a set of books is entered twice; that is, for every charge there is a credit, and for every credit there is a charge; this gives rise to the name "double entry." It is the only logical and correct method of making an entry in a set of books, because for every business transaction there are in reality two transactions. Suppose, for example, that John Smith pays me \$10.00 on account. Then, as a matter of fact, he pays the \$10.00 and I receive the \$10.00, and both these entries should be made; that is, John Smith should be credited with \$10.00 and I should be charged with the amount. In the same way, if John Smith comes into my store and buys \$10.00 worth of goods on account, he is consequently charged with that \$10.00 and my merchandise or stock account which has given out the goods is credited with that amount. If I give John Smith a check for \$25.00 on account, there are two transactions. Smith receives \$25.00 and should be charged with that amount; and my bank account gives out \$25.00 and should be credited with the amount.

What the Trial Balance Proves

From the very fact that every item which is charged to one account is credited to some other account, if every entry that has been made on the ledger is correct, the books will balance; that is, the sum of the credit accounts will equal the sum of the debit accounts, and this is exactly what is meant when a trial balance is taken off. All the credit balances and all the debit balances are listed in respective columns. If the total of these two columns are equal, it proves that the bookkeeping has been correctly done. To prove the accuracy of the work, such a trial balance as this is taken at the end of each month.

Form 9: Each person dealing with the firm has a separate page in its ledger. At the left is entered whatever the person receives, at the right whatever he furnishes to the firm. A balance is then struck.

A trial balance is not necessarily an absolute proof of correctness of any work, because an entry may be made in the wrong account and yet may not alter the total of the trial balance: if, instead of crediting an item to John Smith's account, I should instead credit it to the account of Brown, this error will not show in the trial balance, for it does not affect the relative condition of the total of the credit and debit sides of the ledger.

A trial balance also shows more than the accuracy of the work, because, if it is properly taken off and if the accounts are properly arranged, it will show exactly the condition of the business. All the accounts payable can be arranged together, as well as all the accounts receivable, and the various general accounts, as they are taken from the ledger, will show the general condition of the business.

The ordinary set of books consists of a ledger (Form 9), a journal (Form 10), and a cash book (Form 11). In different forms of business, other books become necessary, but an understanding of these three should make clear the general principle on which any set of books is kept. There may be auxiliary books, such as the order book, bank book, check book, check register, stock book and so on.

The ledger is the book of accounts. It contains a complete record of all the business which is done, for to this

book are posted all the records contained in the other books. By "posting" is meant the transferring of any record which has been made originally in any book, usually in the order in which these records come up, to the particular ledger account to which they belong. In the ledger a separate page is given to each account. One account may be headed with the name of John Smith. Everything which he purchases will be charged to him by entering it on the left hand or debit side of the ledger; and any money which he pays or the record of any goods which are returned and for which he is given credit will be entered on the right hand or credit side of the ledger, in order to give him credit for them.

These entries, however, are not made directly to the ledger, because if an error were made it could hardly be traced. Other books of entry are, therefore, brought into use: the journal and the cash book. These are subsidiary books in which entries are made in the order in which the transactions come up; consequently, if at the end of the month the books do not balance, it is possible to check over the work from the books of "original entry" to the ledger and find out exactly where the mistake has been made. This would be impossible if the entries were made directly to the various accounts in the ledger.

The cash book contains an account of all money which has been taken in or paid out. On the right hand or credit

DATE	LEDGER PAGES	DEBIT	CREDIT	DEBIT	CREDIT

Form 10: The journal page records transactions not shown by the cash book and orders. These entries are transferred to the ledger for classification

Form 11: The pages of the cash book show all cash actually received or paid out. These figures eventually reach the ledger and join in the periodical balance.

side of this book are entered all amounts which are received from any source. Ordinarily, a cash book is balanced at stated intervals—daily, weekly, or monthly, as the necessities of the business may demand—and at such times there is carried forward the balance of the cash on hand, which appears on the debit side of the cash book. To this amount are added the amounts received from various sources, which also appear on the debit side of the cash book; and from the total we subtract the amounts paid out and which appear on the credit side of the cash book. The result will be the amount of cash which should actually be on hand at the date of the closing account.

Entries which appear on the credit side of the cash book, showing the amounts paid out for any purpose, are charged to the various accounts in the ledger, to which they belong—expense, freight, postage and so on—and the total of this amount is credited to the cash account in the ledger. In the same way, the various entries on the debit side of the cash book are credited to the various accounts in the ledger to which they belong, and the total of these is charged to the cash account in the ledger. The difference, then, between

the debit and the credit sides of the cash account in the ledger will be the amount of cash on hand.

Treatment of the Cash Account

In this sense of the word, cash does not necessarily mean currency, but all available money, whether it is in the safe at the office, or on deposit at the bank. While in the ledger the cash account should include both these items, to show the total of available funds, yet the cash book used in the office may simply show the petty cash or currency used in the office transactions. At the same time a bank account is kept in the ledger, which is balanced off or included in the regular cash account when a trial balance or statement is taken from the ledger. The cash book proper might be used only for the bank accounts and a separate book called the petty cash used for a record of the amounts received or paid out in currency, while the balance on hand might be carried over to the main cash book at the end of each day or week when that book is posted to the ledger.

Until a short time ago, it was the custom in most establishments to fill all orders received directly from the original copy, but because mistakes occur, due either to illegible writing or loss of the original copy, it is now customary to make out what is called a "house order" with as many copies as may be necessary to fill the order with the least possible confusion. One order, which remains in the order department, contains a complete list of all the items, and department copies can be made with either an exact duplication of all the information or with only such data as pertains directly to one department. As notifications come in from the various departments that the parts of the order have been assembled, and finally the notification comes from the shipping department that the shipment has gone forward, the original copy of the order, which was held in the order department, can be filed in a loose-leaf book, where all the filled orders for one day are placed together. From this filed copy the invoice

is rendered, and from the invoices the various amounts are posted to the proper accounts in the ledger. The total of these invoices can be credited to the merchandise account in the ledger or to the various departments, if such a division is maintained on the books.

Numerous other forms of entries become necessary, such as corrections of errors which have been made in transferring items from one account to another, and other corrective entries which will be explained later. To take care of these a journal becomes necessary. As its name indicates, this book is a record of the work of each day. Formerly it was the custom to give place in the journal not only to such entries as have been described above, but also to the orders as they were received, and, in many instances, even to the record as it appeared in the cash book. In modern accounting, however, the orders are not so entered, nor is this necessary to insure proper care of the records; the cash book and the orders, together with the records of the journal, will show at any time the complete record of each day's work.

The Handling of Invoices for Purchased Goods

Methods of handling invoices for goods which have been purchased vary in different establishments. In some cases, the various invoices are entered in the journal as a credit to the concern from which the goods are purchased, and the total of all these entries is charged to the merchandise account or distributed to the various departments for which the goods have been purchased. In other business houses, invoices are not entered until they are paid, and no entry appears except that for the check or cash which is paid out.

The natural weakness of this will appear in the statement that it is not possible at any time to know exactly the amount of the outstanding indebtedness unless the various invoices are footed up. To overcome this, the most approved method is as follows: when any invoice is approved for payment a voucher is made which shows the amount of the in-

debtors, the department to which the charge is to be made, and the person or firm to whom the remittance is to be made. All unpaid vouchers are kept together, and as fast as any voucher is paid, it is transferred from the unpaid to the paid file. In order that an exact record may be kept, a voucher record is maintained, giving the voucher number, the date, to whom payable and the amounts. The columns where amounts appear indicate the departments against which these charges should stand. This record may also bear the date of the payment and the amount paid. The difference between the total of the vouchers and the amounts that have been paid will show at any time the outstanding indebtedness.

The Division of Ledger Accounts

The general ledger covers all business transactions, but for convenience in accounting work, the details of all ledger accounts of sales and purchases are kept in two subsidiary books known as the sales and purchase ledgers. Each of these will be briefly explained. The sales ledger contains the accounts of all persons to whom anything has been sold on credit; that is to say, it is a complete record of all the credit sales of any business. The purchase ledger contains the accounts of all firms or individuals from whom anything has been purchased on credit. Naturally all the sales accounts are debit accounts and all the purchase accounts are credit accounts.

General ledger accounts are ordinarily as follows: stock accounts, profit and loss accounts, bills payable, bills receivable, cash account, merchandise, interest, insurance, salary, labor, general expense, and such others as the particular business may require. These accounts are given pages in the general ledger in the same way that an individual account appears in either the sales ledger or the purchase ledger. For instance, if anything is purchased which I intend to sell, it will be credited in my purchase ledger to the firm from

which I bought it, showing how much I owe, and at the same time it will be charged to my merchandise account in the general ledger. Anything which I sell from my store will be charged in the sales ledger to the person who buys it and will be credited to my merchandise account in the general ledger. For this reason the difference between the debit side of the merchandise account, which shows all the invoices I have purchased, and the credit side of the merchandise account, which shows all the goods I have sold, will be my gross profit. Any goods remaining unsold must be deducted from the debit side before this comparison can be made.

How Accounts are Charged and Credited

However, if I purchase something which is permanent in itself, as, for instance, a desk to be used in my office, this will be credited in my purchase ledger to the firm from which I bought it, and will be charged in the general ledger to my fixture account. In the same way, if I buy anything which is to be consumed in the office—for instance, ink, pens, or paper—which cannot be considered an asset, and on which I do not expect to be able to realize the money which has been spent, I will credit this in my purchase ledger to the firm from which I bought it and charge it in the general ledger to my expense account. In the same way, when I pay my factory employees their wages at the end of the month this amount will be charged in the general ledger to my labor account or salary account, according to the grade of the employee, and will be credited to my cash account or my bank account, whichever gives out the money. Every time a charge is made, a corresponding credit is necessary. It is this fact which brings into use the general ledger.

Entries in the book account are made when the business is commenced, or at any time when there may be transfers of ownership from one person to another. The amount of capital stock, the total investment of money of the stockholders, is the amount of credits in the stock accounts of the

various partners. The bank or cash account receives this sum as a debit.

The profit and loss account shows the balance or the surplus. This is the account through which, as will be explained later, all the accounts are balanced when a set of books is closed for the year and an annual statement is made.

Bills and Accounts Receivable and Payable

In any business, it is customary to separate the accounts payable from the bills payable, and a distinction is made between these two classes of liabilities. An account payable is any account for goods which I have purchased, using my ordinary business credit. Bills payable are the notes and other negotiable paper which I owe. The difference between the two is simply that accounts payable are accounts due to firms for goods which have been purchased and are not of as formal a nature as bills payable, which I owe various individuals and which are payable at a definite time.

In the same way, accounts receivable represent the accounts which are owed to me and for which notes have not been given to me by those in my debt.

In ordinary business, the expense account is divided for convenience under the different departments, so that the book-keeper can show at a glance what the expenses have been for each division or each department. For example, in the ordinary department store, a separate account is kept in the ledger for each department of the store, and to these accounts are charged the items of expense that pertain particularly to that department. In the same way, a mail order house will keep a separate account of stationery or of stamps or any other large item of expense, so that the executives can know exactly how much is paid out for each item and in this way keep a closer record and watch more accurately the outlay for each.

So also, in every mercantile house, interest and discount are not included in the general expense, but are kept as separate accounts in order that it may be more quickly shown just

how much has been paid in the way of interest and just how much has been allowed or saved in discounts on goods purchased. In a large business, discount becomes an important item, especially if the product which the firm handles sells on a small margin of profit. Likewise, insurance may be made a separate account; and any other items of expenditure which need careful supervision can be treated in the same manner.

In a wholesale business, as has been said, a separate invoice is made out for each sale, and from these invoices, the entries are posted directly to the various accounts in the sales ledger. All the invoices are then recapitulated, giving simply the names, numbers and amount. The total is credited to the merchandise account, or if accounts are kept for several different departments, the amounts pertaining to each may be kept separate by the use of special ruled sheets that provide a column for each department. In the same way, in a retail store, from the slips that are made out by the salesmen, the amounts can be posted directly to the accounts in the ledger and the total of these credited to the merchandise account of the various departments which have made the sales.

How Notes Are Used as a Means of Payment

If a note is received in payment of an account, the account is credited and the amount of the note is charged to the bills receivable account. So a complete record of all notes received appears in the ledger. If a note is discounted through the bank, the bills receivable account in turn is credited with the full amount, the bank account is charged with the proceeds of the note, and the discount account is charged with the amount of the discount which the bank deducts. In the same manner, if a note is given in payment of any account, that account is charged with the amount of the note, and the bills payable account is credited with the amount of the note. The bills payable account will always show a complete record of all the notes which have been given. Whenever a note is paid, the amount of the payment is not charged to an indi-

vidual account, but to the bills payable, and the same amount is credited to the cash account, which pays the amount of the note. The difference between the credit and debit sides of the bills payable account will show the amount in notes outstanding, and the difference between the debit and the credit sides of the bills receivable account will show the amount of notes on hand on which cash has not been realized either by direct payment or by a resort to discounting.

Ordinarily the payroll account is handled as a total and entries do not appear on the books for the individuals to whom payment is made. This plan necessitates a time book or a payroll which will show the names of the employees, the amount of time put in by each, the rate at which the payment is made, and the total of the weekly or monthly payment, as the case may be. The payroll account in the ledger is charged with the full amount of this payroll and the bank account or the cash account, as the case may be, is credited with this amount.

Checks can be handled in much the same manner as the payroll. It is preferable, instead of posting from the stubs of the checks, to use a check register which contains the number of the check, the date, the name of the person to whom the check was issued, and properly ruled columns for the account to which the amount is to be charged. At any convenient time, as at the end of the week or at the end of the month, the total of the checks which have been issued can be credited to the bank account and the various amounts which are to be charged to the different departments can be charged to the corresponding accounts in the general ledger.

How the Profits of a Business Are Computed

At the end of the year, or oftener, a statement is made of the condition of the business. During the time elapsing since the last statement, certain amounts of goods have been bought to sell, and these have been charged to the merchandise account. Amounts have been paid for fixtures, which, while not

of their original value, still have some value as an asset. If the business started out with a certain amount of merchandise on hand at the beginning of the year, and this shows in the merchandise account on the debit side as being on hand, it is necessary before a statement can be made to know the value of the stock remaining on hand at the end of the year. In order to find what my gross profits have been, I must add to what I had at the beginning of the year the amounts of all the goods which have been purchased since that time, and this amount must be subtracted from the total amount of my sales plus all that I still have on hand. The difference between these two amounts will be the gross profits of my business. The net profit for the year will be the difference between this gross profit and my various expenses, such as salary, labor, rent, interest, discount and smaller items.

In addition, a certain amount must be figured as depreciation of the stock and fixtures on hand. This depreciation will vary in different forms of business according to the life of the fixtures and the kind of stock which is handled. Besides this, there are to be subtracted certain accounts which are owed by other people to me and which have been running for so long a time that it has been decided there is no chance for collecting the money. These accounts are considered a loss and are charged to the debit side of the profit and loss account.

What Profit and Loss Represent

The profit and loss account, in a set of books, represents either the excess of assets over liabilities or the excess of liabilities over assets, as the case may be. At the close of the year, when the books are "closed up," to use the common expression, and the profits figured for the year, the expense accounts and the merchandise accounts are balanced by making profit and loss account entries in the journal for each transfer. For instance, my rent account may show that \$1,250.00 has been paid in rent. This is an expense and is to be deducted from my gross profit. An entry is made in the journal by

which this amount is charged to my profit and loss account and is credited to the rent account. This process balances the rent account for the year and removes the account from the statement. Following the same principle, interest and discount are balanced and charged to profit and loss, and the same treatment is given all the other expense accounts of any nature or any account which has decreased my profit.

The merchandise account is balanced in a similar manner. In modern establishments it is not necessary to take an inventory, because a continuous stock record of every article is kept, showing at all times the amount on hand. This stock account is balanced, the total valuation of the stock is credited to the merchandise account, and the same amount is carried forward on the debit side of the new merchandise account, as the total amount of stock on hand to begin the business of the succeeding year. The merchandise account will therefore show on its debit side the gross profit, which, in turn, is credited to the profit and loss account. This will close the merchandise account for the year and give us the gross profit on the credit side of the profit and loss account.

What the Final Statement Shows

When the books are thus closed, after the merchandise and all expense accounts have been balanced off, there will appear in the profit and loss account a complete statement of the results of the year's business: on the credit side the gross profit; and on the debit side, all expenses of every nature and every item which can in any way diminish the gross profit. The difference, then, between the credit side and the debit side of the profit and loss account, will show either the net profit or the net loss, as the case may be.

If the amount of the net profits as shown by the balance of the profit and loss account, were in the treasury of the company in actual cash, the whole sum might be apportioned among the stockholders in dividends, but ordinarily it is not possible to do this for the following reason: Some of the

goods which have been sold were taken by credit customers, who did not pay cash and may not have settled even by the end of the year. Perhaps some of these accounts cannot be collected, or there may be expense attached to the collection. For this reason and to cover the possibility of other losses during the coming year, a certain proportion of the profits is ordinarily set aside as a surplus account. The difference between this surplus and the net profits is the amount distributed in dividends.

It is fully realized that such a condensed work as this cannot cover the field of bookkeeping completely, but its main object is accomplished if it only shows that bookkeeping depends upon a few commonsense principles. A set of books at any time should show the exact conditions of the business, and it should be possible for any one familiar with bookkeeping methods to understand every entry which has been made.

CHAPTER V

LOOSE LEAF AND CARD LEDGERS

The greatest revolution which modern business methods have effected in the accounting department is the introduction of loose-leaf and card index ledgers to supersede bound volumes. These two varieties of ledgers, although differing in their mechanical details, are identical in their principle, the use of loose sheets instead of pages in a bound volume, with one full sheet set apart for each account.

In a loose-leaf ledger, these sheets are perforated at the left edge and filed over binding posts in a ledger cover. This permits perfect alphabetical arrangement, as new accounts are inserted by the addition of new pages; and it also enables the bookkeeper to rearrange his book at any time according to any system of classification that may seem desirable.

The card index ledger is based on the same principle, but the individual cards, each of which represents one account, are filed in a vertical filing case instead of being collected in book form.

These forms of ledger records are now very generally superseding bound volumes, which proved unsatisfactory in many respects. In its varying modifications the removable sheet system has found ready acceptance in the United States and Canada, and English business houses were not slow to adopt this principle of classification in accounting. All the important countries of continental Europe have welcomed it, as well as the less developed countries where American and English influence is dominant, Australia, New Zealand, South Africa, India, Burmah, the West Indies, Hawaii, Japan, the Philippines and China.

The merits of the new method which have won for it such universal acceptance may be better understood by enumerat

ing first some of the greatest disadvantages which have appeared in the use of the old style ledger.

The Disadvantages Inherent in Bound Records

Its first point of inconvenience was that it did not permit of the opening of accounts in any logical order. Even if some definite scheme of arrangement were followed in writing the first accounts, it would soon become necessary to add new ones, for which no room had been left in the place where they logically belonged. They were therefore of necessity placed in some other part of the volume. So a separate index of names was made necessary in order that a particular account might be located.

Gradually the ledger filled up. As an account was closed it was ruled off, and perhaps another was started on the same page a little lower down. The pages filled up unevenly and some spaces would overrun, while others remained only partially filled. Those which outgrew the space provided for them were abandoned and their totals transferred to a page in some other part of the volume. This required constant transferring from page to page and finally to a larger book or books, and the final result was that it was necessary to keep a number of books at hand for possible reference. Confusion was caused and often mistakes were made by the bookkeeper because he passed over an open account which came between two closed ones and appeared, itself, to be closed.

But the greatest objection of all was that when the ledger became too full to be handled readily, all the balances had to be transferred to a new ledger. This was called "opening a new set of books," the bane of bookkeepers, because so great an amount of labor had to be done in a short time. It was necessary to write the names at the top of the new pages, to carry forward the balances, and to make an entirely new index. This process was repeated over and over again.

A final objection to the bound books was that one person working upon a certain set of volumes monopolized important

records to the exclusion of all others and perhaps delayed the progress of the work in the office. With time at a premium in modern business houses, this waste in idle labor can not be tolerated.

Operating Loose Leaf and Card Ledgers

With either a card or a loose-leaf ledger, this transferring need never take place. In the loose-leaf ledger, as soon as the page assigned to a particular account is filled, it can be taken out, and when a new page is needed, it can be inserted. The book itself is indexed in any way that may be necessary, either by states and towns or alphabetically. Heavy index cards with projecting tabs are used as guides so that any account is readily located.

New pages can be inserted at any place for new accounts, and when the binder is full, a part can easily be transferred to another binder without disturbing the records or arrangement. As the finished material is continually being removed, it makes room for the new. It is possible in this way to separate the balanced accounts from those that are still open. Information that is recorded on any page need never be re-written; it is transferred from index to index until it is no longer of use, when it can be removed to the file where balanced accounts are stored. The cost of maintenance is less than the cost of the bound volumes because the only additional outlay after the original covers are bought is for new sheets and new indexes, which are purchased only as the occasion demands. Another economical feature is that the labor may be so subdivided that numerous minor details may be performed by inexpensive clerical help and the result of their work be made available for others.

A card ledger is operated on the same principle. Instead of the pages of a book, cards are used and filed on edge in a drawer between guides with projecting tabs indexed in any way that the business may require, either alphabetically or geographically. New cards may be inserted as new ac-

counts are opened, and as an account is balanced, the card for the account can be removed to a drawer containing only balanced accounts. Posting can be done quickly from the cash and order book, as only live accounts are kept in the ledger and no dead records or ponderous volumes of useless figures need be handled by the accountants.

Advantages of a Card Ledger

The card ledger, like the loose-leaf ledger, is self indexed, and makes a separate name index entirely unnecessary. It allows unlimited expansion, because new cards can be inserted at any place, and if the cabinet is outgrown the cards can be transferred to a larger one, or if it is made in sectional form, as is customary now, new drawers can be added. As in the loose-leaf ledger, any finished matter can be transferred to storage files. There is never the necessity of rewriting information which is once placed upon a card. Its cost of maintenance, as in the loose-leaf ledger, depends wholly upon the growth of the business, and the only additional outlay is for new cards and new drawers, as the requirements may demand. Any number of people can work at the same time on a card ledger, because the cards which are its units can easily be distributed among them.

Whether to install a card ledger or a loose-leaf ledger system depends entirely upon the class of work that is to be done. Both will be found in use in large business houses throughout the country, and where either has been installed because of its adaptability to peculiar needs, it will be found to give perfect satisfaction.

Briefly summarized, the advantages of a removable sheet or card index system for keeping ledger accounts are as follows:

First, each account is entirely independent of every other account, and may be closed up and removed, or, on the other hand, may be greatly expanded without interfering with the accounts which just precede or follow it.

Second, the ledger contains only live accounts, as every card or sheet which has been closed up is at once transferred to a storage file. This avoids handling over constantly an enormous quantity of useless material.

Third, it permits expansion of the ledger or of individual accounts, so that the old records may be outgrown and the capacity of the system increased without discarding the previous accounts or duplicating labor.

Fourth, it permits the installation of any system of classification of accounts which may be particularly adapted to the needs of the business.

Fifth, it enables any number of clerks to work on the accounts at the same time without being in each other's way.

CHAPTER VI

THE HANDLING OF ORDERS

One phase of the revolution in methods of accounting has been an entire change in the manner of handling orders. In the order department, as much as any other division of the business, economy in the use of time has been effected by new systems.

One of the greatest causes of delay in the old time method was the duplication of work occasioned by re-writing of records. It has been pointed out in an earlier chapter that the old idea of entering everything in the journal has been eliminated, because of the endeavor to avoid duplication of work as much as possible. To accomplish the same end, when an order is received, a number of copies are made out at one writing, as many as may be required for the recording and filling of the order. This is done by the use of carbon sheets, which reproduce all of the entries of the original order on as many duplicate sheets as are needed. The number of copies usually necessary and the purposes for which they are made, will be discussed later in this chapter.

Sales orders, as received by the house, may be divided into three classes: First, orders that are brought by the customer directly to the house; second, those that are sent in by salesmen and solicitors; and third, orders received through the mails from individuals or firms.

Salesmen formerly made out their orders on any sort of hotel paper that happened to be handy, but the salesman of today is supplied with an order book which contains blanks made in triplicate (Form 12). The original he sends to the house, the duplicate he gives to his customer, and the third copy he keeps as his own record of the sales. As these have all been made out at one writing, there cannot be any mis-

takes such as might occur in copying, and there is the additional advantage that time has been saved.

The blanks are ruled to contain: First, general information regarding the sales, the customer's name and address, the name of the salesman, the date when shipment is desired, and any instructions as to routing and billing which may have been agreed upon. The specific details of the order follow in vertical columns, which tell the quantities ordered, the stock numbers and descriptions, and the list and net prices.

If the salesman makes out his order on this form, the data is in such shape that it does not require reclassification when it reaches the office. The same form is used for orders which are brought directly to the office and those which arrive by mail. In the former case, the office attendant takes down the details of the order on a pad similar to that used by the salesman; while in the case of mail orders, special blanks with the uniform ruling have been previously supplied to all regular mail order customers.

All orders from any source, therefore, reach the order department on uniform blanks. This one fact goes a long way to simplify and expedite the filling of orders, particularly in large establishments where hundreds of them are handled in a single day.

The Steps in Filling a Stock Order

The first step in the routine of filling an order is to secure the approval of the credit department. At this point the value of uniformity in the blanks begins to be apparent. All the orders are sent, as soon as received, to the credit manager, who looks through them swiftly with a practiced eye and notes on each the decision appropriate to the case, based on his knowledge of the various customers' accounts, an initial of approval for safe accounts, a requirement for prompt payment on the blanks of customers whose credit is uncertain; a C. O. D. mark on the orders of those whose credit is poor. The blanks then go back to the order department, where

Form 12: A style of order blank commonly used by salesmen is here shown. The use of these sheets gives uniformity to orders as to both information and size, and thus greatly facilitates the handling and accounting of sales.

preparations are begun at once for the actual filling of the order.

At this time, the duplicate copies of the order mentioned at the beginning of this chapter are made. The value of the duplication will become apparent if we enumerate the disadvantages incurred under the old system of passing from hand to hand the original order blank, as filled out by the salesman. It was necessary for this sheet to go to the credit department, then return to the order department, then be passed around among the various departments which were to contribute part of the stock. Then the much-handled sheet went to the shipping room, and finally reached the accounting department.

Few houses now use this method of handling an order. There are two objections to it. In the first place, if the order is lost in any department, there is no trace whatever of it to show where it was lost or what information it contained. To secure a copy from the salesman or customer causes delay and probably dissatisfaction. Another serious objection is that in passing through the several departments, this one copy becomes so soiled and blurred that mistakes occur in reading and filling the specifications. In any case, it is apparent that only one department can be working on it at a time, and delay is inevitable.

Numerous Purposes Served by Duplicate Orders

So it has been found decidedly profitable to make duplicate working copies of such an order as soon as it has passed through the hands of the credit manager and been approved by him. This duplicating process is the duty of the order department.

The actual number of copies needed will vary somewhat with the character of the business, but in general, the following list covers the practical needs of the ordinary establishment:

I. The office copy (Form 13), which does not go out of the office, but forms the permanent record of the order de-

OFFICE COPY		THEIR NO. _____	
CUSTOMER _____		OUR NO. _____	
ADDRESS _____		REGISTER NO. _____	
QUANTITY ORDERED		CREDIT EX. BY _____	
CHECK ON CORRECTION		DESCRIPTION	
		PRICE	EXTENSION
ACKNOWLEDGMENT OF ORDER			
TO _____		YOUR NO. _____	
		OUR NO. _____	
		REGISTER NO. _____	
WE ACKNOWLEDGE RECEIPT OF YOUR ORDER FOR:			
QUANTITY ORDERED	QUANTITY GOT OUT	DESCRIPTION	PRICE EXTENSION
DEPARTMENT ORDER STOCK ROOM COPY			
CUSTOMER _____		ORDER NO. _____	
ADDRESS _____		GOT OUT BY _____	
CHECKED BY _____			
QUANTITY WANTED	QUANTITY GOT OUT	ARTICLES	PRICE MEMO
SALES DEPARTMENT COPY			
CUSTOMER _____		ORDER NO. _____	
ADDRESS _____		GOT OUT BY _____	
CHECKED BY _____			
QUANTITY WANTED	QUANTITY GOT OUT	ARTICLES	PRICE MEMO

Forms 13, 14, 15 and 16 (reading downward): Four copies of a sales order, which may be assigned simultaneously to four different uses. This plan minimizes delay and the danger of mutilated or lost orders

partment, to which reference can instantly be made in case of misunderstanding or error anywhere along the line.

