

**HOW TO ORGANIZE AND MANAGE A
SMALL BUSINESS**

HOW TO ORGANIZE

SMALL

AND MANAGE A

BUSINESS

BY NELMS BLACK

NORMAN

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*To HAZE and TOM
who gave this nation five G.I.'s and
one successful small business
this book is affectionately dedicated*

LEARN — EARN — OWN

EACH YEAR in the United States approximately 400,000 average Americans go into business for themselves. They start, buy, or inherit a small business.

Sixty-five per cent to 70 per cent fail within two years—for two reasons: first, lack of experience, training, and planning; second, the high cost of business mistakes during the early build-up period. Thus it becomes increasingly apparent that in going into business there is little or no *margin for error!*

Fifty per cent of small-businesses keep few if any business records. Seventy-five per cent to 80 per cent make no effort to learn even the elementary phases of management. They learn the hard way, by losing. That is why many succeed on their second or third attempt.

On the other hand, hundreds of independent dealers, typical American small-business men, succeed on the first try. They have followed a simple formula: learn, earn, and own! The formula is simple. But the conscientious headwork and paper work by which success is achieved is neither simple nor easy. Yet it is not impossibly difficult, as is proved by the large number of healthy and prosperous small-business firms.

As a prospective small-business man, you should study, work, and plan to place yourself among the upper 10 per cent or 5 per cent in your field of business enterprise. This is a measure not of size but of ability, experience,

and "know-how"—survival. You will find that the upper 10 per cent stay in business twenty years or longer, while the upper 5 per cent last thirty years or more. Length of healthy business life is the surest measure of business success. You will find that size alone has little to do with it.

This brings us to the service idea of this book.

If you were planning to become an independent dealer in car and home supplies for a large company, you would first attend a dealer school. Then you would continue your training by going to work in a company-owned store. There you would put training into practice and eventually become the manager or assistant manager of the type of store you planned to own and operate. Finally you would be put in charge of a store which you would buy outright from the company, or you would locate and open a new store with the advice and help of company experts.

In this event, in nine chances out of ten, your new business would be a success. Why? Because the necessary headwork and paper work would have been completed. Your business self-training would have been sound. You would have acquired the experience and practice necessary for business survival.

The purpose of this book is to guide you through the self-training, headwork, and paper work necessary to survive in a small business. The initiative, hard work, and self-discipline required are all yours. Nobody is going to supervise your effort. No book can make your decisions or supply ready-made answers to business problems. The point to remember is that without training, experience, and ordered planning your chances are *one* in ten. With them your chances of success become *nine* in

ten. (This estimate is based upon the writer's experience in training independent dealers in the manner described above.)

You will find that managing your own training and study is more difficult and more valuable than supervised, formal training. In fact, the businesslike way in which you plan and manage your business self-training may well serve as a measure of your business-management ability later on. It will show you how well you can think, plan, and work with no supervision.

Learning to manage a business is the same thing as learning a new job, or rather a series of new jobs. Responsibility of management is a job in itself. So is purchasing. So is bookkeeping. So are selling, and planning, and personnel work, and your relations with the public. You may be expert at certain jobs in a business yet lack important elements in the overall job requirements of managing that business.

Nor will reading this book alone supply those elements. It is only a guide to further study and practice. You may need further study and experience in marketing, in budgeting, in organization, or in general management. In addition, there is a great deal of special information you will require about your own particular field. You will find a mine of facts and figures about small business in the United States Business Census publications, which will be discussed later. Many other sources of business information are suggested for further study.

From such data you will be able to figure the basic percentages for your business: costs, margins, gross and net profits, guiding ratios and percentages, and the hundred and one items you need to (1) plan a successful business operation, (2) make it work according to plan,

and (3) know from day to day exactly where you stand and why.

The sole aim of this book, then, is to help you increase your chances of success in small business from one in ten to nine out of ten.

To achieve that aim, it deals with facts, figures, and ideas, and it outlines a great deal of hard and necessary work.

You will find much compensation and penalty in small business. Its penalty is heavy responsibility and long hours at low pay during the build-up years in which you learn, earn, and own. Its compensation is strong personal satisfaction and self-respect, plus the excellent mental wage of being your own boss. The material and mental rewards of doing a better job through personal initiative, ability, and headwork are high. And with them go the knowledge and satisfaction of a real and honest contribution to the democratic freedom which we call the "American way of life."

NELMS BLACK

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**HOW TO ORGANIZE AND MANAGE A
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OPPORTUNITY

SUPPOSE you started out tomorrow morning to ask a thousand successful businessmen, "What is the number one qualification for business success?" What answer would you expect? What single *something* would lead all other traits?

The answer is *singleness of purpose!*

It is perseverance or persistence. It is a peculiar combination of guts, gumption, and a one-track mind.

This book is a guide to self-training in the basic facts and percentages of your business. You can acquire knowledge and practice in figuring costs, margins, and profit. You can learn guiding ratios and percentages, and their use in measuring your business performance. You can acquire the fundamentals needed to plan, organize, and manage a healthy business operation. But the basic ingredient of success in business cannot be taught. It cannot be learned. It must be part of you.

Singleness of purpose and perseverance. Put these two factors down as the primary qualifications for a successful small-business man. If you have them, and are committed to the task of building a business of your own, you are ready for the arduous job of acquiring the necessary training and experience. I say *if you are committed*, for an important reason. This book is planned for you who now either own or manage a business or have made a firm decision to do so.

You are committed, your decision made. You are go-

ing to work now, as manager-trainee, for your own business firm. In this capacity, your first job in the months ahead is to overcome the most common threat to the health of your business—inept and inexperienced management. A man or a woman with experience and know-how in small business will make good nine times out of ten. Chances of the inept and inexperienced are only one in ten.

With this in mind, let us examine opportunity in small business, and begin by asking just what we mean by a "small business." Definitions vary, from a business of fifty employees or less to any enterprise under private ownership. In the latter, preferred definition, any firm privately owned, including corporations as well as partnerships and proprietorships, is classed as small business; any company whose stocks and bonds are sold to the public is classed as big business.

There are four general types of small business: (1) retail, (2) wholesale, (3) service, and (4) manufacturing.

Retail stores are by far the most common type. Hundreds of thousands of them form the major part of our economy. Just as markets are people in commercial quantities, so retail stores are the market places of the nation, extended to reach and serve every neighborhood and community.

Wholesale distributors are vital connecting links between producers and retailers. With so many retail outlets in the United States, few manufacturers or producers can afford to set up the organization required for sales and distribution to all or even part of them. Thus much unnecessary overlapping and expensive duplication are avoided when one wholesaler distributes the products of several manufacturers into hundreds of retail stores.

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The service firm provides special services to people which they cannot or will not do for themselves. Repair shops, laundries and dry-cleaning shops, barber and beauty shops, amusements, transportation and communication services, as well as business-service firms such as credit, accounting, and tax services, law firms, and similar organizations are types of service businesses.

Manufacturers are producers or converters, whose function is to convert raw materials into usable and salable products.

A more complete list of the many kinds of small businesses under these main classifications will be found on pages 39-53 inclusive.

Your opportunity in small business is greater today (and success correspondingly more difficult) than at any other period in our history. This is a true statement, and no contradiction is intended. Opportunity is potential, and the potential is greater. Success is achievement, and today business success demands more training and more experience.

Your opportunity is greater because of three factors in our economy. First, there are more small businesses (over 3,500,000) than big ones. Second, there is the large turnover in small business (opportunity in terms of ability). And third, we are many years and billions of dollars behind in our development of new business enterprise.

Lincoln's statement that the Lord must love the common people because He made so many of them can be applied equally to small business. At the last count, 98 per cent of all firms in the United States were classified as small business. They do nearly 40 per cent of the business in this country and provide 45 per cent of the jobs. In addition, small business puts twice as many people to

work for the same amount of investment capital as does large business.

Small-business firms, through management ingenuity and elasticity of operation, compete on even terms with big businesses in every community. Keen competition of small business keeps big business more progressive and efficient than it ever can be as a state monopoly. (The performances of Britain and Russia provide convincing proof.) Yet you will find many small-business men and women who have sincere doubts about the value of small business to American economy. They seem almost apologetic rather than proud of the vital service small business renders in each community.

You, as a small-business man or woman, should never forget that small business forms the solid foundation and much of the superstructure of our American system of free enterprise. The need for its goods and services is too great, its dynamic role in our economy too vital, for its future to show other than tremendous promise.

What about opportunity due to an actual shortage of new business enterprise? Are we really behind in the development of new businesses? The answer is yes. During the nineteen thirties we fell short of our new-business growth-curve by 140 to 180 billions of dollars in new-business investment. This is not theory. It is simple arithmetic. From 1920 to 1929 inclusive, the yearly investment in new large business averaged 5.8 billions and in new small business 2.3 billions. From 1930 to 1939 inclusive, the yearly average dropped to 2.2 billions and 800 millions respectively.

How did this affect jobs and purchasing power?

During the twenties, investment in new business created about 2,160,000 new jobs each year. In the thirties

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the figure dropped to 840,000. These yearly averages are based upon estimates that in large business \$5,000 to \$7,500 of capital investment was required to create one new job. In small business an investment of only \$2,000 to \$2,500 was required to create a new job.

Our shortage of new business (i.e., new-business growth lost during the depression) can be measured in three ways. First, if the yearly average of new business during the thirties had merely equaled that of the twenties, 51 billions *more* in new enterprise and 13,600,000 *more* new jobs would have been added to our economy. Second, if the yearly average of the thirties had equaled the 1929 figure or had leveled off at that point, 109.9 billions of dollars' worth of new business and 29,400,000 new jobs would have been created. And last, if the new-business growth-curve of 1920-29 had been continued until 1939, 140 to 180 billions of dollars more in new enterprise and 40,000,000 to 55,000,000 new jobs would have been added. We have not begun to make up these shortages in new-business development.

The war and postwar figures of the forties indicate that we are still far behind in a business-development race against time and unemployment. If we can maintain and improve the growth rate of 1947-50 for the next ten years, we shall be able to hold down unemployment and absorb our yearly quota of new employees. Estimates of this quota vary from 800,000 to 1,500,000. Subtract from these newcomers the number of old-timers who die or retire each year; then add the number of unemployed resulting from business failure, retrenchment, technological change, and business tempo; the result will be a new-job quota for the United States. Multiply this figure by the capital cost of creating a new job, and you have a

minimum yearly requirement for new business and investment capital.

In my opinion this calls for a minimum capital outlay for new business of eighteen to twenty billions of dollars a year during the next ten years. As seven to nine billions of this is needed in small business, your objectives should be (1) to start a business, (2) to start it right, and (3) to make it pay.

It is not easy. It calls for a good deal of headwork, paper work, and fortitude. It is a long haul. Success is slow but worth the struggle. Success is sure if you know what you are doing—and do it! And there is plenty of opportunity in small business, because opportunity is just another way of spelling *room for improvement*.

If you want to survey opportunities in small business, go out and shop around for the products and services of small business. Check for yourself the almost unlimited room for improvement in any line of small business. Be a self-conscious customer. Keep a sharp eye on your own customer satisfaction. What kind of selling job is done on you? How would you improve it? What quality of goods or services do those who sell deliver to you? Are their employees eager to get and hold your good will? Are they expert in their occupation? Are they proud of doing an outstanding job for you? In other words, have they "sold" you and kept you as a satisfied and friendly customer?

If they have not (and you will find that as many as 75 per cent of them cannot or will not), you are looking at American business opportunity at its best.

To succeed in small business you must (1) know yourself, (2) know your business, (3) know business ratios, (4) know your market, (5) know your plan, and (6) know your performance—all of which is another way of saying

you must know what you are doing, and do it. Books have been written upon each of these subjects. Certain books and sources will subsequently be listed as "musts," both for preliminary training and for management reference. Think of them as your "two-foot shelf of handbooks" on successful small business.

Know yourself. The first step required of you when you go into business is to make a shrewd and thorough appraisal of yourself. After all, you are going to be your number one employee. Personal factors can help or hinder you. If you are to take advantage of your strong points and improve or hire talent to cover your weak points, you must know what they are.

The successful small-business man is a realist. He can take the bitter with the better about himself, as long as doing so helps him to achieve desired results.

To know yourself, find the answers to three questions. Who *are* you? What do you *want* out of life. What can you *do*?

You must know how you stand in general ability, knowledge, initiative, judgment, perseverance, confidence, decision, dependability, energy, headwork, and personality. You must rate yourself in ability, character, and personality and compare your findings with those accorded you by outsiders.

You should have a clear idea about what you want out of life. It may be nice to be a millionaire or a movie star, and again it may not be. Any way of life has its penalties and its compensations. The Bible says that you get back twice over what you give to life, and lose twice what you take from it. The rule applies to people, nations, and civilizations. At any rate, make certain that you are not

a suppressed explorer, artist, scientist, or mystic before you decide to start a business. If a normal middle-class American home, family, church, business, car, and sport or hobby sound right to you, the chances are that you are on safe ground. However, it pays to be sure that your subconscious mind does not have a number of positive and different ideas of its own that can play havoc with happiness and satisfaction in your daily business living.

In addition to knowing who you are and what you want out of life, you should know what you can do. You should make a clear appraisal of your work ability. Outline work ability gained from schooling, from hobbies, from jobs, from service and civilian training, and from any and every activity in your past life.

Know your business. A small-business man must be his own buyer, general manager, sales manager, advertising manager, comptroller, and chief planner. Unless you have previously managed the type of business that you plan to start, it is likely that you lack training and experience in one or more of the above requirements. The whole purpose of a training period before you start a small business is to make up whatever you lack in these essentials. Have you ever bought merchandise? Have you ever been boss? Have you ever met a pay roll? Have you sold things to people? Can you keep books and records? Have you ever made up a budget or planned an operation to achieve a production or sales quota?

These questions are not presented for the purpose of confusing or discouraging you. Any person of average intelligence can acquire the experience and training necessary to handle these jobs in a business with which he is familiar. Nor should it take him very long if he works to learn and to fill the gaps in his experience.

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Know your business ratios. The most valuable of modern aids to small-business management are ratio and percentage guides to successful operation. Such ratios help you in calculating expenditures for rent, sales, salaries, advertising, equipment, inventory, and operating costs. They tell you how much profit you should make. They are compiled by various business agencies and associations for nearly every line of business.

In the beginning you will find extremely valuable ratios of successful businesses similar to yours. Later, as performance records for your own business become available, you can compile a master set for guidance and as a check on performance.

Know your market. Kenneth Goode has said that markets are people in commercial quantities. If business is to survive, it must have an ample supply of potential customers and must make the necessary effort to convert these potential customers into the desired number of actual customers.

Markets for small business exist in every community and in every section of the country. New York offers as much opportunity for a small business as New England. Chicago is as fertile a field as the Southwest. Location, size of community, climate, and geography matter little as long as people in commercial quantities are available. Small business can survive in areas where large business will starve.

Markets for most small businesses cover a neighborhood, a town or trading area, or a territory embracing several towns or trading areas. You should know the customer potential for your area, how much business is done in your line each year, who does it, and how well present business houses serve the area. You should know

business and agricultural conditions, trends, income, stability, transportation facilities, distribution of income, and whether the community is aggressive or asleep.

Much of this information can be obtained from local chambers of commerce and veterans' organizations. However, there is a national businessmen's organization now operating in three thousand communities which has been set up for this very purpose. It is called the Committee for Economic Development. Its aim is to promote 30 per cent to 45 per cent more business volume and seven to ten million more jobs than the nation had in 1940.

C. E. D. local committees even now are canvassing business to measure job potentials. They help in plans for expansion and in starting new business. They carry out local market research and even local financial groundwork for new enterprise. They are finding new business possibilities and opportunities for returning service men. Many have established consulting services for servicemen. The C. E. D. is nonprofit and nonpolitical. The committees help you. Later you pass along your time and help to somebody else. This amounts to American good-neighbor initiative and self-help all the way through.

Know your plan. If you know yourself, your business, your ratios, and your market, there is little reason why you should not be able to put down on paper a comprehensive prospectus or plan for a new business. It should include your qualifications, the costs, your proposed plan of operation, and an estimate of earnings.

From such a plan you will be able to estimate your capital requirements and also how capital costs and debt will be paid. The only way a financial backer can judge whether your note or paper is a good risk or "buy" is by his personal knowledge of your ability and an appreci-

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ation of the soundness of your planning. Generally, the more you need a loan in business the harder it is to get. This brings us to the G. I. Bill of Rights.

If your farm or business loan is sound enough to go through under the G.I. Bill of Rights, it is sound enough not to need the guarantee of that bill. (Better farm terms are available from the F.S.A.) Moreover, loan applications to the R.F.C. or even the Federal Reserve Bank have a better record of acceptance than applications for G.I. business loans.

In your planning you will find it advisable to organize your paper work. In a later chapter it is recommended that you keep a scrapbook and two notebooks. Your scrapbook or file eventually will contain articles, booklets, pamphlets, and other printed material supplied by trade magazines, trade associations, chambers of commerce, and other sources of information on your business.

One notebook, on "facts and figures," should contain essential information gained from your personal investigations and field work, such as market surveys, talks with bankers, lawyers, business advisers, and people in your line of business. Fill it with facts and figures on capital requirements, supply sources, and other information needed for successful planning.

The second is your "planning" notebook, in which a detailed plan or blueprint of your business operation should be developed. Do not start it until basic work on facts and figures is nearly complete.

Know your performance. Until the Revenue Act of 1940 became law, fifty per cent of small business failures kept no records of any sort. Even today many small-business men fail simply because they do not know where they stand financially from day to day and from week to

week. Business records warn you well in advance if anything is getting out of balance. They are your sources of performance facts and figures. Compared with your budget or the *plan* of your operating performance, they indicate what and where corrective action is needed. The *how* of such action is up to your own initiative.

Hence, whatever else you take up in your period of preparation, be sure to learn enough about bookkeeping and budgets to be able to keep the score for your own business. In large business the scorekeeper is called the comptroller. He is the facts-and-figures man who enables management to navigate and plan ahead. You will be your own comptroller, navigator, and chief planner. The job you are able to do will depend upon the performance records you keep. Keep no more and no fewer than are essential to the competent management of your business.

The preceding, then, is a brief outline of your job in small business. At this point the doubtfuls and "agin'ers" are excused (with sincere best wishes for future jobs and security). From this point we get down to cases with you of stubborn mind, stout heart, and independent spirit, who insist upon heading your own enterprises in the prosperous years ahead. The future depends upon you. You can build or break this nation. You can win the peace and contribute to a better America in the process. The stake is high. The reward is a balanced economy and an earned, genuine American prosperity.

Let us begin with an inventory of your ability and experience.

PERSONAL ANALYSIS

ONCE upon a time you were faced with the problem of getting a job. In order to land the job you had to get certain facts, organize them into a plan of action, and carry the plan to a successful conclusion.

You began with a problem—a job. Then you gathered facts—answers to such questions as: What type of work do I want? What can I do best? In what work am I most experienced? Is my experience salable? This points to what type of job? For whom? What is the wage or salary range? What can I do to raise it?

The answers to these questions narrowed your general problem of a job to one or two specific best possibilities. Your target became a certain type of job, in a definite locality, for a known kind of employer, at a specified wage or salary. In other words, the facts enabled you to define and clarify each factor in your job problem.

Probably the final job picture was not exactly what you hoped it would be. It rarely is. But it was acceptable. You would settle for it. The facts changed your ideal choice and at the same time suggested an acceptable answer to your job problem. The facts *suggested* an answer, but did they provide it? Of course they did not.

It was still up to you to get the job, which meant more facts, applications, interviews, persuasion, and successful selling action on your part. Then you had to perform according to somebody else's expectations. You had to plan, perform, and manage with an air of friendly, pleas-

ant efficiency to hold your job, i.e., your employer as a customer.

You can think out the problem of organizing your own business along much the same lines. Wanting a job and wanting a business are problems, similar in everything but size and complexity. Facts about costs, location, type, size, ability, opportunity, market, and so on are going to change or modify your original aims and ideas. Facts will suggest possible answers and decisions. Further work and study will indicate one best solution or choice.

From that point your problems will be those of performance—of planning, management, production, sales, and the maintainance of customer satisfaction and good will.

The first measure of your chances in business is a clear and accurate measure of you. Facts about yourself, in order to be useful, should be of two kinds: first, your strong and weak points as you know them; second, your strong and weak points as other people know them.

In a recent study of the personal traits of thousands of successful businessmen, two characteristics common to most of them became immediately apparent. First was shrewd, accurate self-appraisal. Second was keen interest in how they appeared to others. Successful businessmen were found to welcome criticism and suggestion (even if it hurt) as long as it helped get the job done.

Such men are not born with an accurate picture of their strong and weak points. They acquire it through years of taking the bad with the good. They succeed because they consciously acquire and carefully use information about themselves.

The use in business of aptitude and intelligence tests has increased markedly in the past few years. These tests

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are designed to show your level of general ability (not education) and, in special instances, to aid in the selection of candidates best fitted for certain types of work. They are worth taking, but, oddly enough, they cannot measure your business determination.

The general ability or mental-age rating of a successful small-business man is high. Psychologists put it at sixteen to eighteen years, which is the same level as that prevailing for draftsmen, physicians, newspapermen, chemists, superintendents, schoolteachers, and the better types of salesmen.

Since nineteen years plus is supposed to be the very highest in measurement of general ability, you should be able to hold your own somewhere in the upper 15 per cent in a general intelligence rating. There are, of course, many exceptions. You undoubtedly know dozens of intelligent men who are unsuccessful in business and others not so intelligent who make fortunes. Also there are many small-business men who are below the upper 15 per cent in general intelligence. The fact remains, however, that business mortality is high. You will need every bit of luck you have, without using it as a substitute for brains.

One of the first points to clear up about yourself is your level of general ability or intelligence. Remember, you are backing your own ability and experience with every cent you can beg, borrow, or save. The least you can do is find out exactly what it is, so that you may exploit your strong points and guard against possible losses from your weak ones.

For example, your strong points may be those of mechanical or abstract intelligence. Let us say that you are creative- or production-minded but limited in social intelligence, or the qualities required for the selling end of

your business. Isn't it sensible, then, to recognize that fact and to cover yourself by hiring the best sales talent you can find? Of course it is. And successful businessmen prove it every day by operating exactly that way. They check their shortcomings, improve their talents, and hire or buy whatever else they need. It sounds very simple, yet many businessmen have failed because they were too proud or too shortsighted to do just that.

There are several easy ways to check your general ability. If you are interested enough to want the best possible job, consult a competent industrial psychologist. He will give you a few well-known standard tests in about the time you would spend for a routine physical check-up. The result will give you an accurate and valuable picture of the type and extent of your general ability. If you can tell him the kind of business you intend to try, he will be able to give you some good common-sense ideas and suggestions. These, of course, you do not have to take, but the chances are that acting on them will mean money in the bank later.

If you want to check your intelligence level on your own, go to the local library and ask for any of Donald A. Laird's books on business and industrial psychology. His book *How to Use Psychology in Business* should be a working volume in your own two-foot shelf of business books. In it you will find several interesting tests for yourself and your employees, which, if you use them, can save many disappointments and a good deal of money.

Other more or less general indications of your native ability are to be found in your non-business activities, the amount of formal education you have had, the position and background of your parents, and the size and responsibility of your own job and experience. However, such

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material is a better indication of your background than of your general ability. Standard tests are more accurate for the job of measuring and defining your strong and weak points.

Now, for the fun of it, let us examine a sample test of self-appraisal for a businessman. It will not be scientific or exact, because I am not a professional psychologist. It is simply a check list of desirable traits and characteristics found in most (but not all) good businessmen.

Beside each trait is a line. At various points under the line are guide phrases. For example, the guide phrases under the trait "Likes people" range from "positive friendly interest" to "polite and pleasant," to "indifferent toleration," to "sour, active dislike." Make a check mark on the line exactly where it ought to be. Not over the guide phrase, mind you, because the rating, nine times out of ten, lies somewhere in between. Yours might be about halfway between "positive friendly interest" and "polite toleration."

Rate yourself; then ask a friend to get anonymous ratings on you from several people who know you well and whose opinions you respect. Do *not* ask who gave you good or bad ratings. You are interested only in the composite picture of how you appear to others. Then compare the score given you by others with that which you give yourself. The result will probably startle you! On many points you will be pleasantly surprised. On others your embarrassment will know no bounds.

1. Personality

outstanding	good	so-so	poor
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2. Physical

make-up

strikingly good	average	not good	very poor
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3. Initiative	real go-getter	self-starter	all talk no action	sack artist
4. Ability	keenly expert	good and thorough	fair	knucklehead
5. Knowledge	smart as a whip	generally good	about average	sub-stupid
6. Dependability	always on the ball	tries hard	promises more than he can do	screw- ball
7. Responsibility	eats it up	doesn't mind	avoids it when possible	shirks it
8. Leadership	tops in inspiration	order giver	stupid driver	hopelessly weak
9. Reaction to criticism	welcomes and uses it	takes it but it hurts	asks it then resents it	can't stand any
10. Judgment	uncannily accurate	right more than wrong	fair	hopeless self-kidder
11. Confidence	inspires it	quietly confident	a worrier	Casper Milquetoast
12. Sincerity	fearless square-shooter	on the level	fairly (if safe)	not to be trusted
13. Competence	quiet, impressive	has the word	cocky and questionable	incompetent
14. Headwork	sharp and accurate	good and dependable	fair to middlin'	Dilbert
15. Decision	fast and right	good and careful	goes off half-cocked	hesitant and fearful
16. Courage	fearless, no buck passer	good but cautious	average	timid
17. Determination	confident persistence	good singleness of purpose	average will power	easily licked
18. Realism	utter realist	feet on ground	hopes instead of thinks	day- dreamer
19. Culture	refinement and balance	college type	average American	back- woods
20. Organizer	genius	very able	good	poor

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21. Manager	leader	good boss	one of the boys	policeman
22. Humor	fine sense of humor	likes good joke	tolerates a joke	sourpuss
23. Mixer	attracts and wins friends	good mixer	reserved	avoids people
24. Concentration	nothing interrupts it	good under favorable conditions	fair for a limited time	squirrel cage
25. Sense of justice	impartial but human	slightly prejudiced	disinterested	highly warped
26. Temper	controlled	even	hot but human	uncontrollable
27. Talker	ready, fluent fascinating	good, interesting	average	poor
28. Consistency	very consistent	reasonably consistent	variable	unpredictable
29. Salesmanship	sincere, persuasive, convincing	competent service order taker	bird dog	square peg
30. Poise	excellent under fire	generally good	fair but lacking in pinches	poor
31. Shrewdness	never misses a trick	gets along	taken in once in awhile	fall guy
32. Human warmth	friendly, understanding, sympathetic	kindly but reserved	indifferent	truculent
33. Physical energy	high and constant	above average	fair	below average
34. Enthusiasm	sustained and infectious	ample but not consistent	occasional	wet blanket
35. Ambition	high new aims clearly in mind	occasionally plans for future	rarely thinks of future	rarely thinks

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36. Attitude in emergency	calm, clear, in good spirits	grim, thinks fast	worried, excited	dopes off through sheer excitement
37. Accessibility	easy to know and like	a bit high-hat and reserved	hard nose	completely self-centered
38. Likes people	positive, friendly interest	pleasant, polite	indifferent toleration	sour, active dislike

In using a check list of this kind, consider each point separately. Take plenty of time. Try to visualize past actions or events which will give a fair and accurate picture of the trait or characteristic being considered. Weigh them carefully and score as fairly as possible.

In going over the results of your own test, remember that they do not prove a thing. They simply indicate a number of factors. The only purpose of the test is to help you compile an accurate appraisal of your own strong and weak points as you see them and as other people see them. Thereafter it is up to you to analyze the picture, improve it as much as you can, and hire combinations of those qualities needed in your business which will supplement and strengthen your own.

Naturally there are several qualities you will have to have in order to stand a fair chance in your own small business. These are general intelligence, initiative, courage, realism, shrewdness, tenacity, ambition, and an ability to get along well with people. If you are definitely lacking in any of these, stop and reconsider. Or, better still, consult a business psychologist. He will give you the truth as he sees it and a quite accurate estimate of your chances. He may be able to suggest ways and means of

eliminating a dangerous weakness. Remember, it is your money, your time and effort, your blood and sweat. If you are wise, you will not overlook a single factor that might increase your chance of success. The biggest single factor is *you*—who and what you are, what you want out of life, and what you can do.

That brings us to the question, "What do you want out of life?" You may be very able. You may believe in all sincerity that all you want out of life is a modest home, a family, and a small business of your own. But down deep your subconscious may have some very different ideas of its own. It is honestly possible for these subconscious desires and urges to be present without your knowledge or approval. The point is that when you want and work for the things your subconscious wants and urges you to work towards, you do a better job. You are happy. But if you think you want to operate along one line and your subconscious is driving you along another, then watch out! You will be unhappy. You can fail. You can break down. People do it every day because their daily lives are running head-on against their subconscious urges and desires.

There are several clues to your subconscious aims, the things you really want out of life. You will find them in the answers to the questions: (a) What do you dream about? (b) What do you daydream about?

Do you dream of wealth, of being just "too, too—" in the Hollywood version? (Stay away from small business.) Is your dream of power, of fame, of being on intimate terms with other powerful big names? (Small business is not for you.) Do you see yourself a Roy Chapman Andrews, a Wiley Post, a Stefansson, a Byrd, or a Halliburton? Do you dream of travel and adventure, of exploring

far corners of the earth? (Make a *special* business, not a small business of it.)

Do you see yourself as the father of a family having fun with your youngsters? (Now you are close.) Do you dream of building something? Or working to make something better? (You are closer and closer). Dreaming or awake, do you like to deal with people? Do you like to buy and sell, build and sell, serve people and sell to them, on your own? (That is *it*, a subconscious bullseye!) The more you like this sort of thing, the happier you feel at it, the more you dream about it, then the closer it is to your subconscious aim. As a result you will feel better, do a better job, stand a much better chance of success in small business. This means that, underneath, you *are* a small-business man. You are the type.

The next facts about yourself (to be put on paper for clear self-appraisal) are answers to the question, "What can you do?"

One of the best ways to secure this information was devised by a former personnel manager of the Western Electric Company, Mr. A. W. Rahn. During the early years of the depression-to-end-all-depressions, Mr. Rahn was faced with the problem of finding jobs for able W. E. employees whom the company simply could not afford to keep. He realized that in order to place them he had to *sell* their services. Résumés of past experience and the usual passive application forms used by applicants for new jobs were not enough. Times were hard. People labeled machinists, foremen, electricians, stenographers, and other standard job designations were not needed. But Mr. Rahn found jobs for *special* machinists, *special* electricians, *special* foremen, and *special* stenographers. And he placed more than 80 per cent of his surplus employees

in good jobs. He found and sold each person's *special abilities*.

He began with patient, careful questioning. What can you do? Not what is your line or label, or where have you worked, and how much did you earn. But *what can you do?* From each personal history he pulled fact after fact—all answers to the simple question, "What can you do?" Each fact was put on paper in terms of *work ability*. Mr. Rahn explored hobbies, past jobs, formal education, self-education, outside interests, home life, skills regardless of type, ability in any phase of the person's life, no matter how far it happened to be from what one considered his or her regular job.

He found that if you can describe in clear, understandable words *how* to do a given job, whether it is running a typewriter, teaching philosophy, operating a turret lathe, selling hosiery, or designing a transport airplane, the chances are ten to one that *you can do it!*

The sum total of things *that you can do*, put on paper in terms of work ability, Mr. Rahn calls a "Man-power Specification." It lists and specifies facts. It presents a complete (hence more valuable) picture than the ordinary résumé or job application. It is the closest thing there is to an engineering blueprint of your work ability. (Mr. Rahn's method has been widely commented upon, but a complete statement of it is contained in his *Your Work Abilities*, New York, Harper and Brothers, 1936.)

Why use it? You are not going after a job.

But you are.

You may be an *employer*, but your number one employee still is—*you!*

Later, as an employer, it may help you uncover highly valuable special abilities in your own personnel team.

Right now, the more you know about your own work ability the better you will be able to choose, plan, and run your own business. (This is entirely apart from the sales value of the man-power specification in building credit and financial backing. Have you ever noticed how fully people place confidence in the man who *knows* what he wants, what he has, where he is going, and how he proposes to get there? But more of that later.)

Let us begin with your man-power specification.

First, jot down on paper *five* separate types of business or work activity which you can do. These may be, but do not *have* to be, actual jobs at which you have earned a living.

You may be an excellent carpenter or home-craftsman or amateur musician, although these may be personal hobbies miles apart from your daily work. As long as each item represents a *separate* field of endeavor or work ability, list it. Start with your five best activities from the standpoint of ability and experience. Clues to these might be (1) your war-service job, (2) your prewar job or jobs, (3) your wartime school training (apart from your service job), (4) your peacetime educational training, and (5) your special crafts and hobbies, peacetime or wartime. Samples from my own fellow servicemen are as follows:

- A. 1. Naval aviation. 2. Journalism. 3. Advertising.
4. Hotel and Restaurant. 5. Lime manufacture.
- B. 1. Army aviation. 2. Publishing. 3. Insurance.
4. Writing. 5. Horse raising.
- C. 1. Aircraft mechanics. 2. Auto mechanics. 3. Oil-well-drilling mechanics. 4. Farming. 5. Selling
- D. 1. Naval aviation. 2. College teaching. 3. School sports coaching. 4. Ranching. 5. Accounting.

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- E. 1. Flight instruction. 2. Farming. 3. Merchandising (own store). 4. Outside selling. 5. Auto mechanics.
- F. 1. Pharmacist. 2. Auto mechanics. 3. Oil drilling. 4. Selling. 5. Law.
- G. 1. Aircraft pilot. 2. Photography. 3. Mechanical design. 4. Music teaching. 5. Manufacturer of mechanical sound-recording devices.

Each point is an opening wedge to specific information in that particular field. Once your five points are on paper, you begin the more difficult task of listing under each point *exactly* what you can do in that line. The test of whether or not you can do the work is given in the answers to: (1) Have I done it? (2) Does my training and experience support *my belief* that I can do it? (3) If I had to, could I explain to or show someone else *each step* in how to do it? If you can answer "yes" to 1, or to a combination of 2 and 3, your statement that you can do that kind of work is probably correct.

For example, under "Merchandising" you might say: "I am competent to operate a store retailing men's, women's, and children's wear (including shoes and accessories) in a small town or rural community. I am familiar with stocks and lines of merchandise for this type of store. I know and have dealt with farmers and townspeople successfully for five years. I am familiar with costs, problems of location, advertising and selling, and management of this type of operation, and so on."

Under "Merchandising" someone else might list personal knowledge of operating a garage, a florist shop, a grocery store, a coal yard, or some other one of a thousand types of retail establishments. On the other hand, he might mean merchandising car or home supplies to

dealers, or a manufacturer's product to the wholesale and retail trade in general.

The point is to itemize what *you* can do (not why you can do it) as briefly and as simply as possible, under each of your five major activities. If you think hard and do your best, you will unearth talents, abilities, and experience, some long forgotten, which can be of real value in your new undertaking.

Your man-power blueprint may suggest wider possibilities or special business ideas, as your ability in a former field is applied in a different one in which it may be odd or rare. If it is rare, it is special, and nothing can pay better than *desirable specialization in business!*

Once the answers to "What can you do?" are itemized under five main headings, you are ready to go to work on supporting facts. Write them in the form of a brief history or résumé of your career. Begin with your birth date, birthplace, parentage, type of home and home life, type, size and location of your home town or community. Outline your early education, especially early work or business experience gained outside school. Give a résumé of your formal education and another of your supplementary education or training aside from actual school or college work. Other headings should include hobbies, travel, war training and experience, and business training and experience. Each paragraph (regardless of heading under which it appears) should be numbered. Number the paragraphs consecutively.

Once your paragraphs are numbered, you are ready to index the job. Go back to the itemized lists of what you can do. Under each of the five major topics, mark down the number of each paragraph in the history of your career, which *proves* or *supports* the specification

of ability under that topic. Thus, under "Merchandising" outlining your competence to operate a certain type of store, you would list a series of numbers, say 21, 22, 23, 24, 56, 57, 59, 71, 72, and 73. Each refers to a paragraph in your general résumé giving specific facts pertaining to your ability to perform that type of work. At some time in your life you have run such a store. The numbered paragraphs tell about it. You merely list or index them under your statement of ability in that field.

By now you may be ready to mop your brow and think to yourself, "All this heavy-duty headwork and paper work, before I make the first move?"

This is *it*. This is your first move. And in many ways it is the most important. So far all we have done is to outline a simple, logical method by which you can list your answers to three questions. (Both questions and answers are, at this point, of vital importance to your success.)

Who are you? What do you *really* want out of life? What can you do?

Your job is to answer them. It is the first of many jobs necessary to plan and organize a small business. Each will take time and hard work. But hard work alone will not provide success.

Keep in mind that any fool can fail in business, even a hard-working fool. If you propose to put in endless hours of time and hard work, *make them count!* To make them count, get the facts—and use them. Emphasize headwork and paper work. Be your own research and planning board—and work at it!

Now, about the all-important *choice* of a business.

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CHOOSING a small business is like choosing a wife. A man may grow up with a business, just as he grows up with a high-school sweetheart. He would no more consider a change to another business than a marriage to another girl. He may have his moments, but rarely for long. And usually he makes a good businessman because he concentrates. He sticks to one line and learns every phase of it.

Another type of businessman becomes infatuated with a newly encountered business idea or proposition on short acquaintance. He jumps into it in headlong, haphazard fashion and does most of his headwork and paper work after he is married to it. Mortalities in such choices are high, but successes are often outstanding. The fascination of a given business or the allure of its possibilities inspires outstanding effort and achievement.

Or there is the man who chooses a business as a means to an end. He does it as coolly and scientifically as if he were selecting a blooded brood mare or planning to marry for money. It is a game of manipulation rather than part and parcel of his way of life.

The best choice of a small business is a *combination* of these three methods. It should be a business you know thoroughly, one you like wholeheartedly, one you have selected shrewdly, with percentages for a long and successful "marriage" heavily in your favor.

Your choice of a business will lie in one of four gen-

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eral fields: (1) mining and manufacture, (2) wholesale trade, (3) retail trade, or (4) service enterprise. Your limited capital may offer a wider choice and better opportunity in retail or service enterprise than in manufacture or wholesaling. This is generally but not necessarily true. Certain types of manufacture or wholesaling can be started and established successfully with a small initial investment.

One of the first rules for making a choice is to investigate every possibility, every angle of the business *with which you are most familiar*. It is very human to see the money-making possibilities more in the other fellow's business. *Of course* it is a money-maker! Any business is profitable if it is correctly planned and managed.

That is just the point.

Your business (and by "your business" we mean the one you know most about) offers every opportunity for profitable and successful operation. (If you are thoroughly and honestly convinced that this is *not* true in your line, you had better think twice about trying *any* business.)

Also, you must not confuse knowledge of a *job* with knowledge of a *business*. You may know all there is to know about one or more jobs and yet be hazy indeed in your knowledge of the business enterprises in which they are found.

Operating and managing a business is in itself a series of special jobs, all of them necessary and none of them easy. To decide the type of business with which you are most familiar, take a careful inventory of your training and experience in the *operational* and *management* phases of that business, as well as your expert knowledge of a particular job.