II. The acknowledgment of the order (Form 14), which is a complete transcription of the specifications received from the salesman or customer. This is sent at once to the customer as a check upon the accuracy of the order, and to enable him to correct any errors of interpretation which may have crept in. This saves delay in case of error and exceeds in accuracy a separate acknowledgment.

III. The copy which is to go to the warehouse, stock room or factory, as instructions for preparing the consignment (Form 15). In a wholesale house this will require merely taking the goods out of stock; but for some factory orders it will be necessary to make special goods on the basis of this. When several departments of the business are to assist in filling one order, each furnishing a share of the items, this copy may be duplicated for each department interested.

IV. A copy for the files of the sales department (Form 16), to be used as the basis of a later canvass of this customer. To talk intelligently to a customer, the salesman must have knowledge of the previous orders received from him, their date, amount, description of the lines carried, and so on.

V. The charge sheet (Form 17), for the use of the accounting department in making up its ledger entries.

VI. The invoice (Form 18), which is mailed to the customer with a statement of the terms of payment when the goods are shipped.

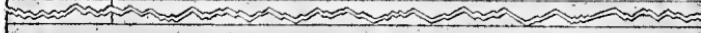
VII. The shipping clerk's copy (Form 19), which is a complete list of all the goods ordered, to guide the shipping clerk in making up his consignment. By referring to it he is able to tell when the goods from the various departments have all reached him, and his check on the blank is an additional guarantee of correctness.

VIII. The shipping label (Form 20), to be pasted on the package by the shipping clerk. This copy may, in some cases, be increased to two or three in order, that the extra sheets may be signed as receipts (Form 21), by a representative of the transportation companies. One of these receipts is preserved by the shipping clerk until word has come that the shipment reached its destination safely, and the duplicate is sent with the invoice to the customer.

How Shortages in Shipments Are Handled

Provision must be made in every order system for taking care of stock shortages or articles delayed in manufacture.

When shipment of an order is requested or promised for a certain date, and a small portion of the order cannot be made ready or secured by that time, it would not be good policy to hold back the entire shipment and disappoint the customer for

CHARGE RECORD		LEDGER	
		REFERENCE	CREDITS BALANCE
CUSTOMER: _____		S _____	S _____
ADDRESS: _____		S _____	S _____
S _____		S _____	
QUANTITY ORDERED	QUANTITY SHIPPED	DESCRIPTION	PRICE EXTENSION TOTAL
INVOICE			
DATE OF INVOICE: 190		DATE OF ORDER: 190	
SOLD TO: _____		YOUR NO. _____	
TOWN: _____		OUR NO. _____	
STATE: _____		INVOICE NO. _____	
VIA: _____		THRU: _____	
CAR NO. _____			
QUANTITY ORDERED	QUANTITY	DESCRIPTION	PRICE EXTENSION TOTAL
SHIPPING DEPT. COPY STOCK ROOM COPY			
CUSTOMER: _____		ORDER NO. _____	
ADDRESS: _____		GOT OUT BY: _____	
		CHECKED BY: _____	
QUANTITY WANTED	QUANTITY GOT PUT	ARTICLES	PRICE MEMO
SHIPPING INSTRUCTIONS			
TO: _____			
TOWN: _____			
STATE: _____			
VIA: _____			
FREIGHT RECEIPT			
RECEIVED OF: _____		DATE: _____	
IN APPARENT GOOD ORDER, THE ITEMS NAMED BELOW FOR CONSIGNMENT WITHOUT DELAY			
TO: _____			
ADDRESS: _____		VIA: _____	
CASES: _____		SAID TO CONTAIN: _____	
			
PER: _____		R.Y. CO. _____	
		AGT. _____	

Forms 17, 18, 19, 20 and 21 (reading downward): Five complete or partial copies of the same sales order shown in Forms 13-16; each devoted to a specific purpose

the sake of those few items. The cause of the delay may be entirely outside of the shipper's power to prevent, but unless he sends forward as much of the order as he can, he lays himself liable to his customer's displeasure. So it is universally the custom to send the available goods on the date promised and make later shipments of goods not on hand.

This custom requires some scheme of checking the delayed items on the house orders, separating them for future attention, and notifying the customer of the delay. The first step may be taken by any one of the departments contributing to the order or may be left to the shipping department. In the former case, the department clerks, as they forward to the shipping department their portion of the order, check on their duplicate order sheet, which accompanies the articles, as many items as may be lacking. The shipping clerk, after checking over these various lists to insure their correctness forwards them to the order department, where note is taken of the shortage.

The alternative method is for the shipping clerk to check on his copy of the order (Form 19), the various items as they arrive from the different departments. When ready to ship the goods, he indicates on the blank the shortages, and returns it to the order department. The order clerk then writes to the customer explaining the cause of the delay, and stating the date on which it is probable the delayed articles can be shipped. At the same time he makes out a new order blank for those articles, filling out duplicates as in the case of the original order. This is filed ahead in a follow-up file to the day when the goods can be shipped.

On his first invoice the customer receives credit for all goods that are short. Credit memoranda are similar in form to invoices, but are generally on paper of a different color.

Methods of Billing Out Accounts

Similar in principle to the multiple order sheets are the statement sheets containing the monthly accounts of custo-

M		SALES MANAGER'S COPY	
		LEDGER SHEET	
		NEW YORK	
M		STATEMENT	
		NEW YORK	
M		LEDGER NO.	
IN ACCOUNT WITH			
HAMILTON & CO.			
DEALERS IN WHOLESALE DRY GOODS			
TERMS			
DATE	DESCRIPTION	DEBITS	CREDITS
	ACCOUNT RENDERED		

Form 22: A triplicate blank used for issuing and recording the statement of a customer's standing with a wholesale firm in the city of New York

mers; and these, like the copies of the order, are also to very good advantage made out in duplicate or triplicate on a typewriter or billing machine.

The process by which the billing system is operated is as follows:

Sending an invoice at the time of shipment of goods does not always mean that payment will be made at once, or that when the remittance arrives it will cover only this one shipment. In fact, when firms do considerable business with each other, it is customary to render bills periodically, disregarding the individual invoices, and payments are made "on account" instead of for a particular shipment. Thus a shipment, once known to have been sent or received, may lose its identity in the general account, on which round sums may be paid at intervals.

It will be remembered that one copy of the original order was sent to the accounting department. This was filed with

others bearing the same date in a loose leaf binder, and the whole became the accounting department's record of the day's sales.

On the following day, these sheets are turned over to the billing clerk, who has in his file a statement blank for each regular customer, filed either alphabetically or according to the customer's numbers. Finding an invoice among the daily sales records for a certain customer, he hunts out that customer's statement and inserting it in his billing machine, makes entry of the new date and footing.

The Final Preparation of a Statement

The statement usually comprises two or three sheets (Form 22), that is an original and one or more carbon copies. The original is a bill for the customer, the second copy is the ledger record which is filed at the end of the month by the accounting department as the ledger account of the customer, and the third copy, when one is made, is for the sales manager's use.

Credits due the customer, either for returned goods, for payments on account or for shortages in shipment, are entered in the same way as debits, except that the entry is made in red ink when a two-color machine is used.

The charge sheets are arranged in alphabetical order and listed on a record of charges (Form 23). The total of this

RECORD OF CHARGES BILLED				
DATE	ORDER NO.	NAME	ADDRESS	AMOUNT

Form 23: On this sheet are assembled the various amounts for which shipments and bills have been issued during the day. This process gives a summary of the day's business

sheet, which must include all amounts billed for the day, is compared with the total of the orders due to be shipped, and if the amounts agree, the accuracy of the billing clerk's work is proved.

The statements are kept in the file until the close of the month, and as additions are made to them as occasion requires, they constitute a perpetual record of the customer's account. Other advantages of the system are that it is possible to send out statements without delay at the end of the month, and that much labor is saved the accounting department by using the carbon copy of the statement as the ledger account.

CHAPTER VII

CREDITS

Over ninety per cent of all business done in this country is on a credit basis. Credit facilitates sales, the filling of orders and the transaction of business in general. It permits business to be carried on in greater volume than if every sale were a purely cash transaction. The retail merchant gives credit to his customers and a portion of his capital is therefore tied up in book accounts. He buys his stock of goods from the wholesale house and obtains thirty or sixty days' time for payment, thus enabling him to turn part of the stock into cash before payment is due. The wholesaler calls upon the manufacturer for an extension of time, and the manufacturer in turn obtains credit when he buys his raw material. Hence, it is seen that the whole fabric of business is more or less made up of credit transactions.

While the extension of credit is to a certain extent merely a matter of good faith, a belief that the customer will pay at the time agreed upon, nevertheless the credit system is so surrounded by safeguards, that when a business is protected by a competent credit department, only a small percentage of loss results from failure to collect accounts. The loss in most business houses is much less than one per cent of the total sales.

It will readily be seen that the credit department of a business organization is very closely involved with the matter of collections. In fact, the collecting of accounts is usually entirely in the charge of the credit department. The "credit man" should know at all times just how the account of each customer stands, so that on the basis of the customer's promptness in paying he can be guided in granting further credit or in changing the customer's credit limit.

The credit department is very closely identified with the sales department of a business. Every credit order, as it is received, must pass first to the credit department and receive the approval of the manager before it can be filled. The total volume of business done, therefore, is to a great extent determined by the intelligent action of the credit department in passing upon orders secured by the selling force.

The credit man must not only strive to save his house from loss, but he must pass favorably on just as many orders as he consistently can. The test of his ability is not the number of orders he can refuse, but the year's percentage of losses to the total volume of business done.

The Possible Sources of Credit Information

The general source of information for a credit man consists of the reports of the regular mercantile agencies: Dun and Bradstreet, and others which have since grown up. These agencies issue at stated periods a book which contains the names of all persons engaged in business, by states and towns, their estimated worth and the promptness with which they pay their bills. These reports are, of course, good only for general information and would not be a conclusive guide for a credit man in passing upon a large order, especially if the concern was small, or the report was not of the best. Consequently, other facilities are necessary for furnishing special reports on short notice. Much information is gained through reporters in branch offices of the agencies, which are located in nearly every large city of the country. These special reports give the condition of any firm which is asking for credit, its worth, its indebtedness, the amount of its available assets, the personnel of the men owning and directing it, and any other information which can be quickly obtained.

Question may arise as to how these facts can be correctly obtained except from the man himself who seeks the credit. It is from the man himself that they are secured. Any person who has asked for credit is exceedingly desirous

that his credit rating should be as high as possible, and is willing to do everything in his power to secure a favorable report from the credit agency. He is restrained, however, from falsifying his statement by the fact that if he does make a statement which is untrue in regard to his condition, knowing that this is to be used by concerns in determining how much credit shall be given, he is receiving money under false pretenses, and is criminally liable.

Information Sources Most Commonly Used

Regular and special agency reports are the most common means of obtaining credit information, though banks are also very generally used.

There are also credit associations of lawyers in different cities throughout the country who act as representatives of agencies or of law firms doing a collection business. In general, these associations are not in a position to gain as accurate information as are the mercantile agencies, and as the collection business is usually conducted as the least important branch of their regular legal practice, there is no particular inducement for them to look into a matter very closely.

There are also in nearly every city one or more local agencies. These are probably as accurate as any agencies can be if they are properly conducted. They do not consider so much the money worth of the person who is asking for credit, or his ability to pay, as his general practice in paying. Ordinarily these agencies are made up of the credit men of the large firms in their own city or locality. They furnish to a central office all the information they can gain regarding every person who asks for credit, thus enabling the central office to advise association members promptly on ratings.

Safeguarding Credit Accounts by Insurance

Credit insurance as a safeguard against poor credits is an innovation in credit making and a comparatively new field

of insurance. It is based on the general principles of fire and life insurance, that the unexpected large loss can be guarded against by the accumulation of small accounts paid from time to time by a great number of contributors. In life insurance the probability of death can be determined with remarkable accuracy, and fire insurance companies can determine their risk closely enough to make that form of insurance advantageous to the individual and safe for themselves, giving security against unexpected loss at a low cost. But as yet, credit insurance companies have not provided so sound a business proposition. The first thing determined is the normal loss by poor credits. Insurance is then furnished for losses over this amount, but only for certain classes of risks covered by the policy, and only on credits extended to parties which the insurance company decides are worthy of credit.

The objection to this class of insurance is that the policy is too general in form and cannot be made sufficiently pliable to suit the varying needs of each particular business. The fixed principles of fire, life and accident insurance cannot be applied to the ever varying conditions of the broad field of

INDIVIDUAL NUMBER	
NAME _____	
ADDRESS _____	
ACCOUNT OPENED _____	
RATING _____	
REMARKS _____	
REPORTS	

Form 24: A filing folder is here shown, designed to contain all the information in hand touching the reliability of the firm whose name and general standing is noted under the printed heads on the cover

credits. Usually the well informed credit man, trained in the particular business in which he is engaged, is the best insurance against poor credits.

Classifying and Indexing Credit Information

Systems for handling credit information vary, of course, in different lines of business, but in general the first requisite of a successful system is a file to contain all the information received regarding every individual or company. One of the best and simplest ways of handling this is to place all the information relative to one person or concern in a folder (Form 24), bearing a distinguishing number and the name, address and other particulars of the subject of the information. These folders are then filed in numerical order in a vertical file.

Another essential part of a credit department's equipment is a card index containing in alphabetical order the names of all who apply for credit. A card is made out (Form 25) for each person or firm, containing the name and address, the limit of credit determined by the credit man, the firm's capital, amount of stock carried, date of establishment, amount of business done annually, insurance carried, rating in Dun or Bradstreet, and any other information that has been obtained by special reports from banks and agencies. This information will, of course, be added to from time to time in order that the card may be a summary of all facts in the possession of the house. There also appears in the upper right hand corner of this card an index number corresponding to the number on the folder in which all the information relative to this particular firm or individual is kept.

Establishing a Customer's Credit Limit

When a customer's order is passed through for credit, the credit manager indicates on the face of it the limit of credit he has fixed. He may decide, for instance, that it is safe to ex-

NAME	FOLDER NO.	
ADDRESS	CREDIT LIMIT	
BUSINESS		
APPLICATION FILED _____ GRANTED _____		
REFERENCES _____		
CAPITAL	STOCK CARRIED	ANNUAL BUSINESS
INSURANCE	ESTABLISHED	RATING
SPECIAL REPORTS _____		

Form 25: This file card contains a working knowledge of a certain firm's standing; the dealer's decision regarding accounts with it; and a reference to the folder (Form 24) in which the details of the matter are filed

tend credit to the customer up to five hundred dollars. It is a generally recognized fact among credit men that people have a tendency to keep their payment up to a certain point. Firms as well as individuals, as soon as they have gone beyond their ability to pay, become careless in regard to the largest bills and turn their attention to paying others that are not so formidable. Consequently, a firm which may be safe for a bill of five hundred dollars may be a poor risk if the credit is extended to one thousand dollars. This limit of credit, whatever it may be, the bookkeeper enters on his ledger, and if it is passed at any time, he at once notifies the credit department.

The question naturally arises: What good will it do to notify the credit manager after the limit of credit has been passed? Why should not the credit manager know previously that the danger line has been almost reached, and that another order of any size will take it past the limit? Under ordinary circumstances the limit has been fixed so conservatively that on an average order the excess cannot cause much danger, while orders of unusual size attract the attention of the credit

manager at once and are not approved without investigation. If, for example, the limit of credit is five hundred dollars and an order for one hundred dollars comes in, this cannot go very much beyond the limit of credit, probably not more than seventy-five dollars. If the customer has a credit limit of two hundred dollars, and an order for fifty dollars comes in, he cannot go very much beyond his limit of credit. A credit man would never pass a very large order without finding out how the account stood, but he would be safe in passing nearly all small orders. The only time an order need be held up is when it is from a new customer concerning whom the necessary credit information has to be procured, or from customers whose accounts are so questionable that they must be examined before credit can be further extended.

The method of handling credits described above is suitable for a wholesale house, where all orders can be passed to the credit department before being filed, but in the case of a retail concern credit must be determined more quickly, as very often the purchaser wishes to take with him the goods which he has bought.

How Retail Credit is First Obtained

In the first place, a large city retail store is very conservative in granting credit. Many new applicants who appear to be worthy of the accommodation, can be looked up very quickly through the central bureau of information previously referred to. In the case of an individual, however, who desires credit, but has no personal rating with any agency, several precautions are necessary. An application blank (Form 26) is made out, giving the applicant's name and address, his place of employment, his position in the business and his references. From these particulars and by looking up the references given, the credit man is able to determine whether the individual desiring credit is a safe risk. If he is proved favorably, a limit of credit is placed upon his account, and the bookkeeper is given the information.

CREDIT APPLICATION BLANK	
DATE	
NAME	
ADDRESS	
BUSINESS	
BUSINESS ADDRESS	
NAME OF FIRM OR EMPLOYER	
INCOME	
PROPERTY	
REFERENCES	
REMARKS	

Form 26: Blank card to be filled out by the applicant for credit at the retail counter. When this account is approved, the name goes on a list for quick and convenient reference in the future

As it would not be practicable for all orders to pass to the credit department and thus annoy the purchaser by the delay, every department in the store has a list of those who are entitled to credit and those to whom further credit is to be refused. A retail credit system, therefore, is essentially different from that of a wholesale house only in this respect, that besides the information in the credit department, it is necessary to have a list of approved accounts in every department, that the head of the department himself may say whether credit shall be given.

The credit department in any institution is one of the most important of all the departments of business. It must at all times work in close touch with the sales department, because through salesmen much valuable credit information can be obtained, and because the salesman must understand that it is to their interest in the end to sell only to those who will meet their bills promptly. At the same time, the credit department, although it has to watch carefully not to pass any bad accounts, must realize that every order which is refused is deducted from the sales account. The way to overcome a nat-

ural tendency toward too great an extension of credit, is to follow collections closely. This is the principal reason why the collection work should be in the hands of the credit department. Moreover, as this department investigates before granting credits, it is in the best position to know how an account should be handled and what means can be taken to collect it without offending the customer and losing future business. In many ways, therefore, the two departments of credit and collections, when operated together, profit each by the other's knowledge, opinions and experience. Separate operation, on the other hand, would prove especially expensive here in case of misunderstanding or the feud which often exists between adjoining divisions of an enterprise. These points will be more fully discussed in the next chapter.

CHAPTER VIII

COLLECTIONS

The second function of the credit department, that of making collections, is of no less importance than the making of credits, for this reason: a well regulated collection department will do more to avoid bad accounts and reduce the percentage of loss than the best credit department. Not only does a good collecting force save the doubtful accounts, but a poor one loses many a sale. The credit manager who knows that his collections are closely followed makes his terms a little more liberal, accepts more orders, and will in the end draw more trade and do a better business than one who has not that assurance.

Moreover, a customer who pays his account promptly will come back for a new purchase sooner than one who is allowed to delay his payments. Slow payment always causes friction between the house and the purchaser. Each account should be carefully watched, no delay in payments should be allowed without a good reason, and the circumstances and movements of customers should be carefully followed. It is the regular and permanent customer who makes a profit for the house, and he is the one with whom the house has no trouble. Customers can be trained to pay promptly, just as they can be permitted by carelessness in collections to become dilatory. The longer a payment is put off, the heavier the burden becomes; the older the account, the harder it is to collect.

In making collections, the greatest tact must be shown. The credit manager himself must be a good collector, which means that he must always have a thorough knowledge of his customers and their affairs and must exercise the important faculty of good judgment. If he knows the peculiari-

ties of a customer, he can best determine the general policy to be pursued in collecting that customer's account.

Wholesale and Retail Methods of Collection

Methods of collecting differ, of course, in a wholesale and a retail business. In a wholesale business, it is not the most important thing to collect money long after it is due, but to educate the customer to pay his bills at maturity. An invoice containing the terms of payment is sent out with each shipment. If bills are not paid before maturity, there is no better way of educating customers than by rendering statements on the very day their bills mature, notifying them of the fact and advising them that unless they remit or ask some other form of settlement, a draft will be made upon them within a certain definite time.

The best way to secure prompt payment is to send statements promptly and show that a remittance is expected. The best time to remind a man of his debt is the very day his account matures. In case no reply is received, the collection department should make its draft on the day fixed. It is not good business policy to consider a customer's feelings too closely in this respect. A collection department should always do as it says it will, and let the customer know the policy of the house from its constant and regular operation. In case a customer objects, it is easy enough to adjust the machinery of the collection department to fit the particular case and carry out any reasonable method of collection that may be suggested.

The Sight Draft as a Collector

The custom of making sight drafts, if consistently followed, is usually not offensive to a customer. Many small firms do not keep any ledger account of the goods that they purchase. They check up the goods received from the invoice, and when the statement comes, check it also with the invoice. If the manner of collection by the seller has always been

consistent, when the statement contains a notice that a draft will be made within a certain time, they either remit before that time, or prepare to honor the draft when it is presented.

Collecting by sight draft is not such an infallible method as formerly, when to dishonor one was a confession of inability to pay. If a draft is refused, the handling of the account from that time will depend on the nature of the business and the customer involved. Great conservatism should be practiced in the policy of granting extensions. Good and sufficient reasons, personal or local, should be demanded from the debtor to account for delay in payments, before extensions are granted, and a thorough knowledge of his condition should be sought. Sharp and quick action is necessary when a debtor fails to pay his account or to give satisfactory reasons for his delay. The wise credit manager will never take peremptory action against a man who tells the truth, but will always do his best to arrange a satisfactory settlement. In all its efforts, the collection department should never give offense. Only as a last resort, when everything else has failed, should the account be turned over to an attorney, for a customer will rarely come back to trade with a house that has sued him.

Personality of Customers an Important Factor

In a retail business, the personal characteristics of the person to whom credit has long been extended must be carefully considered, for there is more liability of offending and losing a customer here than in a wholesale business. The tactful collection department of a retail house will make the customer believe that he is paying when he pleases, but will make this time coincide with the time when the house wants him to pay. The wishes of each individual customer must, to a certain extent, be observed, and the mistake of being too insistent may lose an account. But it must always be remembered that sharp collections, more than any other factor, reduce the percentage of loss and the expense of

running a business and increase the sales. As the age of a bill increases, the chances of collecting it decrease. Repeated attempts at collection often irritate a customer and make him more prone to put off payment. The added expense for slow collections comes in three ways: first in the time and money actually spent by the collection department; second, in the much greater amount of capital that is necessary for the carrying of overdue accounts; and third, in the loss of business, because often a customer having a large bill overdue at one store, will transfer his patronage to another establishment for fear of being refused further credit, or because of a disinclination to increase his account.

The method of collections will vary in different businesses, for some forms of business are handled on so close a margin that collections must be made promptly, to guard every small profit. There is also to be taken into consideration the fact that retail stores send statements only at regular intervals, as on the first of the month. Wholesale houses, as a rule, sell their goods on a certain definite credit basis, for instance, thirty, sixty, or ninety days, and collect for each invoice or bill of goods when it is due, regardless of any other charges which there may be against the customer at the time. These conditions, therefore, will have to be taken into consideration in designing a collection system for any business.

Prompt Billing the First Requisite

The first requisite of a good collection department is an accurate billing system, by which all bills will be sent promptly and an adequate record of them in the form of duplicate copies, be kept in the office. These features are prominent in the billing system which has already been described in Chapter VI. The principles outlined there may be applied with equal advantage in either a wholesale or a retail business. The only difference is that a retail store will include in its statement all of the small items which have been bought during a definite period, generally a month,

while the wholesale house generally makes out a statement for each separate invoice.

When a statement is completed in the accounting department, it becomes the duty of the collection department to see that it is promptly paid. In a retail establishment the general practice is to allow about a month for the payment of bills. This will vary, however, in accordance with the policy of the house, as some firms allow much more latitude than others.

A large department store which has followed very successfully a policy of making prompt collections arranges its collection schedule as follows:

All monthly statements are ready to send out on the first day of the following month, and are payable on the tenth. On the twentieth, if payment has not yet been made, a duplicate statement is sent, with a demand for immediate settlement. This process is facilitated by the fact that the office copies of the statements are kept in a separate file, and each customer's copy is removed as soon as his bill is paid. On the twentieth, therefore, all the sheets remaining in the file represent unpaid bills.

If no response to the second statement is received, the house sends out its staff of collectors, who are able, between the twenty-fifth and thirtieth of the month, by their personal efforts to bring in a good share of the indebtedness. At the end of the month all accounts remaining unpaid are shut off and the customer cannot get any more goods without arranging definitely for a settlement.

By using this strict method of collection and following it out to the letter, this particular house is able to collect every month 87 per cent of its accounts, and its capital, instead of being tied up on its books, can be turned back into the business to good effect. Customers do not care to have their accounts closed and their credit questioned. They do not, on the other hand, take offense at the rule, because they know that it reaches every customer. The collection shoe pinches

most often because a statement is taken to indicate suspicion of certain persons. To remedy this, let all understand that the firm uses the statement periodically and universally.

Collections in a Wholesale Establishment

In wholesale collections, a different plan must be pursued, as each invoice is billed separately and not at stated times. Consequently every invoice that is sent out is charged on the ledger. At the same time, something must be done to bring this to the attention of the collection department in case payment is not made. There are numerous devices for accomplishing this end. One is to make out a card (Form 27), giving the date of the invoice and the amount. This is filed ahead in a follow-up file under the date when settlement is expected. In case no payment has been made when this date arrives, this card brings the account to the attention of the collection department, another statement is made, and the card is filed ahead again. If no reply has been received, when the card comes up a second time, another statement is usually sent out, this time advising the debtor that unless

COLLECTION FILE									
CUSTOMER _____									
ADDRESS _____									
DATE OF INVOICE _____					DATE OF ORDER _____				
OUR NUMBER _____					THEIR ORDER NO. _____				
AMOUNT _____					TERMS _____				
DUE _____					DISCOUNTS _____				
STATEMENTS SENT.					PAYMENTS				
1	2	3							

Form 27: The filing card here shown serves the collector as a reminder in issuing statements. It is filed ahead periodically so that the account comes up regularly till settled.

payment is made within a certain number of days, a draft will be made for the amount.

Another simple method of keeping track of collections, if the card ledger is used, is to use cards which have the numbers from one to thirty-one printed along the top edge, and to indicate on each by the use of an adjustable clip the day collection should be made. The file will show just what accounts need attention each day and notation of all statements and correspondence can be made on the card.

A draft is simply an order on the debtor to pay to some other person, ordinarily a bank or an express company, the amount that is due. This is deposited for collection in the bank of the creditor, but is not credited to his account until the bank has made the collection. This bank forwards the draft to its correspondent in the town of the debtor. Failure to pay a just draft when it is due tends to injure the credit of the debtor both with the person who is making the collection and with the bank which has presented the draft.

This is a matter of importance to the debtor, as the bank is in his own city and perhaps is the very bank with which he is doing business. Banks charge a small fee, commonly termed exchange, proportionate to the size of the draft, for making this collection. In case a draft is refused and no explanation is given, most firms consider that any means to collect the account are from that time justifiable.

CHAPTER IX

TRAFFIC AND SHIPPING

The varied requirements of different classes of business enterprises make it difficult to define a standard of organization for a traffic and shipping department. Goods may be shipped by express or in small freight consignments, or in carload lots. In any case, speed, accuracy and economy are the important considerations, and the systematic and careful conduct of this department is most important to the success of the business.

The primary functions of the traffic and shipping department are to check, pack and route all out-shipments from the house. For this reason the cost of the department is chargeable to the sales division of the business, and the department head is frequently under the authority of the sales manager.

The traffic department not only has charge of the delivery of products to customers, however, but also concerns itself with in-freight shipments coming to the production division of the business. In this capacity it sees that the routeing is economical, and that the rating and charges as fixed by the carrier are correct.

Various causes have contributed to the present importance of the traffic department in business enterprises, the most prominent of which may well be mentioned. First comes the establishment of the Interstate Commerce Law, which places upon all manufacturers and merchants the burden of ascertaining for themselves the proper rates for transporting freight. In the second place, we find the tendency of all businesses to extend the limits of their sales territory, and the consequent need of equalizing the difference in freight charges between these and more favorably situated shipping

centers. The third cause is the universal demand for economy in the operation of all departments connected with any modern business enterprise.