The next point to decide is how well you *like* the type

of business which seems most logical from the standpoint of your experience and training. If it gives you satisfaction or real enjoyment, if you honestly do not mind the bitter-with-the-better aspects of it, this wholehearted liking for a business is one of the strongest factors affecting the correctness of your choice. Anything you like to do ceases to be hard work. Honest enjoyment takes all the drudgery and monotony out of the hard work necessary to start and build a successful business. Thus, if you know a business and like it, the chances are eight out of ten that it is the right business for you.

We say eight out of ten because there are two reasons why it might not be a good choice.

First, it might require more capital than you have. In other words it might not be able to support you, considering the *size* of the operation which your limited capital could finance. Many lines of manufacturing and wholesaling fall under this heading.

The second reason involves personality. There is an off chance that your personality might not fit an otherwise logical choice of business. You might be a Marine sergeant with the knowledge and flair for running a Park Avenue women's hat shop, or an able artist in love with heavy construction. In either event personality would be a liability in your chosen line. It might be serious enough to require your hiring someone to serve as a "front" for you in your own business dealings with customers or employees. However, if you know a business and like it, you will find that as a rule it fits your personality.

Capital requirement is the third important factor to consider in making a choice of business. You may know exactly what you want. You may know the business, you may like it and enjoy working at it, yet you may not be

able to afford to make a start on your own. If this is your problem, you have several alternatives: (a) find a partner, preferably a financial, silent partner; (b) choose a similar type of business with smaller capital requirements; or (c) put in a few more years as an employee and work until you can save or promote the additional amount required.

Most successful businessmen advise the last course for two reasons: first, it is safer, surer, and will in the end shorten considerably your struggle during the early years of limited financing; second, once you go to work for someone else, determined to learn and save for a business of your own, you do a far better job, both for your employer and yourself. Ability, experience, and bank account grow together.

Last but far from least in choosing a business is customer need and availability versus personal preference. Many a small-business man fails before he opens by planning his start on a set-up-shop basis. His type of business and its location are chosen by personal preference instead of customer needs and percentages. He opens his business and then looks around for customers. Instead, he should plan to serve his customers' needs and locate conveniently close to an ample supply of customers.

Customer supply, no less than financial requirements, will dictate many factors of choice, size, and location. The whole problem of market reconnaissance (see Chapter 7) is the *why* and *how* of measuring types, available numbers, and location of your customer supply.

If customer supply is so vital to the correct choice of a business, one may well ask whether market research should be undertaken before or after the choice of business. The answer depends upon which of the factors in your decision are *fixed* and which are *free*. For example,

if the choice of a business is pretty well fixed for you by circumstance and your experience, market research can help you decide the type and size of your business operation and help you to select the locality or community in which that operation is most likely to succeed. On the other hand, if circumstance, family, or financial ties hold you to a given community, market research on several possibilities may well decide your choice of a business. In the first example it follows your choice; in the second it precedes and may determine your choice, depending upon which part of your problem is open to free decision.

If you are free to decide between several types of business as well as to locate wherever you wish, it is suggested that you (a) pick your business on the basis of experience, available capital, favorable ratios (opportunity), and personal preference; (b) develop a special angle or service idea, which, in nine cases out of ten, will supply either the needs of a special class of customers or special needs of customers in general; (c) locate your business (through market reconnaissance) wherever the percentage of potential customers is highly in your favor. And while we are on the subject, there is a point about which you should remind yourself early and often. It is this:

Make your own decisions!

You will notice that there has been no attempt to give you information on what fields are overcrowded, undercrowded, big money, no money, sure things, or sure failures. The reason is simple. There is not a single generality of that sort which business facts and figures will support. "Hot tips" and dire warnings alike are 99 per cent somebody's opinion and 1 per cent conjecture. The only general rule borne out by business census figures and studies

is simply that any business succeeds if it is correctly managed and fails if it is not. Type, size, capital, creed, and color have little to do with it.

In making your decisions, you will get plenty of advice, some of it good, most of it bad. Accept and use any and every *fact*. Check and double check any and all *opinion*. There are factual sources and figures to prove most, if not all, of the vital points in your check list of correct operating ratios and percentages. Use them. Weigh all advice, rumor, and "inside tips" against them. Then go ahead and make your own decisions.

Let us examine for a moment some of the problems and requirements of the four general fields of business. A comparison of certain basic figures may help you to weigh your chances, say, in retailing versus manufacture, or service versus wholesaling. Suppose we begin with capital and compare the figures found in a study of these four general fields of business. The study covers a total of more than sixteen thousand firms found in three cities in Minnesota. Twelve per cent of them were manufacturing concerns, 7.5 per cent wholesale, 51 per cent retail, and 29.5 per cent service establishments. (These figures are close enough to national averages to indicate that approximately five out of ten small-business men go into some form of retailing, three start service businesses, one goes into wholesaling, and one into some form of manufacture.)

Fifty per cent of the manufacturers had a capital investment of less than \$2,000; however, fewer than 15 per cent of these stayed in business more than five years. Eleven per cent were rated from \$2,000 to \$10,000, and of these 33 per cent were in business more than five years. Twenty-one per cent were rated from \$10,000 to \$75,000,

with 65 per cent in business more than five years. Eleven per cent showed a net worth of from \$75,000 to \$500,000, with 85 per cent in business more than five years, while those remaining were classed as over \$500,000, with 85 per cent in business more than five years.

While 50 per cent of the manufacturers showed capital investment of less than \$2,000, 66 per cent of the retailers and nearly 80 per cent of the service establishments were under that mark. Wholesalers led in capital required, with 40 per cent showing less than \$2,000. Their spread through the higher brackets was also proportionately greater.

Raising the capital figure to \$10,000, we find that approximately 60 per cent of the manufacturers are under this figure, but only 48 per cent of the wholesalers show net worth of less than \$10,000 (30 per cent of them are in the \$10,000 to \$75,000 group). However, 88 per cent of the retail firms and more than 86 per cent of the service establishments fall in the \$10,000 or less group.

In Minnesota it was found that the *average* life span of manufacturers is eight years, wholesalers seven and one-half years, retailers six years, and service firms seven and two-tenths years. This does not mean that, once your average business age is reached, you are through. Nor does it mean that the younger your business is the less you have to worry about. Actually it works just the other way. A healthy eight- or ten-year-old business has every chance of living to a ripe old business age, while the business infant must be protected and developed like a hot-house orchid.

A study of business mortality in a typical New York state community, covering more than one hundred years, shows that 10 per cent of the community's retailers, 16.7

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per cent of its wholesalers, 12.6 per cent of its manufacturers, and 8.7 per cent of its craft and service concerns stayed in business for twenty years or more. These percentages will give you a general idea of how you must rank in your line of business in order to enjoy success over the comparatively modest period of twenty years.

Now let us examine these facts and figures, so that we may determine what general bearing they may have upon the choice of a small business.

The figures on average life, or life expectancy, show little or no difference between the four general fields of enterprise.

The difference in life expectancy between the \$2,000 concern and the \$100,000 concern, while large, is not a question of a difference in size alone. Size is more often an *effect* or *proof* of, rather than cause of, business ability and competence. In other words, if you succeed you can not help growing.

Differences in mortality rates show that \$2,000 firms can not afford mistakes, and do make them, while \$100,000 firms can afford mistakes, and rarely make them! Hence, the smaller your start, the fewer the mistakes you can afford and the sharper you must be at knowing your business and your business percentages.

Figures on net worth, which serve to indicate capital requirements, show that less money is needed in retail and service fields than in wholesaling and manufacturing. The surprising point of these figures is that so many of the latter (50 per cent, 40 per cent, and 50 per cent respectively) were found with net-worth ratings as low as \$2,000.

While you will find that your chances generally are better in retailing or service, if your starting capital is small, the *difference* is not enough to matter if your choice

lies in manufacturing or wholesaling. The smaller the capital, the greater are the factors of "shoestringing" and speculation. Risk varies according to ability and net worth rather than type of enterprise.

Examination of the facts and figures of capital requirements and business mortality bring home two important points: first, that it will be necessary to cut the size of your business (regardless of type) to fit your financial cloth; second, that size and net worth are *not* the *causes* of business success and long life. They are the *results* of business success and long life. Human talent, ability, initiative, and hard work are the causes.

So choose a business you know. Choose one you like, one that fits your personality. Choose one in which operating ratios and profit percentages are worth the time, hard work, and risk of starting in a small way. Then find or develop a special angle or service idea. Test it, eliminate the flaws, and go to work.

The remainder of this chapter will be given to a list of different types of small business taken from the United States Census of Business. To those of you whose service jobs may be adaptable to several different lines, or who desire to pick a business and then go about learning it, such a list may help narrow your choice. Sometimes, if you look over the entire field, you are able to make a choice with fewer reservations. There is no half-doubt or suspicion that once upon a time you had an idea for a business (much better than your present choice) if you could *only* remember what it was!

CHOICE

RETAIL BUSINESSES

FOOD GROUP

- Grocery stores (without fresh meats)
- Combination stores (groceries-meats)
- Dairy products stores
- Milk dealers
- Meat markets
- Fish (sea food) markets
- Candy, nut stores
- Confectionery stores
- Delicatessen stores
- Fruit stores, vegetable markets
- Bakeries, caterers
- Egg and poultry dealers
- Other food stores

GENERAL STORES (WITH FOOD)

GENERAL MERCHANDISE GROUP

- Department stores
- Dry goods stores
- General merchandise stores with food
- General merchandise stores—other
- Variety stores

APPAREL GROUP

- Men's-boys' furnishings stores
- Men's-boys' hat stores
- Men's-boys' clothing stores (and furnishings)
- Family clothing stores
- Women's ready-to-wear stores
- Furriers, fur shops
- Millinery stores
- Corset and lingerie shops
- Hosiery shops
- Other women's accessories stores
- Infants' wear shops
- Other apparel stores
- Custom tailors
- Men's shoe stores
- Family shoe stores
- Women's shoe stores

FURNITURE—HOUSEHOLD—RADIO GROUP

- Furniture stores
- Floorcoverings stores
- Drapery, curtain, upholstery stores
- China, glassware, metalware stores
- Interior decorators
- Antique shops
- Other home-furnishings stores
- Household-appliance dealers
- Radio-household-appliance stores
- Radio stores
- Radio-musical instrument stores

AUTOMOTIVE GROUP

- Motor-vehicle dealers (new and trade-in)
- Motor-vehicle-farm implement dealers
- Motor-vehicle dealers (retail-wholesale)
- Used-car dealers
- Accessory, tire, battery dealers
- Motorcycle dealers
- Aircraft dealers
- Motorboat, yacht dealers

FILLING STATIONS

LUMBER—BUILDING GROUP

- Lumber yards
- Building-materials dealers
- Heating-plumbing equipment dealers
- Paint, glass, wallpaper stores
- Electrical supply stores

HARDWARE GROUP

- Hardware stores
- Farm implement-tractor-hardware dealers

EATING PLACES

- Restaurants, cafeterias, lunch-rooms

SMALL BUSINESS

- Lunch counters and stands
- Soft drink, juice, ice cream stands
- DRINKING PLACES
 - Drinking places with meals
 - Drinking places—other
- LIQUOR STORES (PACKAGED GOODS)
- OTHER RETAIL STORES
 - Fuel and ice dealers
 - Fuel-oil retailers
 - Hay, grain, feed stores (with groceries)
 - Hay, grain, and feed-farm implements
 - Hay, grain, and feed stores—other
 - Farm and garden-supply stores
 - Jewelry stores
 - Book stores
 - Stationery stores
 - Cigar stores, cigar stands
 - Florists
 - Gift, novelty, souvenir shops
- News dealers
- Office, store-appliance, and equipment dealers
- Office, store, school-supply dealers
- Opticians
- Photographic supply—camera stores
- Sporting goods stores
- Bicycle shops
- Luggage stores
- Piano, musical instrument stores
- Scientific, medical instr. and supply dealers
- Other retail stores
- SECOND-HAND STORES
 - Book stores (second-hand)
 - Clothing, shoe stores (second-hand)
 - Furniture stores (second-hand)
 - Tires, accessories, parts (second-hand)
 - Pawn shops (sales)
 - Other second-hand stores

SERVICE BUSINESSES

- PERSONAL SERVICES:
 - Barber shops
 - Barber and beauty shops
 - Baths and masseurs' establishments (Turkish, etc.)
 - Beauty parlors
 - Cleaning, dyeing, pressing, alteration, and repair shops
 - Cleaning and dyeing plants
 - Costume and dress-suit rental agencies
 - Funeral directors, embalmers, and crematories
 - Fur-repair and storage shops
 - Laundries, hand
 - Laundries, power
 - Linen-supply service without laundry facilities
 - Photographic studios
 - Rug-cleaning establishments
- Shoe-repair shops
- Shoeshine parlors
- Travel bureaus (including ticket agents and brokers)
- Other personal services
- BUSINESS SERVICES:
 - Adjustment and credit bureaus, and collection agencies
 - Advertising agencies
 - Auctioneers' establishments (service only)
 - Billboard advertising service
 - Blueprinting and photostat laboratories
 - Booking agents' offices (theatrical, etc.)
 - Coin-operated machine rental and repair service
 - Court reporting and public stenographic agencies

CHOICE

- Dental laboratories
- Detective agencies
- Disinfecting and exterminating service
- Duplicating, addressing, mailing, and mailing-list service
- Employment agencies
- Photo-finishing laboratories
- Sign-painting shops
- Window-cleaning service
- Window-display service
- Other business services
- SERVICES ALLIED TO
- TRANSPORTATION:
 - Packing and crating service
 - Stevedoring service
 - Warehousing, cold storage
 - Warehousing, farm products
 - Warehousing, other
 - Weighing service
 - Other services allied to transportation
- AUTOMOTIVE REPAIRS AND SERVICES:
 - Automobile brake-repair shops
 - Automobile laundries
 - Automobile paint shops
 - Automobile radiator shops
 - Automobile rental service
 - Automobile repair shops (general)
 - Automobile storage garages
 - Automobile top- and body-repair shops
 - Battery- and ignition-repair shops
 - Parking lots
 - Tire-repair shops
 - Wheel-, axle-, and spring-repair shops
 - Other automotive repairs
- OTHER REPAIR SERVICES (EXCEPT AUTOMOBILE, APPAREL, AND SHOES):
 - Armature-rewinding shops
 - Bicycle-repair shops
 - Blacksmith shops
 - Boat-repair shops
 - Electrical-appliance repair shops
 - Harness and leather goods repair shops
 - Locksmith and gunsmith shops
 - Musical-instrument repair shops
 - Piano and organ tuning and repair service
 - Radio-repair shop
 - Refrigerator service and repair shops
 - Saw- and tool-sharpening and repair shops
 - Typewriter-repair shops
 - Upholstery- and furniture-repair shops
 - Watch-, clock-, and jewelry-repair shops
 - Sewing-machine repair shops
 - Other repair services
- CUSTOM INDUSTRIES:
 - Awning and tent manufacturing establishments (including repairs)
 - Bookbinding establishments
 - Bottling works
 - Cabinetmaking shops (including woodworking)
 - Grist mills
 - Hemstitching, embroidering, and buttonholing shops
 - Machine shops
 - Mattress renovating and repair shops
 - Metal-plating shops
 - Neon sign manufacturing establishments (including repairs)
 - Printing and publishing shops
 - Sawmills and planing mills (including contract logging)
 - Tinsmith shops
 - Tire-retreading shops
 - Wearing-apparel contract-work shops
 - Welding shops

SMALL BUSINESS

Other custom and manufacturing industries

MISCELLANEOUS SERVICES:

Circulating libraries
Interior decorating service

Landscape gardening and tree surgery service

Livery stables
Taxidermists
Other miscellaneous services

WHOLESALE BUSINESS

TYPES OF OPERATION:

Service and limited-function wholesalers
Manufacturers' sales branches (with stocks)
Manufacturers' sales offices (without stocks)
Petroleum bulk stations and terminals
Agents and brokers
Assemblers (mainly farm products)

BY KINDS OF BUSINESS:

Service and limited-function wholesalers
Amusement and sporting goods
Automotive
Beer, wines, and liquors
Chemicals and paints
Clothing and furnishings
Coal and coke
Drugs (general line)
Drugs and drug sundries (specialty lines)
Dry goods (general line)
Dry goods (specialty lines)
Electrical goods
Farm products—raw materials
Farm products—consumer goods
Farm supplies

Furniture and house furnishings
Groceries (general line)
Groceries and foods (specialty lines)
Hardware
Jewelry
Lumber and construction materials
Machinery—equipment—supplies
Metals and metalwork (except scrap)
Paper and its products
Petroleum and its products
Plumbing and heating equipment and supplies
Tobacco and products (except leaf)
Waste materials
All other products
Petroleum bulk stations and terminals
Petroleum and its products
Assemblers (mainly farm products)
Farm products—raw materials
Farm products—consumer goods
Farm supplies
Groceries and foods (specialty lines)
All other products

MANUFACTURING BUSINESSES

INDUSTRY GROUPS

1. Food and kindred products
2. Tobacco manufactures
3. Textile-mill products and other fiber manufactures
4. Apparel and other finished products made from fabrics and similar materials
5. Lumber and timber basic products
6. Furniture and finished lumber products

CHOICE

- | | |
|---|--|
| <ul style="list-style-type: none"> 7. Paper and allied products 8. Printing, publishing, and allied industries 9. Chemicals and allied products 10. Products of petroleum and coal 11. Rubber products 12. Leather and leather products 13. Stone, clay, and glass products 14. Iron and steel and their products, except machinery | <ul style="list-style-type: none"> 15. Nonferrous metals and their products 16. Electrical machinery 17. Machinery (except electrical) 18. Automobiles and automobile equipment 19. Transportation equipment except automobiles 20. Miscellaneous industries |
|---|--|

INDUSTRIES AND INDUSTRY GROUP NUMBER

<ul style="list-style-type: none"> Abrasive wheels, stones, paper, cloth, and related products 13 Agricultural machinery (except tractors) 17 Aircraft and parts, including aircraft engines 19 Alloying; and rolling and drawing of nonferrous metals (except aluminum) 15 Aluminum ware, kitchen, hospital, and household (except electrical appliances) 15 Aluminum products (including rolling and drawing and extruding), not elsewhere classified 15 Ammunition 9 Artificial leather and oilcloth 3 Artists' materials 20 Asbestos products (except steam packing and pipe and boiler covering) 13 Automobile stampings 14 Automobile trailers (for attachment to passenger cars) 18 Automotive electrical equipment 16 Baking powder, yeast, and other leavening compounds 1 Baskets for fruits and vegetables 6 Batteries, storage and primary (dry and wet) 16 	<ul style="list-style-type: none"> Batting, padding, and wadding; upholstery filling 3 Beauty-shop and barber-shop equipment 20 Beehive coke 10 Beet sugar 1 Belts (apparel), regardless of material 4 Biscuit, crackers, and pretzels 1 Blast furnace products 14 Blended and prepared flour made from purchased flour 1 Blowers; exhaust and ventilating fans 17 Bluing 9 Boat-building and boat-repairing 19 Bolts, nuts, washers, and rivets—made in plants not operated in connection with rolling mills 14 Bone black, carbon black, and lampblack 9 Bookbinding and related industries 8 Books: printing without publishing 8 Books: publishing and printing 8 Books: publishing without printing 8 Boot and shoe cut stock and findings 12 Bread and other bakery products (except biscuit, crackers, and pretzels) 1
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SMALL BUSINESS

Brick and hollow structural tile	13	(including house coats and sportswear: middies, slacks, beach wear, etc.)—made in inside factories or by jobbers engaging contractors	4
Brooms	20		
Brushes	20		
Buttons	20		
Candles	9	Children's and infants' dresses (including house coats and sportswear: middies, slacks, beach wear, etc.)—made in contract factories	4
Candy and other confectionery products	1		
Cane sugar—(except refineries)	1		
Cane-sugar refining	1		
Canned and dried fruits and vegetables (including canned soups)	1	Children's and infants' wear not elsewhere classified—made in contract factories	4
Canned fish, crustacea, and mollusks	1	Children's and infants' wear not elsewhere classified—made in inside factories or by jobbers engaging contractors	4
Canvas products (except bags)	4		
Carbon paper and inked ribbons	20		
Carbon products for the electrical industry, and manufactures of carbon or artificial graphite	16	Children's vehicles	20
Carpets and rugs, wool	3	China firing and decorating (for the trade)	13
Carpets, rugs, and mats made from such materials as paper fiber, grass, jute, flax, sisal, cotton, cocoa fiber, and rags	3	Chocolate and cocoa products	1
Carpet yarn, woolen and worsted	3	Cigar boxes: wooden, part wooden	6
Cars and car equipment—railroad, street, and rapid-transit	19	Cigarettes	2
Cars and trucks, industrial	17	Cigars	2
Caskets, coffins, burial cases, and other morticians' goods	6	Clay products (except pottery), not elsewhere classified	13
Cast-iron pipe and fittings	14	Clay refractories, including refractory cement (clay)	13
Cement	13	Cleaning and polishing preparations, blackings, and dressings	9
Cereal preparations	1	Clocks, watches, and materials and parts (except watch-cases)	15
Cheese	1	Clothing, leather and sheep-lined	4
Chemicals not elsewhere classified	9	Cloth sponging and miscellaneous special finishing	3
Chewing gum	1	Coal-tar products, crude and intermediate	9
Children's and infants' coats—made in contract factories	4	Coated and glazed paper	7
Children's and infants' coats—made in inside factories or by jobbers engaging contractors	4	Coats, suits, and skirts (except fur coats)—made in contract factories	4
Children's and infants' dresses			

CHOICE

Coats, suits, and skirts (except fur coats)—made in inside factories or by jobbers engaging contractors	4	Cured fish	1
Cold-rolled steel sheets and strip and cold-finished steel bars made in plants not operated in connection with hot-rolling mills	14	Curtains, draperies, and bedspreads—contract factories	4
Collapsible tubes	15	Curtains, draperies, and bedspreads—made in regular factories or by jobbers engaging contractors	4
Colors and pigments	9	Custom slaughtering, wholesale	1
Commercial laundry, dry-cleaning, and pressing machinery	17	Cutlery (except aluminum, silver, and plated cutlery) and edge tools	14
Communication equipment	16	Dental equipment and supplies	20
Compressed and liquefied gases— <i>not</i> made in petroleum refineries or in natural gasoline plants	9	Die-cut paper and paperboard, and converted cardboard	7
Concrete products	13	Dolls (except rubber)	20
Condensed and evaporated milk	1	Doors, window sash, frames, molding, and trim (made of metal)	14
Construction and similar machinery (except mining and oil-field machinery and tools)	17	Dress and semidress gloves and mittens: cloth, cloth and leather combined	4
Converted paper products not elsewhere classified	7	Drugs and medicines (including drug grinding)	9
Cooking and other edible fats and oils, <i>not</i> elsewhere classified	1	Dyeing and finishing cotton, rayon, silk, and linen textiles	3
Cooperage	6	Dyeing and finishing woolen and worsted	3
Cordage and twine	3	Electric lamps	16
Cork products	6	Electrical appliances	16
Corn sirup, corn sugar, corn oil, and starch	1	Electrical measuring instruments	16
Corsets and allied garments	4	Electrical products not elsewhere classified	16
Costume jewelry and costume novelties (jewelry other than fine jewelry)	20	Electroplating, plating, and polishing	15
Cotton broad woven goods	3	Electrotyping and stereotyping, <i>not</i> done in printing establishments	8
Cotton narrow fabrics	3	Elevators, escalators, and conveyors	17
Cottonseed oil, cake, meal, and linters	9	Embroideries, other than Schiffl-machine products—contract factories	4
Cotton thread	3		
Cotton yarn	3		
Creamery butter	1		

SMALL BUSINESS

Embroideries, other than Schiffli-machine products—made in regular factories or by jobbers engaging contractors	4	Flavoring extracts and flavoring sirups, not elsewhere classified	1
Embroideries: Schiffli-machine products	4	Food preparations, not elsewhere classified	1
Enameled-iron sanitary ware and other plumbers' supplies (not including pipe and vitreous and semivitreous china sanitary ware)	14	Food-products machinery	17
Enameling, japanning, and lacquering	14	Floor and wall tile (except quarry tile)	13
Engraving on metal (except for printing purposes)	15	Flour and other grain-mill products	1
Engraving (steel, copperplate, and wood); plate printing	8	Footwear (except rubber)	12
Envelopes	7	Forgings, iron and steel—made in plants not operated in connection with rolling mills	14
Essential oils	9	Fuel briquets	10
Explosives	9	Fur coats and other fur garments, accessories, and trimmings	4
Excelsior	6	Furs, dressed and dyed	20
Fabricated plastic products, not elsewhere classified	20	Galvanizing and other coating—carried on in plants not operated in connection with rolling mills	14
Fabricated structural steel and ornamental metalwork, made in plants not operated in connection with rolling mills	14	Games and toys (except dolls and children's vehicles)	20
Feathers, plumes, and artificial flowers	20	General commercial (job) printing	8
Felt goods, wool, hair, and jute (except woven felts and hat bodies and hats)	3	Generating, distribution, and industrial apparatus, and apparatus for incorporation in manufactured products, not elsewhere classified	16
Fertilizers	9	Glass containers	13
Fiber cans, tubes, and similar products	7	Glue and gelatin	9
Files	14	Gold and silver leaf and foil	15
Finishing of men's and boys' hats of fur felt, wool felt, and straw	4	Gravure, rotogravure, and rotary photogravure (including preparation of plates)	8
Firearms	14	Gray-iron and semisteel castings	14
Fire extinguishers, chemical	20	Grease and tallow (except lubricating greases)	9
Fireworks	9	Greeting cards (except hand-painted)	8
Fish and other marine oils, cake, and meal	9	Gum naval stores (processing	
Flat glass	13		

CHOICE

but not gathering or warehousing)	9	household chemical compounds	9
Gypsum products	13	Insulated wire and cable	16
Hair work	20	Internal-combustion engines	17
Handkerchiefs—made in contract factories	4	Jewelry cases and instrument cases	20
Handkerchiefs—made in inside factories or by jobbers engaging contractors	4	Jewelers' findings and materials	15
Hand stamps, stencils, and brands	20	Jewelry (precious metals)	15
Hardware not elsewhere classified	14	Jute goods (except felt)	3
Hardwood distillation and charcoal manufacture	9	Knitted cloth	3
Hat and cap materials; trimmings, etc.	4	Knitted gloves	3
Hat bodies and hats, fur felt	3	Knitted outerwear (except knit gloves)—contract factories	3
Hat bodies and hats, wool felt	3	Knitted outerwear (except knit gloves)—regular factories or jobbers engaging contractors	3
Hats, straw	3	Knitted underwear	3
Hatters' fur	3	Laboratory, hospital, and other professional furniture	6
Heating and cooking apparatus, except electric, not elsewhere classified	14	Lace goods	3
Hosiery—full-fashioned	3	Lamp shades	20
Hosiery—seamless	3	Lapidary work	15
Hotel china	13	Lasts and related products	6
House dresses, uniforms, and aprons—made in contract factories	4	Laundry equipment, domestic	17
House dresses, uniforms, and aprons—made in inside factories or by jobbers engaging contractors	4	Leather gloves and mittens	12
Housefurnishings (except curtains, draperies, and bedspreads)	4	Leather goods not elsewhere classified	12
Household furniture	6	Leather: tanned, curried, and finished—contract factories	12
Ice cream and ices	1	Leather: tanned, curried, and finished—regular factories or jobbers engaging contractors	12
Ice, manufactured	1	Lighting fixtures	15
Industrial leather belting and packing leather	12	Lime	13
Industrial machinery, not elsewhere classified	17	Linen goods	3
Insecticides, fungicides, and related industrial and		Linoleum, asphalted-felt-base and other hard-surface floor coverings, not elsewhere classified	3
		Linseed oil, cake, and meal	9
		Liquors, distilled	1
		Liquors, rectified or blended	1
		Lithographing and photolithographing (including	

SMALL BUSINESS

preparation of stones or plates and dry transfers)	8	nightwear—made in inside work shirts), collars, and factories or by jobbers engaging contractors	4
Locomotives (including frames) and parts: railroad, mining, and industrial	19	Men's and boys' suits, coats, and overcoats (except work clothing)—made in contract factories	4
Logging camps and logging contractors (not operating sawmills)	5	Men's and boys' suits, coats, and overcoats (except work clothing)—made in inside factories or by jobbers engaging contractors	4
Lubricating oils and greases— not made in petroleum refineries	9	Men's and boys' underwear— made in inside factories or by jobbers engaging contractors	4
Macaroni, spaghetti, vermicelli, and noodles	1	Men's and boys' underwear— made in inside factories or by jobbers engaging contractors	4
Machine and hand typesetting (including advertisement typesetting)	8	Men's neckwear—made in contract factories	4
Machine-shop products, not elsewhere classified	17	Men's neckwear—made in inside factories or by jobbers engaging contractors	4
Machine-shop repairs	17	Metalworking machinery and equipment, not elsewhere classified	17
Machine-tool and other metal-working machinery accessories, metal-cutting and shaping tools, and machinists' precision tools	17	Millinery	4
Machine tools	17	Minerals and earths, ground or otherwise treated	13
Malleable-iron castings	14	Mineral wool	13
Malt	1	Mining machinery and equipment	17
Malt liquors	1	Mirror frames and picture frames	6
Matches	6	Mirrors and other glass products made of purchased glass	13
Mattresses and bedsprings	6	Miscellaneous fabricated products not elsewhere classified	20
Measuring and dispensing pumps	17	Miscellaneous fabricated textile products not elsewhere classified	4
Measuring instruments, mechanical (except electrical measuring instruments, watches, and clocks)	17	Models and patterns (except paper patterns)	20
Meat packing, wholesale	1	Monuments, tombstones, cut-	
Mechanical power-transmission equipment	17		
Men's and boys' hats and caps (except felt and straw)	4		
Men's and boys' shirts (except work shirts), collars, and nightwear—made in contract factories	4		
Men's and boys' shirts (except			

CHOICE

stone, and stone products not elsewhere classified	13	Paper and paperboard mills	7
Motorcycles, bicycles, and parts	19	Paper bags, except those made in paper mills	7
Motor vehicles, motor-vehicle bodies, parts, and accessories	18	Paperboard containers and boxes not elsewhere classified	7
Mucilage, paste, and other adhesives except glue and rubber cement	9	Paper-mill, pulp-mill, and paper-products machinery	17
Musical instruments, parts, and materials not elsewhere classified	20	Partitions, shelving, cabinet work, and office and store fixtures	6
Nails, spikes, etc., not made in wire mills or in plants operated in connection with rolling mills	14	Paving blocks and paving mixtures: asphalt, creosoted wood, and composition	10
Natural graphite, ground and refined	13	Pencils (except mechanical) and crayons	20
Needles, pins, hooks and eyes, and slide and snap fasteners	20	Pens, mechanical pencils, and pen points	20
Newspapers: publishing and printing	8	Perfumes, cosmetics, and other toilet preparations	9
Newspapers: publishing without printing	8	Periodicals: publishing and printing	8
Nonalcoholic beverages	1	Periodicals: publishing without printing	8
Nonclay refractories	13	Petroleum refining	10
Nonferrous metal foundries (except aluminum)	15	Photoengraving, not done in printing establishments (including preparation of plates)	8
Nonferrous metal products not elsewhere classified	15	Photographic apparatus and materials and projection equipment (except lenses)	20
Office and store machines, not elsewhere classified	17	Piano and organ parts and materials	20
Office furniture	6	Pianos	20
Oil burners, domestic and industrial	14	Pickled fruits and vegetables and vegetable sauces and seasonings	1
Oil-field machinery and tools	17	Planing mills not operated in conjunction with sawmills	5
Oleomargarine—not made in meat-packing establishments	1	Plastic materials	9
Ophthalmic goods: lenses and fittings	20	Plywood mills	5
Optical instruments and lenses	20	Porcelain electrical supplies	13
Organs	20	Pottery products not elsewhere classified	13
Oven coke and coke-oven by-products	10	Poultry dressing and packing, wholesale	1
Paints, varnishes, and lacquers	9		

SMALL BUSINESS

Power boilers and associated products	14	Rayon yarn and thread, spun or thrown—regular factories or jobbers engaging contractors	3
Prepared feeds (including mineral) for animals and fowls	1	Reclaimed rubber	11
Preserves, jams, jellies, and fruit butters	1	Refrigerators, domestic (mechanical and absorption), refrigeration machinery and equipment and complete air-conditioning units	17
Primary smelting and refining of nonferrous metals	15	Rice cleaning and polishing	1
Printing ink	9	Robes, lounging garments, and dressing gowns	4
Printing-trades machinery and equipment	17	Roofing, built-up and roll; asphalt shingles; roof coating (except paint)	10
Processed waste and recovered wool fibers—contract factories	3	Roofing tile	13
Processed waste and recovered wool fibers—regular factories or jobbers engaging contractors	3	Rubber boots and shoes (including rubber-soled footwear with fabric uppers)	11
Professional and scientific instruments (except surgical and dental)	20	Rubber products not elsewhere classified	11
Public-building furniture	6	Saddlery, harness, and whips	12
Pulp goods (pressed, molded)	7	Safes and vaults	14
Pulp mills	7	Salad dressings	1
Pumping equipment and air compressors	17	Salt	9
Quick-frozen foods	1	Sand-lime brick, block, and tile	13
Radios, radio tubes, and phonographs	16	Sausage casings—not made in meat-packing establishments	1
Raincoats and other waterproof garments (except oiled cotton)	4	Sausages, prepared meats, and other meat products—not made in meat-packing establishments	1
Rattan and willowware (except furniture) and baskets other than vegetable and fruit baskets	6	Sawmills, veneer mills, and cooperage-stock mills, including those combined with logging camps and with planing mills	5
Rayon and allied products	9	Saws	14
Rayon broad woven goods—contract factories	3	Scales and balances	17
Rayon broad woven goods—regular factories or jobbers engaging contractors	3	Screw-machine products and wood screws	14
Rayon narrow fabrics	3	Secondary smelting and refining, gold, silver, and platinum	15
Rayon throwing and spinning—contract factories	3		

CHOICE

Secondary smelting and refining of nonferrous metals, not elsewhere classified	15	Steam and hot-water heating apparatus (including hot-water furnaces)	14
Sewer pipe and kindred products	13	Steam and other packing; pipe and boiler covering	13
Sewing machines, domestic and industrial	17	Steam engines, turbines, and water wheels	17
Sheet-metal work not specifically classified	15	Steam fittings, regardless of material	14
Shipbuilding and ship repairing	19	Steel barrels, kegs, and drums	14
Signs, advertising displays, and advertising novelties	20	Steel castings	14
Silk broad woven goods—contract factories	3	Steel works and rolling mills	14
Silk broad woven goods—regular factories or jobbers engaging contractors	3	Stokers, mechanical, domestic, and industrial	17
Silk narrow fabrics	3	Stoves, ranges, water heaters, and hot-air furnaces (except electric)	14
Silk throwing and spinning—contract factories	3	Suitcases, briefcases, bags, trunks, and other luggage	12
Silk yarn and thread spun or thrown—regular factories or jobbers engaging contractors	3	Surgical and medical instruments	20
Silverware and plated ware	15	Surgical supplies and equipment not elsewhere classified; orthopedic appliances	20
Small leather goods	12	Suspenders, garters, and other goods made from purchased elastic material	4
Soap and glycerin	9	Tableware, pressed or blown glass and glassware not elsewhere classified	13
Soda fountains, beer dispensing equipment, and related products	20	Tanning materials, natural dye-stuffs, mordants, assistants, and sizes	9
Soybean oil, cake, and meal	9	Terra cotta	13
Special dairy products	1	Textile bags—not made in textile mills	4
Special industry machinery, not elsewhere classified	17	Textile machinery	17
Sporting and athletic goods not elsewhere classified	20	Tin and other foils (except gold and silver foil)	15
Springs, steel (except wire)—made in plants not operated in connection with rolling mills	14	Tin cans and other tinware not elsewhere classified	14
Stamped and pressed metal products (except automobile stampings)	14	Tires and inner tubes	11
Statuary and art goods (except stone and concrete)—factory production	13	Tobacco (chewing and smoking) and snuff	2
		Tobacco pipes and cigarette holders	20

SMALL BUSINESS

Tools (except edge tools, machine tools, files, and saws)	14	Wirework not elsewhere classified	14
Tractors	17	Wiring devices and supplies	16
Transportation equipment not elsewhere classified	19	Women's and misses' blouses and waists—made in contract factories	4
Trimming (not made in textile mills), stamped art goods, and art needlework—contract factories	4	Women's and misses' blouses and waists—made in inside factories or by jobbers engaging contractors	4
Trimmings (not made in textile mills), stamped art goods, and art needlework—made in regular factories or by jobbers engaging contractors	4	Women's and misses' clothing, not elsewhere classified—made in contract factories	4
Trousers (semidress), wash suits, and washable service apparel	4	Women's and misses' clothing, not elsewhere classified—made in inside factories or by jobbers engaging contractors	4
Umbrellas, parasols, and canes	20	Women's and misses' dresses (except house dresses)—made in contract factories	4
Upholstered household furniture	6	Women's and misses' dresses (except house dresses)—made in inside factories or by jobbers engaging contractors	4
Vegetable and animal oils, not elsewhere classified	9	Women's, children's, and infants' underwear and nightwear of cotton and flannel—ette woven fabrics	4
Vending, amusement, and other coin-operated machines	17	Women's, children's, and infants' underwear and nightwear of knitted fabrics	4
Venetian blinds	6	Women's, children's, and infants' underwear and nightwear of silk and rayon woven fabrics	4
Vinegar and cider	1	Women's neckwear, scarfs, etc.	4
Vitreous-china plumbing fixtures	13	Women's pocketbooks, handbags, and purses	12
Vitreous enameled products, including kitchen, household, and hospital utensils	14	Wooden boxes except cigar boxes	6
Wallboard and wall plaster (except gypsum), building insulation (except mineral wool), and floor composition	13	Wood naval stores	9
Wallpaper	7	Wood preserving	6
Watchcases	15	Wood products not elsewhere classified	6
Whiteware	13		
Window and door screens and weather strip	6		
Window shades	6		
Wines	1		
Wire drawn from purchased rods	14		

CHOICE

Woodworking machinery	17	Work gloves and mittens: cloth, cloth and leather combined	4
Woolen and worsted manu- factures—contract factories	3	Work shirts	4
Woolen and worsted manu- factures—regular factories and jobbers engaging contractors	3	Writing ink	9
Wool pulling	20	Wrought pipes, welded and heavy riveted—made in plants not operated in connection with rolling mills	14
Work clothing (except work shirts), sport garments (except leather), and other men's and boys' apparel not elsewhere classified	4	X-ray and therapeutic apparatus and electronic tubes	16

And while we are on the subject of choice of a business, let us consider new business ideas, and how to develop and use them.

NEW BUSINESS IDEAS

THE desire of nearly every aggressive businessman is to keep a step ahead of competition. Too many businessmen do not have the slightest idea how to go about it. That is why there is so much suicidal cut-price competition.

If you examine successful businesses in your community, you will find that they have certain things in common. First, they are well managed. Second, they are a *habit* with many good customers. Third, they have a name or a reputation or a *special idea* which sets them apart from run-of-the-mill competition.

Most successful businesses have a combination of all three. However, if you find them lacking in one, you will find them correspondingly stronger in the other two.

A new small business begins with a "time-performance" handicap. Efficient management takes time to develop. It takes time to make steady customers. Name and reputation take time to build. But a new business idea can be put into action from the day you open.

This does not mean that you can pioneer a basically new product or service in a few days. It means that there is news value and competition insurance in opening a familiar type of business with a *new and different* idea.