Traffic Conditions Under New Commerce Laws

Before the Interstate Commerce Law was passed, the question of transportation was one of little difficulty to most merchants and manufacturers, for the reason that the small manufacturer received but one rate—a high local merchandise rate. The system of furnishing rates to the large shippers at that time was by method of rebates and special rates, effecting a differentiation between classes of shippers. Those producing a large amount of tonnage for the railroad were thought to be entitled to lower rates than those which produced less tonnage, on the well known and accepted theory of business that the purchaser of a large quantity is entitled to lower prices than the purchaser of a small quantity. In consequence of this, there was no obligation and little or no incentive on the part of the ordinary merchant to make a study of the freight question. If he was a small shipper, he was obliged to accept the rates put into effect by the railroads; and if he shipped large quantities of freight, the railroads would come to him on their own initiative with propositions for special rates and rebates.

All this has been changed by the Interstate Commerce Act. It is now incumbent upon the shipper to ascertain for himself what the rates are, the law providing that the railroads have done their part when they have published the rates and posted them. This act has made the study of traffic profitable to every merchant. The law which compelled the railroads to offer to all shippers a uniform tariff could not do away, however, with the conditions which produced special rates and rebates prior to its passage. These conditions face the railroad quite as much at present as they ever did, and in consequence a cleverly devised system of tariffs and rulings has arisen which makes the tariff situa-

tion very complex and calls for the employment of skilled men to secure for a business the rights to which it is entitled. Men who are employed to do this work are called, as a rule, traffic managers or traffic experts, and they usually leave positions with railroads to take service with private shippers. The tariff department is, therefore, an important part of a modern business organization.

New Divisions in Freight Classification

A word of explanation will outline the work of traffic experts as it now is. Before the Interstate Commerce Law was passed, there was one general classification for freight, known as the official classification, and a great many minor classifications operative over certain lines of railroads and within certain defined territories. After the act was passed, these minor classifications were abrogated and the country was divided into three general territories to be governed by separate classifications. In addition to these, several states have put into effect other classifications which govern all interstate traffic within their boundaries. To the student of traffic it will be interesting to note that while the official classifications governing all merchandise traffic, before the Interstate Commerce Act was passed, had a description of some three thousand articles, today this classification embraces over nine hundred thousand items, many of which are a re-description of the original three thousand.

In studying the classification, the traffic manager finds that it is possible to use more than one description for the article which he has to ship. This is due to the fact that under the law a classification must provide for all interests. It closely differentiates between the shipments of one concern packed in one manner, and that of another concern packed in another manner. Owing to the inability of the classification makers to discriminate in favor of large shippers, a great many peculiarities have crept into the classification which admit of lower rates, if studied.

To take the place of special rates which were issued prior to the passage of the act regulating commerce, rates are now issued under the head of commodity rates to meet the needs of special shippers and particular communities. For example, on the breakfast foods which now come into market in large quantities, special commodity rates have been put into effect, and wherever these rates are effective under the long and short haul clause of the act regulating commerce, they may be applied to shipments of this character, regardless of classification. Again, it frequently happens that while there is nothing but a class rate in effect from the point of shipment on a certain class of freight, there may be effective from some point between the points of origin and destination a commodity rate which would lower the cost of transporting such shipments. This saving results from no unfairness, but occurs in the following simple way.

Combining Class and Commodity Rates

Chicago, we will say, is a large producing center for cereal products. In consequence of the immense amount of traffic of that character which originates in Chicago, a special commodity rate may be put into effect to some western or southwestern territory, while from Battle Creek, Michigan, there may be only the usual class rate. If the shipment is to go from Battle Creek through Chicago to some such western or southwestern point, it is possible, by combining the class rate to Chicago and the commodity rate from Chicago to the point of destination, to obtain a lower rate than the regular class rate. This happens to be the case on cereal products shipped from Battle Creek to Denver. The class rate in effect some time ago from Battle Creek to Denver was eighty-eight and one-half cents, but there was a rate from Chicago to Denver of forty-four and one-half cents, which, plus the total rate from Battle Creek to Chicago, made a through rate of fifty-five and one-half cents, a clear saving on a car of 30,000 pounds, of ninety-nine dollars.

In addition to these commodity rates, there are also special rulings of the railroads, known as differentials, which frequently produce lower transportation cost. For example, the rate on the same class of shipment as above mentioned to a certain point in Texas, from Battle Creek, was ninety-nine and one-half cents, the regular tariff rate according to classification, but a student of tariff would find that it was possible to acquire a lower rate than this by applying the local rate to Chicago of eleven cents, the differential from Chicago to St. Louis and the commodity rate from St. Louis to the point of destination. In this case, the reduction in rate amounts to thirty-three cents per hundred pounds, which, in carload lots, makes a very material difference in the delivered cost of the product.

Railroads, in issuing tariffs, are not compelled to supply the public with them. The only burden placed upon them by the Interstate Commerce Act is that they must publish all rates that they use and post them at the point where freight is received for shipment. The railroads, however, voluntarily furnish to the public, at their request, tariffs showing the rates in effect over their line on shipments in which the merchant or manufacturer is interested. In the second place, it is not necessary, according to the construction placed upon the law, and would not be possible, for the railroads to post at every shipping point all the tariffs which affect the figuring of rates upon shipments to far distant points, passing over two or three different lines.

Need of a Tariff Expert in a Business House

Suppose there is no through rate between two points except a general class rate, but that by a combination of special rates on the connecting lines, a lower rate could be secured. The tariffs of these connecting lines are not to be found at the shipping point in question, and if the shipper relied merely upon the information which was furnished to him by his local agents, or on the tariffs which were posted

in accordance with the law, he would naturally assume that the only rate was the high class rate.

The tariff expert, however, knows that wherever there is competition for traffic, wherever there are competing manufacturers of a similar line of goods, it is altogether likely that there may be special commodity rates issued which will reduce the cost of transportation; and he makes request of these connecting lines for their tariff upon the same product to the point to which he wishes to ship. If, by a combination of rates, he is able to secure a lower rate than the one furnished him by the agent, he routes the freight so as to secure the benefit of this lower rate. It is not practicable for any railroad to make experts of its employees to the end that shippers may profit thereby, and it is not reasonable to expect them to do it. The shipper must therefore study the tariff situation himself, if he would secure lower rates than those which are ordinarily applied to his shipment.

This is one of the duties of a traffic manager, and for most manufacturers and shippers it is a very important subject. This will be apparent from the fact that some traffic men receive salaries running from \$2,500 to \$5,000 and \$10,000 per year, which they would not secure if they did not earn a profit exceeding this sum, by the savings they make possible in the shipping of goods by their firms.

The Traffic Manager and the Sales Department

Another function of the traffic manager is to assist the sales department as far as possible, not in making sales, but in broadening the field in which sales may be made. If a manufacturer who is figuring upon an order in new territory is obliged to pay a higher freight rate than some competitor, he is out of the race for the business. It is also possible that the order comes from a section of the country which is nearer some other market, the cost of transportation from which is somewhat lower. The traffic manager figures against this lower freight cost to determine whether, out of the prices that

are to be received from the sale of the goods, the company can afford to absorb the difference in the cost of delivery, making the customer's outlay for freight charges the same as it would be from the nearer factory. If not, it is sometimes possible for the traffic manager to secure a special commodity rate to take care of this business. So the traffic expert very frequently helps to make large sales which otherwise would be lost.

The traffic manager may become very valuable, because it is possible for him, with his expert knowledge, to ascertain exactly how far it is practicable to extend the limits of trade. In consequence of this effort on the part of the manufacturers, a great many of them are now paying the cost of transportation and adding the charges, or a proportion of them, to the initial price of their goods. To enable salesmen to know just what amount should be added for freight, it is necessary that someone who is familiar with rate making should compute the charges.

The third and last duty of the traffic manager is to conduct all the functions of his department in the most economical and satisfactory manner. It is not only his business to look after the routeing of freight to insure a low rate, but he must define the manner in which goods shall be packed, for this frequently determines the rate which shall be applied. It is his duty to see that shipments are promptly delivered, to trace them when they are delayed, to check the freight expense and to conduct the claim department through which refunds are obtained on goods lost or damaged enroute.

All of these points require the use of trustworthy systems; therefore in this portion of the chapter we shall be interested especially in the systems which are used by the traffic manager.

The Handling of In-Freight Shipments

Reference has already been made to the fact that the traffic department must look after in-freight as well as out-

MR.	AGENT	R.R. CO.
PLEASE DELIVER TO OUR DRIVER THE FOLLOWING GOODS		
LISTED IN YOUR NOTIFICATION OF		
CAR NO.	FROM	
QUANTITY	ARTICLES	
DATE	SIGNED	

Form 28: Some firms retain the railway's notification of the arrival of freight, and issue to their drivers orders on the freight agent like the one here shown

freight shipments. In connection with goods consigned to the house the duties devolving upon the department are briefly as follows:

1. To make sure that goods arrive in a reasonable time after they are shipped.
2. To receive them from the railroad company.
3. To check them with the invoice in order that none may be lost.
4. To keep a record of freight received and of freight charges due.
5. To trace delayed shipments and press claims for shortages.

One or two of these functions may require a word of explanation. As soon as any department of the house receives notice from a shipper that goods have been sent, the notice is turned over to the traffic department, which then relieves the other branch of the business from all responsibility in the matter. The notice is filed to a date when the goods may reasonably be expected. If no notification from the railroad company has been received by that time, an inquiry is sent out to trace the overdue shipment.

When notice comes from the local agent of the railroad that the shipment has arrived, a delivery order (Form 28) is at once made out for the teamster's use. By using this order, the traffic department may keep the railroad's notification in its files and guard against its loss or mutilation.

When the goods have reached the house, it is necessary to check them with the invoice and the bill of lading, and to enter them upon the weekly or monthly record of freight received (Form 29), which is the basis for the payment of freight bills. A separate sheet is kept for each railroad from which consignments are received.

How Goods Are Traced and Claims Filed

If a shortage appears, the machinery of the tracing and claim function of the department comes into use. A good claim department may save a firm thousands of dollars a year. Freight that is received for shipment by the railroad company is in existence somewhere, it may be assumed, and the business of the claim department is either to find it or secure the value of the shipment. No railroad company can have so vital an interest in pushing its patrons' claims as

Form 20: On this blank are assembled all the freight charges due a certain railway company. Checking shipments and settling the account monthly thus become simple matters.

STATEMENT OF CLAIM FOR LOSS					
R.R. CO.					
DR. TO _____					
YOUR NO. _____					
OUR NO. _____ DATE _____					
ON SHIPMENT FROM					
CONSIGNOR OF					
TO _____ CONSIGNEE OF					
BILL LADING DATED _____ W B NO. _____					
CAR NO. _____ DATE ARRIVED _____					
	ARTICLES	DESCRIPTION	WGT.	CHARGES	VALUE
SHIPMENT					
RECEIVED					
SHORT					
REMARKS					
SIGNED _____					

Form 30: This blank issued in duplicate, serves as a reference file and a statement to the railway company of its indebtedness for freight lost in transit. The information needed in tracing a shipment is given fully.

they themselves have. The evidence of thousands of dollars' worth of claims sidetracked and neglected is inducement enough for most large shippers to organize their claim departments systematically. Goods lost, damaged or delayed without recompense are a clear money loss.

A statement of the claim is made out on a regular blank (Form 30). The claim record contains a statement of the date of shipment, a description of the goods, the date a part of them were received and the extent of the shortage. The value of the goods and all advanced charges are also noted. This constitutes a statement of indebtedness against the railroad company. The original statement is kept on file and a duplicate is sent to the agent of the railroad. Should he fail to adjust the matter promptly, the traffic manager can make another duplicate of his statement and take up the claim with a higher official.

The Traffic Department and Out-Shippments

In handling out-shipments, the routine of the traffic department arranges itself as follows:

1. Checking the goods as they arrive from the various production or stock departments.
2. Packing securely and in such form that the lowest freight rates may be secured.
3. Securing and verifying rates.
4. Routeing the shipments.
5. Securing the receipt of the railroad company's agent.
6. Securing a receipt from the consignee.
7. Tracing and handling claims.

How the shipping clerk checks up the items of an order as they reach him from the various departments has already been touched upon in Chapter VI, which treated of the method of handling orders. He is provided by the order department with one of the duplicate copies of the order, and checks each item upon it. Any shortages are reported to the order department and back ordered.

It was suggested in Chapter VI that the order department should send to the shipping clerk, with his copy of the order, another copy (Form 21), for the freight agent to sign as a receipt for the shipment. Even though the form is not made out by the order department, this receipt should be secured. The alternative method is for the traffic department to use a blank originating in its own office. Some firms have their shipping clerks provide a triplicate receipt form: one sheet to be signed by the railroad agent, one to be sent to the consignee for signature and one to be filed in the office until the responsibility for the shipment is over.

It is a common error to suppose that the office of traffic manager or the knowledge that the traffic manager possesses is of value only to large shippers. It is of equal, if not greater, value to small shippers, for two reasons: in the first place nearly all of the special commodity rates and the rulings which tend to lower rates operate more easily in the interest of the large firms than of the small shippers. Further, the shippers in small towns are more at the mercy of the railroads and the railroad employees than are those in the large shipping centers.

In the second place, losses and shortages are as likely to occur in the shipments to and from a small shipper as in those of a large shipper, if not more so, while the influences which might possibly secure for the large shipper some attention to his claims for loss and delay would be wholly lacking in the case of the small shipper were he not fortified by systems which cannot be evaded. Systematic handling of incoming and outgoing freight is the only means which will protect any shipper, large or small.

CHAPTER X

CORRESPONDENCE

As a man is judged, to a great extent, by his personal appearance, so a business house is frequently judged by the appearance of its correspondence. Letters are often the only point of contact between a firm and the men it deals with, and the latter form their opinions of the house very largely from the kind of correspondence it sends out. This alone is sufficient reason why a firm should guard well the character of its letters, but there is still another reason which requires that the handling of correspondence be made a question of special importance. The communications of a firm constitute its only record of dealings with the business world. Quotations, estimates, promises of delivery, producers' and dealers' agreements, all the negotiations which constitute business relations are contained in correspondence. Verbal agreements are confirmed by letter. The importance of these documents requires that a system of filing correspondence be maintained which will permit of easy access to any letter at any time. This means that the method be simple and economical; yet that wherever a letter is, it can always be located; that it is never in danger of loss, mutilation or destruction, and is reasonably safe from fire.

These two points, then, are essential in the organization of a correspondence department: first, strict oversight of all letters written; second, careful filing of all letters received and of the carbon copies of outgoing mail. This chapter will be concerned in detail with the two subjects which are thus outlined.

It is not the purpose here to treat especially of the style which should be adopted in business correspondence. The value of force, human interest and diplomacy in letter writing

is not to be disregarded, but they are matters of personality rather than of systematization, and involve the employment or training of men especially for that work.

Organization in the Correspondence Department

This personal factor is indispensable in conducting the correspondence work of a firm, yet it cannot succeed without the proper organization of the correspondence department, insuring that incoming mail reaches the proper person, that he is furnished with all previous correspondence bearing on the same subject, that an answer is speedily dictated and that the process of dispatching mail is smooth, sure and speedy from day to day.

All incoming mail should pass first through the hands of one official, designated variously as the chief clerk or the incoming mail clerk, who notes its contents and refers it to the proper official for action and reply. He may divide the mail under three classifications.

First, come letters that pertain to executive business and so require the attention of some of the executives of the house. Such mail is referred to the president or general manager, as the case may be.

Secondly, he finds letters that pertain to the work of a particular department, and these he refers to the head of that department: orders to the sales manager, invoices to the purchasing agent, complaints to the claim agent, and so on.

In the third place, a considerable portion of the correspondence will relate to routine matters, requests for information and so on, which can be handled by the staff of special correspondents without reference to any person outside of the correspondence department.

Distribution is made by means of a row of baskets arranged on the mail clerk's desk, one for each of the persons to whom he refers mail. As soon as he ascertains the character of a letter, he drops it into the proper basket and the

contents are distributed by the messenger boy on his periodical rounds of the office.

Preparing Letters for an Official's Attention

The first step necessary in the proper consideration of letters, now that they are referred to the proper departments, is to secure and attach to them all previous correspondence which has been carried on with the writer on this or an allied subject. This detail is attended to before the letter reaches the executive's hand, so that as soon as he takes up the matter he may not only read the new communication, but may refresh his memory regarding the previous steps in the negotiation. This previous correspondence consists of letters from the correspondent and the copies of letters written to him in reply. They are taken from the general correspondence files to be attached by a clip to the new letter, and are replaced in the files temporarily by a memorandum sheet (Form 31).

When the department official is ready to answer the letters which have come to him during the day, he may follow one of three possible courses: he either dictates replies to his private stenographer, or summons a stenographer from the general correspondence department, or else dictates into a phonograph, the records from which are sent to the correspondence department for transcription on the typewriter.

When the letters have been typewritten, they are returned to the person who dictated them, for signature. Then they are sent to the outgoing mail clerk, who may be the same official as the incoming mail clerk if the volume of correspondence is not too large to permit the combination of the two duties. He sees that the signed letters are folded, sealed and stamped ready for posting.

A Follow-up System on All Correspondence

One of the requirements of a satisfactory system, as enumerated on an earlier page of this chapter, was that it

<u>CORRESPONDENCE</u>		<u>REQUISITION</u>
NAME		
TOWN		
STATE		
LETTERS WANTED — DATE OR SUBJECT		
SIGNED		
LETTERS DELIVERED		
DATE DELIVERED		

Form 31: This sheet, properly filled out, is placed in the letter file to explain the absence of letters which may be in use and to place the responsibility for their care and return

should insure the speedy answering of all mail. How is this to be brought about, under the plan just outlined? By the simple means of providing each person in the office with a list of all the letters referred to him. The list is made out by the incoming mail clerk on a special blank (Form 32) as he opens and examines the mail. The blank must accompany the letters on all their travels from one hand to another. As each letter is described by entering the writer's name, it

can be checked when a reply is dictated; the stenographer can place another check after it when she writes the letter, and the mailing clerk can check the entire list as they pass through his hands. So it is impossible for correspondence to be mislaid or shelved.

If one letter is omitted from the list, the mailing clerk immediately begins to trace it, finding out whether the correspondent or department head has held the matter over for a day to get additional information, whether the stenographer has overlooked her notes, or whether the papers have been pushed carelessly aside on some desk.

The correspondence which had been withdrawn from the file to assist in answering the mail is now ready to be filed away again, each bunch being increased by two additions: the letter just received and a copy of the reply to it.

How Business Correspondence Should be Filed

Business men have found, through experience, that the most satisfactory way of keeping correspondence is to file all letters vertically in drawers about ten inches deep and twelve inches wide. Guides are inserted at intervals, with tabs projecting above the contents of the file for assistance in locating a particular letter.

Three methods of arrangement have each found many advocates. Which one of them should be chosen for a par-

CORRESPONDENCE REFERRED					
TO MR.					DEPARTMENT
DATE					
THIS BLANK MUST BE RETURNED TO THE CHIEF CLERK EACH NIGHT WITH ALL CORRESPONDENCE.					
FROM	REGARDING	ACTION TAKEN	REPLY		
			DICTATED	WRITTEN	MAILED

Form 32: With the assistance of this blank the outgoing mail may be checked over, and any letter which has been neglected may be traced to its fate

ticular case must be decided by the peculiar needs of the house. They are known as the alphabetical, the geographical and the numerical methods.

Under the alphabetical method of filing, the letters are arranged according to the names of the firms with whom the correspondence is being carried on, the names following each other in strict alphabetical order. Each firm may be given a folder with the firm name written on the upper flap so that all the contents of the folder are quickly identified without consulting the letters themselves. The guides in this case are subdivisions of the alphabet, ranging according to the needs of the business, from a simple set of twenty-five guides up to one of several thousand divisions. This is the most simple method of filing correspondence and the most practical one for ordinary use.

The second arrangement is geographical, by which the guides separate the file into geographical divisions according to the needs of the business. This method is most frequently employed to cover sales territory by firms doing a large mail order or canvassing business. One drawer of the file may be given to each state. Within that drawer, guides indicate the division into districts—either counties or arbitrary divisions adopted by the house. Finally, under each of these heads, appear guides bearing the names of the cities and towns in these districts. Correspondence is filed alphabetically by firm name under the city divisions. In cases where several salesmen are assigned special territory in the same large city, it is advisable to make a further separation in the file.

The Numerical Method of Filing

The third, or numerical system of filing, is used only in special cases where the needs of the business require a special card index to the correspondence file. Under this method each firm is assigned a number and all correspondence with any member of the firm is placed in the folder bearing that number. Then an index card is made out bearing the firm

name and the number of the folder. Additional cards are also made for individual members of the firm, to be filed under their names, and all bear the same number. These cards form a complete index of the correspondence file, and also may bear any other data which it is necessary to know in connection with the correspondenee, such as rating, capital, references, average size of orders, limit of credit, and so on. They may be arranged either alphabetically or geographically as is found more convenient, and in any shape they furnish a valuable mailing list of all correspondents, which may be used in sending out general circulars and price lists.

No matter which of these indexing arrangements may be adopted, the vertical system of filing is capable of indefinite expansion. By the use of new drawers and the slight shifting of guides as the material accumulates, the same file may be used for years. But it is neither practical nor necessary, as a rule, to keep more than six month's correspondence in active use. For this reason, storage cases are provided to which correspondence is transferred periodically. They are of advantage, not only because they remove matter which would hinder work in the office if it were kept in the active

Form 33: This sheet is of letterhead size—a regular carbon copy, in fact. The date set for an answer is checked, and the letter being filed under that date, comes to light as a prompt reminder.

file, but also because their contents can be packed in much more closely, they can be stored in the least valuable space, and they may be made more cheaply than files which must occupy prominent places in the offices.

A Follow-up System for Correspondents

One more matter of importance to the smooth working of a correspondence department must be considered. This is the following up of letters. The memory would be too fallible a record to show when one should expect replies to certain letters, even if it were not far too valuable a faculty to be wasted in such matters. The reminder must be automatic. When a letter is written and it is reasonable to expect an answer in ten days, some means must be provided by which in ten days the subject will come to attention without tax upon the memory of a person in the office. To fulfill this requirement, a follow-up sheet is usually made with the carbon copy of each letter sent out. It receives an imprint of the entire letter. Along one edge of the sheet are printed the names of the months. Along another edge appear the numbers from 1 to 31 of the month (Form 33). A check mark indicates the date on which a reply should be received and the sheet is filed in a follow-up file under the designated date. It will come up then with other matters which require attention on that date. If no reply has been received, a note of reminder may be sent to the delinquent correspondent and the sheet again checked and filed ahead.

CHAPTER XI

BUYING

A great deal of money can be made and lost in purchasing goods for any business. One-half the profits may be ascribed to purchasing goods at the right price, and often, when competition is keen, the greater percentage of profits must be credited to the small advantages which the purchasing agent secures. This is true whether the business under consideration is a manufacturing enterprise, a wholesale house or a retail department store. Purchasing becomes a greater factor as specialization progresses, and competition more and more focuses upon the buyer.

In a manufacturing business the purchasing agent is entrusted with buying all the raw material used in production as well as all the supplies consumed in the operation of the plant. Upon him, therefore, frequently depends the ability of the manufacturers to turn out their product at a cost which permits them to meet competition.

In a jobbing or wholesale house, the purchasing agent constitutes the entire production division of the business. Where several lines are handled, there may be several purchasing agents, one for each line, or there may be a chief purchasing agent with several "buyers" under him in charge of different departments.

In a large retail department store or mail order house, the head of each department is a "buyer," having charge of both the buying and selling. He is responsible both for bringing the goods to the stock rooms and shelves, and for disposing of them to customers. Where this is the case, it is possible to look at the situation from the other point of view, or, in other words, each sales manager may be regarded as the buyer for his department.

NAME		ADDRESS		
DATE	LINE	PAGE	FILE NO.	
ARTICLE				
DATE	NAME OF MAKER		PAGE	FILED

Forms 34 (above) and 35: Any firm buying many supplies of various sorts will profit by a double card index of the firms selling these commodities. The upper card is indexed by firm name, the lower one, by the name of the product.

A purchasing system should be sufficiently broad and elastic so that all purchases required for the house may be made by identical methods and through the same routine course. Such a system should cover three points. In the first place, it should provide for the recording and classification of all kinds of goods used by the firm and the sources from which they can be bought, together with records of previous purchases. Second, it should afford a uniform method of ordering and keeping track of unfilled orders. Third, it should provide a means of checking up the deliveries and of correcting any mistakes which may be made in shipping or in billing.

Classifying Information for the Buyer

Under the first heading, which may be designated the function of classifying purchase information, should be included data of four kinds: first, possible sources of supply; second, the catalogs and price lists received from these houses; third, lists of quotations on particular articles in constant or occasional use; and fourth, a record of purchases

previously made of these articles. To carry out these purposes, a systematic method should be devised for filing catalogs, an alphabetical list should be made up of the articles which are habitually purchased, and the firms from whom purchases have been made. The catalogs, price lists, and other circulars should be filed in vertical files or on numbered shelves and should be indexed in two card catalogs. One set of cards should contain the names of all the firms, the lines of goods which they sell, the dates of their various catalogs and price lists, together with their file and shelf number (Form 34). These cards are arranged alphabetically, according to the names of the firms.

The second card index contains, like the first, the names of the firms which carry these goods, with a reference to the shelf and file number where the respective catalogs are to be found. On the top line of the card, however, appears the name of the goods, while the dealers are listed below (Form 35). This card is filed alphabetically by subject. Both these files should be as complete as possible and contain the names of all reputable dealers, whether quotations have been received from them or not.

QUOTATIONS							
ARTICLE			QUANTITY				
SIZE AND QUALITY							
DATE	FIRM	CATALOG FILE	TERMS		TIME NEEDED FOR DELIVERY		
			PRICE	DIS-COUNT	FREIGHT		

Form 36: A card index of unquestioned value is here shown. On one card are grouped all the prices from different firms on a single article, so that the purchasing agent can compare quotations instantly.

PURCHASES						
DATE OF ORDER	ORDER NUMBER	FIRM	QUANTITY	DATE OF DELIVERY	NEXT SUPPLY NEEDED	REMARKS

Form 37: The reverse of the card shown in Form 36 is here represented. It is devoted to actual purchases of the article quoted on the other side

If a considerable volume of business is done, there may be trouble in keeping in mind the quotations of different firms on various goods. As an aid to this the purchasing agent finds it convenient to keep a card index of all goods on which he has quotations. Each card is devoted to one particular size, grade and variety of goods, and on it are entered the quotations from the different firms, together with the discounts, terms, and the date on which prices were made (Form 36). It also carries the file or shelf number of each firm's catalog, and the page on which this article is listed. These prices are revised as goods and quotations change. Such an index as this becomes more valuable as time goes on, saves hours of work in looking up sources and prices and prevents delay in getting quotations on orders. On the reverse side of the same card may be kept a record of the purchases that have been made of this particular article, the date of the order and the order number, the name of the seller, the amount, and the date of delivery (Form 37). When the purchasing agent wishes to place an order for goods, he is able to determine quickly, without going over all the old invoices, the place and price of the last purchase.

Uniformity in Placing Orders an Essential

The next step in a purchasing system provides for making out orders. In every case, requisitions should be made out

for all goods wanted. For this purpose a regular printed form is used and these requisitions are placed in the hands of the heads of departments, who have authority to request the ordering of goods of any description. On the requisition are entered the description and the amount of material wanted (Form 38). This form is made out in triplicate, one copy for the person making the request, and two for the purchasing agent. One of these the purchasing agent keeps. On the other he enters the date on which the material was ordered, his order number, and the firm with whom he placed the order, and then returns it to the person who made out the requisition as a notice to him that the order has been placed. In order that requisitions from one department shall all bear consecutive numbers, the blanks may be issued from the stock room in packages of 500 to 1,000 each, numbered consecutively, or a designation series for each department may be adopted.

No goods are ordered by the purchasing agent except on a regularly printed order form containing an itemized list of the articles and the quantities wanted and the shipping directions. This is not to be confused with the requisition; it is a new blank made out by the purchasing agent, after he has accepted the requisition from the department head. This order is made in four copies. The original is sent to the firm from whom the goods are purchased (Form 39). The second copy passes to the receiving department so that they may know what goods are to be expected. In many institutions a short carbon is used over the second copy, so that the quantities do not appear. It is therefore necessary for the receiving department to depend entirely upon its own count of all the articles as they come in, thus assuring a true check on the receipt of goods. The third copy goes to the accounting department for comparison with the bill when it arrives, and the fourth copy remains in the purchasing office as a record of the order, as a follow-up for the delivery and as a final check that delivery has been made. It should

THE BLANK COMPANY		PURCHASING AGENT			DEPARTMENT																																				
ORDER NO.	DATE	FOR USE OF	DEPARTMENT	APPROVED	HEAD OF	DEPARTMENT																																			
GENTLEMEN: SHIP US THE FOLLOWING GOODS, ACCORDING TO SPECIFICATIONS AND INSTRUCTIONS GIVEN HEREWITHE.																																									
<table border="1"> <thead> <tr> <th>QUANTITY</th> <th>DESCRIPTION</th> <th>PRICE</th> <th>VIA</th> <th>DATE WANTED</th> <th colspan="2">DEPARTMENT</th> </tr> </thead> <tbody> <tr> <td>ORDER NO.</td> <td>TO</td> <td>DATE</td> <td colspan="4">PURCHASING AGENT</td> </tr> <tr> <td colspan="7">WILL YOU PURCHASE THE FOLLOWING ARTICLES</td> </tr> <tr> <td>QUANTITY</td> <td>DESCRIPTION</td> <td>WHEN WANTED</td> <td>CHARGE TO:</td> <td colspan="3">DEPARTMENT</td> </tr> <tr> <td colspan="7">SIGNED</td> </tr> </tbody> </table>							QUANTITY	DESCRIPTION	PRICE	VIA	DATE WANTED	DEPARTMENT		ORDER NO.	TO	DATE	PURCHASING AGENT				WILL YOU PURCHASE THE FOLLOWING ARTICLES							QUANTITY	DESCRIPTION	WHEN WANTED	CHARGE TO:	DEPARTMENT			SIGNED						
QUANTITY	DESCRIPTION	PRICE	VIA	DATE WANTED	DEPARTMENT																																				
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QUANTITY	DESCRIPTION	WHEN WANTED	CHARGE TO:	DEPARTMENT																																					
SIGNED																																									

Forms 38 (below) and 39: The lower blank is the requisition for goods. This is made out in triplicate by the head of the department requiring the goods, and two copies are turned over to the purchasing agent for approval and action. The upper form is the order which follows. It is made fourfold, one copy going to the selling firm, and three being distributed in various departments for checking and accounting on the goods as they are received.

contain a space for entering the date and quantities delivered, as often an order is shipped in several installments. As this copy is filed in a vertical file and handled a great deal it is often a card form. Across the top of the card should be printed the days of the month, so that a small clip may be attached to show the date of the month on which delivery is to be made. When this day comes, the card is taken out with others bearing the same date clip. If the goods have not been received, the matter can be investigated and the card filed a few days ahead.

Checking Goods as Received on Orders

When a delivery is made, the purchasing department's third function, that of checking in the goods, comes into play. The invoice comes first to the purchasing department, where it is checked as to specifications with the order. When the goods are received, the receiving clerk and the stock-keeper check their copy of the order and send it to the purchasing agent's office, where it is again checked with his copy and through this with the invoice also. If no error is found, the purchasing agent's copy is taken out of the file and placed, with the requisition, among the filled orders. In case any goods are defective, or any mistakes have been made, the order can be followed up by the use of the date clip until the corrections have been made and the transaction has been closed. It is most convenient to give each order a distinguishing number, which must appear on every record referring to it. The order and all auxiliary papers and cards are then filed numerically, according to this number. When this is done, it is desirable to keep an alphabetical index of orders arranged according to the names of the firms, so that an order can be found if merely the name is known. This requires only a little additional labor.

It is the business of the purchasing agent, naturally, to keep down expenses as much as possible and to buy as little as is consistent with the proper conduct of the business. A

well informed agent will often refuse a requisition if he knows that the goods are unnecessary, or that there is already something else in stock which will answer just as well.

How the Traffic Department Can Help the Buyer

As has been stated before, the traffic department is of assistance to the selling department in extending the territory which can be covered in the selling of goods. In like manner, it can co-operate with the purchasing department, though perhaps not to so large an extent, in bringing the prices that are made to a common basis. For instance, a purchasing agent buying from factories in different parts of the country will have to consider freight rates from the different points from which shipment has to be made, and will necessarily have to figure this in the price at the point of destination. A price may be f. o. b. Holyoke, Mass., or f. o. b. Chicago, and to ascertain which of these prices is better it will be necessary to consider the difference in freight rates between Chicago and Holyoke, and the point to which the goods are to be delivered.

In many modern business organizations an official known as a controller acts as a safety check upon the purchasing department. It is his duty, as has already been stated in Chapter II, to prevent the ordering of goods to such an extent that the financial condition of the house is endangered or that embarrassment in the payment of bills is caused. He knows the total amount of outstanding unbilled orders, and at all times is able to tell the total indebtedness and the resources from which such indebtedness is to be paid. Very frequently the general manager or some officer of the company acts as controller.

CHAPTER XII

RECEIVING AND STOCK-KEEPING

In the receiving and stock keeping department of many concerns very lax methods are allowed to prevail. This is due largely to the fact that the receiving department is generally under the control of an employee who is not well paid and is consequently not very efficient in keeping records. But these methods of doing business are disastrous. Everything which comes into the receiving room should be counted, checked and reported to the accounting department, so that proper credit may be given, and a complete inventory of stock on hand should constantly be kept.

To consider first the receiving function, it may be noted that two classes of goods are received: goods which have been purchased and goods which have been returned. Although exact records must be kept of both, it is the latter class which causes the more confusion.

Much assistance in the receiving clerk's work can be rendered by the purchasing department when goods are ordered. If the purchasing system is properly handled, as described in the preceding chapter, all goods purchased can be easily checked when received and the credit properly allowed. On the order which the purchasing agent sends out for goods, is printed the order number and instructions that this number must appear on the invoice and on the goods when they are delivered (Form 39). A copy of this order, as has been said, is sent to the receiving clerk, as his notification to look for the arrival of these goods. The receiving clerk files the blank by number. As soon as the consignment comes in he refers to the number on the box or package and is able at once to locate the requisition in his file. In case the number is carelessly left off, the goods are opened and counted, and

the purchasing department is notified that such goods have arrived. Then the purchasing agent, by reference to his commodity file where goods ordered are indexed by name, finds out the number of the order and gives it to the receiving clerk. So the purchasing department knows that the shipper has not carried out the shipping instructions exactly as given, having neglected to place the number on the box.

In some institutions, the copy of the purchase order which is sent to the receiving room is an exact copy of the order sent to the concern from which the goods are purchased. In other cases, and this seems to be the better practice, the carbons are so arranged that on the receiving clerk's copy, both quantity and price are omitted, the latter because this information ought not to be in the receiving clerk's hands, and the former to compel an accurate count of the goods received. If the amounts of the order are before him the shipping clerk is tempted to assume that the shipment is complete, instead of actually counting, as he must do when no numbers are given. This system assumes that all invoices go directly to the purchasing agent and not to the receiving clerk.

Giving Customers Credit for Returned Goods

Receiving goods returned by the customer is the most difficult part of the receiving clerk's work, because many who return goods are careless and do not put any marks of identification on the goods. When many goods are received in this way, great confusion will result, even if the sales department receives a notice that the goods have been sent back. Conditions will, of course, vary greatly in different classes of business. Some firms, that sell on an approval basis, have a great number of returns for which credit must be given, while others, selling on a more strict basis, have very few returns, especially when goods of a perishable nature are handled, or goods of such form that they cannot be disposed of after they have been once sent out. It naturally devolves upon the sales department to approve the return

of goods, and it is to the sales department that the matter should be first referred, either when a letter is received, advising that goods have been returned, or when the consignment has been received in the receiving department without identification.

If credit is allowed by the sales department for returned goods, a notice is made out in triplicate on a blank form. One copy goes to the customer, notifying him that the goods are received and that he has been given credit (Form 40); the second copy is for the accounting department, instructing that credit be given for this return (Form 41); and the third copy goes to the receiving clerk (Form 42), authorizing him to receive the goods and send them to the stock room, where they will be put back into stock. If this is followed out, nothing will be taken back into stock without the knowledge of the sales department and the proper granting of credit to the customer.

When material has once been received in the store room, it should not be issued without authority, vested in the managers or foremen of various departments or some inter-

TO			
ADDRESS			
YOU HAVE RECEIVED CREDIT ON OUR BOOKS FOR THE FOLLOWING			
GOODS RETURNED TO US FROM OUR INVOICE OF			
YOUR ORDER NO.			
QUANTITY	DESCRIPTION	PRICE	TOTAL
DATE			
SALES MANAGER			

Form 40: This blank is used when a customer rejects or returns goods sold to him by the firm. Three copies of the blank are made. This copy is sent to the customer as a receipt and credit slip.

TO ACCOUNTING DEPARTMENT			
YOU WILL GIVE CREDIT TO _____			
ADDRESS _____			
FOR THE FOLLOWING GOODS RETURNED BY THEM IN GOOD CONDITION FROM OUR INVOICE OF _____			
QUANTITY	DESCRIPTION	PRICE	TOTAL
DATE _____			SALES MANAGER

Form 42. This copy goes to the house accountant, crediting a customer for goods returned by immediate employees, who draw requisitions on the stock-keepers (Form 43). The duties of the storekeeper are to receive incoming goods, verifying the descriptions and quantities by the list which has been passed on by the receiving clerk, fill such requisitions for stock as are duly authorized, keep an account of the stores in his care, and make sure that quantities do not become so low that work will be hindered for lack of supplies of goods.

The Operation of the Stores Ledger

For the latter purpose a stores ledger is kept, in which are entered all receipts and disbursements of stock. The prime requisites in a stock record are that it should be accurate, that it should automatically keep the stock up to requirements and that it should be simple enough for a clerk to handle. It is an expensive plan to have a high priced executive burdened with the duty of keeping up stocks and ordering goods. By the use of a good system, this work can be given to a clerk and its direction still rest with the management. A few minutes of the clerk's time daily will enable him to anticipate all shortages.

The best stock record consists of a perpetual card inventory, having one card assigned to each article and each variety carried in stock (Form 44). This card bears in the heading a description of the article and an index to its location in the stock room. The remainder of the form is occupied with columns for entering the quantities ordered, received and disbursed, and the balance on hand each day. In some instances, also, there will appear on the stock record the cost of each, though generally this information is not needed by the stock clerk.

Determining the Amount of Stock to be Carried

At the beginning of each season, the heads of the departments decide upon the amount of stock which the house should carry through the coming season. This is determined upon the basis of previous sales or consumption, and any indications which the sales and production departments have observed as to probable future need. The management plans to carry enough stock to supply all needs promptly, but it also aims to keep the stock supply at a mark where no more

TO RECEIVING CLERK			
YOU WILL RECEIVE FROM			
ADDRESS			
THE FOLLOWING ARTICLES IN GOOD CONDITION, TO BE RETURNED			
TO STOCK			
QUANTITY	DESCRIPTION	PRICE	TOTAL
DATE			
SALES MANAGER			

Form 42: This copy of the blank shown in Form 40 goes to the firm's receiving clerk and explains to him the return and disposal of any rejected goods

Forms 43 and 44: The smaller blank is distributed to those employees who are authorized to requisition supplies. Without this signed order the store-keeper must not deliver supplies to anyone. Form 44 is used by the stock clerk as a perpetual inventory of one commodity.

is on hand than is absolutely necessary. It is usually the custom to determine three quantities for each article—a maximum figure, above which the supply must never rise; a minimum below which the amount on hand must never fall, and a normal, which is the amount the stockkeeper must aim to keep constantly in the house. When these figures have been fixed, they are furnished to the stock clerk, who enters them on the record card. Then knowing from his perpetual entry the amount he has on hand, he at once files with the purchasing agent requisitions to bring his supply at least up to the normal figure. It is a simple matter to change these amounts during the season should the needs of the business fluctuate.

It is not absolutely necessary to provide the column for entering orders, as these quantities do not affect the balance on hand, but often the entry will prove its value by showing how long it takes to get an order filled, and by preventing the duplication of an order which has already been placed. In a large establishment, especially, the memory should not be relied upon to keep track of outstanding orders.

Such a stock ledger gives an accurate account of all stock in the house: of raw materials and of finished goods. It shows when to buy and how much to buy. In case of a partial loss by fire, the exact value of the part which has been destroyed can be determined and the insurance quickly adjusted. It prevents overstocking because the stock record determines just how rapidly the stock is being disposed of and the smallest amount which can be safely carried. On the other hand, it prevents the stock running short, as the stock-keeper always has before him a record of the amount on hand, and when he reaches the low point of any stock he can order more at once.

Stock Records Regarded as Perpetual Inventories

Thus far the stock record has been shown valuable as a surety that proper amounts of stock will be kept on hand.

But it has another value as well—its service as a perpetual inventory, from which can be ascertained any day just how great a value the stocks on hand represent.

Inventory taking was the bane of the old time business. During the operation, clerks were overworked, regular business was neglected, and the business in general was in a state of confusion. This work was ordinarily done once a year when the books of the firm were balanced and the annual statement was made. Thus, once a year, and once only, it was possible to know exactly how much was in stock of each particular style and size of goods; at other times it was merely a matter of conjecture. In striking contrast with this, the continuous stock record which has just been described shows at any time the exact quantities of all stock in every department, for the balance column on the record card is extended after each transaction. Such a system is now deemed a necessity by every concern carrying stock, for by means of it the exact condition of the business can be determined any day in the year.

The all-important question of profit and loss need no longer wait upon the annual inventory. Losses may be detected and stopped before they become irreparable. Nor does the clearance of slow-moving stocks longer await the annual unearthing process. Whatever goods are on hand have representation in the card index and daily haunt the eye of the stock clerk until they are turned into live cash.

In a wholesale or manufacturing house the stockkeeping system can well be handled as carefully as described above, for shipments and receipts of either raw materials or completed goods are made or received in large quantities. But it would be impracticable to employ it in a retail business, because sales would be so numerous and in such small quantities that the system would be at once both cumbersome and complicated. Considerable modification is therefore necessary. The best way that a retailer can adapt the method is to keep a complete stock record of all unbroken packages

and all deliveries from stock of filled cases. Thus the units in his stock system will be boxes of soap, bales of cloth, and barrels of sugar. When the original package is broken, it is entered on the stock record as an issued unit. Thus, while the record will not be absolutely accurate as an account of stock on hand, it will accomplish the main purpose of a stock record, in that it will furnish an approximate inventory in case of fire and will guard against the danger of running short on any article. If exact figures are desired, an additional inventory need be taken only of the broken packages in the store, to compile the total of the stock record.

CHAPTER XIII

THE ROUTINE OF PRODUCTION

Organization is not complete in a factory when the plant is properly divided into departments and they are properly correlated; nor is efficiency secured merely by the presence of capable workmen. There must be added the element of analysis of orders and following up of jobs. The sales department secures orders, and the shipping department sends out goods to fill them. In the meantime, between these two departments, has been conducted the important work of production. How is this work carried on so that there shall be enough goods to ship and that they shall be ready on the date promised?

Some factories manufacture only on order. Others manufacture for stock. In the first instance, the customer's order becomes the immediate basis of production; but in the second, the production management is expected to have enough goods on hand at any given time to fill all the orders likely to be received. The only difference is that in one case orders are waited for, while in the other they are anticipated. Factories run on either basis must so regulate production as to be able to satisfy customers in their shipments.

But this is not the only consideration in a production system. Not only must plenty of goods be made, but there must be such grouping of the processes, such quantities going through the shops at one time, that the most economical conditions of production may be secured. All departments should work together, at normal speed, under most favorable conditions, and with plenty of material coming to their hands as it is needed. It is not a point of profitable manufacture to pay overtime wages one month and work only half a force the next; nor to have the men of one department sitting

idly about waiting for the half-finished goods to reach them from another department. All these questions must be considered in putting orders through the shops.

Systematically Preventing Losses of Time

The desirable conditions which have been suggested can only be attained by the use of systematic methods in production. Not until goods are traced carefully through the shops, step by step, can it be maintained that the most favorable conditions are in operation. Not until jobs are traced and registered daily, no matter in what stage of completion they may be found, can it be asserted that no time is lost by carelessness or inefficiency in some ill-managed department.

Some shop officials object to the introduction of systematic methods. They say that their employees dislike to fill out record blanks, that time and energy are wasted, useless forms are multiplied, and the result is confusion in both factory and office. The ideal production system, one that will meet the approval of such a superintendent, is one that requires the minimum of writing on the part of the workman, and can be handled by clerks and job tracers of the office, not of the factory force.

Production records would not fulfill their purpose if they hindered production. They would be worse than useless if they took away any initiative from the shop superintendent or his foremen, but when they leave the executives free to do far more executive work than they could otherwise, they prove their acceptability in any factory.

The Factory Office in Relation to Production

All production systems center in the factory office. There schedules are made up in accordance with needs of the sales department. In manufacturing for stock, the stock order is made up in groups of identical goods distributed over the plant in such a way that all departments are working all the time at the same rate of speed—in other words, that demand

Form 45: A factory order blank is here shown. Duplications of it go to all departments in which the material is to be handled. It contains directions as to when each department is to finish its work; it makes a follow-up card throughout the work.

shall just equal plant capacity. In manufacturing for orders, the production clerks schedule the order so that greatest speed and greatest economy shall be secured. The latter system embraces many of the points of the former as well as those peculiarly adapted to its own needs, and will therefore receive our attention in what follows.

When an order reaches the production department from the sales department it may bear already some promise of delivery. Then it becomes the duty of the production department to use all possible means to keep this promise. If no date is given, the shop executives are asked to make a promise, and notice of this date of delivery is sent to the customer. Then every effort is made to put the goods through the shop speedily and deliver them on time.

This requires absolute knowledge of the workings of every department and the whereabouts of every order. It should be possible at a moment's notice to tell just where every part of every order is to be found, how nearly completed it is, and whether it is likely to be finished on time.

How an Order is Followed Through the Factory

To furnish this information the following system will be found satisfactory:

Each order when it is received from the sales department is given a shop order number, which follows it all through the shops and serves as a convenient means of identification so long as the order or any part of it remains in the factory.

Then a copy of the order (Form 45) is made for each department which is to work on or furnish any part of it, containing a description of the goods ordered, the order number, and the date on which shipment has been promised. If the materials must pass through several departments before completion, a date is set in the appropriate column at the right, under the department letter, indicating when the materials or the partly finished goods may be expected by the foreman of that department.

ORDER NO.	TAG NUMBER
DESCRIPTION OF GOODS	
DATE OF ORDER	
DEPARTMENT A: DUE TO COMPLETE OPERATIONS	
DATE COMPLETED	
DEPARTMENT B: DUE TO COMPLETE OPERATIONS	

Form 46: A tag like that shown here is attached to each article or part when it is started on its trip through the factory. With this scheme the identify, proper location and required progress of the part can scarcely be mistaken.

On receiving their copies of the order, foremen file them ahead under the date when they may expect the goods to reach them. This is often done by using a large board bearing thirty-one hooks—one for each day of the month. Each order is hung on the hook representing the day when work should begin upon it.

Where these departmental copies of the order are made, a copy is also sent to the stockkeeper as a requisition for the articles named. Upon receipt of it he immediately issues the raw material, castings or other supplies necessary to begin the job, sending them to the department which is to first use them. With his copy of the order, the stockkeeper also receives a tag carrying a memorandum of the order (Form 46), which is attached to the supplies issued and follows the job through the various departments and finally to the shipping room. This tag bears the order number and provides for instant identification of the job at any stage in its passage through the factory.

If several different items are included in the order separate tags are made for them, each tag bearing a number of its own, but all carrying the same identifying general order number. On the tag a date is assigned when each department should complete its work on the job, and space is given for entering the date when the work is actually completed and also a brief notation of the operations performed.

How the Foreman Follows up the Work

As soon as the foreman of a department receives the goods with their tag, he takes down his copy of the order, which has hung upon the board until this time, and places it in the file of work in progress. He then hangs the job tag on a hook representing the date the work should be finished.

At the close of each day, the foreman notifies the factory office by means of a special report blank (Form 47) of orders

DEPT. _____				
FOREMAN'S REPORT OF WORK COMPLETED				
DATE _____				
ORDER NO.	TAG NO.	NO. OF PIECES	IS THIS COMPLETED ORDER?	FORWARDED TO WHAT DEPARTMENT?
FOREMAN				

Form 47: Upon the receipt of these daily reports from all departments, the central office knows the precise state of the work and can hasten delayed parts

REQUESTS TO FOREMEN FOR INFORMATION SHOULD BE ANSWERED ON THIS SHEET AND RETURNED PROMPTLY.

FOREMEN WILL REPORT ALL CAUSES FOR DELAYED WORK ON THIS SHEET AND DO SO AT THE EARLIEST POSSIBLE MOMENT.

FOREMAN'S REPORT TO
PRODUCTION DEPARTMENT

MAIN ORDER NO.	CITY.	STATE						
REQUISITION NO.	SHOP ORDER NO.	FILE						
SUBJECT	SHEET	LINE						
NUM. PIECES WANTED	NAME	TAG NO.						
DEPT.	NO.	EST.	2	D/P/D	2	D/P/D	WHY HELD UP	D/WG. NO.

THIS SPACE FOR PRODUCTION DEPT.	THIS SPACE FOR FOREMAN
DATE _____	DATE _____

Forms 48 and 49: The larger form (48) is a special report blank on which foremen are expected to report any important delay in their work. In the central office these delays are entered on Form 49, a follow-up card which is filed and constantly under the next date when news from the work is expected.

he has completed and sent forward. If the foreman finds that he cannot complete the work according to schedule, he notifies the production department on another special blank (Form 48).

Sending this report may often forestall all inquiry from the tracing clerk, for if no satisfactory word comes from the foreman on the day when each order is due, the clerk originating the order is reminded by his follow-up cards, and sets out to ascertain the cause of the delay. These follow-up cards (Form 49), are similar in their contents to the job tag. They tell when each order is due to be completed in the different departments, and the reason for any delays. In addition, the card contains the name and address of the customer, so that any request for information regarding progress of the work may be readily answered.

By the use of this or a similar method of putting orders through the shop, it is possible to schedule every operation and to follow up the completion of the schedule. Delays can be immediately located and steps taken to correct them. No sidetracking of one job for another is possible, for the date is as inviolable upon one tag as upon any other. With such a grip upon the working of the factory, the office is able to make promises of delivery with almost certain assurance that goods will be ready on time.

CHAPTER XIV

COST OF PRODUCTION

On account of the close competition in business today it is necessary for the manufacturer to know exactly what it costs to produce his goods. This is as true of the small manufacturer as of the large. As a result, in every well organized factory, systems have been arranged so that not the approximate cost but the exact manufacturing cost of every article is known.

Previous to the last few years, it was the custom with any firm starting the manufacture of an article, to adopt the market price, regardless of what the expense of production might be, and to endeavor to force the various expenses attached to the business within limits which would allow profitable manufacture and sale. This was an uncertain and unwise method, because the same conditions do not prevail in every business, or in every part of the country; and the fact that the article is sold for a certain price by two or three competitors does not prove that this is the price at which another house can manufacture and sell it. A competitive cost and sales rate must be established or some alternative course chosen. But the quickest way to come at this is by a cost system—by making every expense and every unfeasible device stand out separate and distinct.

The devising of cost systems for factories presents numerous difficulties in each particular instance, for there are many factors to be taken into consideration. Some idea of the number of contributing elements entering into production costs may be gained from the analytical chart shown (Form 50). For practical purposes in this chapter, however, we may consider the four principal elements to be the cost of labor, the cost of material, the machine rate, and the factory burden.

Sometimes these are reduced to three heads by including the machine rate under the general classification of factory burden, but this is a matter of individual preference.

What the Elements of Cost Comprise

Each of these classifications is composed of numerous necessary elements. The simplest of them to classify, though not to compute, is the element of productive labor, which includes the regular force of day laborers and piece workers, and special help employed in times of emergency.

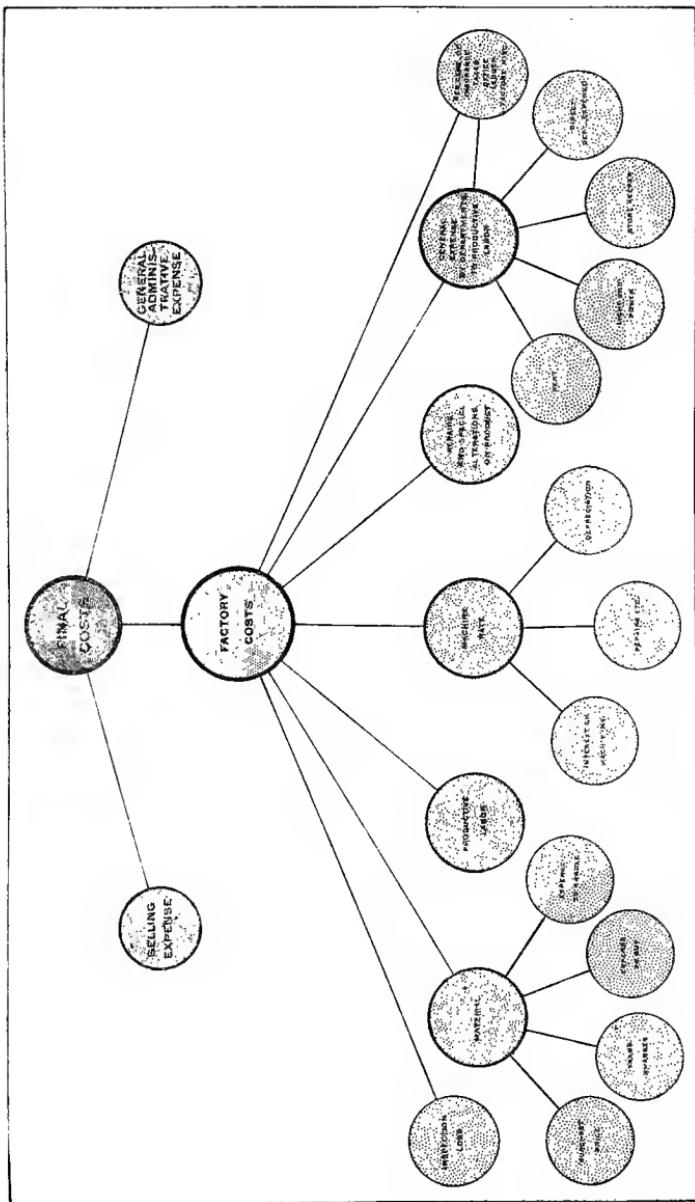
Into the cost of materials enters not only the purchase price but the expenses involved in making the purchase, the transportation charges, and the expenses of handling and storing.

By the machine rate is meant the current cost of the machinery equipment of the plant. In this the first item is the interest on the investment. There must also be considered all outlays for repairs, and a certain fixed rate of depreciation, figured annually on the machines.

Factory burden is often known as general or overhead expense. It consists of the expenses necessary to the plant as a whole, which benefit all departments and must be borne by all. Included under this head are such items as rent, heat, light and power, insurance, taxes, superintendence, factory office help and direct departmental expense.

When special operations or repairs have to be made on the product these also enter into the cost of production. The final element is the loss by inspection, when all finished goods pass under the scrutiny of skilled inspectors before leaving the establishment, in order that imperfect articles may be culled out.

The factory cost is now complete. Every article going out of the plant must bear its burden of these expenses. But this is not the final cost. Two more factors must still be added: the selling expense, and the general administrative expense. The latter is always to be distinguished from the general



Form 56: This analytical chart represents graphically the numerous elements which enter into the cost of any article from the raw material to the final sale. The factory costs only are separated into their elements. The selling and administrative expenses also are complex, and the final problem of ascertaining costs is intricate.

burden of strictly factory expenses. The desired profit added to this sum will give the selling price.

Dividing the Factory in Calculating Costs

To systematize the factory and determine the factory cost, it is first necessary to divide the factory into departments, very much as an office is divided. Over all will be the manager of the factory, who may be also included in the administrative department of the business. He is also often made a member of the executive committee, in order that his work may be in the closest possible touch with the administrative and office departments. His duties have to do with the gen-

Form 51: A workman's time ticket or report card is here shown. The time and rate as here set down serve the office as data in calculating both the man's wages and the cost of the product

eral policy of the concern and include the consideration of all questions bearing on the increase of efficiency in the factory and the improvement of the output. Directly responsible to him is the superintendent, upon whom rests the duty of carrying out the lines of policy prescribed by the manager. The superintendent's work may be divided into three departments: that of the actual manufacture of goods, the stock department, which embraces both the raw product and the finished article, and the shipping department, which has to do with the delivery of all goods.