Throughout this book you will find that the number one answer to competition is to create a *difference and charge for it!* A new style creates a difference and makes it pay. New car models create difference and increase sales

and earnings. Super-service stations and supermarkets create differences in retailing, automats are something different in the restaurant field, finance companies are a different and special idea in banking.

Choose your business, then look for new and different ways to make it pay. You will not have far to look. Spend a few days in any good-sized town or city and you will find *somebody making a success of your business* with a new and better way to *make it pay!*

One of the advantages of business life in America is that our buying habits are fairly uniform. A new business idea which is successful in one community can be transplanted and used to build a successful business elsewhere. There is a crucial need for the planting and transplanting of successful new ideas for small business in every American community. Successful small business can be made a quick and powerful antidote for unemployment.

In the writer's opinion there is a right and a wrong way to use new ideas in small business. The wrong way is to become fascinated with a new idea and use it to start a business you know nothing about. It can and has been done. The danger lies in the fact that in a new small business there is so little reserve capital *margin for error*. With everything in his favor any business newcomer makes more mistakes than he can afford. Regardless of the merit of a brilliant idea, the lack of knowledge and experience can result in quick failure.

The right approach is to know your business, round out your experience with the necessary self-training, and *then* find the new and different special idea to make it pay. The new idea must be added to a solid foundation of know-how and basic business research. It cancels none of the headwork and paper work necessary to a successful

start. This method is safer from the standpoint of business percentages. You work from the known to the new, rather than from the new to the unknown.

In the preceding chapter we outlined the factors that must be considered in choosing a business. Now let us see how we go about finding new and better ways to make a business pay.

First, start a file of new ideas.

Re-examine all basic information you have gathered for your business, and pick out any promising success stories on businesses similar to the one you have in mind. Put them on file. Check any manuals or handbooks dealing with your field for case histories of new ideas which are used to illustrate certain points. Add them to your idea file. Write to the trade journals that cover your field and ask their assistance on two items: first, a list of success-story write-ups covering the past five or ten years; second, the names and locations of outstanding successes in your line within, say, three hundred to five hundred miles of your community. Run through back files of the trade journals and examine each article on the reference list. Take notes on all good ideas and add them to your file.

Next, you should pick from trade-journal recommendations the four or five best business operations to visit. If you advise a trade-paper editor of your plan of visiting such concerns, you will find him glad to help you make up the kind of list you need. Ask him for highly progressive concerns in your field which owe at least part of their success to new ways of doing a better job. Preferably these should be noncompetitive because of location.

Visit and study them. A letter asking permission usually brings a prompt invitation and generous co-operation. Make up a check list of information desired, and go

after it. You will get valuable ideas and suggestions not only on new business methods but also on every phase of organization and management. It will be surprising if you do not come home with many improvements in the basic planning of your business.

Another source of new business ideas is from the sales departments of your suppliers. Whether your business is manufacture, service, wholesale, or retail, salesmen or sales managers of firms with whom you do business are willing and able to help you with new business information. If a business in your line develops a successful new idea, such individuals are glad to give details, provided, of course, that you are not competing in the same community or sales area.

You will find that suppliers' sales departments are ready to give you help and information during your training period. You do not have to be operating to avail yourself of their services. A new business is a new customer for several suppliers. You will find them more than eager to help you get started.

Having explored every source of successful new business ideas which have been tested and proved by actual performance, study the better examples carefully for possible adaptation to your own operation. To simplify your study and analysis, jot down the essence of each idea on a separate white card. At the bottom note the name of the concern, its approximate size, and a success rating for the idea. Top rating in effectiveness can be rated "AAA," with "AA" a close runner-up. "A" denotes very good, "B" good, and "C" better than average.

For example, you are a tire retailer. You have found a successful idea for retailing high-priced premium-line tires and have jotted it down somewhat as follows:

SMALL BUSINESS

SALES METHOD FOR 160-LINE TIRES

This successful tire merchant equipped a separate small salesroom as a highway safety exhibit and premium-tire demonstration room. The walls were papered with enlarged photos (blended or montage effect) of spectacular automobile smash-ups. Display cards carried percentage figures of accidents caused by blowouts and by failure of tires to stop the car once the brakes were applied. Demonstration included a 16 mm. movie showing anti-blowout and quick-stopping features of the tire and a mechanical demonstration of a tread-block cross-section of the tire.

Results: More than 1,100 sets of premium 160-line tires sold in a community of eleven thousand car owners.

The Progressive Tire Co.
Main St., Middleville, Mo.

Results—AAA

Suppose you have found a new and better variation of a method commonly used to locate prospects for new tires. The idea card would read:

IMPROVED METHOD OF TIRE SPOTTING

Spotters are high-school boys who are given a lecture and practical demonstration on how to inspect tires. Inspection blanks are numbered, are in duplicate, and are shaped like cut-out pictures of a tire on display. The latter feature is to avoid any similarity with a parking ticket. Inspection blanks carry spaces for check marks to indicate (a) which tire needs replacement, (b) that tire wear proves need for wheel alignment, or (c) wheel balancing, or (d) is caused by excessive overinflation, or (e) underinflation, and (f) carcass breaks, which cause most blowouts, were noticed on such-and-such a tire.

Results: one tire sale out of ten inspections, one wheel-

NEW BUSINESS IDEAS

balance job out of twelve inspections, and one wheel-alignment job out of eighteen inspections, plus prospects and customers for regular service.

The Newcomer Tire Store
Northern Blvd., Plainville, Ill.

Results—AA

Sales ideas are not the only type of new business idea you will uncover. New and better services to customers, new identification ideas, and new product ideas are fully as important and plentiful.

For example, a cash-and-carry wholesaler in Texas has built a ten-million-dollar business from small beginnings by sales, delivery, and collection in a single operation. He sells from trucks on his various routes, or customers can bring trucks to his warehouse and buy merchandise right off the floor. Turnover is fast, credit costs and losses are zero, overhead is low, and prices are correspondingly below average. Business is built upon special service to customers—it might be said upon a special *lack* of service to customers, at lower cash prices. It is the supermarket idea applied to wholesaling.

A typical new identification idea in furniture retailing is Brooklyn's Whitewashed Stable Furniture Company, which merchandises its low-rent and-out-of-the-way location to convince customers of better value in the way of quality furniture at a lower price.

New products and new uses for old products offer a wide field of new business ideas. An Illinois lime manufacturer outdistanced competition by developing a free-flowing, finely ground stone. Static electricity developed in grinding and handling had barred his product from many fields, because of its tendency to coalgulate. Also developed was a nonoxidizing, fine-grind stone for use

in stock foods. It had been found that ordinary calcium carbonate oxidized much of the vitamin content of stock food before it could be consumed.

New packaging ideas have lifted bulk-at-a-price products out of price competition. Nails, screws, matches, many types of foods, and a hundred and one other products have been merchandised in this manner.

The next step in analysis and study of your new business ideas is to divide the idea cards into groups. Let sales ideas be one group. Product and merchandise ideas are another. Special service to customers can be a third, and identification ideas a fourth.

New business ideas should be judged on the basis of proven effectiveness, adaptability to your business, and cost. It is only too possible to "go overboard" on a promising new idea to such an extent that you blind yourself to practical considerations of adaptability and cost. No matter how effective an idea may be, if it does not fit your operation, or if it costs more than you can afford, put it aside. You cannot permit it to warp your judgment or set you off on a tangent of pure daydreaming. Daydreaming and judgment warped by the emotional appeal of an idea are real dangers when considering new business ideas. You will not have far to look to find examples of business maladjustment and failure that have developed from these causes.

Effectiveness, adaptability, and cost, applied as impartial, almost mathematical, measures of *many ideas*, should prevent your becoming oversold on any *single* idea. Base your judgment upon all three factors *as a unit* for the same reason.

Effectiveness has a powerful appeal. If an idea has worked with outstanding success, you may be tempted to

try to make it work for yourself at any cost. Remember that the performance of a successful idea can be handicapped (a) if it does not fit your business, or (b) if you cannot afford to spend the money required. You cannot "short change" a good idea and expect the same return.

Good business reconnaissance on your part will uncover many more new business ideas than you can use. There will be little reason to gamble on ideas which are too costly or not exactly suited to your enterprise. More commonly the problem is which of several excellent ideas to employ.

Once your idea cards are classified as to sales, identification, new products, or new service to customers, think through and jot down the salient points of your own plan for a new business—its type, its size, its location, its market, its capital, and its key service idea. With this picture of your own business clearly in mind, read over an idea card. Visualize the idea as a part of your business. See it in action. How would you organize it? What changes in costs and plans would it require? Could you improve it? How would it affect your customers? Your selling operation? Your working-capital needs? Your profit? How would it shorten your build-up period? In other words, is it a "natural?" Does it fit your business? How much would it improve your operation? And how much will it cost?

If it is a selling idea, is it a short-term special promotion? Or is it a long-term basic idea? Or simply a more efficient way to advertise? If it is a customer-service idea, is it short-term or long-term? Can it be covered by your regular expense budget, or does it involve extra expense? Is the profit return worth any added expense? And have you the working capital to finance it?

If it is a special-identity idea, does it fit the key service idea of your business? Does it fit your own personality? Will it wear well over a period of years with your customers? Does it call for extra investment in plant, store, property, location, or sales and advertising? Can you afford it? And will results be worth it?

The list of questions and considerations about a new-product idea are long indeed. A new product is a new business. Almost every step in new-business research must be repeated in the production or sale of a new product. The exception, of course, is if the "new" product is an improved version of products or merchandise already handled. Even then the new line must be carefully investigated and tested for market possibilities.

Keep in mind that you are looking for a *combination*. You are looking for a successful combination of something you have in mind and know well with a special idea of proven profit power which will keep you well ahead of competition. Most successful enterprise is the result of finding such a combination. Continued success often results from a series of such combinations. This constant search for new and better business ideas is the drive behind all industrial research programs and might well be called the mainspring of American economic progress.

Your combination may be as simple as adapting a new and different idea to your business. Or it may result from some highly original ideas of your own. The study of idea cards very often suggests an idea or combination quite different from any previously encountered. You may come up with an answer better for your particular business than any encountered in your research or observation. It may be a way to make working capital go farther. It may be a simple, obvious way to draw more customers

at less cost. It may be a better service idea which customers have long desired. If it makes sense and fits your business, try it. Test it on a small scale.

This brings us to an important point in the development of new business ideas. No matter how foolproof your basic-business, new-idea combination may seem on first, second, and third, consideration, *test it!* Try it on a small scale. If it is a selling idea, it can be tried on a few people. If it is an identification idea or a customer-service idea, try it on a few people. If it is a new product or new merchandise, try samples on people in commercial quantities. People have a way of putting a finger on the strong and weak points of any new business idea. You may not like it, but you will learn and profit a great deal from small-scale testing. Make your mistakes in miniature. Correct them and make your success full-sized.

Before we take up the problems of financing a small business, here is one last word of caution about new business ideas. Several fascinating books have been written and more are in preparation which describe new and unusual types of small-business enterprise. They are idea books for new and different small-business ventures. They might be likened to window displays of new small-business opportunity. The "gadget" appeal of the ideas in such books is tremendous, especially to younger men and women looking for jobs or new businesses. Some of the ideas are excellent, others have obvious flaws or are speculative to the point of absurdity.

There is no harm in looking them over. But in the name of your hard earned savings, your sweat, and your business future don't "go overboard" for an idea and start a business about which you know nothing!

Begin with your own experience and training. Begin

with something you know. Use new ideas to create a difference and make it pay. See your venture as a combination of a basic business which you know and understand and new and better ways of doing it to keep you ahead of competition.

If you find an idea which appeals so strongly that you simply have to try it, regardless of lack of training or experience, dig in and learn that business from the ground up. Learn all about it before you try it on your own. It is highly commendable to know your own mind and highly necessary to know your own business.

Adopt as your policy the successful small business formula:

LEARN—EARN—OWN

Learn your business. Earn your business. Own your business. As a successful small-business man put it recently, "It is the hardest, most interesting and satisfactory way of making a living yet invented!"

And one of your chief problems will be that of promoting the necessary capital.

Let us examine the task of financing a small business.

FINANCING

THE very first thing you will learn about financing a small business is this: the greater your need for a capital loan, the harder it is to obtain. The less you need capital and credit, the less trouble you will have getting it, and the lower the interest rate. You will be reminded of the Biblical saying about faith: "To him who hath, much will be given. To him who hath not, will be taken away, even that which he hath."

This, really, is the critical point in the development of a new small business. Yet, once you have nursed it through the build-up period, you can snowball your business growth, not only in size but also in prosperity. In the early years, the small size of your business snowball keeps it from picking up more snow. The bigger it gets the faster it grows. If you can keep it rolling over the bumps of capital and credit for two or three years without cracking up, the worst of your financial hazards are behind you.

The early battle is the longest and the hardest. Ten per cent profit on a \$10,000 first year is only \$1,000. Five years later the same effort can net you 10 per cent on a \$50,000 volume. Ten years may show a 10 per cent profit on a \$100,000 volume, or \$10,000, for less sweat and heart-break than you put in the first year.

Your business build-up of net worth will follow a similar pattern. Difficult during the early years, once your enterprise is soundly established, every cent of its in-

trinsic value is yours. Let us say that it takes you ten years to build a business worth \$50,000. No matter what your income during the lean years, you have averaged \$5,000 a year in savings and investment for each of those years.

These facts of business life should help to sustain your determination and morale in the difficult task of accumulating cash and credit necessary to finance a start and buy a market.

Let us begin by setting ourselves straight on that fondly imagined ace in the hole, that open sesame to small business, our guaranteed loans under the so-called G. I. Bill of Rights. Too many service men and women are under the erroneous impression that the \$2,000 loan guarantee means that he or she may walk into the hometown bank and say, "O. K. Let's have it." Thousands have done just that.

Actually the government is merely guaranteeing one-half of a loan up to \$4,000 by the local bank. You can be certain that your local bank is not going to do an airy-fairy lending job simply because Uncle Sam underwrites half the amount.

Upon the basis of loans actually made, your chances of obtaining even a small \$5,000 or \$10,000 loan are many times better working through the Reconstruction Finance Corporation, or the Federal Reserve member banks, than under the G. I. Bill of Rights. Not that you should not try, but do not bank too much hope on it.

Like every other phase of your business, time and headwork spent on the problem of financing will pay you large dividends. Get the facts. List every possible source and explore them all. And when you begin to borrow, latch on to this simple and amazingly sound

policy: No matter how small your start must be, borrow only up to *one-half* of the amount represented by your own total personal assets. That means borrowing no more than one-third of the total amount you will need to get started. Now let us examine the idea to see whether it makes sense.

To begin with, there are two types of capital, working capital and fixed capital. Fixed capital is the money you will invest in plant or store equipment. Working capital is the money you will use to meet pay roll, buy raw materials or merchandise, pay other expenses, and carry you over the time lag between the day your customer buys and the day he pays.

There are also two types of borrowing, long-term and short-term. Your chief worry as a borrower is that most, if not all, of your borrowing will be short-term. Short-term loans almost invariably fall due on the day your available cash is tied up, say in new merchandise, or a pay roll, or possibly overextended credit to customers. Short-term loans have the devil's own way of coming due when you are short of cash.

Hence you can see that the more working capital you have, with no strings attached, and the more fixed assets of your own you have to offer as security for short-term borrowing, the less vulnerable you are to short-term call loans and the headaches they can cause when the "call" comes!

Many a small-business man is "called" right out of business at the very moment he seems in best shape. Sales are up, customers satisfied, everything humming except working capital. Overloaded and stretched thin by increased volume, working capital gives a few feeble groans of warning, unheeded because business is good, and be-

gins quietly to melt away. There comes a short-term call loan. The owner-manager awakes to the fact that everything is lovely, except that there isn't any money. As a result another good business has to change hands or liquidate or retrench, because too much of it is being operated on short-term borrowed capital.

An additional reason for holding borrowed capital to one-third of your total is that banks and other lending agencies are far more apt to lend you money if they know that it is your policy and practice to maintain a safe ratio between your net worth and the amounts you borrow. It proves that you are not out for all the traffic will bear. The greatest banker in California, Giannini of the Bank of America, who has made thousands of loans to small-business men, never makes a small-business loan unless the borrower has at least \$1,000 of his own savings tied up in the venture.

Another misconception common to small-business men is the idea that if they can cover their fixed capital needs, working capital and reserves somehow will take care of themselves. In other words, if you can get enough money together to buy and equip or stock your plant or store, you are ready for business. *Nothing could be farther from the truth.* It will be safer for you to figure the priority of capital needs *exactly in reverse.* For example:

1. How much *working capital* does an operation of your type and size require?
2. What is the average *reserve capital* need for such an operation?
3. How much remains for fixed assets, such as equipment, fixtures, real property, and so on? And which of these items can be financed on the longest possible terms?

Get these figures in average percentages. They are available for most types of business. Apply them to a figure equal to the sum of your personal savings and assets plus 50 per cent borrowed capital. The answers should give you a pretty accurate picture of the *size* or scale upon which you can afford to operate at the start. It may seem small. But it will be sound. And it is better to survive the first twenty-four months in a small way than to fail in a big way. If analysis in this light makes the result look positively microscopic, remember that in 1935 Dun and Bradstreet showed that 30 per cent of small business concerns have an investment of \$500 or less, and 78 per cent have an investment of less than \$10,000.

Once you have determined the approximate size of your outlay and your capital needs, your next problem is to find the best possible source of capital. And for small business this is indeed a major problem.

Your aim is (a) to find the required amount, (b) with the fewest strings attached, (c) at the lowest interest rate, and (d) for the longest period of time. As new small business is the number one stepchild in the investment field, be grateful for anything you get. Conserve and cultivate it carefully, for it is the seed corn of your whole business future.

The first source to consider is that comprised of persons who are closest to you; your family, your relatives, and close, long-time friends. If it is at all possible to raise all or part of your capital needs among this group, it would be wise to do so for several reasons. First, you will be as careful with their money as with your own, probably more so. Second, such borrowing will carry the advantages of no strings, low interest, and long-term conditions. And third, as your business grows, expands, and

gains financial strength, you can offer your inside group excellent returns on their investments.

As for the risk involved to your family and friends, you can hold it to a minimum by securing it with your personal assets. You will have to do this anyway, if you are able to borrow your capital from an outside investment source.

Your second source of borrowed capital is a moneyed person in your community who knows local business conditions, one who may be familiar with your line of business and who knows people who know you. He will be able to size you up face to face, as well as by recommendations of mutual friends.

Such a backer is far more apt to help you *after* he has been able to watch you operate than before you start. However, if you can show him a well-planned prospectus or outline of what you propose to do and how you propose to do it, with sound estimated-cost figures on what it will take to do it, he may help you get started. Again, it will be up to you to show him how his loan would be protected by a lien on your personal assets.

While this type of backer is still one of the major sources of capital for small business, he is far less available today than he was a few years ago. Under present income-tax schedules, by showing a return on his investment in you, he can easily tip his income over the line of a higher bracket. As a result he might pay in increased taxes five times more than he makes on you.

There is little doubt that in the last ten years Big Government's need for more money at lowest possible interest has resulted in policies to block profitable business investment, thereby siphoning more and more capital into tax-exempt government securities. For example:

Last year a research laboratory jointly supported by six small-business men developed three new products in their field for which new plant facilities were required. They had the money for plant and equipment. Markets for the products were guaranteed. The only problem was to get into production. At a final meeting at which they were to decide whether or not to go ahead, their legal tax adviser arose and said: "Gentlemen, if this venture fails, the loss will be yours. If it succeeds, under your present tax schedule, the most you can make on your investment is *one-tenth of 1 per cent!* If you lose, you lose. If you win, you will make ten cents on each hundred dollars you invest!"

Did they go ahead? Would you?

Multiply that case by ten or one hundred thousand per year in all business and industry and you have an idea of America's potential business growth, once we learn to tax for healthy competition rather than for unhealthy confiscation!

A third source of borrowed capital is your local bank. You will find, however, that banks vary widely in their lending policies toward small business. A few have the facilities, the personnel, and the willingness to supply the capital needs of small business. You can readily see that, to finance small businesses, a special staff of experts is necessary to service hundreds of different loan accounts. Each account, yours included, is a special problem in itself. Chances of success or failure, mortality tables for each line of business, investigations of character and credit, ability to manage, accounting methods, financial health of the business, and a thousand and one other facts must be judged to make certain of a reasonable safety margin on loans to small business.

Such a lending service to small business requires additional expense, time, and special personnel. Yet interest rates charged by commercial banks are low, too low in fact to cover the costs of special service to small business. As a result, many of the lending functions of banks to business have been taken over by finance companies (and loan sharks), who hire the necessary experts, charge higher interest rates, and make a business of lending money to small business.

Now let us stop to qualify (and clarify) our statements in the foregoing two paragraphs. First, they indicate a general *trend* which does not necessarily apply to your community or to your bank. Second, we have perhaps over-simplified our statement of the problem by lumping the different types of capital loans under the term "borrowed capital." For example:

Financing plant or store equipment over a long period is one type of capital loan.

Operating or working capital is another type of capital loan.

Financing your customers' accounts (paying in advance what they owe you) to keep your working capital liquid and workable is another.

Equity or ownership capital is still another.

All of these are necessary and related parts of your overall capital requirements. Each has its problem of cost or rate of interest and of availability. Your job is (a) to acquire a thorough understanding of your capital problem, (b) to supply the hard-to-get and the high-cost capital from your personal savings and assets, and (c) to try to place your borrowed capital "quota" in those assets of your business which are easiest to finance, at the lowest interest rate.

FINANCING

For instance, a used-car dealer rarely finances his own receivables. As soon as he sells a car, a finance company pays him and takes over the customer's paper. Many businesses follow the same practice.

Other businesses find it cheaper to lease or finance their plant or store equipment over a long period. Service stations are a common example. Working capital and customer credit are the expensive, hard-to-get capital requirements in this line.

Another source of personal borrowed capital is your life insurance. It belongs with personal savings and can be figured as part of your own personal savings capital. Do not use it if you can avoid doing so. You will find it wise policy to count on it as a second- or third-line reserve for several reasons. First, it is a reserve for your family. It protects your family, and it cannot be touched by creditors should you ever fail in business. Then it is not as low in cost as the usual 6 per cent interest you pay for its use would indicate. Do not forget the interest or dividends it pays *you*, which you forfeit by borrowing. Thus the total cost is closer to 10 per cent than 6.

Finance companies, factors, and other special *retailers* of capital and credit for business are playing a rapidly increasing part in the financing of small business. Most of them specialize in some form of financing your receivables, i.e., accounts owed you by your customers. But in the past few years a number of them have expanded their operations to include long-term capital loans to small business.

The cost of loans from a finance company are high. They will average about four times the interest charge on loans from a regular bank. Thus it will be wise to restrict your use of finance-company credit to two gen-

eral fields: (a) to finance customer installment buying in which the customer pays the major cost of the loan, and (b) to finance a quick, sure, and profitable deal on a special occasion. Opportunities for the latter come up now and then. You should make certain, however, that the short-time and high-profit elements of such deals are worth the high interest and personal-liability risk, or "strings" found in most finance-company loans.

Still another source or extension of your working capital is trade credit. It might be called "supplier capital." It is the capital tied up in merchandise, equipment, or raw materials supplied you by wholesalers, jobbers, or manufacturers. Its advantages are (a) use or resale (i.e., turnover) with profit taken before your own payment is due, (b) extension of size (hence profit) of your business volume beyond the limits of your actual working capital, (c) increases in turnover (hence profit) from your working capital by shortening the time between your payment to your wholesaler, jobber, or manufacturer and your customer's payment to you, (d) the ease (sometimes *too* much ease) with which you can get it. Its disadvantages are that (a) you are tied to your supplier, (b) you pay for trade credit in higher prices and lower discounts from your supplier, (c) it hampers your speed and freedom of business action and decision, (d) in hard times your supplier can (and often is forced to) liquidate your business to cover his own commitments.

Each business has its own capital problem, i.e., the part that is hard to borrow and the part that is not so hard to borrow. Find out what it is in your business; then ask the advice of several local bankers about the best way to solve it. And by all means follow their advice!

Keep in mind that a banker, or anyone else you ap-

proach for a capital loan, is interested *in a mutually successful loan*. If he buys your paper, he does so because he considers it a good buy. If your proposition is clear, concise, well planned, if it shows that you know what you are doing, and above all, if it gives him facts, figures, and proof of everything he has to know if he is to judge whether or not your paper is a good buy, then you have a good chance of making a sale.

In addition to the facts and figures, there are several other things your banker, or any investor, will want to know. They include basic policies and methods of operating. He will want to be sure that you have a thorough understanding of the business ratios and business percentages for your line. He will want to be sure that you are committed to a policy of using them to warn and guide you if any part of your operation begins to get lopsided or dangerously out of line.

For example, suppose you were an experienced butcher interested in opening your own meat market. Your prospectus to your banker would show that you know the business, you have two-thirds of your capital needs, you have chosen your locality well, and you are familiar with the booby traps and mortality rates of the retail meat business, especially during the early years of build-up.

So far so good.

Then, however, suppose you could show him a clear picture of *successful* operating ratios and percentages versus *unsuccessful* operating ratios and percentages. Suppose you had dug them out of "Expenses, Profits, and Losses in Retail Meat Stores," Northwestern Bureau of Business Research, Series III, No. 9, by Horace Secrist. And suppose further that you had *corrected* some of the average figures of Secrist's analysis, based upon studies

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of the Chicago, Cleveland, and New York areas, to present conditions in your own locality! You could do it by following Secrist's methods of digging up facts and answers to questions and checking your data against his.

Let us assume that you have compiled detailed ratios and percentages, of which the following might be typical:

Size	For successful stores—		Wages	Rent
	Sales	Margin to Expense		
1-man store	Margin 26-36	Exp. 20-26	13-19	2.6-4.0
2-man store	Margin 22-30	Exp. 16-22	11-15	1.6-3.3
3-man store	Margin 20-28	Exp. 14-20	11-14	0.9-1.7
4-man store or larger	Margin 18-24	Exp. 12-18	9-12	1.2-2.2

(Figures are percentages to sales.)

Size	For unsuccessful stores—		Wages	Rent
	Sales	Margin to Expense		
1-man store	Margin 18-26	Exp. 26-32	14-22	3.5-7.8
2-man store	Margin 16-22	Exp. 22-28	13-18	2.7-5.6
3-man store	Margin 14-20	Exp. 20-26	14-20	3.0-4.9
4-man store or larger	Margin 12-18	Exp. 18-23	12-17	2.7-5.1

Then say you show your banker just how you propose to operate within well-defined, successful percentage limits: how much borrowed capital it will take, plus a conservative estimate of earnings, and a conservative policy of (a) debt retirement and (b) growth (no matter how slow), financed two-thirds by earnings and not more than one-third by further loans.

His first reaction will be to sigh, shake his head in disbelief, and quietly faint on the spot. Your headwork and paper work will be too much for him. Instead of coming to him with an idea which is nine-tenths desire and one-tenth fact, you walk in with nine-tenths fact and one-tenth desire for more facts and percentages! Instead of *I need, I think, I want, give me all I can get*, you offer

something *he wants and needs*, a good buy in sound and well-secured paper.

If you will make it a point of personal pride and policy to keep your commercial paper (like your other business products or services) the "best buy in town," the problem of finance and credit will in time cease to be a problem at all for you.

Like building your business reputation for products and services, building the sound value of your commercial paper cannot be done in a day. Customer advice can help you improve products and service. Advice of a good banker can surely help you improve and maintain the reputation and desirability of your commercial paper. Go after his suggestions and recommendations and use them to improve the "gilt-edge" value and appeal of your paper. Let your motto be, "Not the mostest, but the bestest!" Stick to it, and watch your credit rating rise.

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IN survey after survey it has been proved beyond all doubt that business size has little to do with business failure or success. Size often, but not automatically, indicates business success. Thus you will find, in round numbers, more failures among small businesses than among large, because the proportion of small enterprise is considerably greater.

Percentage wise, large enterprise has the edge on success and long life, not because of size, but because each undertaking has had the necessary human talent, ability, knowledge, and drive to achieve success and grow in size. Size and success are effect, not cause.

In Monograph 17, "The Problems of Small Business,"¹ compiled by business experts for study by Congress, we find the following:

In summary, the need for guiding principles for organizing and operating business units is obvious. In establishing a job printing concern or a delicatessen, maximum results depend upon knowledge of many elements from location advantages to delivery facilities. What is the most efficient relationship of machines and fixtures to personnel? What is the minimum investment needed for a safe start? What amount should be available for current operations? What is the danger point of debt? Answers differ by kinds of business, types of operations, and many other factors. And the prospective proprietor

¹ *Investigation of Concentration of Economic Power*, by the Temporary National Economic Committee, 76 Cong., 3 sess., Senate Committee Print.

is anxiously in need of enlightenment. At present he is using the trial and error process, and the odds are heavily against him.

In other words, the chief needs of a small-business man are ability, initiative, and knowledge of "guiding principles" or guiding *ratios and percentages* for his field of endeavor. And despite the experts' worry about prospective proprietors' being anxiously in need of enlightenment, you can bank your business future here and now on two basic facts.

1. General ratio and percentage guides for your line of business can be had!

Retail sources include (a) *Standard Ratios for Retailing*, a booklet issued by Dun and Bradstreet, Incorporated (several tables from which will be found in Appendix III); (b) *Operating Expenses*, a booklet offered by the Merchant's Service Bureau of the National Cash Register Company; (c) special cost studies by trade journals and by college and university schools of business (write your trade journals for such lists); (d) studies by the Department of Commerce in your field; (e) published texts and manuals dealing with your business.

Service firms, wholesalers, and manufacturers should write to their trade journals, trade associations, the Committee for Economic Development, and the Bureau of Foreign and Domestic Commerce of the Department of Commerce.

In addition to the above, you can obtain valuable ratio and percentage data from expert accountants and bankers whose experience covers your line of business.

2. Specific ratio and percentage guides for your own business can be figured closely by you before you start to

operate. This will mean a job of practical reconnaissance in your own community to find how closely general percentages for your type of business apply in your locality and to check for special opportunities or special booby traps. If you find yourself "anxiously in need of enlightenment," if you find yourself short of vital facts and information and on the verge of opening for business "using the trial-and-error process," don't open. Don't budge!

It is a sure sign the odds *are* against you.

Why?

Because you have not finished the headwork and paper work vital to a successful start. Your reconnaissance is not complete.

Why join the eight or nine out of ten trial-and-error people who fail during the first two years?

The next questions are what are percentage guides? And how do we use them?

They are percentage yardsticks. They are used to measure the financial and operating limits of your business. They enable you to figure so much for wages, so much for rent, so much for sales expense and overhead incidentals—in other words, a correct breakdown and allocation of expense. They tell you the ratio which must be maintained between sales margin (income) and expense. They tell you how much margin on your sales volume you must collect to stay healthy. They give you the correct ratio of liabilities to assets, of receivable to working capital, and indicate the volume of business you can handle without spreading your working capital and credit dangerously thin. This means that they define the financial and operating limits of a balanced, successful business, regardless of size, and warn you immediately of unbalance or lopsidedness in any phase of it.

A business fails only when some part of it gets too far out of line. Thus, if you can make up a check list of "must" objectives, a yardstick of balance, you simplify your job of management and increase your chances of success.

Now let us examine a hypothetical case of a prospective small-business man, an experienced butcher who has gathered facts and information necessary to figure out a safe ratio and percentage check list. Let us follow through on the use of it as a guide to planning and carrying out a successful business operation. The butcher finds that his personal savings and assets amount to \$4,000. The first ratio guide he follows is the 2-to-1 (200) relation between net worth and debt. He determines to hold further capital borrowing to \$2,000, giving him a total capital of \$6,000. The average young meat retailer with a \$6,000 capital would spend most of it to equip the biggest and best shop his money could buy, open his doors, and sit and wait for business.

Our candidate, having made his market survey, decides that his tentative location offers more than a good potential for a large, active meat market. The community is middle class and growing. Industry, business, and agriculture are well balanced and well established. There is little danger of a key industry's failing or moving away to leave the community stranded.

While his potential market offers support for a large meat store, he realizes that his capital will cover safely the requirements of a medium-sized or small store. It might shoestring a large store, but shoestring is speculation, not business.

He estimates that he can establish himself and finance in safety the first two or three years a store with a yearly

sales volume of \$25,000. He breaks this sales quota into the following plan of costs and objectives.

His margin objective is 30 per cent (a known and attainable percentage for this type and size of store). To achieve it, he realizes that he must offer an efficient telephone and delivery service and carry monthly charge accounts for a great many of his middle-class customers. Thus \$1,800 to \$2,000 of his working capital is earmarked for customer credit.

As stock turnover in meat retailing is very high (seventy times per year), his inventory will average \$250 to \$300 worth of meat on hand at all times (70 into \$17,500, which is the yearly wholesale cost of the meat). Thus \$300 in inventory is added to his requirement of sufficient working capital.

His expense guide for this type and size of operation defines his correct limits as between 16 per cent and 22 per cent, with a rent allowance of 3 per cent (\$750 per year), and salaries 11 per cent to 15 per cent (\$3,750 per year for the latter figure). He decides upon a 20 per cent expense budget, which comes to \$5,000 per year, \$416.66 per month, or about \$15.35 per working day (300 to the year). For such current liabilities he adds another \$500 to \$700 to his working-capital requirements. (His working capital is budgeted upon the fact that he will spend it and get it back in cash and credit sales for a yearly working-capital turnover average of eight to twelve times.) His working-capital total for a \$25,000 volume finally is figured at approximately \$3,000.

Next he figures his reserve capital requirement. He realizes that his daily sales quota of \$75 (\$25,000 per year in 300 working days) will not be reached the first week or the first month. He understands that there will be (1)

a starting period in which sales will not cover expenses, (2) a break-even period, and (3) the over-the-hump phase in which volume attains or approaches quota and the operation begins to show a profit.

He knows that a six-months expense reserve is a safe margin in his business. He totals his fixed expense, including a minimum wage for himself. By opening as a one-man business, he figures minimum daily expense at \$10, requiring approximately \$35 sales per working day (30 per cent margin) to break even. As six months total 150 operating days, he figures his minimum reserve at 150×10 , or \$1,500. His *maximum* reserve would amount to \$2,500, or one-half of his yearly expense budget, based upon normal sales volume.

Indirectly these figures outline his sales and management objectives. His job is to bring his daily sales first to \$35, and then to \$75, as soon as possible. He is able to measure his performance and check his status almost on a day-to-day basis.

His working capital and minimum reserve add up to \$4,500 of his precious \$6,000. The remaining \$1,500 is available for fixed assets of store fixtures and equipment. While the amount is small, it should be made to cover at least 60 per cent of the cost of his essential equipment, the remaining 40 per cent to be released from his reserve capital as soon as sales volume and business momentum are built up to a profitable level.

His equipment problem, then, is (a) to buy or lease the best at the lowest possible cost, and (b) to build sales volume to a point where most of his reserve capital can be released for further investment in equipment.

From his local market survey he will know about how many customers he will need to make his sales quota. He

will know the average family meat bill and have a good idea of how much each of his cash and charge customers are worth to him in monthly sales. Then he will go after them by personal and telephone solicitation, and later by advertising and sales promotion.

Once his normal sales volume is reached, he will use percentage guides as a check on his management of costs and expenses, as well as sales, credit, and credit losses. For example, he may find that his ratio of credit to cash sales does not run as high as his original estimate. This fact enables him to handle safely a larger volume of business with his original working capital.

Pay roll is managed and held within limits by hiring part-time labor during the build-up, and by holding the proprietor's own salary to a bare minimum during the early years. He avoids "proprietor withdrawals" from his profit, and by hard work and alert supervision attains his average-profit objective of 8 per cent to 10 per cent or \$2,000 to \$2,500 per year on a \$25,000 volume. Profit is carefully allocated to (a) taxes, (b) debt interest and retirement, (c) equipment depreciation and expansion, (d) investment in business and sales development, and (e) reserves. Items *a* and *b* will necessarily be fixed amounts. Once these are subtracted from profit, he allocates items *c*, *d*, and *e*, on a respective basis of 40 per cent, 40 per cent, and 20 per cent of the remainder.

In making up a set of business ratios and percentages for your own enterprise, you will need three kinds of facts and figures: (1) general figures for your line of business; (2) specific figures for your line in your locality or community; (3) personal figures and estimates based upon your own local reconnaissance, the size and type of your operation, and such factors as special ideas or angles,

sales value of your name or identity, and similar kinds of information.

Market potentials, sales volume in all lines by locality plus numbers of establishments, average pay roll, average numbers of full- and part-time employees, inventories and operating expenses, together with hundreds of other types of general information can be obtained from the Bureau of the Census. Farm and home figures, homes classified and counted according to size, type, and home equipment are available. Data on retail, wholesale, manufacturing, and service businesses are given by type of business, kind of operation, and locality. Booklets giving such figures are listed in a pamphlet, *Census Bureau Publications*, which is available on request.

The Bureau of the Census is not allowed to publish specified data on individual concerns. It may not differentiate between successful and unsuccessful establishments but may give only general averages for entire groups.

Your purpose in obtaining general ratios and percentages is twofold. First, to enable you to work out a correct *operating budget* which will give you a clear picture of your management and sales objectives. It will show you your sales quota, your expense limits and allocation, and your margin of profit. Second, to enable you to set up and to understand a series of financial ratios which will serve to warn you if any part of your financial structure gets out of balance.

Here is a word of warning about the use of *average* ratio and percentage figures in planning your own budget. Remember that *average* business is not *successful* business. You are going to have to beat those *average* expense-to-profit ratios, in order to operate in the upper 10

per cent to 5 per cent, or "successful level" for your line of business.

One of the Dun and Bradstreet tables is of special interest and value. It tabulates percentages of *difference* between profitable and nonprofitable operations. Profits average 1 per cent to 64 per cent higher, expenses 2 per cent to 32 per cent lower. Figures are given for fifty lines of retail business.

But even this is not enough. Your own guiding ratios should be no less than those of the upper 5 per cent or 10 per cent of successful firms in your field. The only safe ratio guides for your business are based upon operating-percentage figures of long-standing successful enterprise.

There are two practical sources of such figures. First are operating-expense breakdowns of successful firms in your field. In Chapter 4 it was suggested that you visit several outstanding successes in your type of business. While they might hesitate to give you actual figures, they might be prevailed upon to give you expense breakdowns as *percentages* of net sales. A statistician would hasten to add that these figures, to be useful, should cover several average peacetime years and should be obtained from firms similar to yours in size and the type of locality served. However, from a practical standpoint, remember that you are not going to adopt any single set. You are going to study several for *parallel* ratios to aid you in computing your own.

The second source is found in W. L. Churchill's *Pricing For Profit*. While Churchill's study deals with the problem of pricing goods and services, his methods can be applied to your planning for successful business ratios (see Chapter 10).

In your search for business facts and figures, look for

several good books on your line of business. Consult your local library and bookstores. By all means send to the Government Printing Office, Washington, D. C., for a copy of "The Problems of Small Business," mentioned on page 78. You will find it a virtual world almanac of basic information on small businesses of every description. Moreover, in one of the appendices is a list of 101 source books and studies of successful and unsuccessful operations.

Nor should you overlook (1) your own business experience and observations, (2) the counsel and experience of successful businessmen in your field, and (3) the dealer development and operating guides offered by many large manufacturers.

Cover them all. Get the facts and outline a detailed plan of operation. Once it is completed, you will be ready to make it into a comprehensive new-business prospectus to use in obtaining a capital loan.

Your business prospectus is a statement of what you propose to do, why you propose to do it, and how you propose to do it. In form and content it is not unlike a yearly report on operations and the financial statement of a going concern. The difference, of course, is that yours is a statement of objectives, while the other is a statement of performance.

As a statement of objectives, the chief value and strength of your prospectus will be (1) shrewd analysis and appraisal of your market (see Chapter 7), (2) sound and thorough planning of your operation, (3) complete and accurate knowledge of hazards and problems, (4) proven policies and methods for meeting them, and (5) supporting facts, figures, and percentages for each and every proposal you make.

In other words, the *what* of your prospectus must be clear and reasonable; the *why* and *how* must be thoroughly planned, strongly convincing, and provably correct. The appeal of the prospectus to the investor will lie in the clarity of "what." Its clincher sales value to you will depend upon the strength and authority of your "why" and "how."

The following can be used as a guide in drawing up a detailed prospectus for your business:

Part 1. A simple description of the kind and size of concern you propose to start (or buy). What it is. Where you propose to locate. Give the name and outline its key idea and special customer appeal.

Part 2. Describe the market you plan to reach. Prove your statement of a good market potential by facts and figures from your market survey, such as (a) total sales volume in your line for the area, (b) numbers, types, needs, and value to your business of potential customers, (c) business and population trends, (d) competitor volume, methods, mortality, and present status, (e) customer traffic or availability, (f) your customer requirements and how you propose to achieve them.

Part 3. Outline your financial status and requirements. This should cover (a) personal assets and the amount of capital you propose to borrow, (b) an itemized list of working-capital requirements, plus the "why" of each item, (c) an estimate of reserve capital and how it is figured, (d) the amount of capital allocated to fixed assets, such as store fixtures or plant equipment.

Part 4. Describe your plan of operation and management somewhat as follows: (a) a sample operating budget, (b) normal sales expectancy, (c) sales volume needed to break even, (d) sales volume needed to operate at a profit, (e) time estimate of your sales build-up period, plus ideas, methods,

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and costs of building sales to the break-even and profitable-volume levels, (f) profit expectancy on normal volume, (g) allocation of profit to taxes, debt retirement, depreciation and expansion of fixed assets, sales development, and capital loan. With respect to the capital loan, provision should be made for its security, protection, and payment of interest while it is in effect.

Remember, the investor's chief interest is whether or not your capital loan is a sound investment. Your business prospectus must show him that it is, and prove the point beyond question.

Your aim in compiling a complete prospectus is two-fold: first, to pin facts, figures, and proven financial and operating percentages into a definite plan; and, second, by so doing, to prove to your investor that you have what it takes to do a successful job.

If up to this point your business reconnaissance has been sound, and your headwork and paper work thorough and accurate, do not worry too much about borrowing the necessary third of your capital. In all probability you will be labeled a "smart operator," and backed for any capital that you need.

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WHILE it is true that upwards of half a million small-business replacements will be needed in the next few years, do not think for a minute that customers and markets will be ready and waiting wherever you open your doors. It does not work that way. Many a small-business man has fought a losing battle against failure which could have been avoided by two or three weeks of the most elementary kind of market research.

Too many would-be businessmen launch their enterprises into uncharted markets, somewhat as follows: "You know, I think I'd like to start a little this-'n'-that business of my own. I think I could do all right in Blankville. That location down on X Street looks pretty good. I can get it for a song." Whereupon Dilbert opens his business, finds X Street the worst location in a subzero town for his type of enterprise. Of course he gets it for a song—a funeral march! For lack of horse-sense reconnaissance or simple market research, he barrels into a common booby trap of small business—low customer potential or insufficient market.

Had he stopped a week to think of facts and percentages instead of what "he'd like to do," his headwork might have gone something like this:

Let's see, there are so many hundred thousand dollars done in my kind of business in Springdale, but only one-fifth as much in Blankville. Why? Because Blankville is a resort

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town. It is short of the kind of customers I need. Obviously I should consider Springdale.

Who does the business there? Concerns A, B, C, D, and E. The last two are dead on their feet. Springdale is growing. The competitive picture looks promising. The average customer in my business is worth x dollars a year. I need y dollars a day to open my doors and break even. That means a minimum of so many customers, which in turn will require more (or less) than the z thousands reserve I'll need during my build-up period, depending on how conservative or eager these people are to try a new progressive concern.

Traffic on *L* Street averages 140 per hour, on *M* Street 220 per hour, of which one out of ten or twelve is a *possible* or *potential* customer. But wait. Maybe the *M* Street average is high because of morning and evening rush hours to a transportation terminal. People in a hurry don't have time to buy my type of product. People on *L* Street (a) are not in a hurry and (b) shop for goods or services similar to mine. Therefore, the *L* Street location looks better, even though the traffic count is lower.

But reconnaissance would not stop there. The above facts would suggest new possibilities such as a special idea to attract people hurrying to and from trains, or further study of rental differences, or rent savings applied to special advertising. (For several years I. J. Fox sold more furs out of a second- and third-floor fur shop in Boston than from a nine-story fur salon in New York. He did it by sheer weight of effective newspaper and radio advertising.)

In other words, market research is simple business reconnaissance. It is the method by which you dig up necessary facts, figures, and jigsaw miscellaneous data, from which you can fit together a soundly planned overall business strategy. The results of market research can

help decide your choice of a small business, its location, its size, its costs, its products or services, and its sales methods, as well as its chances for success.

You begin your job of market reconnaissance by making a check list of questions. That is all research is, digging up the answers to questions, which in turn suggest new and better questions. Your list of questions will serve as a guide to your investigations. Naturally lists will vary in detail with the type of business, but certain basic questions apply to practically all business. For example, you will want to know:

1. What volume of business in your line is done in the area which you intend to serve? Get the answers from business bureaus, the Chamber of Commerce, United States Census figures, as well as various retail associations or special sources such as car registrations, manufacturers' market data, and so on.

2. Who, what, and where are your competitors? What volume does each do? How long and how well have they served the market? What is their mortality rate? What are their strong and weak points? What special improvement or appeal can you offer to shorten the build-up period necessary to establish yourself?

Facts and figures on your competitors and their total volume probably will subdivide itself further by level of customer income. You will find a quality market, a middle-or popular-price market, and a low-price market. Concentrate on the one in which you plan to operate.

3. Who, what, and where are your customers? What is their income? How much do they spend for your kind of product or services? How often do they buy? How much is the average customer worth to your business in sales volume and profit? How many do you need to break even? How many

do you need six months, or one year, or five years from now to reach your objectives of growth and profit?

4. What is the business trend in your field? Are customers (actual and potential) increasing or decreasing? Why? How many prospects or potential customers are there in your area? What kind of customer material are they?

5. How will you attract or reach your customers? Direct house to house? Or by retail operation? Will you sell to wholesalers? Or dealers? Will you market a raw material to other business concerns? How much and what type of selling effort will be required of you? What are average selling costs in your type of business? How are they budgeted?

6. How long does it take to make a customer in your line? What is the average cost in time, money, and effort? How many live prospects are necessary to produce a customer?

7. What is the average build-up period in your business? What opportunities does your business offer for short cuts in the build-up period, using special angles and ideas? Gather and study case histories in your field which reveal the way in which a special angle or idea shortened the normal period (and costs) of building a business.

8. How many failures in your line (and locality) have been recorded during the past ten years? How and why did the businesses go under? If possible, find what their customers liked and did not like about them.

We will go into customer reconnaissance and customer manufacture in greater detail later. Your market survey should give you an accurate picture of (a) volume being done, (b) who does it, (c) how well, (d) location, number, and type of potential customers, (e) the number required at various stages of your development, and (f) a close estimate of time, effort, and cost necessary to get them.

Not so many years ago information of this sort was

nearly impossible to get. The market was a will-o'-the-wisp, something you sensed or smelled. Its ups and downs, its booms or busts, were intangibles; its only measure was "by guess and by gamble." Today we know that markets are people in commercial quantities. From the needs, buying habits, and income of people, we are able to measure closely enough for practical purposes the potential market for a given business. And by "closely enough for practical purposes" we mean closely enough to give ample warning to the would-be small-business man when the market facts and percentages are definitely against him.

No man is going to open a sand store in the Sahara, or an icehouse in the Antarctic. But there are thousands of instances in which men have opened businesses against market odds nearly as hopeless, if not as obvious, as these.

Hence, do not fail to measure your market. Your survey need not be the elaborate, detailed analysis of the Lever Brothers for soap, or General Motors for cars. Nor does it have to be as beautifully accurate as a gas, oil, tire, tube, accessory, and repair percentage breakdown of the car owner's average yearly purchases. Its minimum standard should be facts and figures necessary to help you avoid choosing a business or a locality with the market cards stacked against you. With maximum detail and accuracy, its possibilities are almost unlimited. It can help solve problems of location, choice, and selling strategy before they reach the critical stage.

Begin by listing your basic market questions. Select and rephrase to fit your business some of those given earlier. You may plan to make overalls, or wholesale surgical supplies, or sell airplanes, or run a dude ranch. You may want to open a haberdashery or a grocery store, or operate a sawmill or a fishing boat. Whatever it is, no

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matter whether you plan to be a manufacturer, a wholesaler, a retailer, or operate a service concern, you must know certain facts about market, competition, customer potential, required volume, and how you propose to meet the respective situations.

Once your basic list is complete, define your customer. Draw up some simple specifications to aid you in identifying him among the general market figures furnished to you by the Census Bureau, or the Chamber of Commerce, or other sources of market figures. He or she may be a surgeon, or a farmer, or a pilot, or a car owner. You may be after all families with an income of over three thousand dollars, or all families regardless of income within a radius of six blocks from your store. You may be listing asphalt manufacturers, or department stores, or Cadillac owners, or college coaches, or housewives. Be he a consumer, a dealer, or another manufacturer, list *his specifications* or description. Then figure how *many* of him provide *how much* sales volume in your territory.

For example, suppose you want to figure a potential market for bottled gas. Let us say that your trucks can service an area within a fifty-mile radius of your storage plant. Your potential customers will include every home in that area beyond the reach of city mains or rural natural-gas lines. If favorable, the figures alone are enough to keep you out of a marketing booby trap. But let us carry them a step further.

You find that city gas customers use gas for cooking, water heating, and often for refrigeration. Appliances are necessary. That suggests the ideas (a) that you sell appliances, (b) that you sell only the best, as long as you are going to have to service them, and (c) that, because of the high markup on gas appliances, your appliance

business can *pay the sales cost* of new customers for your rural gas service.

Also, you break down further the percentages of city homes and commercial establishments, both users and nonusers of gas, when the figures are available, and re-examine the rural potential. That cuts it, but still there is plenty of business to be had.

Two new facts now are brought to light. In one corner of your territory you find extremely low electric rates. In another there is a religious sect which believes that modern chrome and white-enamel work-saving appliances are sinful. Again your potential is cut and clarified. Yet you find the picture still is more than worth the business risk. Later the religious sect is won over by modern table-top gas ranges done in coal black enamel! In the low-electric-rate region you break even by selling speed and better heat control in cooking and lower costs and maintenance for gas equipment.

So much for market potentials and a clear picture of your customers. What about measuring the rate and cost of your business build-up? How much and how long before you have "bought" a going concern? Again you consult your city gas-market figures.

You find that a large percentage of city gas users are signed up before the company lays the mains. Thus the sale of gas in a large town or city becomes a civic drive in the first crucial months. You know that selling gas service to rural communities, house by house, will be a horse of a different hue. It must be sold "by the customer" instead of "by the community." It will be individually bought, with no community pressure to speed the process. Instead of sales momentum being supplied by a civic drive comparable to a war-bond rally, yours will have to

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be a house-to-house, face-to-face selling operation. Sales costs will be high, but appliance markups can absorb them. Build-up should take more than twice as long as city operation, eighteen to twenty-four months, at least. (Actually this is subsequently cut to eight months by the employment of highly paid, highly trained, highly effective salesmen and by the use of tested advertising on a large scale.)

All this happened as described. It is a case history of market reconnaissance in small business in which the writer participated. However, the business did not stay small for very long. Within fourteen months its sales volume jumped from zero to third place in an industry of about sixty companies.

Once your potential market is measured in terms of defined and specified potential customers, check back to the volume and customer requirements of your business to see that the total figure offers you all the business you will need for years to come. In other words, be sure that your potential market is big enough to enable you to succeed and expand. Once you are satisfied on that score, you can sift your material for clues to special angles and to investigate the cost of turning people into customers.

Specialization and special angles are to a business what special ability and training are to an individual. They are salable "plus" values or ideas. You find them in market research, product research, and advertising and selling research. You know of many in your own community. In the gas business mentioned above, the special angle was city gas service for town and farm homes. We used a regular gas meter. Customers were billed once a month at a rate based upon an average of the fifty largest cities in the United States.

The Reader's Digest is a special idea. So are supermarkets. Have you heard of the Brown Derby in Hollywood? Wit's End is a printing and lithographing concern at Ardmore, Oklahoma, which specializes in wacky personal stationery. Charlie McCarthy is a classic example of specialization. So is Woolworth's, Bell Telephone, and aspirin. Any special angle or idea with a high identity value can save you thousands of dollars by speeding the build-up period. It also strengthens your competitive position from the very start.

In considering the cost of turning people into customers, first examine the average selling costs in your line of business. These figures are available for most kinds of business through the United States Census Bureau, or the Department of Commerce, or your trade publications and other sources listed in the preceding chapter.

Such percentages are given by state or area, and very often by size of town or community.

These cost averages should be used for what they are, a general overall picture of reference. It must be remembered that they reflect the sales costs of established concerns. You will have two separate sales problems, each with its own cost. The first is the "missionary" cost of the build-up period, or the expense of building *business momentum*. The second is the normal selling budget, which includes *maintenance of business momentum*. It has been estimated that the value of business momentum or customer habit and good will for a given business is equal to the normal profit return (before taxes and dividends) for one year (see Chapter 10). Thus you can readily see the vital necessity of the best job of market reconnaissance and effective selling that you can possibly afford.

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It is only human to want to spend your investment capital for equipment and merchandise rather than for the purchase of customers. Remember, however, that as long as you have a good stock of customers, equipment and merchandise can multiply like rabbits! Customer demand (except for cigarettes, meat, and nylon hose in wartime) just does not work that way.

I. J. Fox, a doughboy in World War I, came home to go into the fur business in New York with his mustering-out pay as capital. He sold his first fur coats from his apartment in the Bronx, through "want ads" in the New York papers. He bought his customers before he bought his shop or fixtures. His stock was one coat, with another he had selected but could not pay for, ready to be sent out to him by special messenger the minute he phoned. They were specials in quality, beauty, and price, because he knew furs. But he never forgot to buy his customers ahead of his merchandise.

When he opened his store in Boston, his competitors were the better department stores. By 1935 his expenditures for newspaper and radio advertising equaled the sales volume in furs of many of his erstwhile competitors.

Be sure to set aside a definite portion of your capital, and a large portion of your personal time and effort, to build and buy your market in the shortest possible time. Personal time and effort spent in promoting your business can often be made an effective substitute for money. For example, consider any small retail operation such as a grocery store, a filling station, drug or local hardware store, bake shop, candy or cigar stand or store, florist shop, meat market, or any other small enterprise which must draw most of its customers from the immediate vicinity. None of these requires more than a few hundred regular

customers to assure itself of a market. Yet not once in twenty years of being an interested customer have I been solicited in person by the owner of such a business. Not once has an owner or proprietor stopped by my house or office, offered a reason or two for trading with him, and asked that I become a regular customer! If one ever does, I shall probably faint, but he will certainly get my business for a trial period at least.

To summarize steps in market reconnaissance:

1. Define and specify your customer.
2. Get figures on the dollar volume available in your area.
3. Check competitor volume, methods, mortality, and present standing.
4. Measure the number, type, value, and needs of potential customers.
5. Check business and population trends in your area.
6. Find the average build-up period in that area for your line of endeavor.
7. Look for clues, ideas, and special angles which can help shorten the build-up period.
8. Figure your customer needs, month by month, and make a careful, conservative estimate of money, time, and effort required to get them.

Make up your own list of questions, for your business. Use it as a guide in your reconnaissance work. Do not finalize your business plans before you know the answers.

If the picture gives promising probability, you are ready to put the finishing touches to your plans and move ahead with all possible speed. Set an opening date and make every effort to meet it.

This calls for preliminary organization, the subject of our next chapter.

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THE word "organize" has two meanings in business. Preliminary organization is to bring together in proper relation the men, money, materials, machines, and markets necessary to form a business enterprise. The second, which refers to internal organization, denotes job definition and standardization and the relationship of people and their jobs to one another and to the business as a whole. The first is the organizing necessary to *start* a business. The second is the organizing necessary to *operate* or *manage* a business, which will be discussed in the next chapter. At this point let us outline a plan of preliminary organization.

Let us begin by assuming that you have the "big three" (men, money, market) of the five business "M's" well in hand, and also that you have your suppliers of machines and materials ready to deliver upon short notice. (In wholesaling and retailing, "materials" mean merchandise, while machines should be read as "fixtures and equipment.")

How well has the groundwork been laid? Are all essential facts and figures assembled? The best way to find out is to start fitting them into an organized plan and timetable. Its aim and end date is opening day.

1. "M" number one is "men," which includes proprietor and prospective employees.

Begin with the proprietor. Are you satisfied that your ability, experience, and desire measure up to the job

ahead? Are you confident and prepared to face long hours, hard work, discouragement, and constant worry? Are you willing to accept these as part of the game and meet them with determination, patience, faith, and a sense of humor? Do your business advisers agree that you are ready to go? By now these should be your banker, your lawyer, your accountant, and possibly experts from among wholesalers or manufacturers, Chamber of Commerce, trade association, or noncompeting businessmen.

(Regarding business advisers, further mention should be made of the Committee for Economic Development as a splendid source of help and advice in starting your own business. This is a nonpolitical, nonprofit, nationwide organization of businessmen. It is organized on a community basis in more than 3,000 towns and cities in the United States, with national headquarters at 285 Madison Avenue, New York. The sole aim of C. E. D. is more jobs, more and better business for every community. Its methods are research and education on the problems of small business, as well as special help and advice to beginners or other local businessmen who may need them. Your local Committee for Economic Development can give you facts and figures about the local or regional business picture and help you find the right location; it can advise or help in financing, accounting, personnel, market study, sources of supply, legal aid, and in countless other ways. It works on the "good-neighbor" principle. Businessmen help you. You plough back benefits received by giving time, help, and advice to others. Thus the good work perpetuates itself.)

The second part of "M" number one is employee man power. Is your personnel team assembled? Do employees understand their duties? Are they geared to start

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with a minimum of confusion, tension, and conflict of personality? Are their skills and abilities checked? Are their hours and pay set? Are they as satisfied and as eager to open as you are? Do they know your policies and business aims?

If so, you are ready to schedule man-power needs and costs into your opening plan and timetable.

2. "M" number two is "money."

Are finances arranged, credit established? Are your starting expense accounts in order? Have you budgeted the many items of cost necessary to open and establish your business? You will be spending large amounts of saved and borrowed capital. Are these expenditures carefully *budgeted* and *planned* (a) to avoid splurge, (b) to hold costs down, (c) to maintain safe ratios? In other words, have you made provision to record and *control* starting costs?

Are budget percentages correct for (a) fixed assets, (b) inventory, (c) working capital, and (d) reserves for the build-up period? Is your sales budget ready and ample? If so, these costs may be entered as part of your opening plan and timetable.

3. "M" number three is your "market."

Have you classified and defined your customer? Do you know the number of potential customers available to you? Have you figured total dollar volume available to your line of business? Have you checked competitor volume, methods, mortality, and present standings? Have you checked business and population trends for your area? Are community factors favorable? Income diversified and well distributed? Transportation good? People wide awake? Community spirit good? Level of civic aggressiveness high?

Have you made an estimate of the necessary time and cost of your build-up period? Have you found, developed, and tested special new business ideas based upon customer need? Have you set customer quotas and methods to achieve them? How do your advisers feel about your market chances?

If market facts and figures are complete and the picture promising, you are ready to turn your attention to "M" number four.

4. "M" number four is "machines" (and equipment).

Your organization plan must cover the purchase, delivery, and assembly of store or plant equipment. Begin by listing *minimum* requirements. Check each item. Is it essential? Is it the minimum required? If secondhand, is it up to date in appearance, utility, and efficiency? Are prices and terms favorable? Is cost within the budget? How much time for delivery and installation? Can unit capacity or more equipment be added as capital reserves are released by increased sales?

Once the facts and costs of equipment are known, purchase, delivery, and installation can be scheduled accordingly. By planning ahead, you can avoid a mountain of last-minute detail which often results in costly delay. Be careful not to kill the effect of a well-organized opening day with unimportant loose ends.

The writer once had to supervise the details of opening twenty-seven home-appliance stores in less than five weeks. The lessons learned (for what they are worth) are simply (a) plan and *pin down* detail, (b) get specific timetable promises from employees and suppliers, plus advance warnings of possible delays, (c) make your own timetable on *follow-up* and stay with it every minute.

5. "M" number five is "materials." For the manufac-

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turer or service concern this means raw materials and supplies. For the retailer or wholesaler, materials mean merchandise and incidental supplies.

Are they ordered, and in the right amounts? Do merchandise price lines, styles, and types fit local buying habits and needs? Does stock represent a model minimum inventory? Have stock and inventory controls been set up?

What about your new business address? Is it well located? How is it situated in relation to customer traffic and availability? What are its physical advantages and shortcomings? Is its size adequate for present and future needs? How is it for storage space and general layout? What are its selling features, such as frontage, exterior appeal, convenience to parking or transportation? Is the interior attractive? Are alterations easily made? Is plumbing and heating equipment more than adequate for present and future needs? Are utilities installed and ready? Are rental terms favorable as regards time, cost, renewal, or cancellation? Is rent on a fixed-sum or percentage basis? Is it well within your budget limit for occupancy cost?

You will find that good business properties can be a major problem. Bad locations in good markets and good locations in poor markets are far more common than good locations in good markets. Do not fall in love with a good property in a bad market. It is wiser to take a less desirable location in a good market and bide your time until a good one becomes available.

The next problem is to schedule the delivery and assembly of equipment, materials, or merchandise at your new business premises. Are invoices checked against deliveries? Are machines or fixtures and equipment installed and ready? Are raw materials or merchandise in

place? Is merchandise sorted, checked, priced, and displayed? Have arrangements been made with your supply houses for high-speed order and delivery service? Are your own supplies on hand for wrapping, shipping, or delivery?

How about sales? Have sales and credit policies been set? Have sales-profit ratios been figured? Are your selling plan and budget complete? Are salesmen trained and ready? Are sales kits, samples, catalogs, and other selling aids on hand? Are signs and show cards ready for plant or store, trucks, and roads? Are interior displays ready? Have newspaper and radio advertisements been prepared? Is the direct-mail or trade-paper campaign under way? Are opening announcements and customer premiums ready? Are your goods or services ready for customer inspection and purchase?

Have miscellaneous details been handled? Are you insured against fire, theft, hold-up, public liability, and workman's compensation? Have cars, trucks, and other outside equipment been properly insured? Do you know your property requirements under local fire, police, and health laws and ordinances? Are all business licenses in order? Have you arranged for the collection of excise, sales, and social security taxes? Do you know what types, how much, and where to send sales and excise taxes which you collect?

On paper, the amount of work and detail may seem formidable. However, much of the groundwork will have been covered during your period of business self-training. Also, by planning ahead with a check list of details to be covered and time limits to be met, it is not hard to break the big job into a series of small jobs to be handled one at a time.

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Now suppose we follow the organizing efforts of two small-business men. The first is a small manufacturer, Joe Brown, who plans to make two or three special toys, developed in his spare time as a first-class machinist in the navy. The second is Charley Jones, who knows cars, likes people, and likes to sell to people. He plans to operate a super service station.

Manufacturer Brown plans to make realistic operating model tanks, bulldozers, and tractors, which, because of size, quality, and cost of manufacture, belong in the quality-toy market. From a small production run of samples for sales purposes, he finds his costs in lots of 10,000 are as follows: materials \$1.00 each, conversion cost \$3.00 each, profit margin \$3.00 each, sales cost to retailers \$3.00, sales cost to jobbers \$1.50. Wholesale price to retailers is \$10.00, to jobbers \$8.50. The retail price is \$14.95, although selling tests with samples show that the toys sell as quickly for \$15.95 or even \$16.95 as for \$14.95.

As part of his boot training, Joe undertakes a market survey. He calls on and writes to large department stores and toy stores to get their ideas on price, value, and salability of his toys. He checks volume on other expensive toys. He shows retailers the results of his own sales experiments and makes a careful appraisal of sales resistance by toy buyers. From his letters, interviews, and favorable reception by toy buyers to the extent of a few advance orders, he decides upon an initial production run of 6,000.

His sales problem is to get his toys on display in a great many of the better-class stores. He needs a large number of small initial orders. This requires personal selling by a quality-toy salesman, thoroughly acquainted with the trade and accustomed to dealing with high-class

jobbers and large retail stores. Brown figures that part of his own time will be spent selling his toys, especially at the toy show held in New York each year.

In addition to personal selling, he plans trade-paper and direct-mail campaigns, plus folders and a modest mat service for retailers. The mat service includes different sizes of drawings or cuts of the toys and mimeographed sample retail copy, with a short publicity story for use in columns of shopping news, gift columns, and so on.

Once his essential production and sales facts are on hand, he draws up a brief résumé of his entire operation, in which he compares the job to be done with his available means and resources. The comparison being favorable, he proceeds to the first step in his plan of organization, which is to hire his sales manager.

Together they develop their marketing plans, the manager's sales kit (samples, gloss photos, descriptive folder, and price lists), sales itinerary, letters, advertisements, and mats, as well as material to be used by jobbers' salesmen.

With the sales manager prepared, equipped, and on his way to drum up business, Joe turns to organizing production. His raw materials are chiefly aluminum and paint. His machines and equipment include an aluminum forging unit (purchased secondhand from a former war-time manufacturer of aircraft parts), a few inexpensive machining units, assembly benches, and paint dipping and spraying equipment.

He figures his man-power needs as follows: one book-keeper-stenographer, one receiving-shipping clerk and handy man, six production operators. Sales and production quotas are 500 units the first month, 700 the second, and 1,000 for the third. Later production is to be geared

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for the period of heavy buying following the annual New York show during which toy stocks are purchased for the Christmas toy season.

Office needs are set at two desks, one table, one file cabinet, one typewriter, and the necessary records, stationery, and miscellaneous supplies. One light truck for pick-up and delivery to freight and express offices is also provided for in his fixed assets.

Initial space required is figured at 5,000 square feet and is found in one of the smaller buildings of a local manufacturer. The space, a Defense Plant Corporation unit used formerly in defense work, is available at a low rental. It offers additional space as needed, with an option to purchase within five years on favorable terms from the D.P.C.

Joe is now ready to plan and schedule his organizing effort right up to opening day. He hires his stenographer, orders his stationery and office equipment, and sets to work on legal detail, purchase orders, follow-up schedules, and deliveries.

Next the property is put into shape for occupancy. Joe and the stenographer move in and begin operating from his office. Machines arrive and are installed. Materials are delivered and stock inventory and control set up. Men are hired and undergo a week of intensive job training under Joe's personal supervision. Further time studies are run and various ideas tried for lowering the man-hours per toy.

Pay-roll and social-security accounts are set up. During the final organization period Joe and his stenographer begin the day by listing items of detail and follow-up to be covered that day. At the end of the day results are checked.

By working on a day-to-day basis from his master check list and schedule, he is able to handle all detail of organizing right up to opening day with minimum loss of time, pay roll, and waste motion. From opening day forward his job changes. He becomes general manager, and his problem is to make the best possible use of his time in managing production, sales, advertising, and serving as comptroller for his business.

But more of that in the following chapter. Let us now look in on Charley Jones.

Charley's business self-training has been aimed at operating a super service station. His textbooks are operating manuals and business-development guides sent him by major oil companies, tire companies, and accessory firms. Also he has combed back files of his trade magazine, *Super Service Station*, for practical ideas and articles dealing with operation, service, costs, accounting, credit, finance, sales, and advertising.

He knows that his potential market depends upon local car registration and the amount of local and transient car traffic past his station. He knows to a penny the average owner-expenditure per car for gas, oil, tires, accessories, and repairs per year.

Charley's retail problem is not one of merchandise lines, or customer and market research, or special sales promotion during the build-up period. These play second fiddle to type of station and available station locations. He learns early in his studies that oil companies invariably are on the lookout for station sites. Each community is under constant survey. As good locations become available, or as car registrations indicate possible support for a new station, competing companies are quick to lease sites and build new stations.

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Thus his first decision is whether to be an independent dealer or to lease and operate a company-owned station. As an independent he can build his name right along with the sales value of the products handled. Also he has greater scope for individual initiative in sales and merchandising ideas. He can choose the line or lines of tires and accessories he wants to handle.

On the other hand, as a lessee he may get a station with advantages of size, equipment, and location at a lower investment cost. Personal capital makes building his own station out of the question.

As a result, his "market" survey consists of sending an outline of his experience and his available capital (a) to major oil companies, (b) to selected regional oil distributors, and (c) to local chambers of commerce, committees of economic development, or veteran small-business committees. He asks the oil companies and distributors for a list of possibilities. He asks the local organizations to put him in touch with independent opportunities, property owners who plan to build stations, independents who wish to sell, or any other sound possibilities. His selection is then based upon (a) location and market potential, (b) appearance and equipment, (c) terms of lease or purchase, and (d) cost plus equipment and operating-capital needs.

Once the choice of station is made, the major part of his organizational groundwork is complete. Let us say that he finds a good location which enables him to set up as an independent. The station is modern, well situated both for neighborhood business and transient traffic on a main highway.

After a survey of local competition and customer preference he decides to handle a famous brand of gaso-

line, two or three well-known kinds of oil and lubrication, and an outstanding line of tires and car accessories.

He begins with legal details of assuming proprietorship, necessary arrangements with suppliers, purchase orders for first inventory, and a schedule of detail up to opening day.

Next he must attend to preparing the station for products to be featured. An attractive combination of his own name, plus the national trade-marks, signs, and color identification of products handled, is worked out, and the station painted and arranged accordingly.

Other internal or "production" arrangements include purchase of office equipment and supplies, hiring and training employees, purchase of service equipment and supplies, and setting up his operating books and records.

His sales planning starts with his original figures on the ratio between business from transients and business from the local trading area. He knows that his location will draw the greater part of his transient business without a build-up period of selling effort. Thus he plans the major part of his build-up selling and advertising for development of local customers. His location and size permit the use of the local newspaper. His opening announcements are carried twice a day for a week over the local radio station. In addition he sends for a mailing list of owners with cars less than five years old. The list covers owners within a mile radius of his address. (Lists of this kind are available from concerns specializing in them.) To these prospects he mails an inexpensive series of service folders purchased at cost from his gasoline supplier. These folders have space for a facsimile letter to be processed over his signature, adding a personal touch. Also he uses the supplier's newspaper-mat service (mats

are substitutes for newspaper engravings) to lower the make-up costs of his advertisements and to increase the amount of his budget to be spent for space.

Charley is a firm believer in old-fashioned face-to-face selling. His personnel is chosen and paid better than average salaries for personality and personal sales ability. He trains his employees by means of regular sessions on product advantages and by personal example in dealings with customers. Part of his community sales build-up is a program of house-to-house visits and telephone calls soliciting new customers.

These and other sales-development ideas are incorporated into his plan of customer manufacture. Tire and battery trouble-shooting service is promoted with the purchase of a three-wheeled motorcycle with a carryall trunk. The motorcycle also serves as a one-man call and delivery service for cars to be washed and greased. It can be hooked to a bumper and towed by the tow rod which is part of its equipment.

Part of Charley's prospect and customer file is a warning system of customer needs. Youngsters are paid to turn in license numbers of cars with worn-out tires. Future needs of cars serviced or washed are recorded. In this way, tire, battery, accessory, and repair business is built on a friendly service basis of shooting trouble before it occurs.

He plans to increase his transient business later by use of a series of humorous road signs. At five-, ten-, and twenty-mile intervals, a dozen signs in either direction from his location on the main highway will cover a distance of 200 miles. The signs stress luxury rest rooms in addition to friendly service.

Once his selling plans and schedules are set up, Charley is ready to open for business. Every move is planned

and its cost checked against budget allowance. Plans are outlined first in the rough, later in detail. Detail is scheduled, followed up, and completed from a check list of work to be done by an end date. In this way costs in man-hours, delays, and inefficiency due to poor organization are held to a minimum.

Remember that the waste in time and money can be high during the starting period of any business. With no income to balance expense, the cost of *delay* must be charged against working capital. Plan carefully, so that when you are ready, you can make each minute do double duty. Twice the speed at half the cost is the slogan of efficient business organization. It is also the mark of good management, which brings us to the next chapter.

MANAGEMENT

THE number one management problem of most small-business men is finding time to do the work that must be done. Not only must you do many jobs, but you must do them well and do them right, to show a profit and stay in business. As a small-business man said recently, "All I do to make a living is to work as purchasing agent, inventory-control clerk, general manager, advertising and sales manager, budget manager, bookkeeper, statistician, tax collector, manager of research and planning, and last, but far from least, questionnaire correspondent for 194 separate bureaus in Washington!"

It is a mild understatement to say that efficient management of personal *time* is vital to your business success.

In most lines of small business, management time must be divided between purchasing, production or service management, sales management, business records, and business planning.

To save time as your own purchasing agent, *know your needs*. Know your inventory. Know the purchase limits of your working capital. Choose your suppliers for reliability as well as values offered.

Deal with your suppliers as you would be dealt with by your customers. Never take advantage of errors in quotations, bids, or unauthorized promises of service extras. Give identical crystal-clear specifications to all bidders. Avoid price pressure on reasonable bids. Never

take lowest-priced items or parts of several bids and combine them into a take-it-or-leave-it price club.

Remember, a good buyer gets *value*. The writer has seen thousands of dollars wasted on rejects, revisions, work scrapped, and time lost because of automatic purchase at the lowest bid. On the other hand he knows a buyer of printing who gets one outstanding "buy" after another in extra-quality printing through a simple formula. Upon awarding the contract to the lowest bidder among several quality printers, he asks the representative if the firm is prepared to do an outstanding job at the quoted figure. Invariably the answer is "yes." Then this buyer does an unusual thing. He *raises the purchase price!* He adds what he calls an "*achievement percentage*" to the quoted bid. And in return he asks the very finest job of which the printing firm is capable.

Of course the shock is as much as the average printing salesman can bear. The very unexpectedness of the offer results in co-operation, willing craftsmanship, extra-quality printing (value) worth a great deal more than the small per cent added to the cost of the contract. In addition, the buyer saves as much on revisions and waste as he spends for achievement incentives.

So make every attempt to hold the good will of your suppliers. Good will in your relations with people not only makes business life pleasant but insures a full measure of better value and service for every dollar you spend. The good will of unsuccessful bidders can be retained by letting them know *why* the business was awarded elsewhere. *Tell them.* Do not blame or accuse them just because it is *hard to have to tell them!*

Pay promptly. Forward your check as soon as shipments and invoices can be compared with the original

purchase order. If an adjustment is indicated, let your supplier know immediately. If the shipment and invoice are approved, send your payment in time to take an earned discount. Never take a discount to which you are not entitled.

Keep abreast of new sources of supply, new products, new uses and markets for established products. Stress reliability of service and quality of product in all dealings with suppliers. And do not speculate in your buying of merchandise or raw materials.

To speculate in merchandise or raw materials is to tie up working capital in larger inventories than your business can use, gambling on a rise in consumer prices. This course is more prevalent in large than in small business, simply because it does tie up more working capital than the small-business man can afford.

There are four general policies or practices in purchasing which are followed by business management. First and best for most small business is the hand-to-mouth policy. Turnover of working capital is important to any business but vital to small business. Hand-to-mouth buying turns working capital faster than is possible by any other method. Be very careful about overbuying in response to offers of extra discounts. Discounts rarely cover the extra margin you must make to pay costs of slower stock turn, extra inventory or storage space, and tie-up of working capital. In other words you make more with less risk by selling (or "turning over") a \$16 tire once a month at a 20 per cent margin, than by turning it once every three months at 40 per cent margin.

The second policy is "downward average buying," which is simply buying in small lots in a declining market so that total purchases reflect an average "saving" for the

entire decline. Your inventory cost is not pegged at any one level of such a decline.

The third is "forward buying," or buying your *normal* requirements well ahead of a rising market. Buying *more* than normal is speculation.

The fourth type is called "hedging." It is necessary only if you are dealing in raw materials, such as cotton, rubber, or grains, for which "futures" contracts can be bought and sold. Thus a cereal manufacturer can protect himself against fluctuations in the commodity price of wheat. He buys his normal needs. At the same time he buys a "futures" contract for a like amount. If the market rises he makes on his first purchase about what he loses on the second. If the market falls, he makes on the second contract about as much as he loses on the first. In this way the peaks and valleys of his raw-material market are leveled off for safer business planning and control of costs.

The performance of a good buyer, then, is measured by a low percentage of sales, or production, or time lost because of lack of merchandise or materials. Good purchasing is measured by a high percentage of good "buys," not from the standpoint of price, *but of value received*. It is measured by finding new substitutes and profit opportunities. It is measured by maintenance of a model inventory, by high turnover, by minimum waste due to obsolescence or wrong guesses. It is measured by supplier good will and service, and by the percentage of discounts taken for prompt payment. So plan your time as purchasing agent for your business, and make the most of it. Wise purchasing pays dividends.

The second demand on management time is in the production or service department of your business. It

might be called the internal-management part of your job. (Sales or customer management is the outside or external phase of management.) If you are a manufacturer, production must be supervised and controlled. If you are a retailer, wholesaler, or service concern, your "on the premises" personnel team must be directed.

To direct the efforts of people requires that you give to each of them a crystal-clear picture of what to do and how to do it. They should know how well it must be done and how much time is allowed. Next they must be shown how their work fits into the group effort, or the part they play on the team. Then the team must be trained to work together, thus establishing an efficient work routine. And last, but not least, individual and team standardization or "par" scores must be set, and morale maintained at high level by individual and team incentives.

In the language of industrial management, this is job definition, job training, standardization, production organization, production routing and flow, production control, and planned incentives.

If your people are trained, if they work together, and if their work is planned and co-ordinated in an efficient routine, the demands upon your time will be lessened accordingly. Such a smooth-functioning organization, however, requires the application of time and hard work in the opening months. It is not achieved overnight.

In the early stages, your people must learn your product, or merchandise, or service. They should know your business aims and policies. They must be taught their jobs, and they must learn by doing. You must constantly supervise, instruct, and encourage them. They must want to become smooth-working members of a top-flight business team. They must know their jobs, their daily routine,

objectives, or quotas, and standards of accomplishment which will earn a "well done" with their pay checks. Their morale should be kept on a high level by the mental wage of your commendation and by pay incentives.

Nothing promotes teamwork and a feeling of "oneness" in an organization more than improvement conferences and meetings to which everybody is invited. In the early stages of personnel and work organization, these should be held as often as possible. Each should include a session inviting suggestions for bettering the job, and a training session. Conferences give employees two valuable "plus" factors. First is a better knowledge and understanding of the individual employee's job and your aim. Second is an invaluable feeling of security and personal satisfaction in being "one of the gang." The latter is a sure builder of employee incentive, morale, and willing co-operation.