In determining the factory cost, the first item to be considered, as shown above, is that of productive labor. It must

LABOR COST CARD				
ORDER NUMBER _____			DATE BEGUN _____	
DESCRIPTION _____				
NUMBER OF PIECES _____			DATE COMPLETED _____	
DATE	OPERATION	WORKMAN	PIECE WORK COST	DAY WORK COST
TOTAL LABOR COST _____				

Form 52: Labor costs on one job are daily entered on this card, which is filed by its order number and gives the total labor cost without delay

be determined exactly how much time each man devotes to any particular piece of work. In chapter XV, when we consider the various methods of paying workmen, the end in view will be to find how much time a man puts on all the jobs which pass through his hands, but for our present purpose, the finding of costs, we must add together the work done on a single article by every man through whose hands it passes. These records are kept on a variety of card forms.

In some factories the workmen are employed on a day wage basis, in others on a piece work basis; but in either case, the machinery of cost getting requires that they keep a record of the time spent on each job that passes through their hands. In the former case they are paid for a certain number of hours they have worked; in the latter, their pay is computed on the basis of the actual amount of work they have done. But no matter which method is used, the pay of the workman for the labor put on the piece becomes an element in its cost.

How Labor Costs Are Obtained

In order to find this labor cost, each man is required to keep a record of his work each day, classified by the order

numbers of the various jobs. A report card (Form 51) is used, permitting notation for either piece work or day work. The cards are turned into the factory office each night, where two uses are made of them. Their function as a basis of the employees' payroll will be described in the next chapter. For the present we are interested in seeing how the various items under each order number are assembled. For this purpose, cards are kept in the factory office for the assembling of the labor cost on each order (Form 52). These are filed by order number, and so long as the job remains in the shop, the cost of the work done on it each day is transferred from the workman's card to the cost card. By this means the total labor cost on a particular job can be ascertained.

ORDER NO. _____	DATE _____				
TO STOCKKEEPER:					
PLEASE FURNISH THE FOLLOWING MATERIALS FOR THIS ORDER					
AND DELIVER TO THE DEPARTMENTS INDICATED					
QUANTITY	MATERIAL	DESCRIPTION	TO WHAT DEPT.	PRICE	TOTAL

GENERAL EXPENSE SCHEDULE		
GENERAL EXPENSES		MACHINE RATE
		RE-PAIRS
RENT		
LIGHT		DEPT. 1
HEAT		2
POWER		3
TAXES		4
INSURANCE		5
UNPROD. LABOR		6
SUNDRIES		7
		8
		9
		10
TOTAL EXPENSE		TOTAL VALUE OF MACHINES
TOTAL PROD. LABOR		INTEREST ON INVESTMENT AT RATE %
% OF EXPENSE TO PROD. LABOR		TOTAL REPAIRS
		SUM OF INTEREST AND REPAIRS
		% OF MACHINE EXPENSE TO PROD. LABOR

Form 54: This schedule represents two distinct accounting processes. At the left the general expenses are totalled and their constant with reference to productive labor is fixed. At the right machine expense and labor are similarly compared

be quickly referred to. It directs the stockkeeper to furnish certain materials in stated quantities to the departments requiring them and has spaces for figuring the cost of each kind of material and footing the total expense at the bottom. The final item on this card is for assigning the proper proportion of the stock department's general expense. If it is found during the progress of the work that more materials of any kind are needed, they are ordered by the department foreman through the factory office and an additional card is

PRODUCTIVE LABOR FOR YEAR											
DEPT.	1	2	3	4	5	6	7	8	9	10	TOTAL
JAN.											
FEB.											
MAR.											
APR.											
AUG.											
SEPT.											
OCT.											
NOV.											
DEC.											
TOTAL											

Form 55: On this card is grouped the total productive labor for the year, assembled from the labor cost cards such as that shown in Form 52. This total is then transferred to Form 54

made out and filed with the first. Both are thus available when the time comes to recapitulate the total cost.

Apportionment of General Expense

These are all the items of production cost which can be figured independently of the rest of the plant. The machine rate and the general expense burden are found for each job by assigning to each its proportion of the general expenses of the whole plant. The basis of the apportionment is the amount of productive labor consumed on the order. If one order uses labor to the amount of \$100 while another uses only \$50

ORDER NUMBER	DATE
DESCRIPTION	NUMBER OF PIECES
TOTAL PRODUCTION LABOR COST	
GENERAL EXPENSE BURDEN AT _____	% OF ABOVE
MACHINE RATE AT _____	% OF ABOVE
MATERIAL COST	
TOTAL PRODUCTION COST	
SELLING EXPENSE AT _____	% OF PROD. COST
ADMINISTRATION EXPENSE AT _____	% OF PROD. COST
PROFIT AT _____	%
SELLING PRICE FOR THE ORDER	
AVERAGE PRICE FOR EACH ARTICLE	

Form 56: The constants of general expense, and machine rate are here applied specifically to the order whose number appears on the first line. The selling and administrative expenses, and the intended profit are then added, giving the scientific selling price

worth, the first must pay twice as much of the expense burden as the second.

Some manufacturers use as their basis the sum of productive labor and material costs, but this is not so common nor so satisfactory as to use labor cost alone. The proportion is reached in the following way: A schedule (Form 54), is drawn up of all the items of general expense, including rent, taxes, insurance, unproductive labor such as superintendence and office help, light, heat and power, sundries, and so on. The total of these items for a year is thus secured. Then the total of the productive labor expense in all departments is secured for the same period of time (Form 55). This total is compared with the total of general expenses, and the ratio of the latter to the former is ascertained. For instance, if the general expense is \$9,000 and the productive labor expense is \$10,000, then the expense burden is 90 per cent of the labor burden; so on every order where the labor cost is found to be \$100 the general expense burden must be figured at \$90.

Similarly the machine rate is computed, in the space provided for this on Form 54. The value of the machinery in the entire plant is computed, and the interest on this investment is figured. To this amount of the interest is added the total of the outlays for repairs during the period. This amount is compared with the total of productive labor, and the machine rate percentage is secured.

Assembling Cost Elements to Obtain Total

It is now time to assemble the various items of productive cost on a cumulative cost card. One card is given to each order number (Form 56), and on this are entered the various items which have already been ascertained: material cost and labor cost; and the amounts for machine rate and for general expense, based on the labor cost at the ascertained percentage, are added.

As before stated, the amount now secured is only the factory cost. To it must be added the selling expense, the gen-

eral administrative expense, and the per cent of profit. The first two items are secured by adding together the expenses of the sales department and of the general offices respectively and finding what relation they bear to the total value of the plant's output. The percentage is gained in the same way as in the previous proceedings, except that now we use as a basis the value of all goods put out by the plant, in terms of production cost. When the percentages are fixed they are applied to the total production cost of each individual order, to secure the selling and administrative expense. We now have the total cost of the order (Form 56). To this we add the percentage of profit which it is intended to make, and we have the selling price of the order. If the order is for a quantity of articles, we divide the total selling price by the number and arrive at the selling price of each piece.

CHAPTER XV

METHODS OF PAYING EMPLOYEES

The labor item is usually the largest element of expense in any business office, mercantile or manufacturing. For this reason, it is imperative that records be kept showing the amount of work done by employees, not only as a basis for the payment of their wages but also for use in determining the actual cost of running the business.

In a modern organization, these records are prepared through the work of three departments, the timekeeping, the cost and the payroll. The name of each indicates its nature.

In the timekeeping department is compiled an accurate report of the amount of time put in by each employee. This information is finally condensed for all the employees into a total upon the official payroll.

The cost department uses the same or similar facts in determining what part the labor element contributes in the cost of production, and whether the rates of payment are so high as to infringe upon the margin of profit. In other words, the cost department safeguards the interests of the firm in watching the cost of productive processes. Naturally, this work finds its greatest field in a manufacturing establishment, but a reliable cost or accounting system proves a valuable guard to the profit line in any kind of business.

Finally, the payroll department is charged with disbursing the wages of employees, a duty which in large establishments is both complicated and responsible.

Recording the Time of Employees

In the simplest form of time keeping, the amount of time spent at an assigned duty constitutes the basis of record and payment. This may be kept track of in a number of ways.

										IN	NOON	OUT	MON.	TUE.	WED.	THU.	FRI.	SAT.	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	
39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	
58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	
77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	
96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	
NAME _____																			
ADDRESS _____																			
POSITION _____ NO. _____ DEPT. _____																			
LUNCH HOUR _____ WEEKLY SALARY _____																			
TIME FOR WEEK FROM _____ TO _____																			
RECEIVED PAYMENT IN FULL FOR SERVICES TO DATE AS ABOVE INDICATED.																			
													A. M.	MON.	TUE.	WED.	THU.	FRI.	SAT.

Form 57: This simple time card is punched four times daily, when the employee begins and stops work. The style of the punch is a general check on tardiness.

Time-recording clocks have found favor in many stores and offices, as they are simple in operation and provide all the information necessary. Each employee is given one of the permanent numbers appearing on the dial of the recording clock. As he passes in on his way to work he moves a pointer to his number on the dial, presses the pointer, and the time that he enters is recorded on a strip of paper within the clock opposite his number. He "rings out" whenever he leaves the building and "rings in" when he returns. Several columns are provided on the recording strip, so that entry can be made for morning, afternoon and evening. These strips are removed each day and at the end of the week the total time is easily computed.

Another method is to provide each employee with a card or metal tag bearing his number. As he enters the building he takes his tag or card from the rack where all are hung, and deposits it with the time clerk, who enters on his record the time of entrance. In other respects the system is conducted like the clock system record.

Still another time keeping method is to provide each employee with a ticket (Form 57), which contains squares around

the edge for punching his arrival and departure on each day of the week. With this system the character of the punch mark indicates the time of the employee's arrival. Perhaps a small round hole is made when the card is presented on time, and a large square hole when the bearer is late. Habitual tardiness is thus made very conspicuous. New tickets are issued every Monday morning, and at the end of the week are collected so that the timekeeping department may make out the payroll.

With all of these methods, it will be noticed, time is the only element taken into consideration. The day's wage or weekly or monthly salary is the unit of payment, and the records show nothing of what the employee does between his entrance and departure. The danger in this system is, therefore, that it offers no incentive to industrious application to duties during working hours. This fault it is the purpose of the other methods of time-recording to correct.

How the Piece Work Plan of Payment is Operated

The second method of recording work is used in connection with the piece-rate system of payment. Reduced to simplest terms, it means that a definite rate is established for a single operation of a particular kind, and the employee's wages depend upon how many times he performs that operation. Its purpose is to discourage idleness and to increase output. Often the output is increased in quantity at the expense of quality. For this reason a necessary accompaniment of the piece rate system is a provision for rigid inspection, to guard against slipshod and hasty work.

The records used in connection with a piecework system of payment are those which have been already described in Chapter XIV, under the subject of production costs, for the same information which shows the labor cost on a certain kind of goods serves also to show how much credit should be given to the workmen who perform the operations. The mere transference of these items to the workman's record (Form 58),

Form 58: The weekly time sheet shown here is used to record the pieces finished and the time spent upon them by the individual workman whose name would appear at the top. Below is a blank for a complete summary of the hours he worked. The purpose of the blank is to give the time consumed on each job, as a check upon piece rate payment

instead of to the production cost card, permits the computing of the total number of operations he has performed, from which his weekly wages are determined.

If the piece work system is adopted, great care must be used in fixing the rate. It is necessary, first of all, to watch the operations of many men—a score or a hundred—over a long period of time, with an aim to determining an average capacity which the wage must meet. To appoint a pace-maker is not fair, as he would probably work above ordinary speed. One week's conditions are not average conditions; one machine's efficiency is not necessarily the average efficiency. Neither is it advisable to select one or two men out of a shop, and keep track of their operations, for should they learn of the test they might endeavor to make the rate high by keeping their output down.

Getting a Basis for Piece Work Payment

But by allowing a body of employees to tell their own stories, hour by hour on daily time sheets for a period of a month, all these difficulties are eliminated, and the bare figures stand out as a comparative statement on which to base a fair and just rate. An average taken under routine conditions will form a surprisingly correct basis for estimates.

The system employed in gathering the information is very simple. Each morning the foreman hands the workman a card (Form 59), first entering on it the workman's check number, the name of the operation, the number of pieces and the job to which this work is to be charged. The workman enters the time he starts and the time he finishes the job; he also enters the net time actually spent on the work and the unused time. If there is any time unused he must give the reason—whether it was because his machine broke down, because he ran out of material, or for whatever cause. In the "remarks" column the workman is supposed to enter any comments he may have upon the work. If his machine runs slowly he should say so; if his raw material is obstinate he records that.

Forms 59 (below) and 60: By careful adherence to the use of these records, a scientific piece rate can be calculated. The lower blank is filled out by the workman, except the four columns marked with an x. The upper blank is a sheet for totals and results

This is done so that in the determination of the rate, all considerations entering in may contribute to the greatest accuracy.

At the end of the day, the foreman and the timekeeper sign the cards. The columns which are marked with an X on the form are filled in at the office. If this sheet is used during the period in which a rate is being determined, only the day-rate column would be filled in.

Getting Totals from Daily Work Tickets

The figures from these various daily tickets are then entered on a recapitulation sheet (Form 60). Each operation is given one sheet. The amount of work done by each man, his check number, the name, his day rate, the actual hours put in, the gross hours put in, the price paid him for this work, and his own remarks are entered. It is possible to enter the entire month's work of each man on one line, except when unusual circumstances have affected his work, in which case that work should be put on a separate line, followed by explanatory remarks.

When the month's work of forty or fifty men has been entered on this sheet, with all the data, full information is at hand for the determination of the rate. Such a rate is set as will allow a man to make as much as his day-work wage; determinators usually make the piece rate price a shade lower, because a man will always work a little faster under piece work than under day work.

These same forms can and should be used even after a piece-work rate has been established, in order to keep the rate right. Conditions are constantly varying in a factory; there may be a change in the kind of raw material used; an improvement in machines; an alteration in the method of power distribution—in fact, in a thousand and one ways variations may enter. Even where there has been no apparent change in conditions, the data should be collected periodically, for an unnoticed change may have come in, or the workmen may be becoming more expert.

AGE	SERVICE	MARRIED		CHECK		EMPLOYEE'S NAME	RATE (HOUR)
		SINGLE	W.	M.	S.		
DEPT.	YEAR	DAY WORK	PIECE WORK	HOUR AV'GE	TOTAL	PC. WORK	PER MONTH
	JAN.						
	FEB.						
	MAR.						

Form 61: This is a filing card showing the work an employee turns out each month. To compare the work month by month, and man to man gives an accurate idea of each workman's worth to the firm

When the system is used for these purposes, the piece work rate columns in the forms are also made out. On the recapitulation form it will then appear whether the estimated price is correct, that is, whether it corresponds with the day work price.

Keeping in Touch with Workmen

This system has a third use; besides being a source for the collection of piece-work rate data, it also affords close touch with the work of individual employees.

Each month the recapitulation sheet will show what work an employee is doing as compared with his fellow workmen, especially when some men are working on the day work basis, as circumstances very often compel. This sheet will then show whether they are loafing or keeping up their speed.

As a supplement to this last feature of the system, the employee's record card (Form 61) may be used. This card contains the essential data regarding a man's personal history, and is ruled by months to show his wages, the hours of day work and the pay therefor, the hours of piece work and the pay, the average hourly wage for the piece work, and the total earnings per month.

Thus, in the course of months and years, this card will show the worth of a workman, compared with other cards or with the standard which may have been determined by experience; it will show whether a man is fast or slow, a good or poor worker; it will show whether his efficiency is keeping up; but most important of all, it will show the work for which he is best fitted and in which he is an expert, for in every factory workmen are interchanged more or less between departments. It should be one of the duties of a factory executive, and one of the marks of his efficiency, to put men where they will do the best work. This is just as well as expedient to all concerned.

The Weakness of the Piece Work System

The weakness of the piece work system lies in the fact that invariably the time comes, no matter how the piece rate may have been computed, when the wage earned seems too high for the labor employed, and rate cutting is begun. So the piece work system carries not only a penalty for doing poorly—in the small amount of wage earned—but also for doing too well—when too large a wage is earned. The rate cutting results in the partial or entire cessation of further speed effort on the part of the employee, which, in turn, affects equipment speed and cost proportionately. Thus, in a way, one of the desired objects is defeated. It was desired to inspire the workman to unusual effort by offering him the chance of large wages on the basis of piece work. But when the growth of his wages results in a cut in the piece work rate he has learned a lesson; that if he pushes his production to a point which raises his earnings beyond a certain more or less clearly defined limit, the direct result will be another cut in the piece price.

Such an extreme condition is not necessary when due study and consideration have been given to setting the piece rate in the first place, or when the management is experienced in handling the piece work system.

This system has been most fully developed in manufacturing plants, but there are features of office work to which it can be adapted, such as the addressing and mailing of circulars and the production of typewritten letters.

The Premium Plan for Mercantile Businesses

We now come to the consideration of a plan which proposes the elimination of the evils found in both the day wage and the piece work systems of payment. It is known as the "premium plan" for paying labor and seems to have in it the true economics of production, as it embraces the following points: the lowest possible wage per unit of production; an incentive for the workman to maintain the highest output; a decrease in unit proportionate to any increase of wages.

In piece work we have seen that the wage price per piece is constant and unvarying, except when rate cutting is resorted to. In other words, the workman receives the full benefit of the increased output. By the premium plan, the workman and the employer both share in any increase of output above the established standard. This results in satisfaction to the employer, for his profits are thereby increased, and also to the employee, who may increase his output and therefore his wages without fear of a cut in the rate.

The principal feature of the plan is to fix a definite number of hours for the performance of a certain job. For this a stated wage is paid. If the workman reduces the time of operation, he effects a saving in cost of production, and is given a portion of that saving. For example, suppose a workman is paid \$3 for ten hours' work, which is the standard judged to be fair for doing a certain piece of work. If he reduces the time on the piece an hour, that hour represents in money value a gross saving of thirty cents. Ten cents of this amount is paid to him as a premium in addition to his day's wage of \$3, leaving the remaining twenty cents in the employer's possession. If the workman goes on reducing the time in which the piece is made, the same process is repeated,

each hour saved resulting in an increase in the workman's wages of ten cents, and in a reduced cost to the company of twenty cents. In other words, the wages go up and the cost goes down simultaneously. This is shown in the accompanying table (Form 62), which for purposes of illustration, is extended until the workman has doubled his output, when the labor cost of the work has gone down from \$3 to \$2, while the workman's earnings per day have advanced from \$3 to \$4.

There is, of course, a considerable gain to the employer due to the increased production from a given plant, since the items of overhead expense for supervision, machinery, floor space and so on, which must be added to the cost of labor and material in order to obtain the ultimate true cost, are increased only a little by the increased production.

Records Needed in the Premium System

For the maintenance of the premium plan a few records are necessary additional to those used in the piece work system. To ascertain the amount of wages earned on the flat basis, Form 58 is used in this system as well as in the one

1 TIME CONSUMED, HOURS	2 WAGES PER PIECE, DOLLARS	3 PREMIUM DOLLARS	4 TOTAL COST OF WORK = COL. 2 ÷ COL. 3, DOLLARS	5 WORK MAN'S EARNINGS PER HR.
10	3.00	.00	3.00	.30
9	2.70	.10	2.80	.311
8	2.40	.20	2.60	.325
7	2.10	.30	2.40	.343
6	1.80	.40	2.20	.366
5	1.50	.50	2.00	.40

Form 62: This drawing represents the increase in wages and decrease in piece cost which take place as a workman acquires speed under the impulse of a graduated premium system of payment

Form 63: This blank is used as a check upon the premium system. The various pieces are entered, with the limit of time under which they can profitably be turned out and the gain due to the workman's speed

previously described. The workman's time is also assembled in a weekly gain report (Form 63), which records the time used in each operation, the time limit allowed, the resulting gain or loss and the money value of the gain.

In considering the premium plan, it becomes apparent that some accurate method is needed of computing the time spent on each operation. The ideal system is one which takes little of the workman's time in making out records, and prevents error or dishonesty.

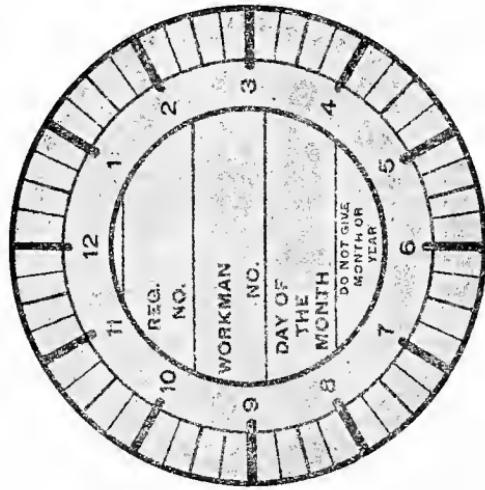
For this purpose the time card shown in Form 64, has been found satisfactory. On the card is a clock face by means of which the time used is recorded. For each job upon which he works, the employee makes out a new card, fills in the number or the quantity of pieces he is working on, enters his own number and date of month on the face of the card in blanks provided, and places a check mark opposite the operation he performs.

Now suppose he begins work on this job at seven o'clock in the morning. He simply places a mark opposite the corresponding figures of the clock face on his time card; he does the same thing when he finishes the job, and connects the two marks by a curved line. It is almost mechanical; he need do no figuring, he need enter no figures. The time cards come into the factory office every morning, and the time spent on each job is entered by the time clerk on the workman's weekly efficiency record.

While the premium system may not be as direct in its intensification of production as the piece work system, it certainly seems more permanent in its effect, and much more equitable in its distribution of cost saving as between employer and employee; and, further, it seems to be governed by true economic principles in manufacture.

The Premium Plan and Its Advantages

In a mercantile establishment it is possible to use the premium plan in the payment of salesmen. Their salary for



WRITE NOTHING ON BACK.

PRINT OR TYPE YOUR NAME
AND ADDRESS
IN THE SPACES PROVIDED
FOR EACH JOB BEING
BEGUN.

IF OPERATOR IS NOT PRINTED HERE, WRITE SAME IN BLANK SPACE BELOW.

Form 64: This time card is used on only one job. The workman checks the work he is engaged on, marks on the clock face at the right, the time of starting and upon finishing the work, checks the quitting time in the same manner

NAME _____			
DEPT. _____	NO. _____		
ENTERED THE DEPT. _____			
190			
JAN.		JULY	
FEB.		AUG.	
MAR.		SEPT.	
APR.		OCT.	
MAY		NOV.	
JUNE		DEC.	
SALARY _____		TOTAL SALES _____	
SALES LAST YEAR _____		BASIS OF SALARY _____	
INCREASE THIS YEAR _____		EXCESS _____	
SALARY FOR NEXT YEAR _____		PERCENTAGE OF PREMIUM _____	
PERCENTAGE OF PREMIUM FOR NEXT YEAR _____		AMOUNT OF PREMIUM _____	

Form 65: This card is intended to contain a summary of a salesman's work for an entire year. It shows plainly whether the salesman is earning his wages and what his salary for the next year should be.

the year is usually based on the amount of sales they are expected to make during the year. This figure in turn is an estimate based on their sales of the previous year. If a salesman finds toward the end of the year that his sales are amounting to the expected total, he will not try to raise them much beyond that sum, since no additional salary will come to him as a result, while on the other hand, his large total will work to his own disadvantage by raising the total which is expected of him for the following year. Let him be paid a premium on all the goods that he sells above the limit set for him and he will at once have an incentive to increase his sales to the highest possible mark. Form 65 shows a card on which his record may be kept. Each month his total sales are entered, and at the end of the year the grand total can be compared with the amount which was the basis of his salary. If he is allowed a certain percentage of the excess, this sum becomes a premium to add to his year's salary, and the total amount of sales becomes the basis for fixing the next year's salary.

CHAPTER XVI

ADVERTISING

All the routine of business organization and management leads ultimately to but one end—the selling of goods. The buying of material, the hiring and training of men, the devising and perfecting of factory, store and office systems, in fact, the entire program of production and the organization of retailing and accounting forces, is but preliminary to the one final element upon which business depends—the distribution of goods in exchange for cash or its equivalent.

The thing disposed of may be an article or an idea. It may be a locomotive sold by a great manufacturing concern to a great railroad; or it may be a professional service sold by a physician to a patient. Either transaction has all the characteristics of a sale, and each marks the culmination of a direct business purpose in its particular line. The locomotive was made possible by careful processes of molding, machining, assembling and testing; the physician's services through years of study, training and actual experience. Yet without the final barter for cash either would have been a failure.

Extended to business in general, the application is simply this: that though the factory may produce goods at lowest possible cost and the office conduct its work most systematically, unless the sales organization can sell the product, all effort and perfections elsewhere count for naught.

Selling stands, then, as the climax in the program of business, and the organization and functions of the sales department deserve the most careful consideration.

The Three Duties of a Selling Organization

Three things the sales organization must do in the successful execution of its work. First of all, it must create an

interest in and a demand for the product it has to sell; second, it must arrange for the distribution; and third, it must actually sell the article.

In substantially every case, the first requirement will be effected through an advertising campaign, conducted either by the sales manager himself or by an advertising manager closely associated with him. Twenty years ago this phase of the sales work was scarcely considered in placing a new article on the market. The salesman was given his catalogue and his order book, and sent forth, dependent solely upon the effectiveness of his own tongue, to make both the first impression and the closing argument. Today such methods are so obsolete as to be practically unknown, while advertising has become so mighty a power in multiplying the efficiency of the selling force that it is absolutely essential to successful sales promotion.

Advertising in general is of two kinds, indirect and direct. By indirect advertising is meant the general publicity methods employed to place the name of an article prominently before the public and to keep it there once a demand has been created. Such campaigns are usually originated and maintained by the manufacturer or jobber for the benefit of the retail trade, the promoter deriving the real benefit of the publicity through increased demand for production.

There is practically no limit to the variety of mediums utilized for publicity purposes. Magazines and newspapers are the most common, but countless outdoor mediums and schemes are employed to catch the eye while the mind of passenger or pedestrian is otherwise unoccupied. There are bill-boards to confront him on every street and road and railway by day; and electric signs to flash their messages out of the dark by night; street car signs for him to read as he rides to and from his work; and banners to remind him of familiar names, hung in the sky on kites.

The novel uses to which electricity may be adapted have made the electric sign one of the most popular and effective

of all publicity mediums. Its brilliancy at night makes it much more prominent than ordinary bill-boards, and the automatic flash and color variation often used is bound to catch and hold the attention long enough for the sign to tell its story. Almost every big city store now uses some kind of electric advertising display during the evening hours. New York's electric light bill for this purpose alone amounts to \$50,000 nightly, and with improved devices—increased facilities—this total must go on growing.

Results from Indirect Advertising Not Traceable

Indirect advertising is so subtle a proposition that it travels in many disguises and the world sometimes joins heartily in passing the word of wonder regarding some great achievement without realizing that it is simply marking the success of a new triumph in profitable publicity. A few automobile manufacturers have gained an abundance of advertising by entering their cars in sensational races, and two New York companies have set the whole world talking and gained uncounted pages of the best kind of publicity, by erecting office buildings which reach many stories farther skyward than any ever built before. The men behind these enterprises have realized that the best advertising is also news, and that any achievement out of the ordinary will fix their identity in the public mind beyond forgetting.

But the great difficulty with general publicity advertising is that no direct returns can be traced, and the only evidence that a campaign has been successful is the proportionate increase in sales. Naturally, in such classes of advertising vast amounts of money are often spent before it is found that the scheme has no pulling qualities. Some concerns, even though advertising for the benefit of the retailers, have sought to get letters direct from the readers by offering in their magazine advertising fine booklets or samples of their products. No sales are made to inquirers direct, but it is possible to judge from the number of letters received to what extent

the public is being interested and what mediums are doing the most effective work.

What Direct Advertising Is

By direct advertising is meant the use of newspaper and magazine space or circulars and form letters to present a specific proposition, seeking returns either in actual orders or inquiries. This method can be used on as large or as small a scale as desired and controlled from day to day if need be, for returns can be definitely traced to the medium which prompted them and tests of pulling qualities easily made. Firms selling entirely by mail use direct advertising almost exclusively, and manufacturers and jobbers selling through men on the road find the direct mailing of letters and circulars of valuable assistance to the sales force.