Sales management, the third demand upon your time, is not unlike production or service management in that you train, inspire, and co-ordinate the efforts of people. In retailing, these functions are practically one and the same. In wholesaling and service, the separation between production and sales functions gradually increases. In manufacturing, the separation is complete with a few minor exceptions. Included are custom manufacture, in which the product is designed and built to the specifications of individual customers, and installation or adoption manufacture, in which a basic product must be adapted or installed to fit each customer's need. Compressors, engines, and machine tools are typical examples of both.

However, managing sales effort requires a greater share of your management time than production or serv-

ice. Its routine cannot be maintained with the automatic smoothness of a well-organized production line. Early planning and organization hold production variables to a minimum, while selling calls for constant changes in tactics to attain quotas. Day-by-day variables or changes in competition, markets, styles, and countless other factors must be met and countered successfully.

For example, heavy rains have been known to cut the daily sales volume of Chicago department stores by 60 per cent. Oddly enough these lost sales are never regained. No corresponding rise for the following day or days has been noted. This never-ending process of adapting tactics to meet change takes time. It should require the greater portion of your own management time.

Sales personnel will have to be trained, inspired, directed. Initiative, enthusiasm, and "know-how" must be developed to the highest degree. Customer relations must be maintained at a high level. New facts and information must be relayed back immediately by salesmen, and meetings held on ways and means of turning market facts and changes into more effective sales development.

Outside salesmen should be news reporters with first-hand business information on competitive changes, customer needs, and market conditions in their territories. Inside salespeople should compare their own merchandise values with competitive ones. Let them shop with competing firms. By so doing they learn values from the customer's point of view as their own. It enables them to sell more effectively. They know firsthand what values are available elsewhere, how the others compare, and how best to strengthen their own selling presentation.

More small businesses fail for lack of adequate and effective selling than for any other reason. Too many

small-business men go about making customers just as their grandfathers did. They open a business and sit and wait for customers to walk in, a bad enough procedure even in the old days. Pioneer America was a *seller's market* for generations because of shortages of manufactured goods and merchandise. For the past thirty or forty years America has been a *buyer's market*. Grandfather might have been able to sell enough on a sit-and-wait-for-business basis. Today, in order to survive, grandson or great-grandson must use every profitable sales tool in the book to build and maintain an ample supply of customers.

Modern sales training is one such tool. Your salespeople must know their product or merchandise. They must know why people buy it and how best to sell it. They must know how to plan their own work fully as well as you do, for each salesman is himself a business in miniature. They must know how to manage their time. Time management and a clear knowledge of the percentages of selling (see Chapter 13) are fully as important as knowledge of product, effective presentation, and a good sales personality. Hence you should train and improve, plan and inspire, pay well and praise often, and watch your business grow.

All of us remember the wartime rugged physical training period which we dubbed "happy hour." If the average businessman has a "happy hour," it is the time he spends on the paper work of budget and cost management and control. Records and accounts, books and budgets, and profit-and-loss statements often are considered plain drudgery to be avoided at all costs. And they are! They are avoided at the ultimate cost of failure. Until 1940 fifty per cent of small businesses that failed, kept no records whatever.

While it is human to prefer the more active and exciting phases of business, someone has to keep the score. Someone has to translate facts and figures into plans and action for new business and business growth. Naturally, in your business that someone had better be you. If you look upon the time spent on your business records as "where do we stand" hour rather than the daily "happy" or "headache" hour, you will accomplish more in less time. In Chapter 11, "Books and Budgets," it is pointed out that any small-business man should be able to handle any and all details of his books and business records. Details are clues. The more you know about them, the better you are able to plan ahead.

Then look upon your records as aids to budget and cost control. Your budget is a working plan. It is based upon ratios which must be attained month after month and year after year if your business is to grow and survive. The budget translates these ratios into daily and weekly operating schedules of cost and profit. Thus, the time that you spend as your own comptroller or business scorekeeper enables you to compare the score which *has* been made with the score that *must* be made if you are to succeed. The amount of management time necessary for this phase of your business is easy to determine, remains fairly constant, and can be scheduled to make the most of odd hours or slow periods found in almost any type of business operation.

Last but far from least in the management of your time are the hours given to research and planning. Few as they may be, they are vital to your business future. Ratios can guide you, budget and performance scores can warn you, but research, reconnaissance, and planning provide the answers.

It has been said that life is change. Business life is high-speed change. One of the commonest booby traps in business of your own is slowness in *seeing things as they are!* It is too easy to let wrong moves and sales shortages accumulate into deficits that eat into working capital, while you *hope* and *dream* that, next month or next year, everything is going to be all right. Your eye is not on the hard facts of today half as much as it is on that prosperous little dream business you visualize for tomorrow.

Many a small-business man has awakened to find himself out of money and out of business by just such day-dreaming. Invariably he is the fellow who sighs, shakes his head, and tells his friends, "It would have been a fine little business if only I had had a little more capital!" Actually his dream business was a will-o'-the-wisp, always flitting a month or a year ahead, confusing the facts and realities of his daily business life. His own little concern really never had a chance. Its troubles were not his. They were merely embarrassing and temporary *annoyances* which stood between him and his beloved pipe dream!

Hence plan, but plan with hard facts. If unfounded and unbounded *hope* enters your planning, it is not planning at all, it is dreaming. See your business as it is, not as you would like it to be or hope it will be. It is worthwhile to visualize and plan a bigger and better business in leisure hours. But if the daily score sheet tells you that you are below par or behind schedule, all leisure hours are canceled. It is time to forget the dream and get down to hard, fast planning and action to correct the score now, today, and tomorrow—not next month or next year. Life is change. Business life is high-speed change.

Much of your planning can be done just before going to sleep at night. Think over a problem. Toss it into your

subconscious. In other words throw it out of your mind and go to sleep. Next morning the answer will occur to you. The subconscious mind (source of ideas) works best while you sleep. Usually it comes up with the answer while you are shaving or after your breakfast coffee.

Planning and research go hand in hand. Too often we think of research as laboratory magic. Research is simply the process of looking for facts. Pure research finds the fact and adds it to man's knowledge. Applied research takes over the fact or discovery and makes it useful. Thus yours will be applied research. Keep on the alert for new facts, new ideas which can be applied to your business. Not that you can afford to make a magpie's nest full of idea odds and ends. It is possible to "over-idea" a business. But an idea that has worked elsewhere, which tests well on a small scale, can often put you a step ahead of competition, in a price and profit class by yourself.

Your management problem, then, is one of *time management*. Time as purchasing agent, time as production or service manager, time as sales manager, time as comptroller, and time as a one-man research and planning board. The more competent you become at each job, the less time it will require. If you plan and manage your own time as well as you must for your employees, you should be able to take one day a week free and clear for yourself. (If you take more than one during the first ten years in your own business, you are loafing on the job!)

Which brings us to the entire aim of all of this hard work—profit, or better still, *earned* profit. Let him who speaks of "sweating" profit out of employees, step up and manage a small business for a year or so. There is nothing quite like it for changing one's ideas about who *sweats* and who *collects!*

PRICES AND PROFITS

THUS far we have shown that studies of small business indicate in no uncertain terms two vital facts. First is the importance of guiding ratios and percentages. Second, mortality rates prove that only 10 per cent of business concerns, regardless of type or size, can rightly be called successful.

A thirty-year-old, financially healthy business is a success. A healthy twenty-year-old concern also may deserve the title. However, thirty years is closer to the economic expectancy or working years of the average man. According to management engineers, the operating ratios and percentages of healthy thirty-year-old businesses, have proved safer as operating guides for managers of new enterprise.

In your examination of prices and profits, begin with these facts as a two-point premise: (a) the need for guiding ratios and percentages, and (b) the definition of business success as thirty years of business life and health.

In your search for successful business ratios and percentages, suppose it were possible to examine the sales volume and cost breakdowns of thousands of successful concerns. Suppose you found that while sales costs, profits, material costs, and conversion or service costs reduced to percentages of sales, varied widely by type of business, *certain ratios between profit and various cost factors* came up over and over again, regardless of the type or size of business. Suppose such ratios invariably occurred in

healthy, successful business, and just as invariably were *not* found in unsuccessful enterprises. The result would be a valuable set of guiding ratios, would it not?

A study of that kind has been made by W. L. Churchill, a recognized authority on cost and efficiency engineering. It was made over a period of many years. The results in the form of ratio guides were applied to hundreds of sick businesses with amazing success.

Churchill used the statistical methods of the insurance actuary. He analyzed price structures of successful concerns which had perpetuated themselves, their products or services, and their earnings over long periods of time. He began with old-line British companies, such as Canada's Hudson's Bay Company, and continued with long-time successful American concerns.

He compiled a breakdown of sales volume (over complete business cycles, as well as for shorter periods of from one to five years) to arrive at the component costs of doing business. Total sales for any period or cycle he designated as 100 per cent. Then he reduced costs of material, labor, and overhead, selling costs, and profit to common percentages of that total.

He found that production costs might be 10 per cent in one business and 20 per cent in another. Sales costs might be 30 per cent in a third, or 50 per cent in a fourth, but certain common proportions or ratios between profit and conversion or service costs, and between profit and sales costs, turned up over and over again. These ratios remained so constant and unflinching that they indicated the possibility of a mathematical formula or ratio between *cost* and *profit* factors which would apply to any business, regardless of type or size.

In each case, a fifty-fifty ratio was found between pro-

fit (before taxes and dividends were subtracted) and conversion or service cost. In other words, *profit must equal conversion or service cost.*

Let us apply this ratio to two types of business, (a) manufacture and (b) a retail operation.

A successful shoe manufacturer might show cost to sales percentages as follows: cost of raw materials, 40 per cent; labor, overhead, and depreciation (i.e., *conversion cost*), 20 per cent; profit, 20 per cent; and sales cost to retail shoe stores, 20 per cent. Here the 20 per cent profit is equal to the 20 per cent conversion cost.

Now let us follow a pair of shoes to a shoe retailer. His normal volume is 10,000 pairs a year. As a retailer, he allocates one-half of his rent and pay roll to normal sales costs and one-half to his service cost (handling, fitting, storage, delivery, and so on), which he figures at \$8,000 or 80 cents per pair. Thus his profit requirement is also 80 cents per pair. To insure his normal volume, he will find that he must spend not less than another \$8,000 or \$9,000 for effective sales effort, which he divides between rent (good location), good sales help, and effective advertising. Thus his markup, based upon normal costs and a normal profit requirement, is \$2.40 to \$2.50 per pair for the line of shoes he handles. In this case it would be a quality line selling at from \$7.00 to \$8.00 a pair, at a net profit to him of 10 to 12 per cent.

A safe ratio guide, then, for the profit requirement in your business is a fifty-fifty balance between profit and conversion, or service cost.

That brings us to the problem of how to figure service cost.

In manufacturing, service cost is the cost of converting raw materials into the finished product. It represents

total manufacturing costs less the materials in the product, and includes labor, overhead, and depreciation. Hence the correct price for a manufactured item to a retailer is M plus $3C$, where M is the materials cost and C is conversion cost. ($3C$ means $1C$ conversion cost, plus $1C$ profit requirement, plus $1C$ which is normal sales cost to the retail trade.)

Figuring conversion, or service, cost of a service establishment is relatively simple and not unlike that for a manufacturing operation. It includes total service cost, minus costs of sales and raw materials. The correct price of service to consumers is M plus $4C$, and to other business firms, M plus $3C$. ($1C$ is sales cost to a business concern, while $2C$ is the necessary sales cost for a service establishment selling direct to the public.)

It is in the retail and wholesale types of business that the correct measure of service cost is a more complicated problem. The function of such enterprise is to move merchandise from the manufacturer to the consumer. Moving merchandise or distribution includes storage, handling, customer service, and financing, as well as the sales function. The difficulty of determining the correct service cost for retail or wholesale distributors is one of dividing rent and sales personnel costs accurately between service or conversion cost and sales costs.

Most wholesalers and retailers do not try. They lump it all under expense, add what they consider a desirable percentage of profit, and hope their markup margins will cover their needs.

Several different successful retailers have told the writer that as long as their net profit before taxes and dividends remains between 40 per cent and 50 per cent of their total expense, experience has shown that they

are operating within safe limits. If profit drops below 40 per cent of total expense, it is time either to increase sales volume or to check operating costs and efficiency.

This follows very closely the successful operation ratios and percentages developed by expert analysis and study in the retail and wholesale fields.

Also it checks with the ratios and percentages for a correct balance between prices and profit; for example: a merchant operating on an average margin of 30 per cent of his total sales volume would be safely within limits by operating on a total expense budget of 20 per cent. His service costs would total 10 per cent of sales, his selling costs, including that portion of sales-personnel time charged to selling, would total 10 per cent of sales, while his profit before taxes and dividends would be the third 10 per cent of his 30 per cent operating margin.

If you plan to start a wholesale or retail business, it would be wise first to obtain your operating ratio and percentage guides from various studies of your general line. Next you should check them carefully to see if they pertain to the "cream" of successful concerns in your field. Remember that the upper 10 per cent stay in business twenty years or more, and the upper 5 per cent last thirty years or longer. (Price-engineering data and ratios in this chapter pertain to the latter.)

Once you have determined (a) that your operating ratios are well supported by actual facts and (b) that they are based upon operating performance figures of long-time successful companies in your field, then compare them with the formula outlined in this chapter to see for yourself how closely the figures tally. If any wide discrepancies are found, recheck your own estimates of conversion or service costs.

For example, the sales value of retail locations varies widely. One store may rent for two or three times as much as another of identical size, simply because four or five times as many potential customers pass by it each day. The proportioning of rent between service cost and sales cost can best be judged by figuring what percentage of your customers will come from persons passing by and what percentage you will have to pull from farther afield by advertising. If 60 per cent of your customers result from the traffic of potential customers past your business location, charge 60 per cent of your rent to sales cost and the remaining 40 per cent to service cost.

The same rule applies to the sales-personnel pay roll. Part of the salespeople's time is face-to-face selling or sales demonstration time, which rightly belongs under sales costs. Part of their time comes under merchandise handling, wrapping, money-taking, and customer service other than selling time, which belongs under service cost. A time-study check will give you a fairly accurate idea of the proportion of time spent in selling (helping the customer to make a selection and purchase) and time spent in the nonselling details of the transaction. The latter should be charged to service cost, the former to sales cost. Other items of service cost include salaries other than sales personnel—delivery, heat, water, light (minus that used for signs and displays, chargeable to sales cost) insurance, general depreciation, communication, and bad-debt losses. Your proprietor's salary should be divided between service cost and sales cost on the basis of time spent in sales activity and time spent in supervision and management.

In manufacturing and service concerns, conversion or service cost covers all costs of manufacture, i.e., pro-

duction labor, plant overhead, and production administrative charges, minus the cost of raw materials.

Once the service cost of your business is figured, you know the correct profit requirement; for the minimum profit requirement of a successful business enterprise is an amount equal to its service cost. If profit must equal service cost over a year or a decade, it should equal service cost on each individual transaction. In other words, it becomes a unit of measure, a *successful business unit* of measure with which you can figure the following "musts" for your business: (a) *must* margins, (b) *must* profit, (c) *must* volume, (d) *must* sales cost (effort), and (e) the *must* minimum price you can afford to charge.

The day-to-day value of such a simple, easily applied unit of measure is readily apparent. Many manufacturers have lost heavily with sales volume unchanged because of large orders for underpriced, unprofitable products. Many retailers have failed with dollar volume higher than usual because of a shift in selling effort to underpriced, low-margin merchandise.

If a successful business unit of measure in simplest form is a fifty-fifty ratio between profit and service cost, it follows that there must be other vital factors in the price structure which make it possible to collect the correct required profit, once it is known. One of these, an item in service cost, is intelligent management by which service cost is maintained at an efficient level. The other is efficient selling effort, expressed in terms of sales budgets.

In every successful business (maintaining a fifty-fifty ratio between profit and service cost) the sales effort necessary to keep it in balance invariably shows up. Thus sales costs are a vital and necessary part of the "successful business unit" price structure.

Studies in price engineering show that lack of selling effort is more directly responsible than any other factor for loss of balance between service cost and profit, when the right profit is known.

Such research indicates that profit increases or decreases in *direct proportion* to the increase or decrease of effective selling effort. In other words, it has been found that profit rises above the normal profit requirement or profit power of your business by the same percentage that selling effort is increased beyond its normal amount. The increase results from selling a greater volume of goods or services at the regular (increase in unit volume) price, or the same volume at a higher price, i.e., an increase in dollar volume.

This parallel increase in profit and sales cost holds good up to 40 per cent above your normal profit requirement, where it reaches the point of diminishing returns. Above that point sales costs increase at a greater rate than profit.

Sales cost and profit also parallel one another *below* your normal required amounts. They remain in proportion down to 50 per cent, which means that if your sales cost and effort are only half what they should be, you will earn only half of the profit requirement of your business. At this point, profit recedes at an increased ratio until it disappears entirely when only 25 per cent of the required selling effort is expended.

Thus, if sales effort maintains the balance between profit and service cost, the selling costs can be recognized as a necessary and valuable tool and used to maintain and collect profit requirement. Too many small-business men regard it as just another headache item of expense.

That brings us to the problem of how to determine

the correct ratio of sales cost to profit requirement. To find the answer, we turn once more to the ratio studies of long-time successful businesses. Ratios of sales cost to profit which turned up often enough to indicate a general formula are as follows:

1. Sales budgets for goods or services sold direct from the manufacturer to a mass market of family consumers is $2C$ or twice service cost (i.e., normal profit requirement).
2. Goods and services sold to retailers or to manufacturers or contractors for resale to mass consumers require $1C$, or a sales cost equal to service cost or profit requirement.
3. Goods and services sold to wholesalers or jobbers for resale to retailers require a sales budget of $\frac{1}{2}C$, or one-half service cost.
4. Studies of retail operations indicate a required sales budget of $1C$ on advertised brands for which mass-consumer acceptance has been built by the manufacturer through consistent advertising. $2C$ is required for unknown or private lines of merchandise. (In this instance $1C$ and $2C$ are based upon the service cost of the *retailer*, and not the conversion or manufacturing cost of the goods involved.)

These are sales cost *minima*. There is no harm in exceeding them as long as your selling effort measures up in effectiveness. In fact, they become a yardstick of selling efficiency because they enable you to measure the profit-collecting performance of your selling effort against its cost. In other words, if you devote \$100,000 in sales cost to collect \$100,000 required profit on correctly priced goods or services selling efficiency is at par. If profit drops

to \$75,000 and sales cost remains \$100,000, selling efficiency is down 25 per cent, and it is time to find out why. If profit exceeds \$100,000, selling efficiency is above par, and steps should be taken to hold such a gain, if possible.

Naturally factors of product (salability), competition, and prosperity-depression cycles (tidal ups and downs in the mass mind) will challenge constantly this ratio between sales cost and profit. Your effectiveness in overcoming problems such as these determines success or failure in business. However, it is far easier to achieve a known objective through tested methods than to struggle in a "general" direction in the hope that the final result will be in your favor.

It should be made clear that these formulas are empiric rather than scientifically exact. That means they have come up, or "grooved out," so often, in so many different types of business, whose business existence has covered two centuries or more, that Churchill believed they represent the effect of an unrecognized economic law.

In 1937, shortly after Churchill's death, the writer examined figures, case histories, and sources from Churchill's business files and found overwhelming evidence to support his theories and methods. He was a recognized authority on industrial management and price engineering. In this capacity he served as a consultant to hundreds of firms and various trade associations for many years. Moreover, the success figures shown by case after case history in which he "doctored" sick businesses not only lend further support to his ratio guides, but convinced him beyond question that the correct profit requirement for any business, large or small, can be achieved once the correct profit is known.

Many businessmen challenge the validity of a fifty-fifty ratio between profit requirement and service cost. Their arguments begin almost invariably with, "That sounds fine on paper, *but in my business it is simply impossible to make that kind of profit!*" Then each one proceeds to explain why competition holds his prices at break-even and loss levels. Or why labor costs, freight rates, and a thousand and one other factors prevent him from making a profit. His strongest arguments always involve the chief problems or dominant worries in his struggle for business survival.

These arguments are very real, very human, and in many cases very sound. They are not to be "pooh-poohed" nor lightly dismissed, for they are the shoals and barriers to the *doing* of the job. Ratio guides are like harbor lights, bell buoys, and other aids to navigation. They do not maneuver the ship into the harbor and deliver it safely to the pier. Only the human ability, skill, and correct decisions of pilots and navigators can do that. Successful business ratios can indicate the *musts* of business performance. Only human ingenuity, imagination, initiative, and ability can eliminate the many reasons "why it can't be done" and achieve the *must* result.

The answers to most problems of this sort are contained in creative-selling imagination and the development of special customer appeal or advantage for goods or services. Create a *difference*, and you can collect your price.

A nail manufacturer needed a better price for his product, which he stoutly maintained was a bulk commodity sold by the pound at prices set by competition. "You can't glamourize nails," was his argument. Perhaps not, but you could make up a package of assorted nails

for household use and sell them for twice the bulk price! (You could, and he did.)

Churchill tells of pricing at \$4,650 a new machine which the inventor had planned to offer for \$1,250. Competition sold similar but inferior machines for \$525 to \$625!

Impossible competitive situation?

The firm followed his price recommendations, including an ample sales budget (covered by the price), and built a successful business. The largest competitor in the field did six times as much volume and made less than one-sixth as much profit! He tried repeatedly to sell out to the smaller but more prosperous concern.¹

The writer's own father, faced by loss-price competition from a million-dollar competitor in the lime and stone industry, placed a brilliant research chemist in a laboratory for the purpose of new-product development. He realized that to collect his profit requirement he must find or create a product difference.

The results were beyond his wildest expectations. Several new products, developed to supply existing (and urgent) needs, found a ready market. It was discovered that certain processes in their production could be protected by patent. Competition and obtaining the correct price for his products are no longer problems. His small business is in excellent health. Its thirtieth anniversary was celebrated in 1947.

These are typical of hundreds of case histories which illustrate the fact that the correct price can be obtained if the correct price is known, regardless of the size or the type of business.

¹ W. L. Churchill, *Pricing for Profit*, 96.

BOOKS AND BUDGETS

ONCE the safe and successful operating ratios and percentages for your business are determined, the next problem is how to maintain them—how to keep them in line. In other words, you must know at all times your performance score and where you stand.

The most effective management tool or performance-scoring method is your budget system.

A budget is a score sheet divided into two parts. The first is the operational plan. The second is the operational performance. The first is a detailed estimate of what your sales, costs, and profits should be for a given period. The second is an accurate record of results for that period.

Your long-range objectives, methods, plans, ideas, economic philosophy, which make up the overall picture of your business as visualized in the future, should be considered the master plan and the basic policy of your business.

The budget is a blueprint of short-term planning. It charts objectives, tactics, and results for a given period. Sales objectives or quotas are in turn broken down into component budgets or accounts for (a) raw materials or stocks of merchandise, (b) manufacturing or service costs, (c) profit requirements, (d) sales costs, (e) overall operating cash requirements, and (f) capital-expenditure requirements.

You begin with a tentative budget in which ideal

costs and objectives are modified by hard facts at hand, and by detailed, conservative estimates. These in turn are corrected to conform with minimum *musts* of your operating ratio and percentages. This preliminary planning not only sets your objectives but also serves as a check list for present and planned operating costs. It shows the cost-efficiency level of each department. It says, in effect, if such-and-such performance costs are maintained for a specified period in which sales quota is met (at required net prices), operating success for that period is assured.

Thus the advantages of a budget in the planning stage include (a) emphasizing on the importance of planning, (b) translating successful business ratios into specific operating objectives, (c) holding inventories, plant or store size, and plans for expansion to their correct proportions, (d) helping to standardize methods and processes, (e) aiding in measuring cost versus efficiency for each department, (f) preventing inefficient use of plant or store facilities because of irregular sales demand, (g) speeding recognition of and suggesting corrective measures for any factors (product, plant, or store) which threaten the attainment of planned objectives.

The advantages of a budget in the operating or performance stage are (a) current control of costs, (b) yardstick of performance and its effect upon profit and loss, (c) help in maintaining successful operating ratios, (d) safeguarding profit requirement, (e) preventing price or service concessions to customers, and (f) speeding recognition and analysis of outside factors which threaten sales objectives, and suggesting countermeasures for combating them.

The first and perhaps the most vital step in planning a budget is the preparation of an estimate of sales. The

sales forecast or sales quota usually is the number one unknown quantity for any business. Once business momentum is established, a minimum sales expectancy based upon past performance and present business trends can be forecast with a fair degree of accuracy. But the new and growing enterprise must depend largely upon market research for its sales estimates.

As accuracy in sales forecasts is almost impossible for a new business, a safe course is to measure the market potential, study the build-up time and costs for other firms in your field, and hold your sales quota to the minimum required for safe operation. If your sales quota cannot be accurate, make it at least conservative. It is better to go over a profitable minimum sales quota than to fall short of a more ambitious quota. Obviously, if you are geared to make a profit on a minimum quota, you should make a better profit if you exceed it. (Provided, of course, that unit and dollar volume remain in correct proportion.) On the other hand, to show a profit on fewer sales calls for sharp, prompt revision downward of all controllable costs.

In any business, but more especially in a new business, it is vitally necessary (a) to record and establish your sales-volume curve as early as possible, (b) to compare it with the curve of your sales quota, and (c) to take immediate steps to revise your budget accordingly. (Remember that the sales curve is based upon net sales at normally required prices.)

Charting sales presupposes the keeping of accurate, up-to-the-minute sales records—accurate sales figures broken down by day, week, month, or other necessary periods of time, and by units of size, style, line, and other categories of goods or services.

Once the sales requirement or quota is set, say for six months or a year, or whatever length of time is best suited to your market requirements, various budgetary control periods should be set up. Most businesses operate on a yearly budget, with monthly and quarterly control periods. For example, a yearly budget or operating plan is subdivided into quarterly or monthly plans. Generally the newer or the smaller the business, the shorter the control period. A friend of mine who is the proprietor of a successful small store knows how much business he has to do each day to break even and make his profit requirement. It is possible and practicable for a small retail establishment to maintain a similar "rough" check upon its daily sales and operating percentages. Usually, however, it will be found necessary to average sales over longer periods in order to establish a sales curve.

Most businesses operate upon yearly, quarterly, and monthly budget periods. A tentative budget is set up for the year, which is then divided by three-month and one-month periods. Actual operation figures for each month decide the budget revisions for the month ahead. Trends established during the first three months or the first quarter may indicate revisions and changes in plans for the second quarter or the remainder of the year. In this manner, budget management and control serve to measure the efficiency of present performance and forecast changes in future plans and precedures necessary to maintain a profitable operation.

Once the budget periods for your business are determined, the budget is set up in the following manner:

1. Fill in all items of fixed expense. Make sure that each item entered as fixed expense *cannot be decreased* if such revision is necessary.

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2. Fill in your sales estimate or quota for the period.
3. Enter all items of expense which will vary *directly* with sales volume. Make sure that they increase or decrease in proportion to sales. Enter them as costs based upon sales quota or anticipated sales volume.
4. Enter those cost items which vary, but *do not* vary directly with sales. Such costs are more of a problem in manufacturing than in other types of business. Manufacturing costs are based upon the number of units produced, not upon the number sold. In manufacturing, the inventory is used as a cushion or safety margin to protect costs of production runs.
5. Enter the cost of inventory or stock on hand (net cost to you, as it stands).
6. Enter your profit requirement for the period. The profit item should equal the difference between total net sales and total expenses and bear the desired ratio (fifty-fifty) to service cost. If it falls short of this ratio, selling prices and expense items which make up total service cost should be re-examined. Naturally, the profit requirement is based upon your planned sales quota.

It is wise for the new or young businessman to draw up two or more tentative budgets, each based upon a different sales expectancy. It is wise to have an operating plan ready in advance for one, two, or three levels of sales volume. In this way it is possible to speed up budget revisions—by doing some of the paper work in advance.

In most small businesses the budget offers an accurate picture of cash requirements for the budget period. There are exceptions in which increased receivables or sales made from inventories can obscure cash requirements in the average budget. For this reason a *separate cash budget*

often is drawn up to show how much cash will be needed for the period and how it will be spent.

Unless you are in business for your health, or for the sheer fun of it (and some people are!), you expect some measure of financial return, satisfaction, and security for the time, effort, and money invested. To achieve these ends, your whole operation must be planned and managed for a single purpose, to collect a fair profit for the best service you are able to render.

Your system of books and budgets should be as simple or as complex as is necessary for the efficient management of your business. No more, and no less. The best way to determine how much and how far is to learn elementary bookkeeping and budget control as part of your business boot training. Once you know and are able to install the minimum records required, experience will indicate soon enough to what extent further data are desirable.

Remember that a budget in its simplest form is merely the forecast of an operating statement. It is very similar to your original business prospectus used to obtain financial backing. In fact, the greater part of your prospectus was a sample of budget planning for a given period of operation.

If you use your budget as a management tool, you must plan it and check it fairly well on schedule; that is, planning, checking, and revision (or planning for the following period) should take place at regular intervals. If the budget is on a monthly basis, it will involve a one- or two-night session once a month, at which time results will be checked against the forecast and revisions made for the following month. For a small business this procedure should be no more complex than striking a trial-balance sheet of operating figures, comparing them with

old estimates, and using both to forecast next month's balance sheet.

In comparing performance with budget forecasts, *plus* differences are shown in black, *minus* differences in red. The net result is always the comparison of actual profit with the profit requirement for the period.

By now it will be apparent that the planning and operation of a budget is nothing more nor less than the planning and management of your business on the basis of facts and figures.

Facts and figures used will come from records. Records are the "memory on paper" of your business, i.e., your books. Most small-business men consider books and book-keeping a nuisance and a chore. It is only human to shy away from the amount of detail involved and to avoid facing unpleasant facts which sooner or later turn up in any business. A wise small-town banker told me not long ago that in his opinion a large proportion of small-business failures could be prevented if the proprietors either kept, or supervised closely the keeping of, *their own books*. He is firmly convinced that many proprietors fail by their refusal to handle the jig-saw *details* necessary to piece together a clear and accurate picture of business performance.

And jig-saw details they are! One of your chief problems will be to keep from getting so involved that you can't see the woods (profit requirement) for the trees (accounting details).

A safe rule for the beginner is: Do not start operating your business until you have learned enough bookkeeping to set up the minimum "system" necessary for your type and size of business and can operate it by yourself with ease and accuracy. Later its mechanical details can

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be turned over to an employee, at which time you will graduate to the job of being your own comptroller. This functionary is the analyst and chief record-keeper of large concerns. His job is to make facts and figures "talk" to management for purposes of more efficient planning and performance.

Bookkeeping and accounting are considerably more than a book-length subject in themselves. Many excellent and understandable texts and courses are available for study. For that reason we shall limit our discussion to the minimum records required for any small business and try to show why they are so vital to successful operation.

The first is your cash record, which should enable you to know day by day (a) how much you have, (b) how much you receive, and (c) how much you spend. This may sound elemental to the point of absurdity until you stop to consider that five out of ten small-business failures do not know these *ABC's* of business management!

A simple, daily cash-record form, available in any ten-cent store, is as follows:

Date	Source	Receipts		Mdse.	Payments	
		Cash sales & on Account	Other Income		Oper.	Misc.
8/9	Cash sale	10.00				
	John Doe	3.45				
				14.80	6.45	1.20
	Cash sale	1.98				
	Cash sale	.79				
	Dr. Smith	7.45				
	Cash sale	2.35		5.20		
	Cash sale	.95				
	Cash sale	.55				

Notice that it covers (a) cash sales, (b) cash received

on account, (c) cash paid out. Also included as part of the daily summary totals should be (d) cash bank deposits and withdrawals for the day, (e) cash on hand, and (f) cash on deposit in the bank.

Often the above form is divided. You may prefer separate books for cash receipts and cash payments, for which most of the figures can be taken from your cash-register tape.

Also it is advisable to keep a "log" or daily record on your cash register which should include (a) morning balance, (b) cash sales, (c) received on account, (d) cash payments, (e) evening balance. If any withdrawals are deposited in the bank, these, too, should be noted. Frequently the register will be found to be short or long on daily cash totals. As such errors tend to balance out over the month, it is common practice to alter cash sales totals to absorb the difference.

A sales "log" or journal is also a "must" for any business. It shows your daily cash sales, charge sales, and total sales. In addition, cumulative totals can be kept right along with daily entries, so that you know at a glance your cash, charge, and total sales for any part of your budget period.

Your tax records will include entries of excise and sales taxes, property taxes, various license fees, income tax, and miscellaneous taxes depending upon the type, size, and location of your business. Social-security figures do not come under taxes but are posted in your pay-roll account.

In addition to cash, sales, and tax records, your business will require some sort of inventory record. For the manufacturer, this is a list of finished products, raw materials, and supplies, valued either at net cost or at the

current cost of replacement. For the wholesaler or retailer, inventory is an actual count of merchandise on hand.

It is important for the wholesaler or retailer to know both the amount of each item in stock and the length of time it has been in stock. Slow-moving merchandise requires a greater markup to earn the same margin for a given amount of operating capital. If you maintain a hundred-dollar stock of an item that sells out twice in a month at a 30 per cent margin, the income from that hundred dollars of working capital is sixty dollars for the month. If, however, you have a hundred dollars tied up in an item that sells out only once a month at the 30 per cent margin, the income is thirty dollars for your hundred dollars of working capital. To make the same income per hundred dollars of working capital, the second item would have to turn twice a month or be handled on the basis of a 60 per cent margin.

This is the whole theory of cut-rate merchandising. Its fallacy lies in the fact that turnover speed-up results far less from consumer price cuts than from increased selling effort. Any product has its natural rate of turnover based upon the time required for its use by the consumer. To try to speed your stock turnover of such an item by pirating or plundering some or all of the other fellow's share of the market is a dog-eat-dog way to do business. It is the principal cause of depression and business failure. Be profit- and sales-*effort* minded rather than cut-price and sales-*volume* minded. Sales ingenuity and showmanship is not only the best way to collect your rightful profit but also the surest defense against cut-rate competition.

Stock-turn information from your periodic inventory, then, enables you to forecast both operating capital requirements and operating income. These figures in turn

help you to establish profit requirement, allocate operating expenses, revise sales markups or margins and otherwise balance the various factors of income and expense to maintain favorable operating ratios. Inventory will indicate products or merchandise which are profitable to make or handle, as well as those which are so often carried for the convenience of regular customers. Losses or below-par earnings for the latter should rightly be charged to selling costs.

Other minimum record requirements include depreciation costs and a periodic summary or statement of profit and loss. All records are merely a means of gathering the necessary facts and figures for the profit-and-loss or operating statement. By comparing the profit-and-loss statement with the budget, you measure your management efficiency in terms of planned performance *vs.* actual performance. It is the yardstick of your ability, luck, and business acumen or know-how. A favorable comparison indicates renewed and improved effort along present lines. Unfavorable comparison is a sure indication that something is out of line and an immediate correction is needed. Be careful not to rationalize your mistakes and blame them on competition, lack of working capital, or lack of sales volume. There is no business factor "beyond your control," except death. Any other factor, promptly spotted, can be prevented from getting out of hand by smart, speedy countermoves. The whole function of books and budgets is to warn you in time and guide you in corrective action. Forecasting, planning, and control are the requirements of successful management. Books and budgets are highly essential tools of successful management.

To summarize, business records enable you to (1)

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gather the necessary facts and figures, (2) rearrange them so that they tell an understandable story, (3) plan accordingly, (4) control and correct your plan as required.

Sample forms and ledgers of a modern bookkeeping system for small business are shown in Appendix IV.

CREDIT AND COLLECTIONS

THE credit policy which you employ in business, like many other business decisions, will be a compromise between what you want to do, what you ought to do, and what you can afford to do.

You may want to run a strictly cash-and-carry business, yet find that your customers demand and are good risks for a certain amount of credit. On the other hand, the size of your working capital may make it impossible for you to extend as much credit to your customers as you would like, or as much as would be advisable from the standpoint of good business. Many a small-business man must satisfy himself with less volume than he has the ability to sell, simply because he does not have the working capital to finance a larger business.

The smaller your working capital, the less you can afford to tie it up in charge accounts or installment accounts to customers. The smaller your capital, the more cash-and-carry business you must do. Of course a great deal of credit business is handled for small enterprise by finance companies and other retailers of credit; but, generally speaking, if your capital is small, keep your business cash and carry if you can.

Customer credit is a smaller problem for retailers and service concerns than it is for small manufacturers and wholesalers. The growing trend toward retail cash-and-carry business before the war and wartime restrictions

on installment buying have conditioned more Americans to the habit of cash-and-carry buying.

Manufacturers and wholesalers still do most of their business on an open-account credit basis, although some wholesalers find it possible and profitable to sell from well-stocked trucks on a cash-and-delivery basis. Cigarettes, tobacco, candy, and similar merchandise, small in size with a rapid turnover, can be sold and delivered for cash in a single operation. Frozen foods can be handled in the same manner. Many new and highly successful wholesalers use this method to speed their own stock turns to cut sales and shipping costs and to reduce the amount of working capital tied up in customer accounts.

There are many classifications of credit, both public and private. As a small-business man you should become familiar with the four types of private credit. They are investment credit, bank credit, commercial credit, and individual credit.

Bonds and similar certificates of indebtedness are the usual instruments of investment credit. These carry specific dates of maturity and other conditions of the loan, such as rates of interest, plan of payment, amount of loan, and its legal authorization. Stocks differ from bonds in that purchase of a stock is a purchase of part-ownership in a business. With ownership the purchaser assumes his share of the business risks. As ownership cannot mature, stocks carry no maturity, or time limit, for the payment of face value in the way that bonds do. If the business succeeds, stocks share in the income of ownership. If it fails, income and value of shares of ownership recede in proportion to the extent of the failure.

The commonest instruments of bank credit are the promissory note, the bank draft, and letters of credit. The

last named are used to facilitate commercial and financial transactions by travelers. Promissory notes are loan contracts by which most bank loans are handled. The exceptions are industrial and government bonds, mortgages, and a growing volume of installment loans.

Commercial credit is handled in many forms. Commonest perhaps is the open account, by which goods and services are sold and payment is deferred for short periods, usually thirty, sixty, or ninety days. The open account is considered short-term commercial credit. It rarely provides for a carrying charge. Sales on open account usually are made with an offer of a cash discount for payment within ten days. The two chief advantages of the open account are (a) an extension of the seller's working capital for temporary use by the buyer, and (b) reduction of sales costs by making a steady customer of the buyer. The chief disadvantage is its vulnerability to abuse. Three common abuses are (a) overextension of credit by overeager sellers, (b) taking unearned cash discounts by buyers, and (c) slow payment of past-due accounts.

Overdue commercial accounts are sometimes refinanced by means of negotiable or "discountable" promissory notes. Other methods of financing commercial paper include trade acceptances and factoring. All are forms of transferring the risks of collection to so-called "retailers" of credit at a discount. In other words, the debtor accepts less than the face value of the debt from a finance company, bank, or factor, thus relieving himself of collection worries and costs of tying up working capital in customer accounts. The disadvantages lie in the high cost of discounting commercial paper and the consequent loss of profit; and also in the fact that customers often resent having to deal with less "generous" credit man-

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agers of credit retailers. For these reasons most commercial credit is still offered by some form of open account.

Individual credit, or retail credit, is credit extended to consumers by retailers. It is largely of the short-term, open-account type and the long-term mortgage or installment-contract type. (Although mortgages and installment contracts are also commonly used to finance fixed assets in business.)

Studies have shown that the average retail open account runs between seventy and one hundred days with a median of ninety. It is apparent that three months is a long wait for the average retailer. Retail stock turns, especially among small retailers, usually must run higher than four per year in order to earn an adequate profit on working capital. Thus it will be seen that it is safer for small retailers to hold their open accounts to a minimum and to limit credit periods to far below the general average. The following credit periods are suggested by P. O. Selby.¹

<i>Class of Customer</i>	<i>Credit Extension</i>
Cash	Minors
Weekly wage earners	1 week
Monthly wage earners	1 month
Farmers	Mostly cash
Business and Professional	1 month
Institutions	Credit
Corporations	Credit
Unemployed poor	Cash
Unemployed wealthy	Credit

Periods marked simply "credit" should be set at the seller's discretion. Except in special instances, sixty days

¹ *The Principles of Business Operation Based Upon the Small Business Enterprise.*

is the limit of credit extension which can be afforded by the average small retailer.

Installment credit periods run from five to eighteen months on an average. (Car and home-appliance financing sometimes runs as high as twenty-four months.) The median is twelve months. Retail customers have far less hesitancy about dealing with banks, finance companies, and other retailers of credit than do business firms. Many large finance companies make a profitable business out of financing installment contracts on retail purchases. Small retailers find it convenient to use them, especially as service and interest charges are borne by the customer. For this reason such a plan is often safer and more satisfactory for the small retailer than extending credit on open accounts.

If you must extend credit in your business, you must learn to determine how much and how far for each credit customer. The formula used by the National Association of Credit Men is known as the "Three C's" of credit: character, capacity, and capital.

Top priority among experienced credit men is character. It is based upon the fact that most people are honest. Not only are they honest, but they are proud of the fact that their word is as good as their bond. Many a small business has been financed on a combination of character and ability. Ability is the mainspring of the second "C" of credit, which is capacity or earning power. Obviously character is not sufficient in itself to pay loans. Ability and earning power must be solidly behind the honesty and willingness to pay.

The third measure of credit is capital, which should not be confused with collateral. Collateral largely cancels out the need for character and capacity. Loans made

purely on collateral are closer to a straight pawnshop operation. They are a temporary sales of negotiable values. Capital as a measure of credit serves to *weigh the risk* of the *borrower* against that of the *lender*.

For example, a concern with sharp seasonal loads may require credit to finance business already on order. The risk to its capital in failing to obtain a loan far overbalances the risk of the lender in supplying the credit. Capacity may be temporarily curtailed prior to sales and collections, but character and capital make the credit risk a good one.

Sources of credit information are of two types: (a) sources of credit data on other businesses, and (b) sources of credit data on individual consumers.

Commercial credit-information sources include (a) information obtained by salesmen, (b) credit service of the National Association of Credit Men, (c) credit service of Dun and Bradstreet, Inc., (d) business and bank references supplied by the borrower.

Individual consumer sources include (a) local retail credit bureaus, (b) interviews and questionnaires, (c) other references supplied by the applicant, (d) references from other businesses, stores, or individuals, not supplied by the applicant, (e) sources of miscellaneous information such as newspaper court records, death notices, changes of address, and special credit notices.

Credit management of your business is a twofold job. The first is to maintain the strongest possible borrowing or credit position for your own business. The second is management of credit extended to customers. Maintaining your own credit will depend largely upon how well you manage your customer credit.

Good credit managers develop a sensitiveness in credit

judgment which amounts almost to a sixth sense. In fact, the term "credit sense" is commonly used by them to describe it. Like a star reporter's nose for news, or an expert flier's sensitiveness to the feel of an airplane, it is a combination of perception, analysis, and judgment. Highly developed credit sense is the ability to perceive and correct credit weaknesses and defects as mere ripples in the daily flow of business. It operates as a highly sensitive ounce of prevention to maintain balance and control.

Credit sense is acquired through long and careful practice of safe and correct methods of "processing" candidates for credit. As you become experienced, small clues and danger signals stand out more clearly. You become better able to cope with them in the ripple or preventive stage. Your ability to perceive and interpret with sound judgment the many different and often unconnected bits of credit information on a given account increases rapidly with experience. But you should begin by following the approved methods of credit processing.

Do not rely upon hunches or a very human feeling of generosity while learning credit management. Dealing with a minor unpleasant situation today prevents major loss and unpleasantness for both creditor and debtor tomorrow. If you can warn and help a debtor before his credit situation gets out of control, you have done him a major service, possibly helped him save his business.

In planning your business, you should weigh the costs of extending credit against the profit return on credit sales. Factors of credit cost include costs of working capital tied up in customer credit, the cost of credit service to customers, and the cost of bad-debt losses.

Bad debts on open accounts average between one-half per cent and 1 per cent. Installment credit losses run from

2 per cent to as high as 4 per cent on jewelry and automotive products. Credit service to customers varies in cost with the type and number of customer accounts. It is measured by the cost of the load added to your accounting and business-records system. Working-capital costs are measured by availability of capital and by its earning capacity in your business.

If you are operating on a minimum of working capital, its very scarcity makes it worth more to you than its earning capacity. Earning capacity is an accurate measure of credit capital cost only if working capital is readily available for customer credit.

It is obvious, then, that customer credit has a measurable cost, which should be computed and carefully weighed against the profit return of extending credit.

In Chapter 13 it is pointed out that steady, habitual customers have a measurable profit value to your well-managed business. Credit service is one of the strongest bonds of customer good will and satisfaction. The *profit value* of customer credit lies chiefly in its sales function. Credit serves to reduce sales costs—which is another way of saying that it assumes and finances a definite part of customer manufacture. It reduces sales costs (a) by making regular customers out of occasional purchasers, (b) by increasing size of purchases, and (c) by attracting a better class of customers who are less apt to be bargain hunters or cut-price buyers.

Thus the cost of credit must be compared with its sales value and the subsequent effect it has on the profit-and-loss statement. Making this comparison will enable you to plan a profitable credit policy and aid in the credit management of your business.

If you plan to sell on the installment plan, you should

become familiar with the type of installment contract prescribed by your state. This may be in the form of either a chattel mortgage or a conditional sales agreement. State law usually designates which form will be used, although some states permit the use of both types.

A chattel mortgage is a legal contract giving the seller title to the merchandise until all terms of payment are met as specified. If payments are not made when due, the remaining ones can be declared due in a lump sum by the seller. If the buyer cannot then pay the full amount remaining, he forfeits not only the merchandise but all prior payments, which, by terms of the contract, are "stipulated damages."

A conditional sales contract is a lease or rental agreement. The seller leases the merchandise to the buyer. When the rental payments total the purchase price of the merchandise, the contract stipulates that a receipted bill of sale (title of ownership) shall be rendered to the buyer. This terminates the contract. In the event of failure to make the necessary (rent) payments, the full amount remaining becomes due, and the merchandise can be repossessed without further claim by the seller.

Both chattel mortgages and conditional sales agreements carry insurance clauses. Goods must be insured for full value against fire, theft, and other casualty, at the expense of the buyer.

Credit management of your business will involve keeping credit records on each of your credit customers, frequent analysis of each account decision, and action in the form of collection salesmanship.

Records should contain accurate and up-to-date credit information. Analysis should enable you to classify each customer as to desirable extent of credit and as to speed

of payment. Customer Jones may be good for credit up to \$250 and may be classified as quick pay. Analysis of Smith's record may indicate a limit of \$100 and classify him as slow and uncertain, or slow but good. A classification of highly uncertain or bad pay should cancel credit until the record changes. Your classification should be entered upon each customer's credit-record card. Records should be kept up to date and used as sales references.

Financial statements as credit references are no better than their honesty and accuracy. While there are laws in thirty-five states making it a misdemeanor to give false financial statements for credit classification, it is not uncommon to find discrepancies. Some businesses "window-dress" financial statements to make a better credit showing. Others have been known to file weak financial statements to keep competitors from gauging the success of their operation, or even to obtain special credit assistance from large suppliers. For these reasons your analysis of credit for a business customer should be made upon credit data from several sources.

The third phase of credit management is collection salesmanship. Here again, credit sense and judgment dictate the soundest approach. The problem is to prevent credit delinquency from becoming credit loss. This requires prompt action and diplomacy. Action must be prompt to be effective. Yet overly-prompt and undiplomatic credit action can defeat its purpose in two ways: first, the customer loses face, and you lose the customer; second, it is human nature to be contrary. Many people enjoy making an over-eager credit man "sweat it out" on an overdue account. The answer, of course, is to know the type of person your customer is and to use the right shade of tact and salesmanship to persuade him to pay.

Some of the best sales letters in business literature are collection letters. No sales letters are more carefully written and tested. High-performance collection letters are highly prized and are used over and over with amazing success. Your collection letter should be planned as a series. Let the first two be low in pressure and high in persuasion. Avoid inanity. Low pressure does not mean "beat around the bush." Your aim should be clear, and your tact and salesmanship should allow a face-saving "out" for the customer. For example, many customers mislay bills. The writer has seen a high-performance collection letter based upon that idea. It was a brief note with a duplicate bill attached and read somewhat as follows:

Dear Mrs. Jones:

Experience has shown us that valued customers with a high credit standing such as yours occasionally mislay bills, especially when attending to a number of them. In such an event, the enclosed duplicate is offered simply as a convenience.

If your check is in the mail, or if our own records are in error, please forgive our presumption, as your patronage of the George Brown Company is deeply appreciated.

Sincerely Yours,

George Brown, president

The George Brown Company

The theme of many good collection letters is "Possibly you have sent your check. If so, please disregard."

Many firms follow a sequence of (a) sending an invoice with the merchandise, (b) rendering a statement at the end of the month in which the order was received, (c) rendering a statement at the end of the second month,

with a "Possibly you have sent your check" note, (d) statements at fifteen-day intervals thereafter, attached to a series of collection letters, and (e) final warning of collection agency or legal action. Do not promise the last unless you intend to carry it out. Such a course is simply a credit salvage operation, as the customer is probably lost to your business.

On installment contracts, repossession in the event of delinquency is a simple matter. There is no provision made for repossession of merchandise sold on open account. The creditor's only recourse is to sue for the amount owed.

Legal action to force payment is of two kinds, garnishment and involuntary bankruptcy. Garnishment is legal attachment of a portion of the debtor's wages. Legal action may force the employer to withhold the portion specified in the court order and pay it and like amounts to the creditor until the entire debt is paid. Between business firms, court decisions may be obtained outlining terms of settlement. Sometimes, if creditors find they will lose less by liquidating a business than by letting it continue, they may petition to have the business declared bankrupt. This is involuntary bankruptcy.

A debtor may also declare his insolvency in a voluntary petition for a court judgment of bankruptcy. In such case, his assets are divided proportionately among his creditors, and the court may absolve him from further claims.

It is important to remember in your business career that your credit is a form of "character wealth." It is the cash value of your character and ability. It is far more easily squandered than regained, once you have embarked upon a loose policy. A wise businessman guards

and builds his credit as a priceless possession. It is just that. It can be a lifesaver against sudden reversals. It can provide needed working capital for sudden opportunity. If you will consider it the dollars-and-cents value of your business honor, you will be less apt to gamble with it, or "overdraw" on the supply. "Do unto others as you would have your customers do unto you" is the golden rule of credit for the modern small-business man.

Now let us examine the problem of turning people into customers.

CUSTOMERS

TODAY the average American business loses 30 per cent of its customers each year. People move, die, lose jobs, change habits and needs. Moreover, customer turnover has increased steadily and rapidly since early in the present century.

At that time a fundamental change took place in American economic life. It resulted from a tremendous increase in American productive capacity and a decline in the rate of population growth.

The change in our economy was from a seller's market to a buyer's market. Let us go back and trace briefly the steps in this massive and revolutionary change in our economic way of life.

From the pioneer days of American history, the emphasis in business had been upon production. The rapid growth of our population, expansion of territory, higher standards of living, plus the pioneer habit of working hard to build a better future for the coming generation, all combined to increase our production facilities.

The pioneer demand for better living standards, left behind in steady expansion to the West, created a growing market for manufactured products. Demand invariably was far ahead of supply. Once produced, almost any kind of product or merchandise found a ready market. In those days our chief problem was the production of goods. Today it is the production of customers.

This change from a seller's market to a buyer's mar-

ket is the cause of many of our economic headaches. Today's markets must be sustained and expanded by purchase power resulting from *distribution* as well as production. No longer can we finance new markets by means of a "bonus" of virgin agricultural and mineral wealth from new frontiers. The extra purchasing power needed to finance consumption now must be generated or earned by more people working in distribution or service enterprise. This is the operating principle of the law of equity in distribution, of which we Americans apparently know little, and understand less.

In normal times France is a good working example of this principle. Americans who visited France before World War II marveled at how well her people got along in spite of an industrial production which was small by comparison with our own. The French told us that they were a nation of shopkeepers—a distinction which they once disdained and left to the English. Everybody sold to everybody else. The purchasing power needed to balance France's internal economy was generated in *distribution*, while we sat by our stalled production plant, bewildered by our lack of markets.

The answer lies in the shift of more people to distribution and service. We need more small business. A greater percentage of Americans must adopt the calling of shopkeeper. In this way we attain equity in distribution, or a balanced economy, as it is sometimes called.

With the loss of easily achieved markets, American business has become more and more customer conscious. Today customers are the principal asset of any business. If you have any doubt about it, try to buy a prosperous business for the cost of its fixed assets and inventory. The purchase price of a business is based very largely upon

its sales volume and net earnings. Business success depends very largely upon your ability to attract, make, and hold customers.

Kenneth Goode, in his *Manual of Modern Advertising*, defines market as "people in commercial quantities." Markets are people. Your customers are people, not transactions. It is all too common to focus attention and effort upon the *selling transaction*, rather than upon the *customer* who makes the transaction possible.

Think of your customers as *people*. Think of your customers as capital assets, as real as money in the bank. Once you see your market in terms of worthwhile people, each representing a definite and measurable value to your business, you are ready to concentrate less on the shortsighted sales transaction and more upon farsighted *customer manufacture*.

Customer manufacture is an out-and-out *conversion* process. People are potential customers, just as wheat is a potential loaf of bread, or iron ore a potential automobile. If you plan to convert wheat into bread or iron into automobiles, you must cover your needs in competition with somebody else who may want to convert wheat into cake or iron into ships. In other words, even your *potential* customer supply requires an investment in rent or occupancy cost. Part of your rent is charged to the housing of facilities. And, with few exceptions, part of it must be charged to potential customer value of location.

Customer manufacture may be described as a process of converting people to suspects, to prospects, to purchasers, to steady customers.

The first step in making a customer is to attract his attention. By gaining his attention, it follows that you have aroused his curiosity or interest. If he remains mild-

ly interested, he becomes a suspect. He may be a suspect for your concern. More often his interest is general, which is to say that he is as much a suspect for competitors in your field as he is for you.

The second step is to convert his general interest into active desire to buy. As Borden and Busse have so aptly put it in their *How to Win a Sales Argument*, interest of the prospective customer must be carried past the "ho-hum" and the "why bring that up?" stage, to the "for instance," or down-to-cases point in the process. Once active buying interest is aroused, he graduates from suspect to prospect. As an active prospect, his value increases both to you and to your competitors. The chances are few that you will have prospects for your line entirely to yourself.

The semifinal step in customer manufacture is the initial sale, or the act of converting the prospect into an active purchaser. I repeat that this is only the semifinal step (and many a business loses out in the semifinals)! It is by far the most critical and important phase of making a customer. His first impression, his continued satisfaction, and his friendly approval will determine his value to you as a steady customer.

Strictly speaking there is no such thing as a "one-sale" business. Even a casket or coffin customer has relatives and friends to recommend beauty and dignity, as Digger O'Dell would say, "From the ground, down!" The type of business that makes one sale to a customer often depends upon satisfied customers for many of its "leads" or prospects.

Once a purchaser becomes a steady customer, he has a two-way monetary value. First, the buying habit he forms becomes sales momentum in the form of repeat

business. Repeat business is a definite profit asset. A customer who buys \$100 worth of goods or services from you each year represents a sales asset of \$100, a margin asset of, say, \$30, and a profit or net value to you of, say, \$10. A thousand steady customers like him would be worth \$100,000 in sales, \$30,000 in margin or gross income, and \$10,000 profit or net income.

But a steady customer is worth more to you than his specific sales or profit value to your business. He is a potential source of *new prospects*, *new purchasers*, *new steady customers*. His secondary value can be measured by the number and worth of new prospects and customers he brings to your business.

For example, suppose it costs you \$10 in selling effort to make a new customer. By checking your selling percentages, you find that you are able to make a customer out of every three prospects, while half of the people whose attention you attract (suspects) remain interested enough to consider buying (become prospects). This gives you a ratio of six suspects to three prospects to one customer. Theoretically suspects are worth one-sixth of \$10, or \$1.66 each; prospects are worth one-third of \$10, or \$3.33 each; and customers are worth \$10 each.

Actually this is a dangerous fallacy. It is dead wrong, because the \$10 cost of making a customer *must* include the cost of making whatever suspects and prospects are *necessary* to the manufacture of a customer. If it costs you \$10,000 to make 1,000 customers, each worth \$10 profit to your business, that \$10,000 must develop 6,000 suspects and 3,000 prospects necessary to the process of making 1,000 customers.

Successful operation ratios for your business might show \$5,000 or \$6,000 necessary for sales personnel and

the rest divided between advertising and sales promotion. Hence the cost of suspects and prospects depends upon the proportion of your sales dollar spent to get them. You may be able to buy suspects for twenty-five cents, and prospects for a dollar each. Six suspects would cost \$1.50, three prospects \$3.00 more in missionary selling or sales promotion, which would leave \$5.50 for the face-to-face selling necessary to close and hold one of the three prospects as a steady customer. The cost of that customer, or rather the conversion process which produced the customer, would still come to \$10.

It is apparent, then, that suspects and prospects require a measurable part of your customer-manufacturing budget. They cost money whether they become customers or not. It follows that a steady customer who sends you prospects created by his own recommendation has an added value to your business equal to the value of the prospects he sends.

The dollars-and-cents value of customer good will to your business can be figured by (a) totaling your net income or profit from steady, repeat customers, and (b) by adding up the total value of prospects sent you by satisfied customers. The result divided by your total number of customers will show you how much the average customer is worth to your business. In addition, it will show you what percentage of his value is profit, and what percentage is new business or sales value. It will prove the importance of holding customer turnover to a minimum.

The fact that the average American business, through no fault of its own, loses about 30 per cent of its customers each year presents a real problem. Your customer-manufacturing process must find, on average, three out of ten new customers each year *to break even!* Thirty per cent

new business is your break-even quota. Anything over that figure represents business growth and improvement. Thirty per cent is a national average. It will run higher in many, if not most, retail and service operations. It should be lower in wholesaling and manufacturing. You will be wise to determine your average customer turnover as soon as practicable. It may revamp your entire approach to costs and methods of making and holding customers.

There is a single fundamental difference between a salesman and an order-taker, between a merchant and a storekeeper, between a sales-minded and a production-minded manufacturer. In each example the former thinks in terms of customer *needs* and customer satisfaction, the latter in terms of sales transactions. The former uses clever, helpful showmanship to blend desire and value into a build-up of customer thrill and delight in possession which can have only one climax—"I'll take it." The latter, in the tradition of the old saying about a better mousetrap, plunks it down with a "There it is, brother. The best there is. How many can you use?"

You may have watched an expert ladies'-wear saleswoman glamourize your wife into the purchase of a frock or a coat costing more than she had planned to pay. Your wife's starry-eyed excuse is, "Oh, but it *does* something for me!" She pays more for the glamour, the satisfaction, the thrill of possession. We may wince, but we know deep in our hearts that expert car salesmen can, and have done, the same thing to you and me.

The secret is the build-up of customer prestige and self-satisfaction by (a) answering the question, "What does your customer *really* want from you?" and (b) giving it to him or her with tactful, effective showmanship.

The Chinese call it "face." To us it is a combination of prestige and self-satisfaction. Regardless of label, it is by far the most important thing your customer wants from you.

A price chiseler is not nearly as interested in saving a few cents as he is in proving to himself and his friends what a shrewd, superior person he is. "Look at *that* for a real buy," says he triumphantly, "It's a steal at the price." (And so it is—simple robbery of his supplier's assets, national purchasing power, and ultimately his own job.)

However, any customer desires the "face" invariably obtained with a fine product or service *value*. The appearance, power, and reputation of a new car, the style and name value of wearing apparel, the high performance value of a production machine—all carry customer "face" value in addition to their normal service value.

You can make and hold customers, you can increase their profit and sales worth to your business, by dramatizing customer prestige, satisfaction, and convenience. Blow and boast is the technique of "selling down." Using value and service to point up customer "face" is the technique of "selling up." The first is a carry-over from our pioneer seller's market in which demand always exceeded supply. The second is necessary for survival in a buyer's market in which the buyer is on equal footing with the seller.

Appraisal of the income value of steady customers throws an entirely different light upon customer relations. The old idea of *caveat emptor*, or "let the buyer beware," is as dead as the ancient Roman who first put it into words. Today, relations with regular customers are fully as important as the development of new customers.

Customer relations is the task of building new prestige and good will among old customers. Good will grows

or fades. It never remains constant. Like any other business asset, it depreciates unless maintained and increased by the planned expenditure of time, money, and effort.

Small business usually is in a far better position than big business to maintain good customer relations. Nothing builds customer prestige like dealing directly with the boss (if the boss likes, respects, and desires to serve his customers). As a small-business man you can serve, sell, save, and earn by being an expert customer trouble shooter and prestige builder for your own enterprise.

Proof of this point is found in the extreme examples of vacuum-cleaner and insurance selling. In both businesses, the first two hundred customers are the hardest to make. Once good customer relations are established among the first two hundred, an excellent living can be made by concentrating almost entirely upon leads and prospects furnished by satisfied customers. The same principle applies to any business.

You will owe much of your success to the sales help of regular customers. It follows that you must *know your customers*. This means more than knowing them personally. You must know their real desires. You must know their problems, their needs, where they live, and how they live. You must know how many you need, as well as where and how to obtain them. Large concerns spend millions of dollars each year to learn more about customers. General Motors' "Eye to the Future, Ear to the Ground" program of customer research tells its management each year exactly what G.M. customers want in the way of new-car improvements in comfort, convenience, and design.

Customer research, or finding the facts necessary to know your customer, is relatively simple in small busi-

ness. The smaller you are the better you should know customer needs, and the better you should be able to fulfill those needs.

More than once the writer has enjoyed watching a two-hundred-pound red-haired Irish merchant describe the debutante glamour appeal he wanted in certain apparel advertisements. He was as masculine as a well-dressed section hand or prize fighter, yet his style sense in debutante's apparel was uncanny. He could bring to life before your eyes his customer's every reaction to fabrics, furs, style, and design. The promise of such pleasure and prestige had to go into copy, art, and glamorous atmosphere of each advertisement. Naturally his advertisements were as phenomenally successful as his store. They blended Hollywood, heaven, and a bit of apparel into a halo of prestige for a girl customer. He *knew his customers*.

So think of selling not as a transaction but as a step in customer manufacture. Determine your customer turnover and make every effort to hold it to a minimum. Estimate the dollars-and-cents value to your business of suspects, prospects, and customers. Appraise the average profit and new-prospect value of steady customers, and take steps to develop it. Increase the prestige and goodwill value of old customers by planned customer relations. Find new ideas and ways to achieve good customer relations by customer research—which is to say, know your customer and make every effort to deserve his friendly habit of buying from you.

All of this takes time, hard work, and expense. In the next chapter let us examine the problem of selling costs and methods.

SALES COSTS

SALES costs vary with each individual business enterprise. They vary by type or line of business. They vary by size. They vary by area or type of community served and also by business location within that area or community. And, most important of all, sales costs vary by business ability. There is no phase of business in which human talent, ingenuity, personality, and ability show a wider range of results per dollar spent.

Your sales costs of customer manufacture will be determined entirely by the above factors of type, size, market, location, and your ability. While facts and figures on each of these items will serve as general guides, there is no set formula by which you can forecast sales costs. It cannot be done by formula, but accurate estimates can be arrived at from a study of your business and its market.

The sales budget or cost forecast for a large business is based upon a careful estimate of sales volume expected for the entire industry, plus an estimate of the company's share. If the automotive industry forecasts a market expectancy of five million cars and trucks for next year, Ford, Chrysler, and General Motors, from past performance, know what share of that market to expect. Each company sets a sales quota above its normal expectancy. The ensuing competitive sales battle usually increases the industry's total sales and results in normal business growth for the automotive industry.

The same principle applies to small business. Total sales volume in your line can be obtained for the community or area served. Sources include census data, figures from the local Chamber of Commerce, the Committee for Economic Development, and market studies by local newspapers.

As a newcomer, your share of the market during your first year in business can be figured at 5 per cent to 10 per cent of total volume for your type of business in your neighborhood, community, or selling area. Whether your performance will produce 2 per cent or 10 per cent, or an even larger portion of available business, will depend upon your starting size, starting capital, special-service idea, and your own sales ability. Studies and surveys show that 5 per cent to 10 per cent of available volume can be had the first year if your enterprise is well organized and ably managed. This is normal expectancy for the qualified newcomer who knows his business and knows how to make and hold customers.

By surveying your local market, you should be able to judge fairly accurately your chances of winning and holding 10 per cent of it the first year. If the 10 per cent or less offers more volume than you need to establish a profitable foothold for your enterprise, "opportunity" is excellent. It means that the community or area needs and can support another business such as yours.

If, however, you find that, to achieve your first year's volume and profit requirements, you must win as much as 20 per cent or 30 per cent of the sales volume available for a business such as yours, stop and reconsider. This is a danger signal for you. It means that the community (or area) does not need and probably will not support your new business. It is the cue to change your

business, or preferably to find another community which can support what you propose to undertake.

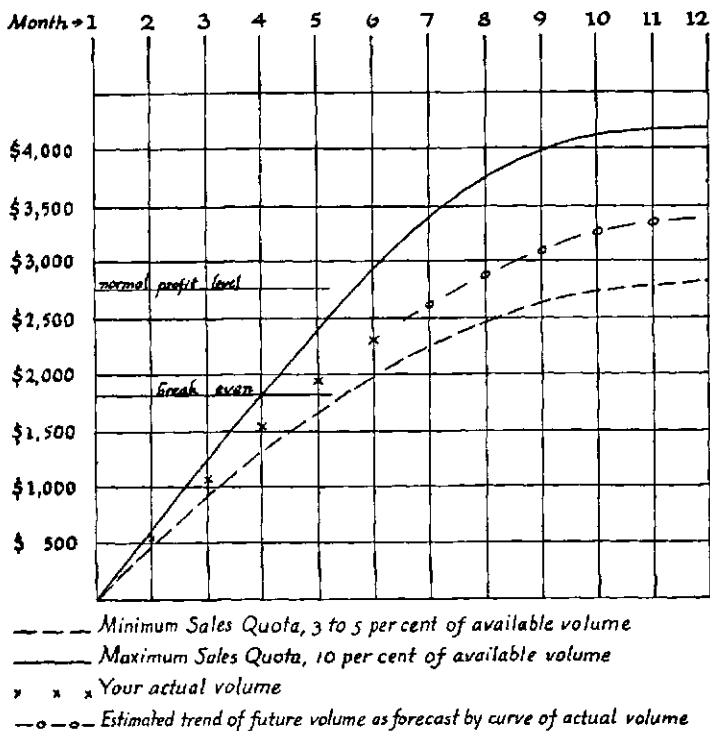
It should be clearly understood that the 5 per cent or 10 per cent sales expectancy is based upon *total sales within limits of the area covered* by your business. If you are a neighborhood store, expectancy is figured from neighborhood totals, not from those of the town or entire community trading area. A sectional wholesaler must not base his estimates upon an area larger than he plans to serve, and so on.

Also, should you find that 5 per cent or 10 per cent first-year sales potential calls for a larger operation than you can afford at the start, do not let the promise of such a favorable market tempt you to bite off more than you can chew financially. It is far more important to start right than to start big. Size will come with success, and a market with plenty of opportunity for business growth and development promises well for a short period of build-up and a successful small enterprise.

Thus if the potential is greater than the volume of business which you can handle safely with available capital, plan a sales quota up to but not beyond the limits of your finances. If you are able to handle sales volume beyond expectancy as figured above, plan two sales quotas. Make the first a *minimum* sales quota. Let it be the minimum volume of sales needed if you are to show a profitable first year's operation. It might come to 3 per cent or 5 per cent of potential expectancy. Base the second sales quota upon the full potential of 10 per cent. Then plan two sales budgets, one to fit each sales quota.

Now, if you like, you can draw for yourself a simple graph as shown on the next page. From left to right, across the top, mark the sheet off in twelve spaces, each repre-

SMALL BUSINESS



sending one month. At the left edge, moving from bottom to top, begin with zero and fill in a "measuring rod" of monthly dollar volume. The very highest monthly dollar volume expected will be the topmost figure. Now fill in your break-even and profit-level lines as shown. You know how much volume you must do to break even, and how much to show a profit. Next you are ready to draw the sales curves represented by your minimum and maximum sales quotas.

Their shape or rate of increase during the first few months is based upon the average time it takes a business like yours to reach the break-even point and attain the

level of profitable operation. It is obvious that your monthly volume during the last six months of your first year should be considerably higher than during the opening months. (If your business is highly seasonal, this graph should be corrected accordingly.)

The high point of the graph shown is such that total sales plotted by the two sales curves are equal to maximum and minimum quotas as described above. The lower curve is the minimum quota. The higher curve is maximum quota. As they rise month by month, the dollar-volume quota for that month can be read at a glance from the volume index or measuring rod at the left.

Now suppose you filled in points reached by actual sales during the first three or four months of operation and connected them with a line as shown. The curve of that line would show you two factors at a glance: first, how your business volume compared with the two quotas already plotted; and second, how an *extension* of your performance curve would help you to estimate sales *trends* of the immediate future.

Your first year's sales quota, then, becomes a carefully figured compromise of three factors determined by your business research: (1) first-year expectancy of 5 per cent to 10 per cent of total business in the area you plan to serve; (2) the minimum sales volume needed to show a healthy profit; and (3) maximum volume which can be safely handled by your service facilities and working capital.

Business reconnaissance necessary to obtain the facts includes: (a) a careful study of competing firms; (b) total volume in your sales area; (c) prices, customer values, and sales characteristics of competing products or merchandise; (d) prices, values, sales characteristics, and new-

market possibilities of your product, merchandise, or service; (e) market trends and the stability, source, and distribution of customer income; (f) production, service, or sales-volume capacity of your proposed operation; and (g) an operating plan and budget based upon successful ratios and percentages applied to your capital limits and cost requirements.

This brings us back to the x factor in any business, i.e., the cost of attaining the sales quota.

Naturally you cannot draw up an operating budget, or estimate the working limits of your working capital, without knowing the approximate costs of making and holding customers. As was stated in the opening paragraphs of this chapter, sales costs vary widely according to type, size, and location of business, and according to the ability of the businessman.

Just as we compromise in our estimates of sales *volume*, so also we must narrow estimates and compromise in our forecasts of selling costs. The chief problem in large business is the accurate estimate or forecast of sales. Once the sales quota is set, the money necessary to achieve it is usually available. In small business, sales estimates often must be revised and limited by the amount of working capital *available* for investment in sales costs!

The first factor to use in determining sales costs is a percentage answer to the question, "How much do long-time successes in my type of business spend for selling effort?" The second factor is the answer to a question, "What is the largest possible percentage of my total expense that I can afford to invest in selling effort? And how does this compare with the ratio of sales expense to total expense used by successful firms in my field?"

Your problem, then, is to match the ratio of sales ex-

pense to total expense of the upper 5 per cent of your business competitors, and eventually to equal their efficiency of sales results per dollar spent—which is another way of saying you must match them in sales ability.

A safe rule to follow in setting sales expense is (a) to equal or better the percentages spent by successful firms of your type, and (b) to spend it to collect *full profit on normal volume* rather than an *inadequate profit on an inflated volume*.

Price-engineering ratios also can be used to determine minimum safe percentages of selling expense (see Chapter 10). These ratios will be found to conform closely to operating averages for the successful businesses in your field, as they are based upon the figures prevailing for firms that remain healthy and profitable for a minimum of thirty years.

It was pointed out that W. L. Churchill found a definite relation between sales cost and profit. Business study and observation over the past fifteen years have convinced me that this relation exists and follows Churchill's original estimate very closely. To recapitulate:

Selling costs from manufacturers direct to consumers is $2C$, or twice the conversion cost.

To retailers, other manufacturers or contractors, for resale to mass consumers, selling costs equal $1C$.

Products or services sold to wholesalers or jobbers for resale to retailers require a sales budget of $\frac{1}{2}C$, or one-half conversion cost.

Retailers also have a measurable "conversion" or service cost. The total expense of a retailer can be broken down to show his selling cost and the cost of performing his service (distribution) to the community. The successful retailer follows the rule of three. He divides his mar-

gin or markup into three equal parts, one for service cost and overhead, one for sales cost, and one for normal profit requirement. Retail selling costs will average 1C on nationally advertised products and 2C on unknown or private brands.

Again it should be emphasized that these are sales cost minima. Fifty per cent is normally added to these figures for specialty products, patented goods or merchandise, and products with a high customer "face" or prestige value resulting from style, design, or exclusive name or reputation.

Also it should be clearly understood that the above figures apply to a *going* business. It is evident that during the early months or years of your business, extra selling cost and effort are necessary to build up your customers' habit of doing business with you. Call it good will, or business momentum, or establishing your business, or whatever you like. The point is that it takes time and money *over and above your normal selling costs*. In the preceding chapter we showed that steady customers (good will) represent a measurable dollars-and-cents asset to any business equal to the profit on their purchases plus the new-business value of prospects and customers they bring to you.

Churchill's studies indicated that for most enterprise the value of business momentum is equal to the profit power, or one year's normal profit. This means that the selling cost of building a business from zero to its normal volume as a going concern equals one year's normal sales cost. This must be spent as a business-building "bonus" over and above regular sales expense.

Churchill verified his figures by careful measurement of how much *extra* sales cost was required to launch a

new company or a new product. He used two methods to measure these extra costs: first, by assuming that extra sales expense equal to profit requirement was the correct amount, spending it in addition to normal sales cost, and checking the build-up time and profit return; second, by spending *only* the normal sales cost from the start, and checking the length of time necessary for earnings to climb to the normal profit requirement. The second was found to be a long, slow process in which *business momentum absorbed* a definite part of normal sales costs. The result was a slower build-up resulting from the cumulative value of continuous normal effort.

The extra sales cost of *building your business*, then, will closely approximate the sales budget for a normal year, once it is established. Such "cost" must be invested either as money or as extra time and effort. The small-business man usually has more time and effort than cash to invest, especially during the build-up period. Thus he is able to work off or earn part of the extra cost of build-up by extra hours of personal selling effort.

You will be wise, however, to invest in selling effort a certain build-up *bonus percentage*, to be spent over and above normal selling costs. Your business may be such that much of this cost can be earned by your own effort during the first year. As soon as your operation shows a profit, part of the profit should be plowed back into sales development. In this manner your sales investment in business momentum can be brought up to its required level in, say, three to five years.

During the early months or years your lack of business momentum will show up in lower sales performance. Results will be small per dollar spent, no matter how able or talented you are. As stated above, this is due to busi-

ness momentum's absorbing part of your normal effort. Your selling "machine" may be operating efficiently and at full capacity, but only *part* of its power is producing immediate customers. The remainder is building business momentum. As in the case of an automobile on a hill, part of the power pulls it *forward*, and the rest must be used to move it *upward*.

Remember this fact. It will help prevent needless discouragement and self-doubt in the build-up period, during which you may be doing a better than average job with less than average results. Like the car on the hill, your business will require twice as much selling horsepower to maintain the same forward speed in the "climb" or build-up, as it will once a normal volume level is attained. However, you cannot afford to relax the accelerator or daydream during build-up. It will not *coast* uphill. The extra sales power represented by extra hours, money, and effort must be applied from the very beginning without pause or let up. "Too little and too late" is the epitaph of many a small business.

Various cost items in sales budgets are figured according to the requirements of your business. The principal items cover location, fixtures and equipment, signs and identification, personnel, advertising, and sales promotion.

Rent should be divided between service cost and sales cost. If your business does not require a salesworthy location, rent is charged to conversion or service cost. If 70 per cent of your sales come from passers-by on a busy downtown street, 70 per cent of it should be charged to sales cost and 30 per cent to service cost. In other words, rent or occupancy cost is charged against the sales budget *in direct proportion to the sales value of the location*.

Fixtures and equipment costs are allocated in the same manner. Storage shelves and fixtures should be charged to service cost. Display fixtures and equipment are charged to sales in proportion to their sales value.

Signs and identification, plus interior and exterior "eye" appeal to attract customers, can be charged to sales costs.

Salaries, commissions, bonuses, and expenses of outside salesmen can be charged wholly to sales-personnel costs. Store sales clerks usually divide their time between service and sales work. Arrangement of merchandise, inventory work, handling and wrapping, and tidying up after shoppers are service functions and should be charged against service cost. Time spent waiting on customers and selling rightly belongs under sales cost. Time study can readily determine the correct proportion to charge against the sales budget.

Advertising salaries, space, and mechanical or production costs are regular parts of the sales-cost budget. The percentage of total sales earmarked for advertising should be a compromise figure based upon (a) percentages spent by successful firms in your line, (b) the ratio between sales resulting from business location, and (c) sales which must be pulled in from outside your trading area.

Advertising, sales promotion, and new-business publicity are of special importance during the build-up period. They should be given a high priority on funds set aside for building sales momentum. Their job is to establish contact between your business and the people you wish to serve. To make contact with potential customers will be an important part of your early sales effort.

The following is a typical check list of sales expense: (1) salaries of sales personnel; (2) stenographic and cleri-

cal help; (3) office supplies, printing, and stationery; (4) postage; (5) telephone and telegraph; (6) salesmen's expense accounts, including automobile and travel and customer entertainment; (7) insurance; (8) utilities; (9) sales training; (10) sales exhibits and demonstrations; (11) commissions and bonuses; (12) samples and allowances on returned or defective goods; (13) rent or occupancy cost; (14) sales conventions; (15) advertising salaries; (16) advertising space; (17) advertising mechanical charges; (18) printing and sales promotion; (19) packing and shipping labor and supplies; (20) delivery and handling; (21) depreciation and other fixed charges.

A classification or breakdown of sales expense should be compiled for your business. A good accountant can set up the proper forms along with the rest of your business account records. Other typical classifications can be found in dealer manuals, books on cost analysis, and various handbooks on bookkeeping and accounting.

So much for the cost of sales. Now let us consider the problem of sales performance. How will you obtain the best results from each dollar invested in customer manufacture? The answer lies in the organization of your selling effort and the methods which you use to make and hold customers.

SALES MANAGEMENT

THE first step in sales-management planning is to make a detailed outline of the scope and size of your sales operation. The dimensions of that operation might be defined as (a) dollar, unit, and customer volume required, (b) size and limits of the sales budget to attain that volume, and (c) size of the sales territory.

A neighborhood grocer's sales operation is concentrated in his store, with perhaps a modest amount of handbill or shopping-news advertising and telephone solicitation used to reach customers in the immediate vicinity.

A local wholesaler may cover several counties with salesmen-drivers who sell and deliver from well-stocked trucks in a single operation. Or he may have fewer salesmen covering more territory in their own automobiles, with shipping and delivery a separate operation. Advertising may be concentrated in direct mail, catalogs, and dealer helps.