Circularizing is preferred by many houses to the use of magazine space, for the latter is very expensive and only a small percentage of subscribers can be counted on to read a given advertisement. A letter or circular is at least sure to come to the attention of its recipient whether or not it is carefully read to the end.

Now that the two general divisions of advertising have been outlined, let us take up the routine of work in conducting an advertising campaign. This will consist of the preparation of copy, the choosing of mediums, the actual placing of the advertisements, the recording of results through keying and testing, and finally the calculating of costs.

Functions of the Advertising Agency

Before going into this in detail, however, it is well to consider the position of the advertising agency, the organization that has played the largest part in the development of advertising and made itself an indispensable factor in the business world. An advertising agency performs two functions. It acts as an expert or specialist in originating publicity ideas, planning campaigns and preparing copy; and it stands

between the advertiser and the magazine or other mediums, ready to make contracts and place advertising to the best advantage. Naturally it is in position to do all things better than the ordinary sales or advertising manager, because it makes a business of evolving new ideas and because in buying space, not for one but for a thousand concerns, it can secure greater concessions than a single advertiser. Acting as a middleman, it has forged a link between advertiser and publisher, made clear the way for producer to reach consumer, and at the same time made its own position permanent.

Any publication or other medium is willing to pay a certain percentage to the agency for the business turned in, as the account is against the agency instead of the individual advertiser, and a magazine's advertising business is also more steady if one or more agencies are soliciting for its pages.

Of course, some evils have grown out of the system and a few agencies have imposed on the public by inducing advertisers to spend money through them where the appropriation was practically wasted—an inevitable result where the interests of some publishers are placed above those of the advertiser. The ideal agency is the one which accepts fewer clients and gives them absolutely sincere service.

Copy has been called the "soul of advertising." Upon its effectiveness depends the success of any publicity venture, for a poorly planned advertisement in the very best medium will be lost among those more attractive on every side.

Primarily, every piece of good advertising should do three things—attract, interest, convince. Neither a volume nor a page is necessary to fulfill these requirements. A bill-board or a street car sign may do it in a single sentence in which drawing powers and selling points are cleverly concentrated in a few words, accompanied possibly by a picture.

The Two Styles of Copy

Copy in general is of two styles, suggestive and argumentative. Practically all outdoor advertising is of the first

class,—the persistent use of a brief but attractive catch line or a characteristic picture, designed to familiarize the public with a particular brand. It is at once evident that the only result from this kind of advertising is general publicity. Its slogan is simply, "Do not forget."

The suitability of such advertising depends entirely upon the goods exploited and the extent of the campaign. For a certain brand of flour no other method could well be used. Flour is a staple article whose merits can only be determined by trial, hence, the sole aim of the manufacturer is to give the name of its brand such prominence that cooks will use it and then, constantly reminded of its name, continue to use it. But even with baked beans, for instance, the case is different, for they are a ready-to-eat article of food produced by many processes, and it is interesting to note how rival manufacturers have devoted whole pages to logical arguments showing why the particular brand of each is superior to all others. Such argumentative copy is plainly productive of the best results, and the style should be invariably used in direct advertising and wherever possible even in general production schemes.

A magazine or newspaper advertisement designed to pull must bear an attractive caption or illustration that will halt the reader as he glances through the page. It must be written in a crisp, direct, straight-from-the-shoulder style. It must appeal to the sense it aims to satisfy and carry the note of sincerity in every word, and it must reach a logical conclusion, convincing the reader that to purchase the article offered means his personal profit or advantage.

It must be remembered, however, that it is utterly impossible to lay down strict rules in advertising. Style of copy will vary with the nature of an article and again with the nature of the medium. Magazines are of comparatively permanent value. They lie on the library table or the office desk for a month or more to be read in leisure hours. Hence advertisements can be more detailed in argument, more elabo-

rate in exposition. But a newspaper is read by busy men and women at the breakfast table, in the street car or suburban train. It lives an hour or an afternoon. Advertisements in such a medium must be brief and to the point, timely, possibly carrying a touch of the day's news. A retail store with numerous articles listed will display a few specialties prominently to catch the passing eye.

Copy Writing for Circular Letters and Booklets

The greatest opportunity and the greatest need for convincing sales talk is in the preparation of copy for circular letters and booklets to be addressed to selected lists of names. Here the writer is no longer preparing an advertisement; he is actually making a sale. He should consider that he has gained an audience with his prospect through the courtesy of the mail and is giving him straight sales argument over his own desk.

Circularizing consists not of one, but of three or four letters, which together with supplementary catalogues or booklets, comprise a follow-up series. The initial letter is usually designed simply to arouse interest and secure a request for further information. Once this has been obtained, the inquirer may be considered a fair prospect and the succeeding letters and literature aim to close a sale as soon as possible. Too much care cannot be exercised in the preparation of the first letter. It must contain just enough about the merits and advantages of the goods offered to prompt in the mind of the reader a desire to know more concerning them. It must take him into confidence, talk heart to heart, yet still contain that luring touch of mystery which makes him write at once that he may learn more.

Preparing Follow-up Material

Before the first letter is addressed all the material for the follow-up should be prepared, consisting of four or five form letters, and suitable booklets and circulars.

As the first letter was designed purely to arouse interest and prompt an inquiry, the second should attempt to anticipate the nature of the prospect's questions and answer them fully, at the same time concentrating every effort in creating sufficient additional interest to consummate a sale. To provide for still further inquiry or delay, a third is also prepared, and even a fourth and fifth. In the actual follow-up there will of course be inquiries to which specially dictated replies will be necessary, but the aim is to prepare a series of letters approximately suitable, of which a great number can be prepared in imitation typewriting and used with only name and address filled in as replies.

In those cases where an attempt is made not only to interest the reader, but to actually complete a sale with the first letter, a more than ordinary degree of cleverness in copy writing is required. Such a letter will of necessity be fairly long and interest must be aroused in the very beginning sentence or the reader will throw the letter aside and the closing sales argument will be lost. In general such a letter will have to contain all the qualities comprised in a follow-up series where inquiries only are sought in the first letter.

Requisites of an Advertising Booklet

Most articles to be sold by mail will need not only the letters, but one or more booklets to accompany them, containing a greater detailed description and more extensive presentation of arguments and facts. The average prospective customer who is interested at all, wants to know not a little but a great deal about the article he thinks of buying. He wants to be shown pictures and given more reasons. These must be presented to him through an attractive, artistic medium. The writer of an advertising booklet must first of all master the selling points of his goods, and then gradually weave them into his story until he has the reader of the booklet so absorbed that he is taking in argument unawares. Lay out a well written booklet in attractive mechanical style,

print it on good paper, dress it in an artistic cover, and it constitutes a silent salesman that will decide many a hesitating buyer and bring many an order to the house.

The preparation of advertising copy, which we have here considered at some length, is naturally followed in the routine program by inserting in the proper medium with a view to reaching the desired class of readers. With circular letters and booklets this will consist simply in the selection of a mailing list. There are in all large cities firms who will furnish almost any list of names that is wanted, as for instance, a list of the dentists or the architects in the United States or the farmers in a certain territory. Dun's and Bradstreet's registers are also extensively used for this purpose, as they contain not only a complete list of all business concerns, but their rating as well. So if a manufacturer wishes to circularize all dry goods stores rated at \$25,000 or over, either in a particular city or in all cities, he can get the exact list from one of the commercial registers.

As this class of advertising is limited almost exclusively to mail order concerns, further consideration of methods of circularizing and the subsequent follow-up will be left for the chapter on mail order selling. We are here concerned more particularly with the choice of mediums in the magazine and newspaper field.

Choosing a Medium Among Publications

Actual buying of space and placing of copy is usually done through the services of an agency, but unless the agency is given absolute freedom in the entire directing of a campaign, the mediums to be used will be chosen by the advertising manager of the firm. In either case the aim will be to utilize those publications reaching the greatest number of readers interested as a class in the goods advertised.

As between the magazine and the newspaper the principal difference lies in the extent of the field covered. Newspapers are essentially local in circulation; most magazines pretend

to be national. Hence the newspaper will be the natural medium of retail stores and for all advertisers wishing to reach trade in a particular territory. Its value for general publicity purposes depends upon the nature of the article to be marketed.

This, in fact, will be the prime consideration in the choice of any medium. To advertise an article to a reading public that can have no possible interest in it or use for it, is sheer waste of appropriation. Goods of practically universal demand or for which such a demand is sought, as fountain pens or soap, will be exploited in general or special magazines of all kinds, and the greater the circulation the better. But for certain articles appealing to a single class, the entire market may be covered with two or three trade journals. To go outside this field and advertise turret lathes in the "Delin-eator," for instance, would be quite as profitless a venture as to sing the praises of a certain brand of talcum powder in "The Iron Age."

But no matter how carefully a list of publications may be chosen, it is utterly impossible to predict their pulling qualities. To prove what mediums are of greatest value, to weed out early the unprofitable ones, and finally to calculate the actual cost of the business secured, all advertisements are put to a strict test and accurate records of returns are kept.

Keying Advertisements to Trace Results

As observed previously in this chapter, it is impossible to keep an exact tab on returns from general publicity campaigns. Mail order advertisements, however, seeking orders and inquiries, can be strictly tested for effectiveness. This is done by giving a distinguishing key to the advertisement in each publication, as by the use of various street numbers in the address. For instance, suppose Brown & Company are located at 115-125 Main street. Their address in McClure's Magazine might be given as 115, in Munsey's as 117, and so on.

If the firm is advertising in a large number of publications it may even use additional numbers, as the slight error in address would mean no delay in delivery of mail to a well known house. Another plan is to give a department number in the address. In one magazine the address might read "Brown & Company, Department A," in another, "Department B." More common than either of these methods, however, is the use of a corner coupon order blank, in which is printed the name of the magazine or some other distinguishing mark. The coupon has the additional virtue of making it easy for the reader to order or inquire.

When the mail is received all letters containing orders pass directly to the order department, but are returned, as soon as the orders have been entered, to the person who is handling the advertising records. Inquiries regarding goods go to the sales department first to be answered and are then referred to the record clerk. For keeping track of the returns each day, a three or five column tally sheet (Form 66) may be used. In the first column under the heading "Publication," are written the names of the various periodicals in which advertisements are being carried, or identifying names for circular matter used. The second column is for inquiries and the third for orders. As each letter is taken up and opened, a check is placed opposite the proper medium in the inquiry or order column as the case may be. Orders secured by follow-up and special correspondence should be credited to the magazine or circular which prompted the original inquiry.

Figuring Advertising Costs

When the last mail for the day has been checked up the figures of the tally sheet are posted to form cards (Form 67), each arranged for a year's record for one medium. One of these cards provides space not only for entry of daily returns and monthly and yearly totals, but also for all the necessary information concerning the advertisement or circular letter it

Forms 66 and 67: The second and third columns of the smaller form (66)—of which the following columns are duplicates—contain a check mark for every inquiry and order respectively. Form 67 affords a year's summary of results from a single medium. The "Cost Each" comes from dividing the monthly cost by the number of inquiries or orders received during that month.

represents. For instance, in the case of an advertisement, it will show the name of the magazine, the amount of space, as $\frac{1}{4}$ page or $\frac{1}{2}$ page, its cost, the issue in which the advertisement was run and the key number used.

From such a record it is a simple matter to divide the total number of sales made in a certain month or year into the cost of the advertisement and determine the exact cost of each sale. The house can then determine what mediums have fallen below the margin of profit and should be dropped, and what ones it can well continue to use.

The records here described are very simple, but variations of them may be adapted to almost any demand in advertising cost calculating. Houses handling several articles by mail will have need of a more elaborately arranged card for recording the sales in each line and figuring the advertising cost under each respective price.

Checking returns and figuring costs constitute the final chapters in the routine of an advertising department. The resultant records tell the house two things—whether it has been successful in creating a demand for goods, and if so, along which ways the smoothest paths to profit lie.

CHAPTER XVII

SALES MANAGEMENT

To reach the greatest number of buyers and sell the greatest quantity of goods at the least possible expense—this is the aim of the sales department. To attain this end it may use one or a number of selling methods, depending upon the character of the product sold. Some branches of business may have a market such that every agency in the sales organization, including direct salesmen, branch offices, mail order departments, and retail agents and dealers, can profitably be employed (Form 68). Such a selling campaign, when practicable, enables the house to reach customers from every possible angle and attack them at every vulnerable point.

Comparatively few lines of trade, however, permit of so general a campaign. It is usually found necessary, or at least advisable, to throw all the energy of the organization into the one method which will prove most effective in establishing, maintaining and constantly increasing the market for its goods.

Closely related to selling methods are the provisions for distribution, also entirely dependent upon the nature of the product to be sold and the class of buyers to be reached. A manufacturer or jobber introducing a new brand of cigars must place his goods with the retailer through the efforts of salesmen. But it is quite useless to expend money for advertising until the cigars are actually in the cases of the retail dealers, ready to supply the demand the moment created. In another line it may be necessary to establish branch houses in different sections of the country, providing them with sufficient stock to fill rush orders. Again, in selling such goods as furniture, shoes or hardware specialties, no distribution prior to the selling effort is necessary, but complete

arrangements must be made for shipping, and transportation rates and facilities must be determined covering all points to which shipments may be made.

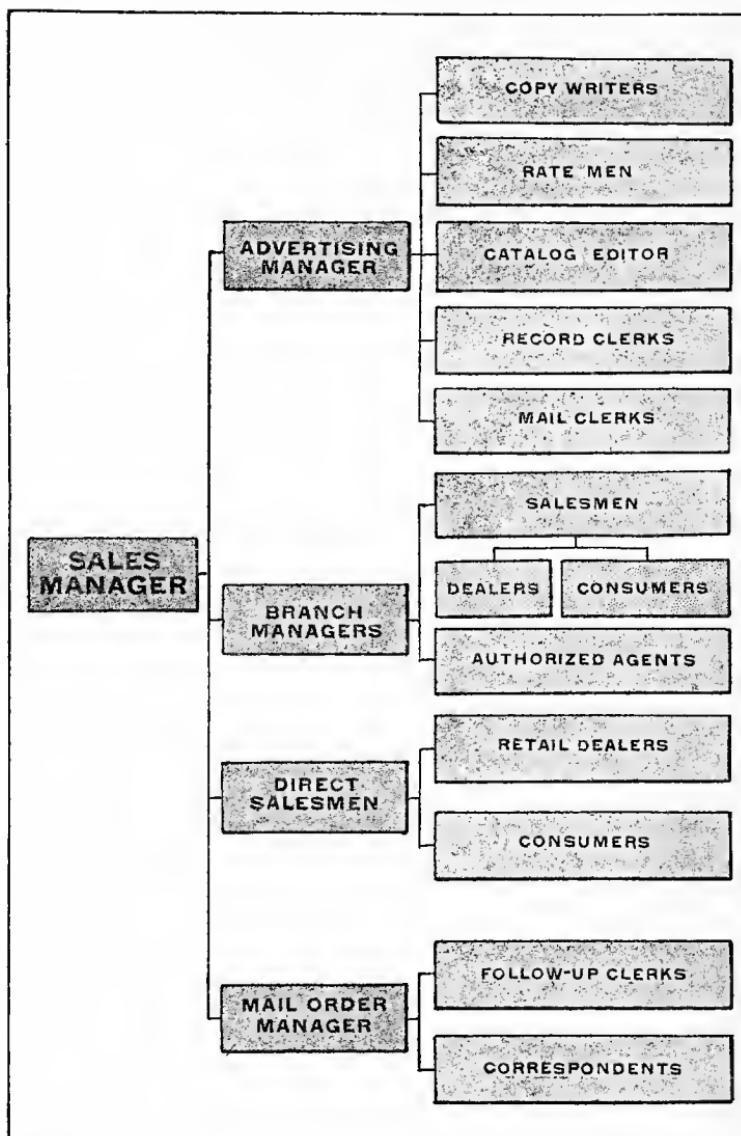
Importance of the Traveling Salesman

All selling methods have been revolutionized in the past twenty or thirty years and mail order merchandising, for an innovation, has claimed an enormous share of trade. But the great bulk of goods produced are still transferred from manufacturer to consumer through the work of the traveling salesman. Advertising paves the way to easier sales by creating a greater demand, but competition is correspondingly more keen and the most certain way to bring in orders is still to effect a point of contact with the dealer and consumer through the personality of a direct representative. Hence there is no more important factor in the selling organization than the men on the road and no more important feature of sales management than handling and directing the field force.

Salesmen are supervised in their work either directly from the home office or by branch managers, again depending upon which method the house considers best for covering its territory.

A branch house is in effect simply a part of the central organization, located in different territory for convenience in selling and distributing the product, and while some houses see fit to entrust their branches entirely to district managers, it is the general rule to control their work from the central office by means of a double report system. By this the general sales manager is kept posted as to the activities of each salesman through his individual reports, and on the work of the branch and sales force as a whole through daily, weekly and monthly reports from the manager.

The average general sales manager wants to know just how well his district lieutenants are directing affairs in their territories; he wants to know each day just the condition of business in each province of his whole selling empire. So,



Form 68: This chart represents a complete selling organization, which makes contact with the buying public by mail and advertising, through salesmen dealing with retailers and also with consumers direct; and through branch managers handling sales organizations of their own

regardless of what minor powers and responsibilities are vested in the branch managers, the ever watchful eye and the governing voice of the selling organization will remain in the office of the general sales manager.

Choosing Men for a Sales Force

The first step in building up a sales force, whether it be done by general or branch managers, is the selecting of men. This must be most carefully done. Training an inexperienced man means a large expense for the house before any returns from his work come in. Then if he proves a failure, the outlay is a dead loss.

In salesmanship personality is the all important factor, and it is this phase of a man's character that the sales manager studies particularly in interviewing applicants. Much depends upon the impression received as to the man's personal appearance and his apparent faculty to meet and interest men. Underneath, however, he must have a foundation to build on. Whether he is lacking in this is drawn from questions as to his nationality, education, general habits and previous business experience.

Between a green and an experienced man, there can be no rule for choice other than a greater promise of making good. All other things equal, the experienced salesman is, of course, preferable. But the trained man may prove of but mediocre ability and unable to adapt his facilities to a new line, while a new hand, once he has learned his work, may develop into a star business getter for the house.

Training—The New Idea in Salesmanship

When an applicant has been judged by the sales manager as worth trying out, he begins his course in special training—an interesting feature of the new idea in salesmanship.

In the old days managers stuck steadfastly to the principle that a salesman is born, not made. In the hope of occasionally finding a man who had come into the world with sell-

ing talk in his mouth, they believed it necessary to hire man after man, give each a catalog, let him find out as much as he could about the goods he was to handle, and then go forth and attempt to work out his own salvation. The result of such a procedure is shown in the experience of one concern still employing this method, which admits that less than thirty per cent of the salesmen it hires eventually make good. Here is a sheer waste of time and expense for both the firm and the individual, to say nothing of the harm done the house and its goods through the bad impressions made by the men who fail.

In contrast to this are the methods now employed by the most successful firms in the country, which do not allow a man to seek a single order until he understands perfectly the goods he is to sell and has been thoroughly trained in the selling practice of the house he represents.

The amount of training necessary to prepare a salesman for road work varies with the character of the goods he is to handle. A wholesaler's representative selling to an established retail trade needs only a thorough knowledge of his line and a pleasing way of meeting men, making friends and building up a steady business for the house. But the salesman introducing, direct to the customer, an expensive, complicated mechanical product such as a cash register or typewriter, needs much more. For in order to intelligently talk the qualities of his machine, he must be thoroughly familiar with every point in its construction and every advantage it possesses over competitors. He must acquire this mechanical and demonstrating knowledge in addition to mastering his sales argument and developing his personality.

Getting Sales Information First Hand

This knowledge he can only gain by first-hand study in the factory. Hence those firms which have a carefully worked out training school start the new man in his course by having him work a few weeks in the shop where the product is actu-

ally made. Here he observes the reason for each small part, he sees the machine assembled, he learns how to adjust and repair it. He stocks his mind with an inexhaustible supply of facts regarding the machine itself with which to meet all questions and complaints in the future. And as he watches a machine slowly grow under skilful hands in sincere workmanship, he unconsciously becomes convinced of the quality of the article he is to sell, and there springs up an enthusiasm and loyalty for house and product, of inestimable worth in later work.

Following the factory course, comes his training in sales talk. The manager gives the embryo salesman a demonstration, treating him as a customer. Then the procedure is reversed and the salesman sells to the manager. To help him master his line of argument for this work he is given a selling manual containing specific directions as to how to approach a prospective customer and the exact words he should use in making a sale. At first thought it may seem that to compel a salesman to memorize his talk would make him parrot-like and ineffective. But such is not the case, for the prepared argument contains every selling point that has been developed in years of experience and demonstration. The manual also contains every objection which has ever been raised against the machine and the best answer with which to meet it.

The last step in a training course is usually a study of competitor's products, not to enable the salesman to depreciate the good points of other makes, but to prepare him for the competition he is sure to meet. This work completed, the salesman is ready for the field.

Laying Out Salesmen's Routes

One of the first essentials to systematic directing of the sales force is the division of territory, the laying out of routes of travel for the different salesmen and a means of knowing at all times the exact position and movement of each man. Each salesman's route is laid out for him, approximately at

Form 69: The upper form here is the route list or "sailing orders" under which the salesman works while in the field. The lower form is the daily report of calls made and serviceable information obtained

least, for some time ahead (Form 69), but when a large number of men are on the road the sales manager must have some graphic record of their operations, so that their progress can be easily followed. One of the best methods of keeping a chart of this kind is by what is known as the map and tack system.

A map showing a certain section of territory is used and the progress of work in each town is indicated by inserting different colored tacks. For instance, when a salesman starts out on a route planned by his sales manager, a black tack may be put in for every town he is to cover. As soon as he reports sales in one of them, a blue tack may be inserted. If he has failed to make a sale, a yellow tack. If an inquiry is received at the home office from one of these towns necessitating immediate attention, a red tack may be placed in that town and word sent the salesman to call. This map may be changed and kept up to date by a clerk in the main office as fast as reports come in and is thus always ready for reference use by the sales manager.

How Salesmen's Daily Reports Are Handled

Such a chart would be impossible, however, without detailed daily reports from the field. As a rule orders are forwarded the same day as received, but in addition the salesman is strictly required to make a specific statement of all the work he has done for the day. To make these reports as simple as possible a form card (Form 69) is provided, which the salesman fills in, showing the number of calls made, sales closed, new prospects added to his list and any other particular information regarding the actual selling work. He also makes an itemized report daily, weekly or at the end of his trip, as the manager may require, giving an account of the expense he has incurred (Forms 70 and 71).

Firms selling expensive articles, such as some of the modern office appliances, of which comparatively few sales are made in a week, require not only the foregoing facts in

NAME OF SALESMAN		MONTH											
ROUTES		TRAVELING EXPENSE											
WEEKS	NO. MILES	COST OF TRAVEL, FORTNIGHT	SLEEPER AND PARLOR CAR	TRANSFER	MES- SAGES	INCL- DENT- ALIS	HOTEL	TOTAL	HAD ON HAND FIRST OF WEEK	AC- CEIVED	TOtal	BAL- ANCE	
1ST WEEK													
2ND WEEK													
3RD WEEK													
4TH WEEK													
5TH WEEK													
TOTAL													
REMARKS													
TOTAL HOTEL												TOTAL CASH PAID	
EXPLANATION OF MISCELLANEOUS													

Forms 70 and 71: The lower form is a salesman's expense card arranged for daily entries of cash paid out. The upper card is another useful form, used in summing up expense and balances by weeks over a period of one month.

reports, but also full particulars regarding every call the salesman makes. So at the end of each day a salesman handling typewriters, for instance, will report in addition to his sales, the name of each individual or company he has called on and a statement of the progress he made in each case toward effecting a sale. If the prospect is in no immediate need of a machine, the salesman learns, if possible, the kind of a machine he is now using, when he purchased it and when he will probably be in need of a new one.

When one of these daily reports is received in the central or branch office, its contents are first posted to the permanent record card of the salesman. This card is simply arranged for a month's or year's record, so that each day a clerk can enter the number of calls made and sales closed. At the end of the month or at any given time it is a simple matter to total these and get an exact summary of the salesman's work for the period.

Figuring Costs on Salesmen's Work

But these facts and his expense report are not the only particulars concerning the man on the road, known to the sales manager. He knows as well the cost of the goods each man has sold, the price he has received, every minor expense attached to the sale, and finally the gross and net profit. From such summaries he can pick his most successful salesmen, basing his judgment not upon their total number of sales, but upon their earning capacity as shown by net profits returned from their work. Often the man who takes the largest orders and sells the most goods is not so good a salesman in the eyes of the house as one who sells a smaller amount at better prices and less expense.

The daily reports of salesmen serve a double purpose. First, as described above, they furnish the sales manager an index to the work of each man. But they also furnish a list of customers and prospects which proves of invaluable use to the house in future selling efforts. As these names

NAME _____			
ADDRESS _____			
BUSINESS _____			
BUYS IN OUR LINE _____			
REMARKS _____			
FOLLOW-UP			
DATE	MATERIAL	DATE	MATERIAL

Form 72: Card from the follow-up file of prospects. The columns are arranged for entries of goods needed by the prospect at future dates

are received in the office a card is made out for each one (Form 72).

A prospect is listed by entering his full name and address, his business, his needs with respect to the company's line of goods, and any other particulars of value in future follow up. This information entered on the card serves as an indicator as to when he will again be in the market. These cards are filed in a cabinet, first geographically, by states or towns, and then alphabetically.

Keeping a Card List of Customers

From the reports of sales a similar card list is compiled for all the firm's customers (Form 73), the cards containing much of the information that is kept regarding prospects and in addition particulars concerning the goods the customer has purchased from the house. When a prospect becomes a customer, his name is simply transferred to the other file and the old card is destroyed.

Both the prospects' and customers' cards are ruled on the back for records of salesmen's calls, which are posted daily as reports from men on the road are received. Thus reference

to any card in either list will show at any time just when the party was last called on. To make this reference still easier a card may be used, having the names of the month printed across the top margin. A clip is then placed over the date when a call was last made. In this way it is a simple matter to pick out the cards of customers and prospects who have not been followed up in several months and to further ascertain from the contents of the card just when a sale was last made.

Giving Salesmen Support and Encouragement

Sales management has thus far been considered almost entirely from the standpoint of the manager—we have seen how salesmen are carefully picked and trained, how strictly they are watched by the eye of the house, how the sales manager demands the most specific reports as to where each man is, where he has been, what he has done, how much he has spent, why he has spent it, what goods he has sold and exactly when he sold them. These things are all important, to be sure, and absolutely essential to the systematic conducting of a sales department. But there is another phase of sales man-

NAME	BUYER				
ADDRESS					
BUSINESS	RATING				
USES IN OUR LINE	DATE OF FIRST ORDER				
RECORD OF PAST PURCHASES					
DATE	GOODS	AMOUNT	DATE	GOODS	AMOUNT

Form 73: This file card differs from the preceding one in that it is used for customers instead of prospects and contains a record of past purchases. Of course the future needs of a customer are also recorded, usually in the salesman's memo as well as at the home office.

agement that is more important to the salesman himself. It is the encouragement, the support that the house can give him in his work. It means much to the salesman to feel that instead of continually picking him to pieces, his house is standing back of him, interested in his efforts, appreciative of his accomplishments and always ready with some incentive that will prompt him to strive to do better.

The inducement most commonly offered salesmen to increase their efficiency is a prize or bonus for especially good work. Such prizes, if large enough to be worth while, stimulate a spirit of competition among salesmen and are generally found to result in increased sales, at least for a period.

Encouragement from the home office during special selling campaigns is usually kept up through a weekly house organ, containing sales pointers, ginger talks and figures showing the exact results of various salesmen's work during the week just past. Weekly or special form letters are another medium for conveying support from the house to the road men and even personal letters from the salesmanager are sent to some salesmen whose particular circumstances seem to need or deserve them.

A Mail Supplement to Salesmen's Work

Another directly successful way of assisting the salesman is by using the card lists of prospects and customers as mailing lists for circular letters and advertising literature. This is particularly profitable among old customers, who do not have to be again educated to acquaintance with the house and its goods. By keeping something going in the mails as a reminder or to announce special offers of new goods, a path is paved for the salesman who follows and his orders come easy.