A downtown retailer's operation may depend upon interior displays and the efforts of sales clerks, exterior effect of window displays upon shoppers, plus an *extension* of window displays into the advertising pages of his local newspapers.

A small manufacturer's sales operation will vary from selling to a few large jobbers or to other manufacturers, to the much more extensive operation of distributing to

wholesalers and retailers in a regional or a national sales territory. Some manufacturers sell direct to consumers. A manufacturer may combine any or all of the above operations. Tire companies, for example, sell to automobile manufacturers, to wholesalers and jobbers, to retail dealers, and to customers direct through their company-owned stores.

Sales operations for service firms depend upon the types of customers served. Retail types use retail methods. Business or industrial service firms pattern their sales operations after methods of manufacturers who sell to the same business or industrial customer which the service firm desires to reach.

Your first task, then, is to determine whether your sales operation is an inside, or store-selling, type, or an outside, i.e., territory or traveling, type, or a combination of both. Generally, the first is considered retail selling, and the second and third are manufacturer's or wholesale selling. Let us consider the organization and methods used in outside selling.

Once the outside sales operation is measured in terms of area to be covered, number and location of potential customers, and the limits of the sales budget available, you are ready to outline a definite plan. You know that more sales calls are necessary to open a new account than to service it once it is opened. You know that much of this preliminary contact and "missionary" sales work can be done by direct mail and printed sales promotion. You may even be able to determine closely *how much* direct-mail or face-to-face missionary selling is necessary to open a new account. This may be difficult in the beginning, but later on it should become a known factor figured from sales expense records. Many firms answer this ques-

tion by trying experimental selling tests before starting a full-scale operation.

The average frequency of sales calls required to service regular customers should be easy to determine. Thus the proportion of your salesmen's time spent servicing old and developing new customers can be estimated, and this factor, plus area size, plus number and location of potential customers, enables you to plan individual sales routes and territories. In management terminology, you are able to define sales functions and break them into specific jobs for a given number of salesmen.

To measure sales possibilities in terms of function and cost means to test or check and decide which sales tool to use for a given job. First customer contacts and part of the required missionary work, for examples, can be done at lower cost by advertising and sales promotion.

Once the job breakdown for each salesman is determined, sales presentations and procedures must be tried, improved, and standardized. Any product or service has features to be translated into customer advantages. Effective salesmanship is a combination of presentation and persuasion by which a customer's need for a product or service is satisfactorily fulfilled. Thus selling methods and procedures must be checked continuously in order to improve results per dollar spent for sales cost.

It goes without saying that the best and most experienced salesmen available should be hired. It is good business to pay more than the average salary for outstanding talent, ability, and experience. High-caliber salesmen are not easy to find, yet they are vitally important to a new business. You have less time and money to spend training salesmen during build-up than in any other period in the entire life of your business. There is less *margin for error*

in wasted time, money, and effort during build-up. You simply cannot afford mediocre talent and ability, or lack of experience and know-how, during this crucial period. It is better to start with fewer men than you need, as long as each can be counted upon to produce his share of the sales quota.

Once the business is established, many of these men will be able to train their replacements and become supervisors in charge of several territories. The responsibilities of supervision, training, improvements, and the development of more effective methods and procedures can be turned over to them as the sales organization expands. The finest sales organizations are built up in this manner.

Let each of your first men be a potential sale manager. By checking the ability, personality, and working methods of your best men, you can draw up a list of qualifications for your guidance in adding new men to the sales force as the business grows. Also, positions in management and supervision can be filled by promotion from within the organization—which is sound policy.

During build-up, sales meetings are more like mutual-improvement sessions by competent men than formal training sessions. In a new business nobody knows all the answers. "Getting the feel" of a new enterprise is essentially a team job. As improved methods evolve, training sessions are added to discussions of sales problems.

It is possible later to standardize not only sales methods but daily routing and sales calls. These must be reviewed constantly and revised to improve results in the face of changing conditions. Time is money in selling, just as in everything else. Skill in time management is one of the best assets a salesman can have. Helping a

salesman to make every minute count should be one of the primary aims of good sales training and supervision.

Sales pay and sales incentives also will be an important part of your sales-management planning. The performance of any sales organization reflects the ability, know-how, and morale of its man power. As is pointed out in Chapter 18, management studies show a 60 per cent difference between high-morale and low-morale performance of the average employee. The writer's experience indicates a considerably greater spread for salesmen. He has seen a star salesman's commissions drop from an average of five hundred dollars a week to fifty dollars in less than a month from loss of self-confidence. That man worked just as hard and as long each day to make fifty dollars a week as he had worked to make five hundred. He was cured by having a cub salesman assigned to him for training. The cub was unaware of his slump, knew only that Fred was a top-flight producer. The youngster's admiration and Fred's own interest in showing him how it could be done increased Fred's morale and self-confidence to the point where, during the last week they traveled together, the older man's commissions came to \$728!

Pay incentives, prize contests, team contests with prizes for the winners and humorously odd forfeits for the losers have been used in a thousand and one forms to lift morale and increase the employment and satisfaction of salesmen. Nobody enjoys doing an outstanding job more than a salesman. It is hard work, or hard fun, or both. The mental wage is high. It pays to keep it high, for nothing affects sales volume more rapidly or more drastically than a drop in sales morale.

Accurate, up-to-date performance records are vital to a successful sales operation. Salesmen are just as anxious

as you are to know how they stand and how well the business as a whole is doing.

Costs and results should be compared by periods of time, by product or merchandise lines, by sales territories, and by size of customers' orders. Each product, each territory, each customer should produce its or his respective profit requirement. None will. But constant corrective effort will be necessary to maintain a safe average-profit balance between sales costs and results.

Special mention should be made of the effect on your salesmen of special deals, price changes, and competitive price concessions. The answer to all troubles of a poor salesman (to hear him tell it) is an extra discount. However, even the best salesmen lose business to cut-price maneuvers, in the form of special deals and discounts. Highly competitive lines such as tires, car accessories, drugs, beauty products, and home appliances bear inflated consumer list prices. For example, how long has it been since you have paid fifty cents for a fifty-cent tube of shaving cream or tooth paste? The retail price is twenty-nine to thirty-nine cents. The correct retail price should be close to thirty-five cents.

Practically speaking, there is no set retail price for many products, of which shaving cream and tooth paste are typical. Price cutting, special deals, and discounts have thrown wholesale and retail distribution of such goods back several centuries to the good old days of trade and barter. The oriental system of asking more than you expect to get has become part of our business psychology and tends to make suspicious price chisellers of us all.

If such camouflaged list prices are encountered in your line of business, the only safe policy to adopt is to judge discounts offered you on the basis of the current "going

price" rather than list price. If you can operate profitably on this true margin (rather than the theoretical margin based upon large discounts from an inflated list price), go ahead and handle the merchandise and set your price accordingly.

However, if you are a manufacturer or wholesaler in a field in which price lines are in a confused state of oriental barter, your only recourse is to price as fairly as possible, yet retain a slight margin of "protective" discount to be used in an emergency against competitive price cuts and deals.

Your salespeople should have a clear understanding of such a price situation. They should know the limit of any countermove you can make. They should understand that your protective discount cannot be given without authorization, and that whenever given, it will apply automatically to all customers for a specified period. In this manner you treat your customers fairly and contribute to price stability as far as possible, without leaving your business wide open to volume raids by price chisellers. (Loopholes in present laws designed to prevent price raids are discussed in Chapter 17.)

Retail-sales functions and inside-sales job breakdowns are far more easily planned than outside or traveling sales effort. With sales "territories" confined to certain floor areas in the retail establishment, job duties of sales clerks may be determined by lines of merchandise and the amount of store traffic.

High-caliber retail salespeople are as important to the new retailer as to the new wholesaler or manufacturer. While they may have the advantage of familiar surroundings and regular working hours, the demands upon their patience, personality, and nervous energy by busy shop-

pers are equal to any encountered by outside salesmen.

Your retail-sales personnel are selected and trained not only to do a competent service and sales job, but to put over certain impressions of store personality while doing it. Notice how restaurant waiters or waitresses are chosen, trained, and uniformed to convey part of an atmosphere ranging from the Waldorf Astoria's leisurely comfort to the zip, zam, "thank-you-ma'am" speed of a Sixth Avenue sandwich shop. Good retail salespeople fit in and lend themselves to the personality of a store. Musicians are found in music shops, make-up experts at the better cosmetic counters, sports fans in sporting goods stores, competent librarians in book stores, and so on.

In each instance the salesman's knowledge of merchandise must be far greater than that of the customer, yet it must be employed with pleasant interest and deft skill to guide the prospect's interest to a definite purchase.

As with outside salesmen it is wise policy to hire talented and experienced retail-sales experts at above-average salaries. Knowledge and experience in selling lines of merchandise is not gained overnight. Experts long familiar with your merchandise and experienced in selling it to customers can help shorten the build-up period for your business.

Sales incentives and high morale are also of vital importance to your retail sales organization. Salespeople should be encouraged to develop a following among local customers. Many stores do not agree about such a policy, fearing the use of personal followings to force salary increases. Such fears are groundless if salaries, commissions, and bonuses are set up on an incentive basis. There is just as much reason to reward outstanding results in retail selling as there is in outside sales work.

Telephone lists should be compiled so that regular customers can be told of the arrival of new merchandise, special showings, special markdowns, and so on. Friendly, informal calls by your salespeople usually are more effective than the work of special telephone solicitors. A customer invited to the store by phone for a special reason should be served by the salesperson who made the call. It is important that the sales clerk keep a careful record of such calls. If the customer walks in, in response to a phone call, the clerk must know immediately who the customer is, why he or she has come, and what is wanted. There must not be the slightest trace of *mix-up*, for such phone calls promise the customer *special prestige*. Lack of recognition or a mix-up in names or reasons for coming amounts to a direct slap in the face of such prestige.

A safe policy is for sales clerks to call customers known to them personally, and only as many as can be given the extra attention and service promised. Also, provision should be made to recognize and serve such customers in the absence of the clerk who invited them into the store.

The desirability of high-class retail-sales personnel during build-up and the importance of retail-sales training to maintain high performance are emphasized by Ohrbach in the following case history:

A large store in Detroit recently checked over its records and compiled a list of three thousand charge-account customers who had apparently drifted away. These people had not made a purchase at the store for two years, although previously they had been regular customers. The store arranged for a crew of investigators to call on those three thousand customers and ask them why they no longer bought there. The investigators succeeded in interviewing twenty two hundred customers. A variety of reasons was given by

these former patrons. Some of them were in financial difficulties. Still others had moved to locations which made it more convenient to shop elsewhere. Still others had imaginary grievances. *But 38 per cent had definite complaints to make regarding poor service at the counter, ranging from sheer insolence to negligence in selling the proper item.* [Italics are mine.]

Think of it! Here is a large store. Many millions of dollars have been invested in plant and fixtures. More millions are invested in merchandise. Its advertising appropriation is huge. Elaborate training courses are provided for employees. Every conceivable kind of service is provided by the store for customers. Yet, when the customer comes face to face with the store at the final point of sale—the retail counter—all these millions of dollars, all this painstaking effort are so often simply money and effort thrown away.¹

To the small retailer, with a normal expectancy of 25 per cent to 35 per cent loss in regular customers per year, the figure of 38 per cent for customer losses due to sheer customer *waste* gives plenty of food for thought. It points up the need for sales talent, ability, training, adequate pay, and high morale.

Retail-sales training should be based on the gentle art of building and holding customer good will and satisfaction. This is done largely by making every effort to increase the customer's feeling of prestige with each purchase he or she makes at your store. Prompt attention, pleasant manners, friendly interest, competent service, deft suggestion, sincere enthusiasm without pressure, knowledge of merchandise, knowledge of what the customer wants to know about merchandise, these are qualities in salespeople which make and hold customers. They

¹ N. M. Ohrbach, *Getting Ahead in Retailing*.

should be important training objectives in any retail sales organization.

Remember that your retail salespeople are your personal representatives to each and every prospect and customer served by your store. The personality or public-relations effect of your business may be projected by design, appearance, advertising, publicity, merchandise, and location. But the public's impression of your business will be gained primarily by its dealings with your sales personnel. If employees are happy, well bred, and competent, customer good will and sales volume will show steady increases. If they are ill paid, underbred, and incompetent, your business will not last long enough to matter! During the war many retail sales forces committed mayhem in their customer relations. Nowadays that sort of attitude isn't mayhem. It is simple and effective business suicide!

Sales organization, then, requires the following steps in planning:

1. Measure the overall sales operation.
2. Break it into specific sales functions and jobs.
3. Plan methods and procedures for each job.
4. Study and improve methods and procedures.
5. Set up organization charts if necessary.
6. Check personnel qualification requirements.
7. Hire the best.
8. Plan a training program.
9. Standardize procedures and work routines as soon as practicable.
10. Plan and maintain adequate supervision.
11. Pay well and maintain a high mental wage through planned incentives and constant encouragement.

SMALL BUSINESS

12. Maintain a constant profit check on sales costs, methods, products, territories, and customers.
13. Maintain fair discount and credit policies.
14. Hold frequent meetings. Keep your sales organization advised of new possibilities, problems, and performance.

Now let us see how, why, and where advertising fits into the selling operation.

ADVERTISING

CUSTOMER manufacture is a step-by-step process. If we look upon the business of finding, making, and holding customers as customer manufacture, the part that advertising plays is more easily understood.

Steps in customer manufacture are as follows:

1. Research, or describing customer specifications, and counting the number of people who fit them within range of your selling effort.
2. Establishing contact between your business and customer *suspects* or potential customers not yet ready to buy, and converting them into prospects, or people ready and willing to buy.
3. Establishing contact between your business and active customer *prospects* other than the above.
4. Converting *prospects* into *customers* for your business.
5. Holding customers. Making their trading with you a habit. Your entire business momentum is equal to the extent to which you become a *buying habit* to your customers.

Selling effort, or customer manufacture, then, can be defined as planned action which turns people into customers. Your selling effort turns people into customers for your business.

It will be seen that steps 2 and 3 begin with the words "Establishing contact between your business and" To establish contact via the printed or spoken idea is

the chief function of advertising. Effective advertising does more than establish contact. It *tells* your story, *sells* your story, and invites immediate *buying action*. In other words, it attracts and converts people from suspects to prospects to customers, and also aids in making customers *regular* by constant reminder of your eagerness to serve them and supply their needs.

To determine the amount and type of advertising best suited to your business, you must know (a) the source of your potential customers, (b) what percentage of these are "passers-by" (the location of your business), (c) what percentage must be attracted from your trading area.

Once you know your customer requirements, the ratio between customers and passers-by, and the number of customers from a wider area, you can use the information to help allocate sales cost between "on-the-premises" expense and advertising expense.

For example, a retailer finds that 40 per cent of his customers are passers-by, while 60 per cent must be drawn from elsewhere in the local trading area of 300,000 people. Total sales costs amount to 10 per cent of a \$100,000 yearly volume, or \$10,000. His pay roll is 10 per cent of volume, of which one-half, or \$5,000, is charged to sales cost, leaving \$5,000. At first glance it would seem logical to divide the \$5,000, allocating 40 per cent to on-the-premises expense and 60 per cent to advertising.

But an attractive store front and interior are necessary not only to pull new customers but also to hold regular customers. A modern, pleasant, friendly atmosphere is an important factor in establishing the retailer as a buying habit with his customers. Therefore it is worth an addition to on-the-premises expense to keep his store attractive.

After examining requirements and costs, the retailer decides upon 10 per cent of sales cost for this purpose, or \$1,000. He also finds that the 30 per cent of his rent or occupancy cost chargeable to sales cost because of above-average customer traffic past his store comes to another \$1,000, which leaves \$3,000 or 3 per cent of sales volume for outside forms of customer-making activity.

He finds that this figure is enough above the national retail average for advertising to cover (a) good-will or public-relations expense, and (b) a "success margin" between a probable average and a well-above-average retail operation.

It should be clearly realized that the percentage or amount required for advertising will depend upon the type, size, and location of your business. Each business enterprise has a measurable problem of customer manufacture. For each business there is a measurable part which advertising must perform in the process of customer manufacture. Each business has a fairly accurate percentage guide for the allocation of a minimum advertising budget.

It cannot be emphasized too strongly that advertising, regardless of the size of the enterprise or amount spent, should be a *consistent* and *continuous* operation. The reasons are two:

1. If advertising is part of the process of customer manufacture, canceling it is like cutting off street traffic, blacking out display windows, or calling salesmen off the road. A shutdown in sales effort is still a shutdown in sales effort, regardless of where it occurs in the five-step process of customer manufacture.

2. Continuous advertising, like other forms of sustained selling effort, builds business *momentum above*

and beyond the specific effect achieved by a single advertisement. Pick up the newspaper and look for the advertisement of your favorite department store. You know it is there! Department-store advertising is as regular as the paper itself. You recognize your favorite because its layout or format has continuity or similarity, although the merchandise featured may change from day to day. In other words, its never-ending continuity keeps the store on file in the minds of mildly interested *suspects*, directs the urge of actively interested *prospects*, and results in many phone orders by regular *customers*. Thus the measurable effect of the single advertisement before you is *far greater* than if it appeared *infrequently* and at irregular intervals.

Second only to regularity of schedule (regardless of size of advertisement) is *similarity of layout or format*. An advertisement is not going to build momentum by regularity of appearance if reader or listener recognition is made difficult or impossible by extreme changes in shape, size, or design. People have to recognize an advertisement as yours, or the cumulative value is lost.

Regularity and continuity apply as much to the use of direct mail, handbills, blotters, car cards, and other miscellaneous media as to advertisements in newspapers, magazines, or radio. Whatever the medium, plan for regularity of schedule and continuity of format. Advertising budgets, like other costs of sustained sales effort, should hold as high a priority in your operating expenses as rent, taxes, and merchandise or raw materials. Selling costs should outrank your own salary! This high priority is based upon the simple fact that you cannot do business without customers.

The harder the times the greater should be your ratio

of sales expense and the more ingenious your efforts to increase the customer return for each dollar spent. This brings us to the relation between cost and effect of advertising.

Aside from cumulative or momentum value, each advertisement has an *action value* to the advertiser which can be measured by comparing traceable results to original cost. If you have two salesmen drawing identical salaries, and one (consistently) sells ten times as much as the other, his action value to your business is correspondingly greater. The momentum value of sales calls by the lesser man may be high, as far as customer good will and the cultivation of *prospective* business are concerned. But while sales cannot be made without prospects, profits are the result of sales *actually consummated*.

Although salesmen with identical salaries are rarely allowed to differ widely in results achieved, advertisements with identical costs, often vary from *two to fifty to one* in sales action! Naturally the advertiser would not run the less effective copy if he had the slightest idea it was as bad as that. The point is that he can find out only by *measuring* (a) results of each advertisement, or (b) *probable results before* copy is released for publication.

Techniques for measuring advertising results have been used successfully for years by many advertisers. Strangely enough, small advertisers as a rule show greater results per dollar spent than do large advertisers. Small budgets allow smaller margin for error and put a premium upon idea effectiveness rather than upon large-size impressiveness.

To show you how little the average man (even the professional advertising man) can tell about probable effectiveness by merely looking at an advertisement, here

is a true story. Some years ago two young advertising research men got together eleven pairs of advertisements of identical size and cost, each pair featuring a different well-known product. The actual results for each pair of advertisements was known. One was picked for its high return, while its twin, identical in everything but idea and copy, was chosen for its exceptionally low return. The better advertisement averaged *five to ten times* the pulling power of the lesser.

The object of the research and testing was to show these eleven sets of twin advertisements to members of professional advertising clubs all over the country and to determine whether professionals could tell a "good" advertisement from a "bad" one.

Not one man in the entire country picked or guessed all eleven correctly! The average was six right, five wrong, which is as close as you can get to fifty-fifty on eleven tries. Mail-order and other advertising men, whose jobs depend upon results shown by careful checks and tests, consistently made the highest scores. Men working on large-scale, so-called general advertising were usually among the low scorers. Retail experts on the average beat the agency men. In other words, the advertising men whose efforts had to pull customers into stores or obtain orders by return mail—men who checked and tested advertising to increase its action value—were the men best able to tell good from bad copy at a glance.

The simplest way to test advertising copy before it is used is to ask different persons which of two pieces they like better. Not *why*, but *which*. Suppose you desire to find a relative score for five different headline appeals, *A, B, C, D, and E*. A round-robin comparison will give you ten combinations to test, as follows: *A to B, A to C, A*

to *D*, and *A* to *E*; *B* to *C*, *B* to *D*, and *B* to *E*; *C* to *D* and *D* to *E*. If they were ball teams, they would offer a round-robin schedule. Next you type up the ideas to be tested, two to a card, one game or combination on each card, ten test cards in all. Then you simply ask people which idea they prefer. You gather opinions on one card at a time. You ask for opinions of one person at a time. Never ask a group.

Vote ratios will show up early in the test. *A* may be liked two to one over *B*, ten to one over *C*, four to one over *D*, while *E* may beat *A* by a five to two ratio. These ratios will show up in the first fifteen or twenty votes and continue with little change as far as you care to extend the ballot. Twenty to thirty votes are enough to establish a *ratio* of preference.

Usually, in scoring, you will find that one idea far outpulls the rest. Its average ratio will be five to one to twenty to one over its competitors. If so, it is the one to consider. If it suggests a better idea, as frequently happens (often a combination of the winner and the runner-up), type up the new combination and test it against the first winner. Simple elimination *pretests* of this sort invariably result in more effective advertising than copy penciled in five minutes on the back of an envelope. Other simple and inexpensive ways to test ideas, appeals, headlines, layouts, names, service slogans, as well as copy and art for advertisements, folders, direct-mail letters, and so on are found in Kenneth Goode's *Manual of Modern Advertising*.

Hand in hand with pretesting goes scorekeeping of results. Check prospect returns and sales results from each advertisement, regardless of the medium used.

Retail sales of items featured provide one form of

check. Coupon returns are another. Requests for special information or replies to special offers are still another. Newspaper and magazine surveys of readership and reader identification of masked advertisements are another. So are the returns from sales letters and direct-mail pieces, requests for catalogs, and orders from catalogs.

Location, distance, and the type of customer you serve will largely determine your choice of advertising media. A neighborhood store might depend upon handbills, bill stuffers, premiums for children, matchbooks, post cards, calendars, blotters, thermometers, and souvenirs of many kinds.

A large downtown retailer might use the local newspaper, radio, and seasonal circulars, in addition to many of the above items.

A wholesaler could make effective use of a strong series of sales letters outlining his services, and follow them up with booklets, folders, and catalogs of product and merchandising information on the lines of merchandise handled.

A manufacturer must often carry two programs—one to wholesale and retail outlets, and one to build mass-consumer acceptance and approval for his product.

Trade papers and direct mail are used to establish contact with wholesalers and retailers, while magazines, newspapers, and radio on a regional or national scale are used to reach consumers. Service firms for other businesses might use direct mail or trade media, while those servicing household consumers would employ mass media as required.

In advertising, as in every other phase of your business, it is safe to start small if you start right. A small appropriation is an exciting challenge to ingenuity.

ADVERTISING

One of the most successful advertising "campaigns" the writer has ever seen was carried out by a close friend with an appropriation of exactly nine dollars and fifty cents. Objective: a job. Year: 1933. Industry: advertising. The competition: men years his senior, possessed of many years more experience, and willing to work for less than his asking salary. He was a copywriter. He had no accounts, knew no tycoons, had nothing to offer but copy ideas and summoned a budget of \$9.50 with which to locate and land a job.

He knew that job letters were a drug on the market. So were the usual printed résumés. So were job advertisements in *Printer's Ink* at that time. This situation, he felt, was a real challenge to the ingenuity of anyone who called himself an advertising man.

Result? As far as we know, he was the first man to print a complete job application and résumé on a matchbook. A minimum order of 1,000 was purchased for his \$9.50, and of the 1,000 he distributed 250 to advertising agencies and a few other firms classed as desirable. Within a week he was given twelve interviews and a choice between five specific job offers (plus one or two more after he went to work at the job he finally selected). He pulled prospects at less than 80 cents each, jobs at less than \$2.00 each, and landed a good job at his required salary. One job offer could have been considered luck. Five showed the action value of good advertising and the possibilities of a small appropriation when the right idea was used.

Let us summarize by suggesting ten ways to make a small budget do a large job. The first five points deal with policies and methods, the second five with ideas and the copy content of your advertising.

SMALL BUSINESS

1. Establish a definite budget for a three-, six-, or twelve-month period, the longer the better. Investigate and select the most logical media for your business and plan carefully the size and numbers of insertions which your budget (minus type and cut costs) will allow.

2. Plan for regular insertions, rather than for size and splurge. Many media salesmen prefer to sell you one big advertisement rather than many small insertions. Do not be tempted, except for plans featuring special sales or deals in which manufacturers bear part of the space cost. Hold your share of such deals to your regular space allowance.

3. Design a distinctive format or "frame" for your advertising, which, of course, should include an outstanding type design of your firm name (called a "logotype"), your trade-mark or device, and possibly your slogan, if it embodies the special appeal or service idea which keynotes your entire business. Such a format, plus color combination, can be extended to signs, trucks, and even to store layout and decoration (although it would be safer to say that advertising format should be an extension of the basic physical design of your store, plant, and equipment).

4. Develop and test *basic selling ideas* and *appeals* from the *service idea* of your business. These in turn are the raw materials for your advertising copy. Test and use the most effective from the *customer's* point of view.

5. Check and record the results. Remember that results may or may not be *sales*. Use them for comparing and improving copy and media, *not* to judge the entire and specific effect of your advertising. Each advertisement's work value may be likened to an iceberg. Part of it is visible and can be measured. Much of it is not visible and is hard to estimate. But make no mistake, it is there.

Concerning copy—

6. Develop and test special ideas, special appeals, special offers, with publicity or attention value based upon customer

needs. Use tested captions and appeals found in advertising of your business.

7. Show product and product features. Translate product features into customer advantage by dramatizing *use*. Prove advantages with customer testimonials and case histories of use.

8. Show price, but do not let price carry your advertisement. Price alone does not move merchandise. Value moves merchandise, although many people judge value by price. For example, the writer observed an experiment in which six identical fur coats were priced from \$150 to \$450. The retail value of each coat came to about \$300. Believe it or not, the coat marked \$150 was *the last to be sold!* The woman who bought it looked it over, refused to buy and later returned with a fur expert not connected with the store to verify its value. He assured her that it was a steal at the price, yet she left the store with enough doubts in her mind to have it appraised a second and a third time. The low price completely blocked her faith in its value!

9. Invite action in your copy. Ask readers to buy. If a special offer is featured, set a time limit on it. Four of the strongest words in American retail copy are contained in the phrase, "Today and Tomorrow Only!" Hook them to a feature value and watch your store traffic go up. They have built many a large department store. One retail establishment in the writer's experience grew from zero to a two-and-one-half-million-dollar volume in ten years on the strength of customer action caused by dramatized value, plus those four simple words, "Today and Tomorrow Only!"

10. Stress *ease* of buying. Feature or dramatize special services to customers, phone or mail orders, credit service, fitting, delivery, pleasant atmosphere, private showings, and any of countless other little service extras which heighten customer prestige and satisfaction. It is not enough to repeat the hackneyed phrase, "The customer is always right."

The successful merchant uses smart showmanship to spotlight his customer's individuality and build his customer's prestige and satisfaction with deserved and tactfully dramatized service extras.

In addition to the above ten points, the smart businessman *merchandises* his advertising. He displays current advertisements in his store or plant. He shows them to his customers and asks for their suggestions. He goes over them with his salesmen and shows them what they are designed to do and how the copy is calculated to do it. He asks their co-operation in checking results and forwarding customer comment.

Further details and methods for handling your advertising problems will be found in advertising books dealing with different types of business. These, together with a handbook on the mechanics of advertising, will be invaluable aids in planning your sales effort.

Remember that the average business loses customers at the average rate of 30 per cent a year. Those lost must be replaced and new customers added if your business is to grow. This calls for customer manufacture in the face of keen competition. Let us examine some of the problems of competition.

COMPETITION

IF you ask the average American businessman, "What is your prime need at the moment?" he will probably reply without an instant's hesitation, "More sales!"

Ask the same man where markets come from, how they are created, or what promotes mass buying power. The likelihood is that he will shake his head with an air of annoyance and weariness and reply, "How should I know? That is none of my business!" Then with finality and determination, "My job is to *get my share* of present markets!"

This "get-my-share" attitude springs naturally from the deeply rooted convictions in the modern business mind that there is *not* enough buying power to go round (which at the moment is all too true), and that, by the very nature of our free economy, there can *never* be enough buying power to go round. The latter is an entirely *false concept*.

As a result management consistently lays its plans for a margin of overproduction and steers its sales operation toward getting its normal share, plus as much of the other fellow's share, of the market as possible. Up to this point such competitive planning is economically sound. It is the process whereby more and better goods and services are brought to more people. More mass purchasing power is generated in the process.

Then the fatal mistake occurs. Prices (i.e., the medi-

um which determines purchasing power to a considerable extent) are cut to gain additional sales, or to hold normal sales volume against price raids by competitors. Remember, price is 100 per cent human cost. Human cost is purchasing power. A cut in price (human cost) is a cut in purchasing power equal to that price cut. Nobody gets it. It simply is not there. The customer may *think* he gets it. Actually he does not. He pays higher taxes, makes lower wages, obtains less value for his money, all because cut-price competition *fails to generate* buying power necessary to maintain balance between production and consumption in a free economy.

The cut-price, dog-eat-dog creed in business reads somewhat as follows: "Each year I will gladly risk losing my business for a chance to make my competitor lose his. I will supply my normal share of the market at "break-even" prices if by so doing I can increase production and sell [plunder] a large slice of his market at my cut price. I am willing to take such a gamble with the odds *twenty-five to one against my being able to gain and hold his customers and my own, against his counter price raid!* The stake is a slice of my competitor's market. The risk is the loss of my business. The odds are twenty-five to one against me, yet I go ahead in hope that at some unknown period in the future I can make a profit on the gain!"

Does it make sense? Does it show good judgment and foresight?

It does not! Yet it is so common a practice that, in the years of so-called normal recovery (1937-38), about 40 per cent of American business was done at a loss. Not at break-even prices, mind you, *but at loss*. The erring firms not only failed to generate normal purchasing power, but actually gave away ten cents' worth of producing

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assets on each dollar's worth of business! Is it any wonder that business mortality rates are high?

This whole situation stems from fear of competition and lack of knowledge and understanding of how to be a good competitor. Its business effects are bad enough. Its effects on prosperity and purchasing power are deadly threats to American security and freedom.

Loss-price competition begins in the mind of aggressive management and is consummated in the mind of the consumer. Each business head believes he is smarter than his competitor. Each is positive that he can sell a greater percentage of his capacity than is average for his industry. Thus he reaches for a larger share, not at his regular price but at cut prices which lower his unit profit to zero, or even to a net loss.

This is "*volumitis*." It is a suicidal obsession based upon the assumption that low prices alone automatically result in the necessary volume of sales. Its slogan is, "Fill up the plant or store at *any* price, or loss."

Hence the first point to remember in your competitive thinking is how foolish it is to gamble your business success upon the one in twenty-five chance of staging a successful cut-price raid on your competitor's business. You will get more business and make more profit by gearing your sales effort to the collection of the profit required on a normal share of business. This plan pays far better than the applied piracy of cut-price competition. The proof lies in the high mortality rates among price chisellers.

It is wise to maintain friendly relations with competitors. Competitors are people. The same qualities of honesty, fair dealing, understanding, pleasant personality, and good will which apply to good human relations (or

public relations) apply equally to harmonious relations with competitors.

The reputation of a business and the standing of its proprietor are soon "typed" or classified, especially in a town or smaller city. If you inquire in any community, you will hear so-and-so referred to as "a good man to do business with." Another is a "chiseler." Still another may be tagged a "stick-in-the-mud," or a "playboy," or an "up-and-comer." The community opinion may be just as simple and as irrevocable as that! You will be judged and tagged by your competitors as well as by your customers. And competitor opinion dare not run counter to public opinion. Nothing boomerangs with more deadly effect than a disparaging remark about a competitor which the customer does not believe.

Do not hesitate to recommend a competitor for an item you cannot supply. How often have you had a sales clerk stare woodenly or shrug an indifferent, "I wouldn't know," when you ask for suggestions as to where you might be able to find an item not in stock? How often do you return to shop in stores whose employees' interest turns off like a faucet if they do not happen to have what you want? You don't return.

But let an up-and-coming retailer get on the phone and locate the item for you on the shelves of a competitor, and what happens? The competitor gets the sale, but the retailer gets you, your good will, and your future business. The retailer also gets his competitor's good will. He knows that sooner or later his competitor will send a customer to him for an out-of-stock item.

Thus it is good business to help a customer and promote friendly relations with competitors by recommending a rival for an item you cannot supply.

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It is also good policy to know your competitors. Most businesses have *indirect* as well as direct competition. Indirect competition is any concern which sells to the *same people* you do. Part of their goods or services may compete directly with part of yours. Direct competitors are firms in your line of business selling directly competitive lines of goods or services in the community or sales area where you operate.

Knowing your competitors consists in estimating the business they do, judging their stock turnover, checking their locations, evaluating their aggressiveness, comparing size of stock, prices and values, extent of capital, length of life, business ability, and so on. List your own ideas of these factors and get the appraisals of friends. This is merely a form of customer research, to determine customer opinion or impression of how your business is classified in the community.

Another rule of shrewd competition is to know your own competitive limits. Remember that fear of competition betrays many a businessman into giving extras in service he cannot afford; buying new equipment he cannot afford; overextending credit he cannot afford; and even handling more business than he can afford. In short, it is only too easy to spread your working capital dangerously thin and throw your expense budget dangerously out of line by frantic and unwarranted attempts to "keep up with the Joneses" in a business sense. Never forget that you are in business to make a profit and build a business, not to match every move that competitor Jones or Brown or Smith can afford to make.

Know your business. Know your business limits and stick to them. As a youngster the writer used to wonder at his father's self-discipline with money. "Tommy's dad

drives a Buick. We drive a Model T. Don't you make as much as Tommy's dad?" was the usual accusation.

He would grin, "Yep. Twice as much."

"Then *why* don't *we* have a Buick?"

"We can't afford it, Sonny. We're building a business."

He was right. He knew his business and its limits. As far as we know, he never bought anything, except his business, which he could not afford to pay for twice over, in spot cash. It must have been sound policy, for his recent income tax amounted to more than he paid originally for his small plant.

There have been many attempts to regulate business competition by law. The Interstate Commerce Act was passed in 1887 to prevent railroads from discriminating in freight rates. The Sherman Antitrust Law (in 1890) was aimed at preventing monopolies and artificial restraints of competition. Antitrust legislation was further amended in 1914 by passage of the Clayton Antitrust Law and the Federal Trade Commission Act. Such laws were written during the years when American business and industry enjoyed a "seller's market"; that is to say, much of their purpose was to protect consumers against artificially high prices and shoddy or misrepresented goods and services.

These laws or rules for a "seller's market" are years behind the times. They are wholly inadequate to a free economy in which a *buyer's market* prevails. They form protective *price ceilings* and protect consumer values by preventing monopoly and any form of price maintenance by agreement. This is wise and right. They do not establish *price floors*. This is unwise and dangerous.

Our fair-trade laws *prevent* business success by unfair

and unethical price maintenance. But they certainly do not prevent business *failure* by unfair and unethical price *cutting*! Depressions and unemployment go hand in hand with the amount of business done at a loss. These factors are far more dangerous to our economy than business which is *too* "successful" (quite apart from the fairness or ethics of methods used). This is no plea for monopoly or prices held at artificially high levels by monopolistic methods. It is a plea for new laws to protect the people against the far more drastic effects of prices *held at artificially low or loss levels*.

The National Industrial Recovery Act, passed in 1933 and administered by the National Recovery Administration, was the first legislation based upon the modern facts of business life. It was the first law passed in recognition of the simple fact that America's economy had gone over from a seller's to a buyer's market. N.R.A. offered legitimate ethical business its first protection against the deadly "kamikaze" raids by ignorant or wilful price chisellers. It recognized the fact that kamikaze business destroys not only its own labor and producing assets, but also the labor and producing assets of honest competitors.

The defeat of N.R.A. by the United States Supreme Court may or may not be recorded in history as the death blow to free economy in America. If not, it will be solely because new laws to replace it will be passed in the near future. And that our war economy, meanwhile, will have bridged the gap and given us a second chance to protect our economy against the evils of suicidal competition.

At this point it may be argued that present laws such as the Miller-Tydings Act, the Robinson-Patman Act, and others should be sufficient to prevent disastrous competition. They permit fair-price maintenance on branded

merchandise, set by the manufacturer to apply to prices charged by wholesaler and retailer. They operate to prevent the use of loss leaders and prohibit sales made "below cost" in order to injure a competitor. They prohibit discrimination in prices made to competitors, except that any difference must be justified by difference in costs of production, sale, or delivery.

Though price maintenance on branded merchandise is permitted, no provision is made for no-name, off-brand, or private-brand merchandise. Nor is any mention made of labor squeeze or loss prices by the producer. Further, the Miller-Tydings Act applies only to goods sold in interstate commerce, and *only* in interstate commerce, as long as states involved have their own fair-trade laws. In other words, three major loopholes nullify its value in preventing uneconomic competition.

Two loopholes are used on loss leaders. First, the retail prices on most products famous enough to be used as loss leaders have fluctuated so widely in the past ten years that, for practical purposes, they have reduced selling to oriental barter. Each has a "list" price and an average "going" price. The "going" prices still vary, by location and by retailer. Secondly, a famous brand with a low "going" price can be used with loss-leader effectiveness in cut-rate advertising merely by surrounding it with cut-rate items and playing up price in all advertising copy.

To prohibit a sale "below cost" "in order to injure a competitor" hardly deserves mention. In most legal cases either factor simply defies successful proof.

Limitation of price discrimination, except by proof of differences in costs of production, sale, or delivery, is also a legal problem of doubtful solution. Production costs vary by size of production run, and especially by ad-

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vance planning of the *exact* production run for a specific customer. Sales costs vary even more widely, by customer, by location of customer, and by size of customer's orders. Delivery costs also vary by size and location. Such exceptions cover every excuse commonly given for the practice of price discrimination. For all practical purposes the statute simply *clarifies* in legal terms exactly how far and under what conditions kamikaze competition can be practiced!

The trouble generally with such legislation is that it tries to solve the problem from a police, rather than a co-operative, standpoint. "This shall be done, *except* You must do this and not do that. But Jones may do it, and Brown, too, because their conditions qualify them for certain allowed loopholes."

N.R.A. was based upon the co-operative approach. Each industry was asked to set its own standards of fair play and in many respects to police its own members. Firms which met those standards were given a visible mark of approval. The "blue-eagle" mark of approval had tremendous customer good-will value. It proved to the customer that he or she was buying a fair product at a fair price. It was the mark of ethical business, of adequately paid labor, of prices set to protect, not to destroy, our economy. For a short period the blue eagle was a highly progressive and protective force in our free economy. As a practical emblem of unity and co-operation, and as a practical answer to kamikaze competition, N.R.A. is needed today as never before in our history. Each added per cent of American business done at a loss, each American added to the lists of the unemployed is a challenge to the Congress to resurrect and develop a new and better N.R.A. before it is too late.