None realize the value of such methods better than the traveling salesman himself who has had the satisfaction of seeing his commissions double and triple, with really less work for himself because his house was alive to its opportunities.

A salesman cannot be everywhere, and when he must be in one part of the territory, the systematic flutter of good advertising matter to the desks of customers that he will not be able to see for weeks, starts many an order traveling to headquarters. These little reminders hold trade throughout the territory.

There is another way, too, in which a mail supplement to the sales force, if rightly handled, benefits the house. It gives it a distinctive personality among its customers. And after all, this is the thing to be established in building up and supporting a sales force. The individual personality of the salesman is a large factor in the dealings between firm and customers, but back of that there should be another, bigger personality which the salesman at all times represents. This is the policy, or better, personality, of the house itself.

The Value of a House Personality

Once this is established, no salesman, leaving the firm, can carry an appreciable amount of business to a competitor. A salesman may hold trade by courtesy and favors, but an intelligent sales manager and a wide-awake advertising department can create such a favorable impression for the house that customers in the remotest corners of the earth may soon be made to feel personally acquainted with the concern—made to feel that it is the particular business of somebody to sit at a table in the main office and attend to their individual needs. This is accomplished not only by prompt and careful attention to inquiries and orders and by systematically following them up, but also by frequently sending special literature and an occasional letter or mailing card.

Business should be built for the future, as well as for the moment. The success of a house should not rest upon the shoulders of one man, or of any number. A great organization lives and grows beyond the coming and going of men.

CHAPTER XVIII

MAIL ORDER SELLING

Selling goods by mail is no longer considered an experiment. It is an established retailing method, the advantages of which have made such wide appeal to both seller and customer that the amount of business conducted in this way has grown to enormous proportions. Only reference to the advertising pages of any magazine is necessary to indicate how generally business concerns have embraced the idea of reaching the public direct.

In general the mail order business may be divided into two classes, consisting of the dealers who make a specialty of handling only one or two articles, and the large catalog houses which conduct a general business, selling a great variety of goods entirely by mail.

Between mail selling and ordinary retailing there is really but a single difference—one is the written, the other the spoken presentation of goods through description and sales argument. Both methods bear all the characteristics of a typical selling process. In one case the interest is gained and held, and the clinching selling points are driven home in face to face talk, the personality of the salesman playing a powerful part in the transaction. In the other the same results are gained by attractive circulars, clever booklets and convincing letters, with the corresponding element of personality woven in among facts and arguments, between the lines, back of telling little points of interest and in the very appearance of the letter or booklet itself. Anything above the ordinary will make an impression proportionate to its merit.

For the merchant, mail selling has several distinct advantages over the retail store method of doing business. In the first place, little depends upon location. A building or

office on almost any street will serve as well as one in a high rent district. There is no need of window displays, expensive fixtures or electric advertising devices; no need of a complete stock, as goods may be ordered in proportion to the general demand, thus reducing insurance expense and tying up very little money in the business. Again there are no credit accounts to be carried and no depreciation of goods from demonstration and displays, and greatest advantage of all, there is no limit to the field of customers. Once a prospect has been reached and interested he may be sold as cheaply at the other side of the continent as in the same county or the next block.

Good Postal Facilities Help Mail Order Business

To good postal facilities, of course, a great share of the success of mail selling must be directly credited, and as these facilities are improved and extended, the possibilities of long distance retailing will proportionately increase. Certainly one of the greatest aids to the mail order business has been the establishing of rural free mail delivery. When it is considered that approximately sixty per cent of the population of the United States live on farms and that the government intends to give every rural residence at least one mail delivery a day as soon as it possibly can, some idea may be obtained of the increased field for trade that will be available for mail order merchants.

Rural free delivery makes every farmer a business man. It puts him in closer touch with the outside world, gives him new ideas and new desires, and at the same time affords him a medium for satisfying them. Each day it brings to him the latest magazines and newspapers. Through their pages he learns of new goods that interest him and finds that he can secure them by mail direct. So he fills out an order coupon or writes a letter, drops the envelope in a box at his front gate and a few days later through the same service receives his goods.

Such an accommodation makes the farmer even a better customer than the resident of village or city, and as the facilities are extended throughout all the states, the mail order business may be expected to grow and take quick advantage of this broadened field of trade. It is significant of future possibilities that with rural delivery only a ten year old institution, two Chicago houses are doing, almost exclusively with farmers, a mail business aggregating seventy-five million dollars a year.

Three Requisites of a Mail Order Organization

There are three prime requisites to the establishing and conducting of a successful mail order business—getting before the public and attracting its interest, turning this interest into profitable patronage, and once the trade is secured, holding it permanently. Back of all three of these, the merchant who is seeking to build up business for the future must constantly keep one fixed standard, that of the square deal with the public. It is the first principle of the mail order business. Confidence must be thoroughly instilled in the public mind and this can be successfully accomplished only by perfect frankness and sincerity in all dealings through the mails. An offer accepted in good faith by a customer and not carried out by the firm does enough harm to offset the good effect of a dozen orders filled satisfactorily.

Getting before the public, the mail order man's first problem, he can solve in only one way—by advertising. In doing this he may use, as shown in Chapter XVI, two kinds of direct mediums—first, magazines and newspapers; and second, circulars, booklets and form letters. For the beginning, magazines and newspapers are undoubtedly the more profitable. Circularizing, when properly conducted as a follow-up, lands many orders, but when used as an introductory advertising method it fails often in its object because the matter comes as a stranger to the recipient. So much advertising literature is constantly being sent out that unless the

circular is exceptionally attractive or bears a name well known there is strong chance that it will be received with indifference and thrown aside.

How a Mail Order Sale is Made

But let us follow the actual procedure in a sale by mail. Suppose that, as explained in the chapter on advertising, copy seeking direct returns in orders or inquiries has been inserted in magazines and newspapers, or that booklets, circulars and a series of form follow-up letters have been prepared and that the first letter has been mailed to a selected list of names. If this advertising matter has been cleverly written and placed before the public judiciously, we may consider that the first of the three steps in mail order work has been successfully taken. The next requisite will be the handling of replies resulting from this advertising with a view to turning inquiries into orders and filling orders satisfactorily. This demands not only skillful work in directing correspondence, but a complete mechanical follow-up system.

The moment the reader of an advertisement or circular becomes sufficiently interested to inquire for further information, he becomes a prospective customer, and from the time his letter is received in the office he is never lost sight of. His name goes upon the firm's permanent record and whether or not he eventually becomes a customer he is sure to receive from time to time form letters and other advertising material urging him to buy.

Answering Letters with Forms

Great difference of opinion prevails among mail order merchants regarding the mechanical preparation of follow-up material. It is safe to say that the majority of concerns use a series of prepared form letters such as described in Chapter XVI. Experience shows that it is practicable to do this for most houses find their inquiries so consistently of a kind that fifty to seventy-five per cent of them can be answered

fully as well with forms as with specially dictated replies. Furthermore, the saving in expense is considerable, for the letters are produced by the thousand on duplicating machines in imitation of typewriting.

In considering the advisability of using mechanically prepared replies the chief objection is found in their effect upon the recipient. Will a form letter impress him with the idea that he is simply being put through a regular process and that there is nothing personal about the correspondence? Will a specially dictated reply have sufficiently greater pulling power to repay for the time and trouble of writing it? Certainly very few people can be deceived any more into thinking that a printed letter is a bona fide typewriter product. Machines have been devised for producing an excellent imitation, but it is seldom possible to fill in the name and address at the beginning without there being some slight difference between the color of ribbon or style of type shown there, and in the body of the letter.

Many mail order dealers give their follow-up correspondence the appearance of being specially dictated and yet save time and expense, by preparing a large number of form paragraphs. When reply is to be made to an inquiry the correspondent simply indicates to the stenographer what paragraphs to copy, and these, sometimes carrying a brief dictated addition, constitute a thoroughly appropriate reply. This arrangement possibly combines more advantages than any other, and provides for a reply to practically every inquiry that is received.

Every mail order concern will, of course, be compelled to answer some inquiries with special individual letters. When this is necessary the rules given for preparing form replies should in general be observed.

Letters should be live, attractive, interesting and convincing. Sentences should be crisp, straight to the point, arranged in well spaced paragraphs. And above all, the letter should not be too long. In general it is a mistake to send out a

follow-up letter over a page in length. It might be read, but the follow-up is the time to be sure.

Need of a Systematic Follow-up

But whatever kind of material is used, a systematic follow-up plan is absolutely essential. This may be provided for in a number of ways, but the simplest and most satisfactory way seems to be the card system, requiring the use of but a single card form (Form 74). This is designed to bear a complete record of the inquiry and provides spaces for the prospect's name and address, the source of the inquiry as indicated by the key in his letter, and notations of the letters and circulars sent out in the follow-up process. Along the upper margin of the card are printed the figures one to thirty-one to indicate the days of the month.

Now when an inquiry is first opened in the mail the initial operation is to enter a preliminary record of it on the card form by filling in the name, address and source, and the date and nature of the inquiry. At the same time the letter is carefully analyzed to determine how it shall be followed up. If it is of the general inquiry nature and the policy of the house permits, it may be answered with the first reply form letter, accompanied by a booklet. When this is done, some such abbreviated notation as "Form I & Bk. A," may be entered in the proper space on the card record, together with the date they were mailed. If a dictated reply is made the notation "Letter" may be filled in.

Up to this point the procedure in practically all classes of mail order work will be the same. But the system for handling the later follow-up will depend upon whether the business conducted is such that frequent reference is necessary to previous correspondence.

Filing Correspondence for Reference

In a large mail order house handling a wide variety of goods, inquiries vary greatly in nature and it is hardly wise

Form 74: Filing blank on which are recorded an inquirer's address, and whatever follow-up material has been used in the effort to sell goods to him

to write a customer or prospect a follow-up letter without first, looking up previous correspondence and learning something of conditions. In a business demanding this precaution, a card is made out as described, but it is intended for reference purposes only. The inquiry itself, with a copy of the reply made, is filed ahead temporarily in a chronological file under the date when it is to be given further attention in case no order or other word is received from the inquirer.

This date is noted on the card as an index, and the card is filed in the prospect file, first geographically by town and state and then alphabetically under the individual's name. Thus if reference to the correspondence is found necessary before the date under which it is due to come up automatically, it can easily be found by reference to this index card.

If it is not removed before the date under which it was filed, it comes up then with all other correspondence marked for that day, the second follow-up letter is mailed to the prospect and the correspondence is again filed ahead. Usually this time allowance for a reply will be about ten days. Under ordinary circumstances no inquiry should run longer than two weeks without a follow-up.

As observed above this provision is made only when frequent reference to the letters themselves is necessary. Many mail order concerns devote their entire attention to the sale of a single article, as a fountain pen, a safety razor or a book. Here all inquiries and subsequent letters from prospects are bound to be very similar in nature and it is seldom necessary to refer to previous correspondence at any stage of the follow-up. Hence, the letters themselves are allowed to go into the permanent alphabetical files to be referred to only in exceptional instances and the card record answers every purpose in showing the progress made with the prospect.

Use of the Follow-up Card

When correspondence is handled in this way, the card itself is depended upon for prompt follow-up. Thus when

the first letter in reply to an inquiry has been mailed, a metal clip is placed over the date in the marginal line far enough ahead to allow for an order or another letter to come from the prospect. The card is then filed in the prospect's file in the usual way.

Should the prospect place his order before the marked date comes due, his card is picked out alphabetically, his name is transferred to a customer's list, and his goods are forwarded to him at once. If, however, no order or further inquiry is received before the date marked, the card in question and all others bearing clips over the same day of the month are taken from the file. It is at once evident upon reference to the notations on the card that letters or circulars have been sent out. Hence, if two letters and a booklet have gone out, directions may be given to mail form letter number three, accompanied by booklet "B" or a special catalogue. Other card records of inquiries may indicate that two, three or four form letters or several specially dictated letters have already been sent. In each case, the prospect is followed up with some new material, the proper notation is made and the clip is again moved ahead. Only experience can determine

NAME		
ADDRESS		
BUSINESS	RATING	
PURCHASES		
DATE	ARTICLES	

Form 75: Card used by mailing order concerns for indexing information in regard to customer

how long this follow-up can be profitably continued. The third letter is usually productive of a good percentage of orders and even the fourth and fifth are used by some houses. If a five letter follow-up is exhausted upon a prospect without closing a sale, he is usually given up for a time.

Keeping a Card List of Customers

Practically every mail order firm keeps a separate card list of all its customers (Form 75), showing on the card form each customer's name and address, rating, business, a list of the articles he has bought and the date they were purchased. In some cases this list is kept separate, but frequently the same file also contains the names of those individuals who have been given the entire follow-up series, but have not bought goods. This entire general list proves extremely valuable as a future mailing list in exploiting the same goods again or other articles, as from the card record of previous correspondence enough is known about each person to guide the house in sending out appropriate advertising material.

Aside from the one fact that the order is secured through persistent use of the mails instead of by personal solicitation, mail order selling is not essentially different from ordinary retailing of goods. Once a customer has sent in his order, he stands in the same relation to the house as the business man who goes to his tailor and picks out material for a suit of clothes. The order is put through and the goods are promptly made up and delivered. The mail order merchant as well as the tailor knows that he must give satisfaction if his business is to live. He recognizes that if he serves sincerely a customer a thousand miles away that customer will buy of him again, just as the business man if his suit fits and wears well, will order again of his tailor. Service to customers builds patronage for the future as truly in mail order merchandising as elsewhere, and the fact that countless concerns have already recognized this has made long distance retailing a permanent institution in the business world.

CHAPTER XIX

RETAILING

Retailing may be considered as the final transaction in the routine of modern business. Producer and jobber have played their part, general distribution from factory to wholesale house has been effected. It now remains only for the local store to choose a stock of these goods, assemble them under one roof and dispose of them first hand to the consumer.

True, the retail store is but one of the mediums through which goods reach the public. Many sales are made direct to the consumer by traveling salesmen, and mail order houses are transacting a constantly growing share of trade at long distance. But the great percentage of retail selling still is and probably always will be transacted through the local store, where the customer may come in person, see the goods and make a choice.

Because the retail store comes closer than any other institution in modern business to the public it serves, it is naturally an organization largely dependent upon personality—in other words, it is a “human” proposition. Its chief asset inside is the people who sell the goods; outside—the satisfied customer who will come again to buy. From its very nature, then, the description of a retail organization will be a consideration of the varied duties and activities which devolve upon the personnel of the store.

At first thought analysis of a retailing organization seems peculiarly difficult because of the wide range in the nature of the retailing mediums. Between the corner drug store or the hole-in-the-wall cigar shop and the department store with five thousand employees there would seem to be few things in common. Yet, in reality they are identical in principle and

aim, and so far as organization is concerned, both are capable of the same division.

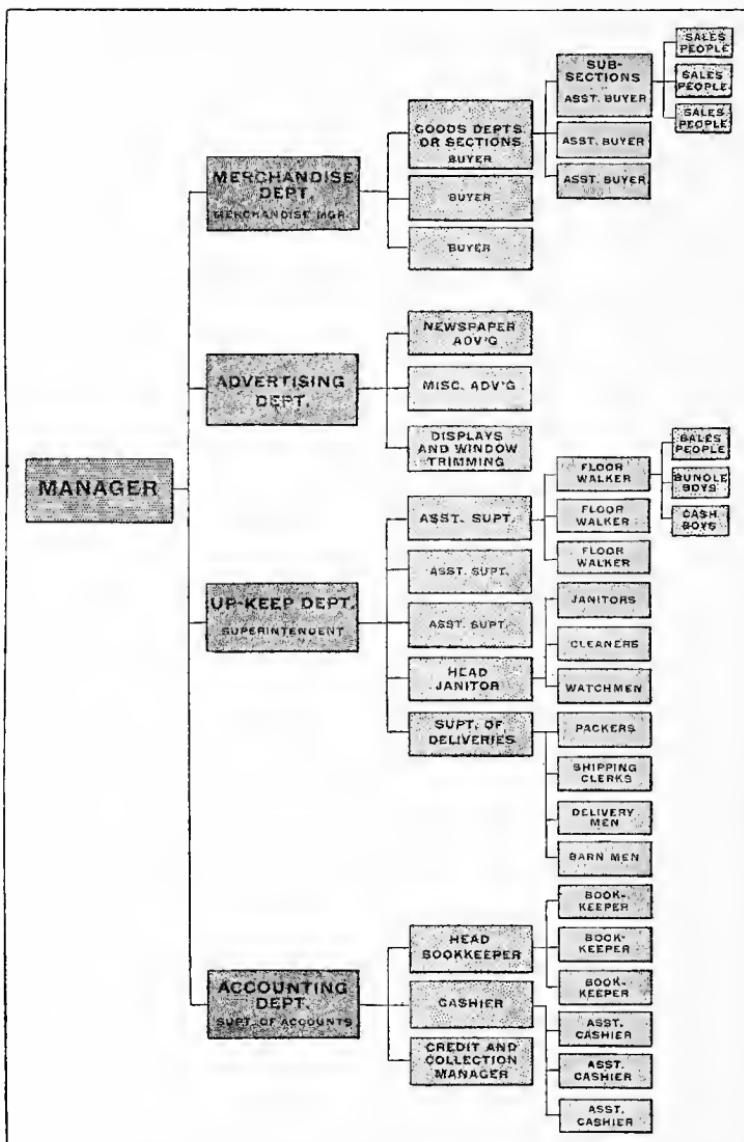
The Three Divisions of Retail Organization

Retail store organization falls naturally into three departments under the supervision of the manager (Form 76). First and most important is the merchandise department in charge of the merchandise manager. This is really the store itself—it buys the goods and sells them; it fixes and controls prices; it determines the policy of the store. Second is the up-keep or maintenance department, under the direction of the superintendent, governing the general care of the store and the conduct of employees from a purely physical and disciplinary standpoint.

Third is the accounting department, in charge of all records, all credits and the store's accounts in general. In addition to these three, many stores have a fourth department, the advertising, although advertising is so closely related to the selling that it may properly be considered as a sub-department contributing to the sales and operating under the authority of the merchandise manager.

Into these divisions named above the work of any store naturally falls. This does not necessarily mean that there must be an executive at the head of each division. If the store is a neighborhood grocery, one man may own and control the business, be the governing head of every department and the entire force of employees as well. In the medium sized institution, two of the offices may be combined in one man—at times the store manager is also the merchandise manager or the superintendent; again the merchandise manager may also direct the advertising. Only in the great department store will the complete organization be represented in each division and sub-division by an actual executive head.

Yet the modern department store is so perfect in organization, so balanced in its representation of all the demands of



Form 76: This chart represents all the organization elements of a retail store, and illustrates how authority and responsibility are delegated to the various officers

retailing that consideration of its work affords the best possible analysis of this branch of selling.

The Merchandise Department—The Real Store

First, consideration must be given to the merchandise department, for it carries out the real work of the store. The extent of its subdivision will depend upon the size of the institution, but in the typical department store it is subdivided into sections according to the different line of goods carried. At the head of each section is the buyer for the department, who is both the buying and the selling head; he buys the goods; is responsible for their quality and the time of their receipt. After they come into the store he is responsible for the stock, the manner of display and for the work of his sales force.

Each section head is judged by the results which his department shows. His prime object is to push sales to their highest point, but to do this he must first see that he buys right, that his selling force is efficient and that his goods are properly placed. While income is the indicator, it depends entirely upon the underlying conditions.

Under the buyer are the salespeople in his section. He does not hire them. When he wants additional sales help, he turns in a requisition to the manager, superintendent or whoever does the hiring, stating what he wishes and the kind of salespeople he needs. The manager secures the required persons and sends them to the section head, who immediately puts them through a more or less thorough course of instruction in the goods, their quality, value, varieties, position on the shelves; in the care of the goods on the counters, and in the selling policy and the attitude of the store toward its customers.

Good buying is not only an essential, but one of the absolute requirements of successful retailing. When the retailer is subject to the competition of catalog houses and the mail order department of manufacturing and jobbing concerns,

he must buy close in order to sell as close as his patrons demand. No amount of economy elsewhere can steadily return living profits from extravagant purchases.

The Essentials of Retail Buying

Two things the successful buyer must have—a knowledge of stock and a knowledge of values. A thorough familiarity with the goods bought is the primary essential, for should the buyer in meeting the salesman show that he is not master of his work, the salesman may frequently do one of two things: lift the price or attempt to load him up with a line of goods which are not best suited to his trade.

Also the buyer should at all times be an experienced salesman. If he is not he is often too sanguine as to what will sell. If the firm is so large that it is impracticable for the buyer to sell in the various departments of the house, it will be necessary for him to keep in constant touch with the salespersons, watching carefully the various sales from day to day, noting what class of goods seem to be in demand, and most of all, what goods are held upon the shelves, later to be sacrificed at a financial loss.

Form 77: The retail salesman notes on one card the various requests by his trade for a certain article not in stock. These demands are then turned over to the buyer.

To avoid uncertain and unprofitable results, the buyer needs a sure point from which to work. He finds this in a perpetual inventory or some modification of it. An inventory is a record of the past. It shows what has been bought and what has been sold, and consequently what is now on hand. It shows neither theories nor probabilities, but facts.

Immediate wants are shown by the want book, which may be kept in one of various ways. The old way and one that is still used by many houses, is to have a book kept in a convenient place readily accessible to all departments. When certain goods are running out or call is made for some article not in stock, these wants are recorded in this book.

A much better way, however, is to provide each salesman with a set of cards, ruled up for this purpose (Form 77), so that immediately upon the call for any particular article it may be jotted down, the card turned in and filed under its proper place in the files, which the buyer watches carefully.

As for the system by which the actual buying is done, the procedure is practically the same as that described in the chapter on the purchasing department. Specific systems vary in different stores. In some instances department buyers place their orders direct. In others, however, the buying power is centralized in the merchandise manager.

A Retail Store Buying System

When this is done, each buyer makes out his list of wants, giving the sample room lot number, quantity desired, full description of articles and approximate date of delivery. This is prepared in the form of a requisition to the merchandise manager, made out in four copies (Form 78). The original goes to the merchandise manager and from it the order to the manufacturer is made out. The second copy is kept by the department buyer, the third goes to the stock-keeper for checking receipts and the fourth to the bookkeeper.

Upon receipt of his copy the merchandise manager, acting as purchasing agent, makes out the formal order as described

THE BLANK COMPANY			
SHOE DEPARTMENT			
DEPARTMENT No. 20			
			190
KINDLY PURCHASE FOR US THE FOLLOWING:			
LOT NO.	QUANTITY	DESCRIPTION OF GOODS	DATE WANTED
DEPT. MANAGER			

Form 78: This requisition blank is filled out fourfold by each buyer, and is forwarded to the department head as the basis for an order

in chapter XI. Various duplicates are distributed the same as were copies of the requisition.

It is understood, of course, that this is simply one example of the way the buying transaction is conducted in a large department store. Placing of the purchasing responsibility varies with the store organization. As a general rule in the large stores, each department head buys for his section. In the small store, the owner and proprietor is in position to direct the business first hand and does all the buying himself. While in the medium sized establishment a method between the two extremes is struck and where the store manager cannot do the purchasing of all stock, the work is entrusted to an experienced employee.

The second and most important division of the merchandise department's work is selling. Upon this the success of the store absolutely depends. The moment sales stop, business stops; as sales decline, business declines proportionately.

Selling—The Store's Important Work

Retail selling may be considered in two divisions. First, attracting trade—getting the customer into the store; and

second, handling the trade—actually selling the goods and satisfying the customer.

The first is naturally the work of the advertising department. This may be under the immediate direction of the merchandise manager, but in a store of any size it is under a separate head—the advertising manager. His work is broad and varied. In his department is prepared the material for all newspaper advertisements, catalogs, announcements and circulars. More than in any other business he must be in the closest touch with the work and the stock in the different departments, for he must know each day just what policy to follow in giving publicity to what the store has to offer.

Also in charge of the advertising manager are all displays and window trimming. In this he cannot be arbitrary, but must work with the merchandise department, which is responsible for sales, and with the superintendent's department, which is responsible for the condition of the store. But displays are a part of the advertising of a store and are properly in the province of the advertising manager.

In promoting his work the manager of publicity will use a variety of advertising methods. As suggested in Chapter XVI, newspapers are the natural medium of retail stores for giving publicity to their goods from day to day and for exploiting bargain sales and special offers. Newspapers are very largely dependent upon retail advertising for their income and many of the large city department stores carry full pages and even double pages almost daily.

Advertising Methods Characteristic of Retailing

But there are a number of other advertising methods which are characteristic of retailing, such as the distribution of manufacturer's circulars, giving away samples of articles, and window displays. Many retailers have been greatly assisted in their local campaigns by the use of advertising matter prepared by the jobbers from whom they buy. Skilfully designed circulars and booklets are furnished the dealer

to distribute among his customers, and copy, cuts and instructions are supplied to help him in local newspaper advertising. Such service works to the benefit of the jobber indirectly through creating greater trade for the dealers and hence a greater demand for stock.

Distribution of free samples as an advertising method is effected by the manufacturer supplying the dealer with quantities of his product in small bottles or packages. Frequently as in the case of numerous manufacturers of breakfast foods, who used this plan, the sample packages are small reproductions of the cartons in which the regular goods are marketed.

The advertising method which comes closest of all to the store itself and is one of the most powerful means of attracting customers, is the cleverly designed window display. That the sale of merchandise would be furthered by displays has always been accepted, but the recognition of window dressing as a science and its true value in retailing is comparatively recent. In 1890 there were but twelve professional window dressers in the United States while now there are hundreds and every large city store employs several men who have studied and made a business of this means of attracting the public.

Window decorating has three principal aims: to serve as an index to the class of goods kept in the store, to attract the attention of people to the store, and to show goods which will excite in observers the desire of possession.

There is a tendency among the best window trimmers to make their decorations distinctive of the stores they advertise or to place in the windows distinctive signs. Another means of attracting attention is to display some special feature, such as a mechanical toy or effect, or some automatic machine.

To secure the best possible results the trimmer should keep constantly in mind the appropriateness of his decorations. He must watch the class of people passing daily and note what interests them most. Then, by giving novelty, change and a

distinctive touch to his work and observing the rules of art as well as the rules of advertising, he can augment the returns from his display.

The Personal Factor in Retail Selling

Once people enter the store, whether or not as direct result of advertising attractions, they become prospective customers and they are made the subject of the best efforts of the employees to effect a sale. Here it is that the personal factor in salesmanship really counts—the ability to show goods to the best advantage; to meet customers' desires most tactfully; without giving offense, to extend an invitation to buy; all the while presenting a pleasing personality that makes the customers feel at ease and inclined to come again.

Between salesmanship in the city and the country or small town store, there is at least one marked point of difference, for while the village salesperson must possess all the qualities named above, there is beyond that what might be called "social equality" between clerk and customer. The country salesman or saleslady knows personally a large percentage of the people who come to the store. Thus preferences in patronage are often guided by friendship and the selling efficiency of the person behind the counter is increased in proportion to the number of friends he possesses or attracts.

In the city department store customer and salesman usually meet as strangers. There must therefore be on the salesman's part a keener insight into personality and a greater exercising of tact.

The Process of an Actual Sale

Suppose that a lady customer enters the dry goods department. A floorwalker greets her. This official is the pivotal point around which the entire system of the sale revolves. He must see that she is properly ushered in, that she sees what she wants, that she receives the requisite attention while buying and is agreeably ushered out.

PAID	NO. CHECKS	TOTAL \$	DESTROY NO CHECKS	
			2	26
2		27		
3		28		
4		29		
5		30		
6		31		
7		32		
8		33		
9		34		
10		35		
11		36		
12		37		
13		38		
14		39		
15		40		
16		41		
17		42		
18		43		
19		44		
20		45		
21		46		
22		47		
23		48		
24		49		
25		50		

IN CASE OF ERROR, RETURN THIS CHECK

ENTER SALE ON INDEX BEFORE TEARING OUT SLIP

AMT. REC'D.	SALES MAN	CHECK NO.	AMOUNT
			NEVER ALTER A CHECK. HAVE IT MADE VOID AND MAKE A NEW CHECK.

EVERY CHECK MUST BE ACCOUNTED FOR

INDEX FOR UNPAID CHECKS ONLY

Form 79: The slip shown at the left is filled out in duplicate by the retail clerk whenever he makes a sale, one copy going to the cashier and the other to the purchaser with the bundle. The form at the right is for the record of goods charged to customers' accounts

The floorwalker shows her to the department she desires and picks out a salesman to wait on her. The latter proceeds to display the goods in which she is interested. In every possible way he must seek to be agreeable, to respond to her wishes. Whatever objections she raises, or questions she asks, he must explain, not argue. At no period in the sale is an argument allowed. By this is not meant legitimate selling talk—points on quality, style, popularity—but a direct attempt to change a customer's views.

He must not appear to push the sale; the customer must be given the impression that she is having her own way throughout. But the salesman must constantly endeavor to get the customer interested in some particular article, to narrow her choice, to close the sale, before any strong objections arise in her mind. Her decision made, he proceeds to fill out the order. Proper directions are given as to whether the bill is to be cash or charge, and the goods taken or delivered. The sale is now closed and the customer is courteously thanked and requested to come again.

This is, of course, simply an example of one sale out of an almost innumerable variety of conditions under which a retail purchase might be made. But it is typical and represents the elements of a retail selling transaction.

This personal element, while it is the factor through which the sale is made, is not what may be called the store's selling system. The latter is the means by which the transaction is recorded so that the goods are properly delivered and the story of the sale goes properly on the books of the accounting department.

A Retail Store Selling System

Determination of such a system is a matter of choice with different stores and it will be simple or elaborate according to demands made upon it, but it may be well to present here a typical department store system capable of variation and adaptation as conditions demand.

NO.	NO.
MR.	MR.
NEAR WHAT STREET?	
HOUSE OR FLAT?	
SALESMAN—	
TIME—	
VIA—	
C. O. D. —	
<p style="text-align: center;">SPECIAL DELIVERY.</p> <p style="text-align: center;">DELIVER BEFORE.....</p> <p style="text-align: center;">APPROVED.</p> <p style="text-align: center;">PASTE THIS ABOVE REGULAR SHIPPING TAG.</p>	

Forms 80, 81 and 82: Three forms of delivery slip are here represented. On the upper form (80), the customer's name and address are noted. The second form is an ordinary shipping label and the lowest form (82) is a red label used for "rush" deliveries.

When a sale is made a slip is made out by the salesman. If the sale is to be charged and the customer has been granted the privilege of making credit purchases, some identification card for this purpose is shown the clerk or the clerk refers to the credit department for approval. A charge slip is then made out. If credit is to be granted for the first time, it is necessary for the customer to make application as explained in Chapter VII.

If it is a cash sale, the salesman enters on the slip (Form 79) the name of the article, the price and the amount the customer hands him. At the same time he enters in the back of the book the amount of the order so that at the end of the day his entire sales may be footed up. The sales ticket is made out in duplicate. One copy is passed to the cashier with the money given by the customer and is kept as a record of the sale, while the change is returned. The other copy goes with the goods to the bundle wrapper and is placed in the package.

Systematic Delivery of Purchases

When goods are to be delivered the salesman makes out, also in duplicate, an address slip (Form 80), one copy of which is placed on file, the other going with the package to the shipping room. Here a delivery shipment (Form 81) is addressed and pasted on the package. The address slips are each night sent up to the cashier, who enters the names and addresses in a book for this purpose. This book is simply a list of customers' names and is used for circularizing or for reference.

When a customer requests that a purchase be delivered immediately a red delivery slip (Form 82) is made out by the salesman. The goods are then packed at once and sent out by special delivery. The red slip is pasted above the regular delivery slip to insure haste.

If the purchase is C. O. D. a special slip (Form 83) is made out by the salesman and sent to the shipping room

MR.	CHICAGO	190
		C. O. D.
ITEMS		
VIA	SALESMAN	TOTAL

Form 83: This slip notifies the shipping clerk that the goods are to be stamped "C. O. D." and delivered only on receipt of the price

with the goods, and "C. O. D." is stamped on the delivery slip. The C. O. D. slip is returned from the shipping room to the cashier, who holds it until receipt of the driver's report.

When a driver receives his packages ready for delivery he fills out from the delivery slips his own address sheet (Form 84), showing name, address, number of packages and amounts to be collected, if any. As each delivery is made this sheet must be signed by the receiver.

From the record of sales which each salesman makes in the back of his book he makes out each day a report slip (Form 85). This is turned in to the manager and serves as a check on the cashier. From the salesman's books a daily report of cash sales (Form 86) is also made out for the manager and each Saturday a department report is made out covering the week. Thus the merchandise manager is kept at all times in close touch with the sales of the various departments.

Duties of the Store Superintendent

The second division in the organization of the store is that of the superintendent in the "upkeep" department. His

work and his responsibilities may be classified into four lines of activity. In the first place he has charge of the general running of the store, the general appearance and arrangement of things. In this capacity he has under his control the janitors and cleaners, and all employees who are connected with the care of the store.

Second, he is responsible for the service rendered the public. In directing this work he oversees in a way the salespeople through the floormen. His force of lieutenants consists of the assistant superintendents, usually one to each floor, and under them the floorwalkers, who have the real disciplinary authority over the salespeople. Each of these men is responsible for conditions and happenings in his section. He is frequently called on to decide questions of credit and return privileges, and settles questions and complaints for both customers and employees.

Also under the superintendent's department are the cash boys and bundle wrappers; and the cashiers, while receiving instructions from and making reports to the accounting department, are responsible from the disciplinary point of view to the floorwalker.

RECEIVED FROM _____ DATE _____				IN GOOD ORDER, THE FOLLOWING ARTICLES: SET OPPOSITE OUR RESPECTIVE NAMES			TRIP
NAME	NO.	STREET	ARTICLE	C. O. D.	O. K.	GET A RECEIPT FOR EVERYTHING YOU DELIVER	
LOOK OUT FOR THE C. O. D'S				COLLECT CASH OR RETURN THE GOODS			

Form 84: This blank is signed by the purchaser when goods are delivered, and witnesses his acceptance of them

The third division of the superintendent's work concerns deliveries. He oversees warehouses and stocks, shipping and delivery methods; barns, horses, wagons and drivers; and the supplies needed in these connections.

Finally the superintendent is the system and organization man. He must be an administrator. He need not know so much about goods, but he must be able to handle men and to devise economical ways of doing things. Under his supervision are the various systems of the house.

Work of the Accounting Department

The office work of the retail store is in charge of an official sometimes called the superintendent of accounts. He has charge of all records, whether of money, goods or men, of all banking and moneys, and of credits and collections. Under him is usually a head bookkeeper, in charge of accounting; a cashier who takes care of all money; and a credit man who judges and extends credit. It is for his department to devise the accounting and recording systems of the store, to approve charge sales, to open new accounts, to send out bills and to make collections. He makes daily, weekly and monthly reports directly to the management of the store.

SALESMAN'S DAILY REPORT	
DATE	130
MY SALES TO DAY	
NAME	NO.
(HAND THIS TO THE MANAGER)	

Form 85: Here the salesman reports his sales for the day, as shown in his slip book (Form 79)

CASH SALES REPORT		
190		
1		
2		
39		
40		
TOTAL CHECKS, -		
CASH, -		
OVER OR SHORT, -		

Form 86: Cash sales report, compiled and sent to the manager daily by every clerk

This analysis covers the work of the retail store. In the main, the systems and methods described have been those of the large department store, but they have been presented because they represent the highest and most perfect development in retailing organization and the work of any smaller institution is simply a modification of the same principles.

CHAPTER XX

SYNTHETIC RECORDS AND REPORTS

It has been the fundamental purpose of this book to outline and show the functions of the various elements of business organization, not only by describing the characteristic work of each division, but also by picturing its relation to other divisions and to business as a whole. It was first shown by charts how an office, factory or store is divided into departments, each designed for a specific and essential work just as a cog or wheel is cast and cut and fitted to play its part in the operation of a great machine. Following this there was taken up separately each one of these forces entering into the production and distribution of goods. And now in the final consideration, we are to see how all these contributing elements and details of business, separated in our analysis and studied as they operate individually, are brought together again and focused at the executive's desk.

The executive must watch all departments, large and small, far and near; he must watch men, their work, their capabilities, their development; he must watch routine work —its amount, its cost, its promptness and the method used in it—whether it be buying or selling, producing or accounting.

What is his machinery, his systems for doing this? He cannot spend more hours poring over the dry figures of ledgers and balance sheets. He must have reports of his costs, his sales, his profits or his losses, but he must have them in such forms that he can interpret them instantly and draw definite conclusions for future guidance.

Graphic Reports a Summary of Business

In a modern organization the executive obtains this information through a system of graphic records, a condensed

and simplified summary of countless departmental statistics and itemized reports.

The science of graphics is not an innovation. It is based on the oldest and simplest, but surest and quickest method of communication—pictorial representation. No effort of the mind is needed in making the comparison between the length of two lines or the opening between two angles. The impression, the fact, is obtained at a glance. This point puts the graphic method of reports at once into harmony with up-to-date office systems; and makes it the most effective and quickest way of getting a grasp on details.

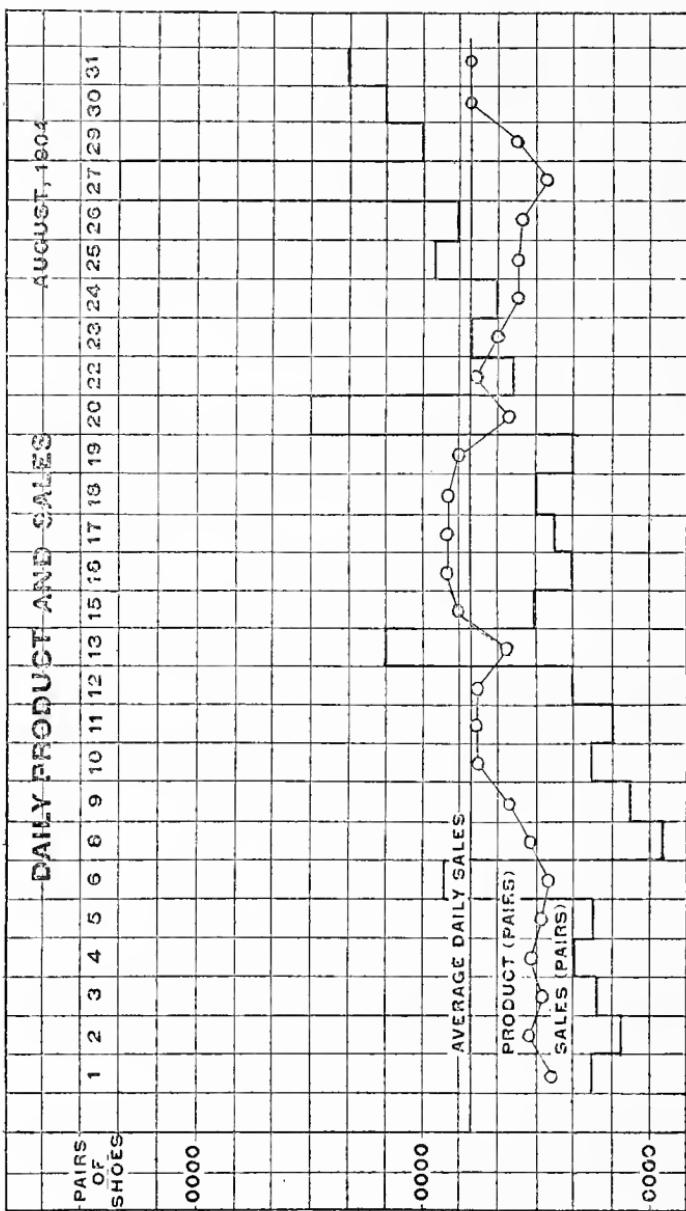
Business men today know that not the facts of themselves are significant, but only their relation to other facts. The record of last week's price of steel or cost of production or volume of output, last month's sales or purchases or collections, is valuable only when compared with the week or month or year before, or the possibilities of the future.

On these two features—absolute facts and chronological comparisons—the science of graphics is based. A single line conveys to the executive all the desired information; the distance of the line from the side and the bottom of the chart indicates the time and the amount.

This is all there is to the graphic chart. A square sheet with a row of increasing figures up the side, and of succeeding dates along the top, with a zigzagging line over it, tells as much as a tabulation of ten thousand figures. One look, with a side glance to the right and the bottom to catch the key, tells what would require an hour's study on a trial balance. For instance, Forms 87 and 88 present in a simple and direct way a daily report of production, sales and selling expense in a large shoe-making and retailing concern.

Use of a Daily Production and Sales Chart

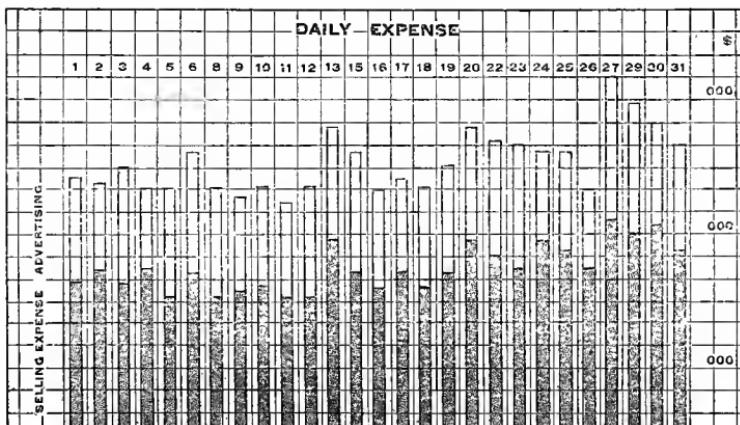
Gathered from the contributing daily reports of the various departments, gradually condensed as they approach the head for whom they are intended, these charts are finally



Form 87: This chart is a graphic representation of the production and sales of a famous shoe dealer during the twenty-seven week days of the month. The heavy black line represents the sales, beginning with Monday, August 1. The circle-line indicates the number of pairs of shoes manufactured; and the straight cross line is the sales average throughout the period.

placed each morning upon the general manager's desk, picturing a comparative summary of each day's business to date in the current month. To him the simple arrangement of lines and angles shows the three most vital facts of the business—the output of the factory, the daily sales and the selling and advertising cost of distribution.

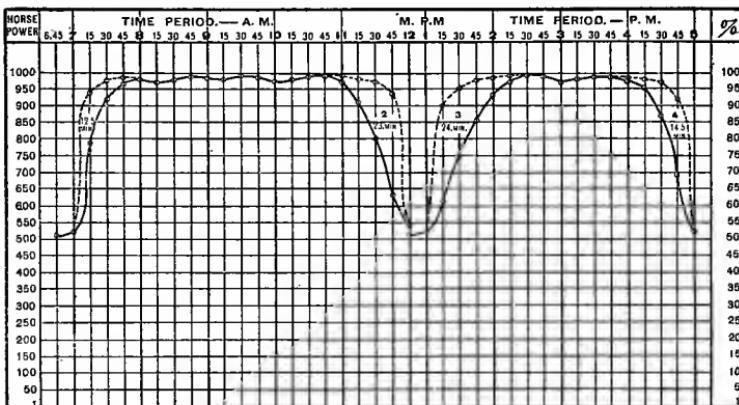
The figures across the top of the first chart (Form 87) represent the twenty-seven week days of the month, one space for each day; those at the side, the numbers of pairs of shoes, each space representing one hundred pairs. Thus,



Form 88: The black portion of the column in this chart represents the expense of the shoe selling organization for the day; the light portion, the advertising expense. Any unusual expense thus becomes prominent at once

if on the first day of the month three thousand pairs are sold and on the second three thousand five hundred, the line will rise five spaces. If on the third the sales drop to two thousand seven hundred pairs, the sales line will fall eight spaces from its position on the second. By referring to the actual sales report here shown, it will be observed that sales fluctuate violently during the week, invariably rising to a very high point on Saturday.

With this chart before him the manager knows whether to reduce or increase the factory output. If he finds that



Form 89: A chart showing by hours the power used in a factory. This chart saved a firm \$90,000 in one year

his sales are decreasing he may, by reference to another chart, learn exactly where the weak point is, seek out the difficulty and remedy it. By means of the second diagram shown (Form 88) he is shown the selling and the advertising expense, their total giving the entire cost of distributing the day's sales.

These are only two charts out of an entire system of graphic reports originating in all departments and picturing the details of all the activities of this organization. Through them the concern is able to determine the quality of work done by every man, trace every error in manufacture and place every individual responsibility. Throughout the process of manufacture a record is kept, as a basis for charts which reveal the efficiency of every department and hold every man to his work.

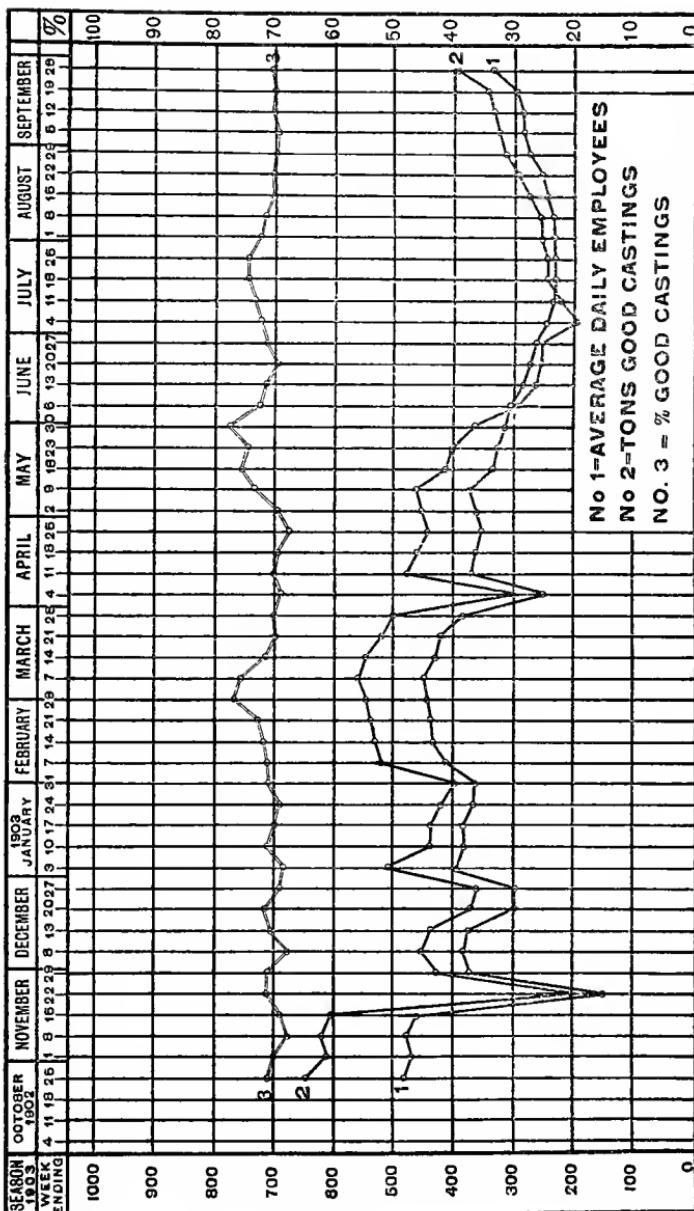
So perfectly has this system of reports been devised that should a pair of shoes be manufactured in Massachusetts, sold in San Francisco next month, and found by the wearer to be imperfect a week later, they could be traced step by step to the man in the factory, who in a moment of carelessness permitted a few stitches to be dropped. On the other hand, should a shoe made by this company be produced for

identification purposes, it would be possible to tell exactly the time when it was ordered, what men had a part in the making of it, the date on which it was shipped, by whom it was shipped, the date of its arrival in a certain city, the salesman who sold it, and the name and address of the final purchaser.

Making a Graphic Record of Power Used

Another chart illustrating the value of graphics as a guide in factory management is that which shows the amount of power used at different hours of the day (Form 89). This is one of the most interesting charts ever plotted in connection with a manufacturing business and was the means of saving the concern which devised it \$90,000 in a year. To keep a record of the work of a steam engine in a factory power plant for the purpose of finding out whether foremen were holding their men up to standard, might seem a round-about way of making an investigation, but it proved remarkably successful in this instance and resulted in obtaining more efficient service both from the employees and the factory equipment.

On the left side of this chart it is seen that at 6:45 in the morning about 520 horsepower was being used, an amount sufficient only to carry the friction load of the machinery in the plant. There is very little rise from that time until 7 o'clock. It is also seen that this same condition prevailed between 12:45 and 1 in the afternoon. This showed also that the friction load of the engine for transmission devices, such as belting, shafting, and idle machines, amounted to a trifle over 50 per cent of the maximum power required when the plant was running with its full load. Following from 7 o'clock up to 7:15, it is noticed on the heavy line that but 800 horsepower was being used, at 7:30 but 935 horsepower, and that the maximum load of 1,000 horsepower was not reached until 8 o'clock. At 11 o'clock it will be further noticed that the load was dropped about 20 horsepower; at 11:30, 200; at 11:45, 355, and that at noon it was back prac-



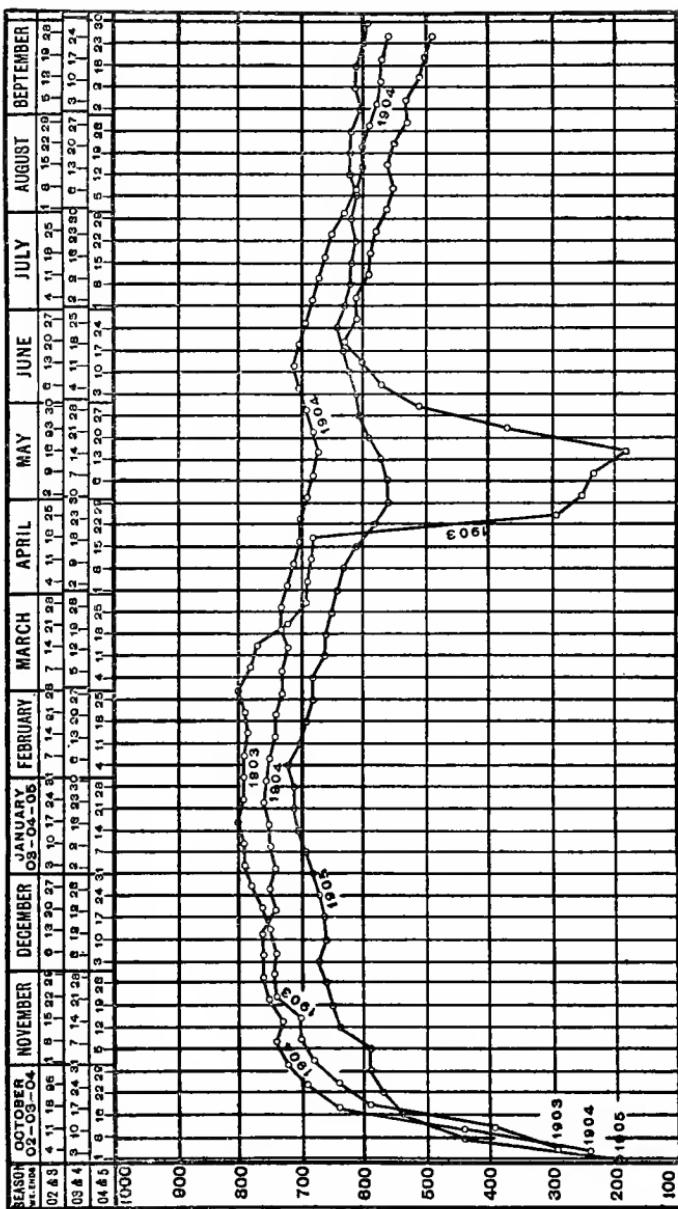
tically to the friction load. Starting again at 1 o'clock, it is noticed that the maximum load was not reached until 2:30 and that it again dropped from 4 o'clock on.

From this chart one important conclusion is readily drawn. The amount of power required is exactly in proportion to the number of machines in operation, and the machines in operation are exactly in proportion to the number of men at work. Consequently any fluctuation in power indicates but one possible condition, namely, that the men are not operating their machines when the power is below normal. Investigation into the cause in this particular instance showed, in addition to the information gathered concerning the total amount of power required, that the labor throughout the plant using this power was not being kept up to its work. If the machines had been kept busy up to within five or ten minutes of noon, the power could not have fallen off. If the men had been at work promptly at 7 o'clock and 1 o'clock, the load factor could not have been so slow in reaching the maximum. The whole evidence showed a lack of discipline over the men throughout the factory, and a wanton waste of time in idle labor and equipment.

Results Obtained from the Power Chart

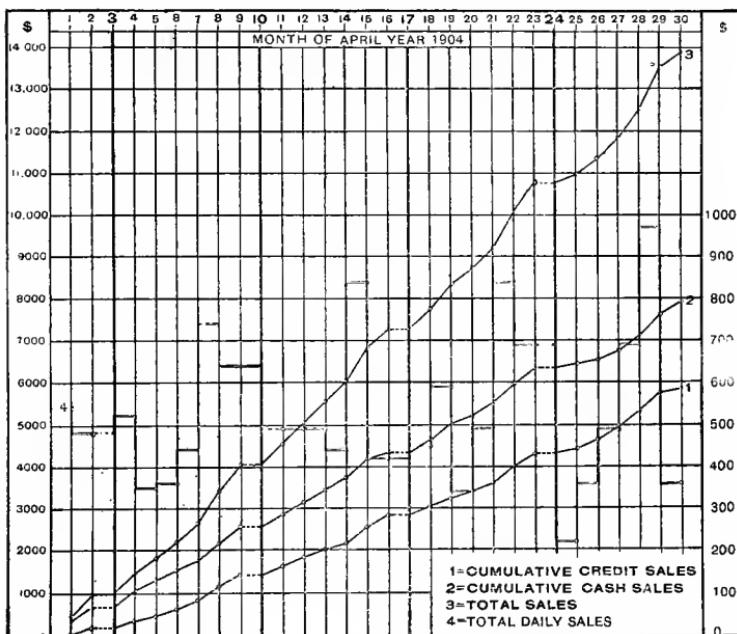
Enforcement of discipline in this particular case and the keeping of the men at their work, resulted in forcing the power demand out to the point indicated by the dotted lines. This made an actual time gain of 74 minutes each day. Multiplied by eight hundred, the number of men employed, this meant nine hundred and eighty-six working hours, which at an average rate of twenty cents an hour, resulted in a saving of nearly \$60,000 in a year. Another discovery was also made which increased the output capacity of the factory and resulted in an adjustment of piece work rates, amounting to nearly a fifteen per cent cut in wage cost for piece work.

A still further value to the investigation was shown in that it indicated a loss of power, due to transmission and



Form 9: This chart represents the one factor of the number of men employed throughout three years. It shows very plainly when the seasons of most and least labor occurred, and how closely they approximated the same weeks year after year.

friction, amounting to fifty per cent of the maximum power required, or about sixty-two per cent of the average power required throughout the day. This discovery prompted the company to design an entire power and transmission service, thus saving fifty per cent of the power loss, or over \$4,000 a year. The net result of the silent evidence of this chart was a saving in time of \$60,000, a reduction in piece work



Form 92: Lines 1, 2 and 3, read by the left hand scale, represent the cash value of cumulative sales for a month. Line 4, read by the right hand scale, represents the sales on each separate day.

rates of \$26,000, and a saving in power of \$4,000, an actual total saving of \$90,000.

A Year's Record of Output and Labor

Another significant manufacturing chart is that showing the weekly output and labor in a foundry for a whole year (Form 90). Reading the figures in the column at the left

hand, it shows for the lines marked 1 and 2, the average number of men employed daily and the number of tons of good castings produced. The figures in the column at the right show for line 3, the percentage of good castings made during that time. Such a chart as this keeps up the efficiency of a plant and goes far toward preventing loss through poor work.

Form 91 illustrates another comparative labor chart covering a period of three years, 1903, 1904 and 1905. The low mark shown in 1903 was due to a strike, when the number of employees fell off very suddenly from nearly seven hundred, and did not reach a high point again for nearly two months.

A chart of great value to a retail store manager is shown in Form 92. Here are presented a summary of total sales and cumulative cash and credit sales. Line 4, read in terms of the figures on the right hand side, shows the total daily sales, and as might be expected in a retail business, is high on the four Saturdays of the month. Read in terms of the figure on the left side, the cumulative cash sales are indicated by line 2 and the sum of these, or the total cash and credit sales, by line 3.

These concrete charts are given here because they are typical examples of the graphic reports which many an executive in modern factory, store and office, is employing to indicate the exact conditions of his business day by day. Through their use he is enabled to maintain indirectly the high-water mark of efficiency among his employees, sweep the horizon of his business, marking the significance of each changing detail, and with greater confidence direct his affairs in their future growth.

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