In your competitive thinking, then, remember the following points:

1. Get your share, but get your share at the required price and profit.

2. Beware volumitis. Manage your business so that it will earn a legitimate profit, not so that it will attain an illegitimate volume at the sacrifice of profit, pay roll, business assets, and your personal health and sanity.

3. Guard your competitive reputation as carefully as you guard your business credit. You cannot succeed if either is impaired.

4. Maintain friendly (and fearless) competitive relations as part of good public relations in your daily business living.

5. Know your competitors. Use your knowledge to *improve* your business, not to imitate or destroy theirs.

6. Know your business limits, as to size, profit, rate of growth, and volume.

7. Know your state and federal laws governing competition, not in order to take advantage of them but to protect your business against a competitor who may wish to use the loopholes to take advantage of you.

And last, but not least, *avoid fear* in your competitive thinking and planning. Fear is at the bottom of every stupid and self-destructive competitive move. Fear has a way of restricting *choice* in business thinking. "If I don't do this, I will lose business or fail. The only alternative to this move which I *know* to be unsound is to lose business which I must hold! My competitor is losing money at that price, yet I have to meet it to stay in business!"

This is typical of the negative, emotional thinking caused by fear. Actually it is not thinking at all. It is emotional fret and sweat. If fear brings you to a choice

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between only two alternatives, between a wrong move and total failure, back away and think the problem through again. There has yet to be a business problem with only two possible answers, both of them wrong!

If it is a problem of competition and price, the right answer is to create and sell a *difference*. If cars were sold merely on the basis of price, we should all be driving used Model T Fords, or motor scooters. Men's clothes would be blue jeans and work shirts in the summer and woolen editions of the same, with a coat, for winter. Think value, not price. Create a difference and you create value, for which the right price can be had. Remember that 80 to 90 per cent of American business firms charge and collect different prices, for different values, in identical or nearly identical lines of goods and services.

As long as you or your business or your product or service differs from that of your competitor, such difference, translated into customer value, can be sold, and the required price obtained. It may not be easy. But it most certainly is not impossible. Prove it to yourself by checking price differences in restaurants, movies, cigars, ice-cream sodas made from the same brand of ice cream, and a thousand and one similar examples. Think of them if you are ever faced by our old friend, the price-or-failure gremlin who specializes in competitive jitters and cut-price graveyard business spirals!

There is a third way, and a fourth, and a fifth. Each is correct. Each will work. Each dispels fear by means of business thinking. All point to the same answer:

Create a difference.

Charge for it!

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THE first and most important point to remember about your personnel family is that quality is far more vital than size. Believe it or not, time and motion engineers and industrial psychologists commonly find one to five, even one to ten differences in ability between people doing the same work. Furthermore, there are many studies that show as much as 60 per cent difference between the work a person *does* and the work he *can* do if his heart is in the job. As an old man remarked after being turned down because he might not be able to keep up with younger men on the job, "Mister, I may not be able to do the work they *can* do, but I can sure do the work they *will* do!"

As a small-business man, you will have a decided advantage over large concerns in selecting your personnel family. The smaller the work force is, the better it should be. You can hand-pick, train, and inspire each and every man and woman who works for you.

Let us examine for a moment just how to go about hand-picking personnel. Let us keep in mind the three facts mentioned above: first, the tremendous spread between a so-so employee and a star; second, the 50 to 60 per cent difference in output between so-so morale and high morale; and third, your advantage in being able to personally pick, choose, and train your own employees.

These facts in turn should gear your thinking to an astute labor policy; namely, that it is easier to make more

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money with expert, highly paid labor than it is to save money by hiring so-so labor as cheaply as you can. For 25 to 30 per cent over the going wage for a given job, you can hire an expert with 500 to 1,000 per cent more ability, and by giving him a stake in the future, boost his daily batting average of accomplishment as high as 60 per cent! This is not theory. It is fact. Here are two examples to prove it, and you can find several hundred more if you have the time:

United States Treasury figures for 1928 show that the textile industry paid its employees an average yearly wage of \$1,040. During the same year the printing and publishing industry paid an average of \$1,782, or 70 per cent more per employee than was paid by the textile industry. Did textiles make more profit on their employees? They did not!

Surplus earnings or profits created by textile workers averaged only \$115 per employee. Surplus earnings created by publishing labor averaged \$354 per employee. Thus, while employee wages in printing and publishing were 70 per cent higher than in textiles, the surplus earnings on better-paid labor was 208 per cent greater.

If there are any doubts about comparing one industry with another, let us take as an example Henry Ford's labor costs. Here is a quotation from one of his experts on labor costs in various Ford plants in Europe:

The Ford car is essentially the same vehicle wherever it is manufactured or assembled. This uniformity of product affords us an almost unique opportunity to make cost comparisons.

Similar tools and machinery, and the same methods of manufacture and assembly are employed in every Ford fac-

tory throughout the world. By watching and comparing results we discover and accumulate some most interesting data.

For example, so as to avoid the nuisance and complications of money currencies, we have initiated a Labor currency. Factory experts call it "minute costs." This company and its associated companies employ Englishmen, Irishmen, Dutchmen, and Turks, all working in their respective countries, and doing the same job with similar tools under equal factory conditions. We compare how long it takes each respective man to complete his work. In Denmark, where we pay the highest wages in Europe, we find the lowest minute costs. In Belgium where wages are lowest, the minute costs are highest. This is no flash-in-the-pan, casual comparison. Week after week, and month after month, the figures confirm this experience.

What is probably more significant, during our task of correlating and adjusting the wage rates so as to secure the uniformity I have referred to, we found it necessary to *increase* substantially the minimum wages at the Antwerp factory. The response of the workers was almost immediately displayed by a *reduction* of minute costs!

It may be all right for production, but how about retailing? It can be better, because there is a wider variation in sales talent than in standardized production talent.

Take, for example, the story of a youngster who started a filling station in the hottest competitive territory in the United States, Brooklyn, New York. The whole New York area is highly competitive, but in Brooklyn competition in the filling-station business is something to watch.

This young man went into business for himself. Everyone thought he would fail because he paid 30 to 50 per cent higher wages than anybody else. But his men were experts. They could service, and they could sell. They

could get business, and they could hold it. Before long he had another station, and another. His station managers were making fifteen to twenty thousand dollars a year in salary and commissions, and earning it.

He hand-picked his employees. He knew them. He trained them. They made money.

As the chain of stations grew, he bought a three-story brownstone house and made it into a luxurious club for his employees. His personnel manager was a sympathetic fellow who made the rounds of the stations with anywhere from two to five thousand dollars in his pocket. If any employee had suggestions or a complaint, the personnel manager was the man to see. If any employee needed cash for an emergency, for a good buy in a car or a home, Joe was the man to see. No questions asked. No interest charged.

Possibly this is an extreme example. But the method worked. This young man's success has been phenomenal. And its keynote has been a smart, aggressive labor policy. He made it *with*, instead of saved it *on*, talent represented by his pay roll.

Once you are agreed on a policy of hiring special talent at a special price, the job of picking and choosing an all-star employee team is simplified. Your personnel family becomes exclusive. The fact that they realize it builds morale, keeps them on their toes, maintains a high *mental* wage of enthusiasm and pride in their work.

Let us suppose that you set out to hire an office boy. It becomes known that you want and will pay for the very best. The immediate result is that you will attract the cream among candidates. From these one or two will stand out. And you can be certain that the one you choose will not only be a star but an eager star!

The same rule applies to top-flight talent in any other phase of your business. Look for the best, pay for the best, and be sure to let your employees know that they are an all-star personnel team.

If you consider this policy for a moment, you will see that it is not simply an *a-b-c* case of paying more for what you hope are better employees. You must merchandise your policy to your prospective employees. You must sell each of them (a) that you do pay more, (b) for expert talent, (c) for working together as a high-performance group, (d) for their own profit and satisfaction as well as yours!

This policy pays, for obvious reasons—first, because it is exactly opposite to the labor policy of the average business. Most firms consider it good business to get the best person for the lowest possible price. The average employee knows this. Hence the cream of talent is always available. The opportunity is yours. Second, it pays because of the wide difference (profit value) in employee ability. And third, because of the wide difference (profit value) between normal and high-morale performance.

Many a businessman with the most up-to-date, attractive plant or store equipment that money can buy will argue for hours against picking premium employees and paying them well. It is obvious that human abilities vary as much as (and frequently more than) machine efficiency. Yet the parallel between highly efficient equipment and highly able personnel is ignored, with very few and very successful exceptions!

In hand-picking an employee, your aim is to attract and hold talent, special ability, and human qualities which will contribute most to a happy and prosperous business.

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If you adopt the policy of paying more for expert personnel, the very fact that you will attract better types in the job application stage will simplify the task of selection. However, there are certain qualities desirable in any employee, regardless of record or recommendations. Many of these are more necessary in small business than in large.

For example, the ability to meet and deal with people; or the ability to plan and carry through one's job; or the initiative to grasp the need and develop improvements; or the blessed faculty of self-starting alertness that sees and does, unasked, the little extras of production, service, or customer contact which build business.

You will be interested in general intelligence (but do not make a fetish of it). Probably you will look for good balance between abstract intelligence (ability to think) and social intelligence (ability to get along with people). Answers to the questions, "Who are you?" and "What can you do?" take on new and vital significance when applied to a prospective employee.

Look for personality, not the synthetic all-brass and no-brains type (unless by some off-chance such a type should belong somewhere in your scheme of things). Is your prospective employee confident, of good carriage, pleasant, energetic, neat, a good listener, a good talker, sincere, positive, and optimistic? How does he or she qualify in natural selling sense, in willingness to learn, voice, vocabulary, persistence, initiative, courtesy, personal cleanliness, smile and sparkle, interest and likability, knowledge of job, reaction to criticism, desire to improve, enthusiasm, and acceptance of responsibility?

How much does he or she *want* the job? How alive to opportunity? Will your candidate perform well as a mem-

ber of a team? Or is there a tendency to "whole show" or bossiness?

These are merely suggestions for a check list of desirable traits and characteristics. Your job as employer can be made simpler and more effective if you will list carefully those personal traits and abilities desired for any job you have to fill. Then use the list as a score sheet on the various applicants.

Another good method, if time permits, is to watch a promising person at work somewhere else. Observe and check carefully over a period of weeks. Use your score sheet. Study him or her from every angle. Many businessmen have hired key personnel in this manner. Of course, the matter must be handled so that the candidate makes the first move for reasons of intelligent self-interest. Your labor policy of pay-more, make-more, will insure that, if you take steps to let the policy be known, i.e., *merchandise* it in your field.

Once you have hired the new employee, it is up to you to utilize his or her talent and ability. A day-by-day program of employee training has been found to be the best method of utilizing employee talent and ability to the fullest extent. Smooth, effective teamwork in any activity does not just happen. It results from careful, patient training.

You should plan to achieve three basic ideas in employee training: (1) personal job efficiency and teamwork with fellow employees, (2) personal enthusiasm and pride in the enterprise, plus a positive selling spirit toward customers and other people in the community, and (3) a clear, definite picture of future plans and ambitions, or a personal stake in a successful future for your business.

Most concerns stop short with number one. As long

as an employee does not cost too much and does the job (or a reasonable facsimile thereof), nobody cares whether he or she boosts or knocks the organization off the premises. Future plans and aims? Those are none of the employee's business. As a result, labor morale and good will drop off to subnormal, "get-by" levels, management wonders why labor costs go up, and the firm begins to die on its feet. Eventually another business failure results.

Again using machines as a comparison, had the same company let the efficiency of its production equipment drop off 50 per cent through neglect or indifference, its management would have been fired on the spot. But the high cost of low morale in employees is rarely realized, especially in small business.

The three basic aims of employee training mentioned above are more apt to be followed in sales meetings and sales-training activities of the average business. Why? Because in selling, employee or dealer good will, morale, ability, and efficiency can make or break sales volume. Here the high cost of low morale is mirrored immediately in stark terms of profit and loss.

In sales meetings or sales-training sessions, you will find the three basic ideas used every day. Personal efficiency, selling spirit and enthusiasm, personal stake in a better business future (and how to attain them) are the basic appeals or ideas used to develop and maintain employee talent and ability.

Of the three points, the first, personal efficiency and teamwork, is, surprisingly enough, the simplest part of the training program. Especially is this true when employees are of high caliber. Many studies have shown that the hardest taskmaster for an intelligent, well-paid employee is his own desire to excel.

Frequent meetings or training sessions will more than pay in higher personal efficiency and teamwork. Such meetings should deal with problems of production or sales quotas, better ways of doing the job, new ideas or developments, employee suggestions, ideas for new business or expansion, and similar topics. If your personnel team has a clear, up-to-date picture of business aims and objectives and the part each employee is expected to play, the efficiency and teamwork aspects of your employee-training program will be a success.

Selling spirit and enthusiasm are built from self-respect. Self-respect is perhaps the highest *mental wage* an employer can offer an employee. The fact that you pay above the going wage for a given job is not as important as *why* you pay more. The *why* is premium talent, top-flight ability. If your employee knows that you consider him or her above average, immediately you add the mental wage of self-respect to the pay envelope. Your employee in turn goes into high gear of sincere effort to be worthy of a premium rating, and to more than earn the extra pay involved.

In other words, your people, through honest motives, become sincerely eager to work *with* you, instead of *for* you. Your worries are their worries. The company's problems are their problems. The company's reputation and public relations are given their wholehearted, loyal support. Their selling spirit and enthusiasm build good will and public approval *in* the home community, as well as among dealers and customers *outside* the home community. It is amazing how fast and how far a good reputation can travel, especially when it is labeled strictly authentic by the statements of enthusiastic, public-relations-minded employees.

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In building selling spirit and enthusiasm among your personnel family, remember that an ounce of sincere appeal for their support and co-operation is worth a ton of synthetic "whoopla." You have nothing to fear in asking their help. There will be several simple ideas or impressions you will want the public or your customers to have. Say, for example, that they are: (1) the Jones Company is eager, exceptionally able, and a fine concern to do business with; (2) its product is top quality, used and recommended by all who try it; (3) its people are alert, efficient, and enthusiastic; and (4) the Jones Company is regarded by its employees, its customers, and people who know it as a young, promising, and progressive concern, one that has won the respect and approval of everybody in its home community.

If these things are true, or truth in the making, if they represent your sincere business aims, your personnel family can help immeasurably. If employees are happy, they will talk. If they honestly believe that which you would like to have them say, they will be glad to say it. If you show them how it helps your and their public relations, you may even have to tone down their enthusiasm. Your job is to give them the clearest possible picture of how and what you want your customers and the public to think and feel about you. They will be more than glad to help carry the good word.

The third aim of your employee meetings is to plant in the minds of staff members a common goal of business accomplishment. Paint for them a simple picture of success. The goal may be growth in size, or quality, or profit, or all three. Visualize for them just where you want them to be with you, three, five, or ten years hence. Show them their personal stake in your plans and hopes for the fu-

ture. Then ask them to dream, think, and work with you to achieve it.

Many businessmen are afraid to commit themselves in any way to their employees. On the other hand, *any* business concern is made up of people. It grows or dies as a result of their desires, abilities, and actions.

If it succeeds, there is achievement, satisfaction, and abundance enough for everyone. If it fails, even the boss loses.

Thus it is wise to take your personnel team with you on the road to success. Let its members think, plan, and work with you toward a common goal. Ford did. Andrew Carnegie did. Small-business men Paul Kollsman and Jack and Heintz did.

You will find hundreds of examples of successful small businesses whose personnel teams have gone up in a group. You will find many a successful employer who has, upon retiring, turned his business over to his faithful team. They dreamed and built it with him. They contributed as much to its success.

So do not try to go it alone!

RESEARCH AND EXPANSION

HAVE you ever seen a house with so many additions it looked as if it had grown like Topsy? You may have seen a store expanded, or rather sprawled, in every direction at once? Growth and expansion with little form and less plan are characteristic of small business. Expansion of most small businesses is not planned at all. It just happens. It occurs as a series of changes or improvements in store or plant. In other words, it is expansion planning in terms of *details*. It is expansion planning in terms of short-term contingencies, to be handled as they arise.

Expansion should be planned as you would plan a new business. A safe rule is to plan in terms of new markets, *not new "gadgets."* Many small-business men during a prosperous period install new gadgets and call the result expansion. They buy new equipment, add new products or lines of merchandise. They add a new department or move into larger quarters. Each move is a purchase of prestige in the form of expansion, much as the average person does when he trades his old car for a new and better model. Your expansion should be *planned* in terms of *selling to new markets*, not *buying new equipment*. Let the new markets determine the requirements of new assets. Do not fall for equipment gadgets, and then have to find new markets to support them!

Fewer and fewer small businesses can afford the luxury of operating in a comfortable rut. According to the dic-

tionary to "establish" means to "settle or fix firmly, to place on a permanent footing, to settle securely." It is quite obvious from that definition that a small business is rarely if ever *established!*

A business is vulnerable to change. Change is opportunity—opportunity to grow and expand or to fail. Therefore, growth and expansion and planning for change must be the constant concern of a businessman.

Change comes in two forms, long term and short term. Long-term is change mirrored in general economic trends. Short-term is more abrupt change caused by competitive moves, new products, new services, as well as by current political, social, and economic events.

Keeping abreast of change requires research and planning—research to find what is new and needed in your field, and planning to bring it to your customers.

Mr. E. H. Land, president of the Polaroid Corporation, estimates that fifty good research men working together in new fields such as radar, enzymology, color photography, or nuclear physics can invent and develop a new field of business enterprise in about two years. He has proved his point in the development of his own company.

Charles F. Kettering, vice-president of General Motors and general manager of the General Motors Research Laboratories, has for years been the chief spokesman for industrial research in America. His message to businessmen and the American people always has been that science is extending the real frontiers of business opportunity faster than we can exploit them.

It will take years to exploit fully the new business opportunities which can be developed from scientific discoveries made during the war. Young scientists and

technicians may start many a small business with great possibilities. Established small businesses will invest more and more in research and development programs, and grow large in consequence.

Today small business is not taking as much advantage of research as it can and should. Research through basic patents offers any business its strongest protection against competition, its best opportunity for profitable growth and expansion.

Small-business men are apt to think of research as an expensive luxury which can be afforded only by the very largest concerns. Yet the Polaroid Corporation began as a small business. Monsanto Chemical was started on a shoestring by a group of young chemists. Farmers, the small-business men of agriculture, profit by elaborate and highly effective research programs.

Today small business has access to many types of research other than its own privately financed programs. The United States Department of Commerce offers valuable data on markets. Also available are data collected by other government research agencies and by research foundations supported by various industries. Moreover, a number of large research laboratories do special work for small concerns on a fee basis.

Many small firms hire their own research men and equip their own small laboratories, sometimes with amazing results. Brains count far more than budgets. For example, a friend of the writer owned a small plant producing a staple raw material which sold almost entirely on a tonnage price basis. During the depression he was suddenly confronted by a large, better-equipped competitor who could produce the same product at lower cost. He saw the handwriting on the wall and countered by hiring a

fine research man. A modest laboratory was equipped. Today several basic patents are held, the small plant has expanded, profits are excellent, and new products with tested markets are ready for further postwar expansion. The cost of the original program was not more than five hundred dollars a month! Moral: In research, brains count more than budgets.

Countless similar examples are to be found in current trade magazines.

One of the best-known aviation-radio companies began with two amateur "hams" experimenting in a barn about two blocks from the writer's boyhood home.

Another youngster, encountered in Ohio, ran a basement camera-repair business into a modern small plant making special cameras day and night for the armed services. Several patents are held, and postwar products are already in production.

Kettering is right. America's technological frontiers are unlimited. We have not begun to develop and exploit them.

Business research should not be thought of in terms of product development alone. For every success story of invention and product research, you will find one to match it in marketing and distribution; for every new product or service developed, several new and better ways are invented to sell old, familiar goods and services. Keep abreast of new products and services and new methods of selling, whether you develop originals of your own or depend upon others.

In planning for expansion, you should consider three basic methods: (a) expansion by increased volume of present goods or services, (b) expansion by the addition of related lines of goods or services, and (c) expansion by

the addition of new and unrelated lines of goods and services.

As a general rule the soundest basis for conservative expansion is a straight increase in volume of your original business operation. There is an old saying about sticking to your last. It is trite but true. It is safer to expand a business you know well, along lines which have proved successful, than to take on the new and unknown in an untested, untried market.

This is the danger of too much diversification.

Many businessmen see only the safety factor in diversification. It may be hard to realize that taking on a new product or service requires the same headwork, paper work, and careful research that go into starting an entirely new business.

It is easy to believe that if you can make or sell one line, you can also make and sell a different line by using the same methods. Maybe you can, but in all probability you cannot.

Diversification has ruined many a small business because of this fallacy in management reasoning. It is a safe rule to stay on your own side of the fence, regardless of how green the other fellow's pasture may look. There are problems connected with his business too, especially if you do not have his experience and know-how.

So much for the disadvantages. The advantages of adding new related lines of products or services lie in leveling out seasonal lows or gaps in your production or sales activity.

Seasonal idleness increases overhead costs and raises your selling prices to customers. Carefully planned diversification to fill such periods is highly desirable. However, as long as new and unfamiliar products or services

are involved, production and marketing should be as carefully planned and tested as if they were being planned for a new enterprise.

The addition of new products or services which distort the seasonal loads of your business should not be considered under any circumstance. Diversification which only adds to your busy production and sales periods can seriously impair your operation by overloading production and sales facilities and your working capital as well.

Expansion, then, by the addition of either related or unrelated lines of goods or services (a) should be organized as a completely new business, and (b) should be chosen to level out production and sales loads if your operation is seasonal.

At this point mention should be made of artificial and undesirable methods of expansion. Actually this is not expansion in the true sense. "Manipulation" is a better word. Ethical expansion is healthy growth. It creates more jobs and better values. Artificial expansion, or manipulation, does neither. Artificial methods used in manipulation include buying out or forcing out competition with cut or loss prices; retarding competition by renting and holding desirable business locations; manipulating raw-materials prices or cornering supplies; in other words, expansion based upon unfair and economically harmful competitive practices.

To plan the expansion of your business, the following procedure is suggested. (1) Assemble facts and figures. (2) Analyze them. (3) Define and decide new expansion objectives as to size, type, cost, and estimated return. (4) Plan the new operation and put it into action.

The first facts and figures needed are those of your own past achievement. They are obtained from business

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records and should include (a) dollar net-sales figures, (b) sales figures by product or merchandise lines, (c) inventories and sales turnover, (d) net prices, net margins, and net earnings, (e) sales returns from departments or dealers, and (f) present and past market and customer data.

From this material the operational record of your business should be outlined for study and analysis. Unless your business is inherited or purchased from another owner, summarize figures by month and year from its opening to the present. If the business has been established a long time, go back five or ten years.

In addition, figures for certain key years should be assembled for study. Business records for 1929, or 1933, or 1937, respectively, can give valuable information about the behavior of a business during a boom, a depression, or a moderate recovery. The years 1939 and 1940 were perhaps the last of our normal peacetime years, although even then we were beginning to feel the first ground swell of war prosperity.

If your own business figures do not go back far enough to cover such key years, compile records for these key years of your industry or type of business in the area reached by your selling effort.

If you are a manufacturer, the above will be the record of your industry. If you are a wholesaler or retailer, the data should show the yearly records for your type of business in the area you serve. Even though lack of figures for your business may make it impossible to measure the effects upon it of boom and depression years, the ups and downs of figures for your industry or community offer a reliable guide.

Perhaps the best source of industry or sales-area fig-

ures will be found in Census Bureau publications. Included are many general and special studies which cover manufacturing, retail trade, wholesale trade, and service industries for practically every community in the United States.

A third type of data needed is more or less general information on business and economic trends. Industries and areas have minor ups and downs of their own, quite apart from major business trends. Figures for your business or industry or area should give you a clear idea of what to expect in your own field. They may not follow general trends, yet general conditions will have a definite effect upon them. For this reason it is necessary to compare facts and figures with data on American business as a whole during the period covered by your study.

Once facts and figures are assembled, you should have three separate outlines for comparison and study. The first should tell the story of your business, the second the story of your industry (or sales area), and the third the story of general economic conditions during the period covered.

Next you should analyze the material for clues to be used in forecasting and planning. Figures for your business may suggest a logical type of expansion, such as an extension of your present operation. They may show up a seasonal problem which calls for adding new lines of products or services. Your business figures, compared with lower costs of new and large-scale competition may dictate expansion or change into an entirely different field. More often, however, a strong competitive threat of this type calls for more effort on your part to specialize. Create a difference and charge for it.

A comparison of your business figures with those of

your industry or sales area will give you plenty of food for thought and planning. Is the trend up or down? Is your share up or down? How does the growth of your business compare with the growth of your community or industry? Are reasons why indicated by the figures? What new ideas, opportunities or developments might be exploited to improve the picture?

Remember that it is easier to predict business trends for your industry or community than for your own enterprise. Base your plans for successful expansion upon the measure of long-time opportunity. And avoid planning on the basis of short-term ideas and "gadget"-minded purchase of new assets.

Analyze and compare the effect of depression years on your business or community. Reduce the *effects* of normal years, boom years, and depression years to *percentages*. Use them to measure effects on past business volume and to forecast future objectives.

Many small-business men, through long experience, become almost uncanny in their estimates of how much business they will do. These men become so sensitive to effects of trends and the general outlook upon their line of business that they are able to forecast within a few hundred dollars their volume for a given period. Most of them cannot tell you how they arrive at their conclusions. You will find many who laughingly call it second sight or intuition. Actually it is a combination of sensitivity to, and shrewd appraisal of, cause and effect, together with a background of long observation and experience.

A study of industry or community figures will give you the number and type of competitors, both direct and indirect. How does your progress compare with theirs?

Can you learn from their methods? Have any of them expanded along the lines you contemplate? What were the results?

An extension of this idea might be to investigate expansion "success stories" in your field wherever they occur. Trade journals delight in publicizing success stories. Write to your trade journals. You will find that somebody somewhere is doing an outstanding job. It may be possible to locate a model operation identical to the new one you propose to try. Much of the experimental work may have been done. You may save time and money by avoiding needless mistakes. Many businessmen travel thousands of miles to observe and study successful operations similar to their own. This represents one of the commonest forms of research for business improvement and expansion.

Adding a new product or a new line of merchandise automatically opens a new field of competition. You should know the size, type, and number of competitors, amount of business done, costs and methods of build-up. If you are going to make a new product, ask yourself what other products are similar. Who makes them? How well are they made? How well do they satisfy the customer? How much do they cost? How many are sold, and to whom? How can they be improved? Is it possible to patent basic improvements: How are they marketed? What are the new-market possibilities of an improved product at a lower price?

Expansion which involves diversification, or the addition of a new product or merchandise line, should be not only carefully planned but carefully tested. As consumers, we hear much about new products being tested and "perfected" for consumer use. Research in design, dura-

bility, utility, as well as in customer appeal, value, and satisfaction, is of primary importance. However, product design and development represent only one-third of the research necessary to the final distribution of a new product. It is one thing to design and develop a new product. It is quite another to make and sell it. Research in production is necessary to reproduce the original in quantity at a reasonable price. Marketing research is necessary to find customers for it, also at reasonable cost. Both are vital to successful distribution of a new product.

The steps in planning successful expansion, then, might be summarized as follows:

1. Plan your expansion in terms of *selling* (new markets) not *buying* (new assets). Sound expansion can be justified only by a permanent increase in sales volume and earnings. Also remember that it is more profitable to operate a small enterprise at full capacity than a larger one at half capacity.

2. Keep up to date on what is new and what is needed in your field—which is only a down-to-earth way of saying cultivate an active *research* mind. Keep it working on your business. Take every possible advantage of research available to small business, in product design and development, in production techniques, in marketing and distribution.

3. Assemble facts and figures. Organize them into summary outlines which tell the story of your business, the story of your industry or community served, and the story of general business conditions for the period covered.

4. Analyze carefully and weigh the factors of competition, type and size of expansion indicated, costs and earnings, customers and markets, and possible effects upon seasonal loads of your business. Also consider carefully sales trends in your industry, your community or area served, and the sales curve of your own business.

5. Decide upon your expansion objectives. Draw up a tentative plan for size, type, costs, and estimated earnings.

6. Test your plan on a small scale. Investigate successful operations similar to the one you have in mind. Observe them at first hand if possible. Study them and learn all you can about them.

Test and perfect your new venture on a small scale to eliminate costly mistakes in advance. New products or services should be perfected from the standpoint of customer appeal and salability. Your production or service organization should be geared to handle them efficiently. Every step in your marketing procedure should be tested and checked before you put your plan into full-scale operation.

These are only suggestions for orderly planning of business expansion. Organizing the necessary facts and figures for the average small business is not as difficult as it might appear from the above discussion. Much of it is basic groundwork already covered in planning your business. An important part of your management job is to keep up to date on business records, trends in your field, and general business conditions. Summarizing actual figures will serve to clarify your thinking and help you to base decisions upon facts. Organizing facts and figures for the new venture will require the major part of your time and effort.

Now let us examine another phase of small-business policy and planning, sadly neglected by business as a whole and small business in particular. I refer to the "how's" and "why's" of public relations.

PUBLIC RELATIONS

ONE of the simplest definitions of modern public relations is the title of Dale Carnegie's well known book *How to Win Friends and Influence People*. It is the art of winning friends and influencing people. Each of us has a very real and very important problem in public relations. It is the problem of our personal relationships with other people. Are we loved, hated, admired, despised, or merely tolerated? Do we attract or repel friends? Do people speak well of us and go out of their way to help us achieve our goals? Or do they speak ill of us and delight in making things difficult? As Shakespeare put it, "The fault (dear Brutus) lies not in our stars, but in ourselves." These are good or bad effects of our personal public relations. ●

The same principle applies to business. People can make or break a business. In fact American business owes many of its present difficulties to nearly a century of hopelessly poor public relations. People always resent a seller's market, for the seller has things pretty much his own way. Business in many respects took advantage of its seller's market. Naturally, firms that take unfair advantage of customers do not want such operations publicized. This combination of public suspicion and resentment on the one hand, and business defensive secrecy on the other, caused a record low in public relations during the period of greatest growth in American business.

The harmful effects of public disapproval to our na-

tional economy did not become acute as long as a seller's market prevailed. However, during and following the major shift in our economy from a seller's to a buyer's market, public opinion through political power discredited and curtailed American business to such an extent that it has never fully recovered.

Today unemployment, national debt, and reduced purchasing power are recognized as the direct effects of business done at a loss. Gradually the deeply rooted idea that making a profit is a crime is being replaced by the realization that *not* making a profit is the deadliest of all threats to the public welfare. Had Japan been able to destroy five to ten billions of our business assets, destroy twenty billions in purchasing power, and throw five to ten millions of Americans out of jobs by military action, say, against California, that would have been headlined as a major military disaster. It would have outranked our Philippine and Pearl Harbor defeats.

And yet that is the *yearly* cost of the "war" we Americans wage against our own jobs! That is the yearly cost to us of *40 per cent of American business done at a loss*. It is the dollars-and-cents price we pay for misunderstanding, ill will, and mistrust of one another the moment we don our business clothes. It is the yearly cost of an era of business "Prohibition," in which profit, profit motive, and profit incentive have been prohibited by the pressure of public opinion. It is the high cost of poor public relations between "we the people" as business men and women and "we the people" as private citizens and consumers. The ironic part of the whole fantastic mix-up is that "we the people" in both instances *are one and the same!*

From the definition, "how to win friends and in-

fluence people," it is obvious that public relations must begin with the key service idea of your business. The service idea should be ethically and economically sound. It should be translated into practical operating policies and methods, which in turn must "win friends and influence people."

Thus it will be seen that public relations, in the highest sense, are your business ideal—in action. Both ideal and action require careful planning, careful performance, and careful measurement of effect or result. Let us begin with planning.

Winston Churchill has said that a man's obligation is not to serve his interest but to do his *duty*, for the obvious reason that duty is recognizable and interest is not always so. This is a simple rule, worthy to be followed in planning your public relations. Begin your planning by defining your duty to the public, to your customers, to your employees, to government, and to yourself. You owe the public a progressive, honorably run business. You owe your customers better values and increased satisfaction. You owe your employees security, opportunity to improve, and good pay. You owe government a profitably run business which provides jobs, generates its share of purchasing power and economic progress, and contributes to the costs of government. You owe yourself the satisfaction and success of a well-managed, profitable business enterprise.

Your business ideal in the rough is to fulfill a need, to do it honorably, to do it well, and to share its benefits with honesty and fairness. To state your aim in such general terms is not enough. It should be so simple, so clear, so strongly individual to your business that you can say it as a slogan. If you make it a business slogan, you should

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make it contain *fact* and *promise*. For example, General Motors' research ideal is stated, "Eye to the future [promise], ear to the ground" [fact], while Woodbury says, "A skin [fact] you love to touch" [promise], and Buick's keynote is, "When better cars are built [expected fact], Buick will build them" [promise].

Whether your ideal in slogan form states a basic business policy as does Ohrbach's "Business in millions—profits in pennies," or is based upon product, let it carry fact and promise. If it is to be used in your advertising and sales promotion, write a dozen or more versions of it and carefully test each one for strength of appeal.

However, it should be emphasized that clarifying the service keynote of your business is far more than a mere slogan hunt. Basic business ideals and ideas which change from month to month are worse than none at all. Think of yours as the "house flag" for your business. Once chosen, it cannot be run up and hauled down at will. Figuratively speaking, your colors should be nailed to the mast for bitter or better throughout the life of your business. Choose them carefully. Test them thoroughly. But once they are adopted for your business, stay with them and build the service personality of your organization around them.

Once your business ideal or service keynote is clearly defined, it must be put into a plan of action. It must be *designed* into your entire business operation in the form of (a) service standards, policies, and procedures; (b) sales standards, policies, and procedures; and (c) human-relations policies other than the above. It is not enough to plan the ideal. You must plan to live it. You must plan to express it by thought, word, and action in every phase of your business living. The public response depends not

so much upon the excellence of your ideal as upon how well you live up to it.

The public despises a "phoney." There is no greater term of contempt in the American language than "four-flusher" or "phoney." For this reason good public relations must be lived as well as planned.

Proof in action rather than splash and ballyhoo are the watchwords of good public relations over a long period of time. The circus type belongs to the circus, which is here today and gone tomorrow.

Public relations for business should be nine-tenths good policies, good practices (i.e., good *action*), and one-tenth conservative *understatements* of policies and practices. Any pointing with pride or praise to be given should be testimonial *proof* of the business's good works by people who benefit. Unsolicited praise by employees, by stockholders, by suppliers, by customers, and other outsiders does more to build business reputation and fine public relations than any amount of self-laudatory and highly speculative "news" releases and stunts.

There is no harm in, and frequently there are amazing results to be had from, business showmanship frankly labeled as such. But showmanship is essentially a short-term sales *tactic* rather than a long-term business strategy.

The basic planning of public relations, then, entails the creation of an ideal, activating it in guiding standards and policies, and planning the communication of it to the public. Communicating it to the public includes any and all effects of your business upon *people*. The size of the business, its physical design, its ideal, its policies, its personnel, its actions, its product or service, its reputation, its story, its social value, its advertising and sales methods, its public-relations methods—each has an ef-

fect upon people. Whether the overall effect is that of a crazy quilt or streamlined beauty in action depends upon the headwork and planning applied to your public-relations program.

If people see and feel about your business as you want them to see it and feel about it, your public relations are of the very best. If not, there is room for improvement.

Assuming that your service ideal is good, that your personnel has been indoctrinated with it, and that it has been formed into basic policies, designed into physical appearance, and filtered into the atmosphere of your establishment, how else is it to be communicated to the public? What other tools and methods of communication are used?

The answer lies in every means of idea communication known to mankind. The problem is one of choice. Choice depends upon the idea to be transmitted and the people you desire to reach. You do not sell diamonds through a circus handbill, or a circus by means of an engraved announcement. Scientific papers on laminar flow or supersonic speeds do not find their way into women's pages of the daily newspaper, nor are hints on home cooking found in the *Journal of the Aeronautical Sciences*. Public-relations media should be selected as carefully as advertising media for audience value, prestige value, and the natural balance between the service value of your message to the reader and the good-will value to you of having him or her read it.

Many businesses fall down in their public relations through overzealous and underplanned attempts to boost their "clipping returns." Stories are sent out in wholesale lots to newspapers, magazines, trade papers, and radio stations. Returns are judged by quantity rather than by

measured effect upon a selected audience. The value (if any) of an entire press book of "boilerplate" clippings can be undone overnight by news of a strike or walkout, flashed over the country by the Associated Press or the United Press.

Public-relations media used by small business include newspapers, radio, magazines, and trade papers; community welfare work; political, religious, and fraternal activity; public speeches; trade and professional meetings; and educational exhibits and demonstrations. Personal time and effort spent to maintain good relations with labor and government should also be included.

There are many understandable differences between the public-relations methods and activities of large business and those of small business. The activities of a large business must be multiplied either mechanically or through representatives. Either way, a great deal of highly important personal touch is lost in the process. On the other hand, small business has the advantage of being able to "hand tailor" single programs for a given locality. Not only is better supervision possible, but there is also the ever-present personal touch of having the proprietor carry through many activities as the personal representative of his own firm.

One disadvantage of small-business public relations is the "community effect" upon the size and scope of its program. People expect more aggressive public relations activity from large business than they will tolerate from small business. The small-business man who copies the successful promotion displayed by a nationally known firm runs the risk of being accused of "overblowing" his own horn. Particularly is this true in certain localities where new businesses are considered "newcomers" for

as many as twenty-five or thirty years. Wherever you find a highly conservative *status quo*, you may expect to put in a long period of satisfactory service before winning community acceptance for your business. Nor can you hasten it by giving the impression of being *overeager* to serve. In many communities, overeagerness to serve is regarded with a certain degree of suspicion, if not contempt.

You need only to go back to the idea of making friends to see why. Making a real friend is a two-way proposition. You extend an offer of friendship up to a certain point. The other person meets you there with his or her offer, and friendship results. That point is set by good taste and community custom. The latter varies widely. For example, people in New England and in certain portions of the South and Southeast tend to be far more reserved on this point than people in the Midwest, Southwest, and Far West.

Determining how far to go in your efforts to win friends is highly important to your success in small-business public relations. Naturally you should avoid being snobbish or indifferent. On the other hand, it is poor policy to be servile, in the fashion of an adoring spaniel pup! A safe compromise is a point somewhere between the dictates of your own inclination and good taste, and the limits imposed by custom in your locality or community.

One of the first rules to remember about the use of newspapers, radio, trade journals, and other types of public-relations media is to know each medium and its requirements. Most local newspapers give local business firms occasional write-ups from the standpoint of business news. Arrival of new products, new lines of merchandise, plant or store improvements, changes of address,

and so on, are featured in local news and shopping columns. Such items form only a small part of actual news or reader-service requirements of the newspaper. Yet all too often small-business men make the mistake of trying to force the local paper to use more factual but uninteresting news about their businesses than the paper can use—more than the readers will take. Newspapers hate to say “no,” especially to advertisers, but their need for this type of copy is very limited. Repeated attempts to get them to print material which is not wanted or needed is not public relations. It is out-and-out solicitation of free publicity. The two are poles apart in ethics and methods and in their value to business and society.

The chief aim of free publicity is to get space, regardless of service to readers. The aim of public relations is to interest and serve readers, regardless of space or position obtained. The first often runs counter to the interests and desires of editors and their audience. The second parallels and serves their interests and requirements. The second makes business sense. After all, you might think twice before addressing a public audience if you had no advance warning of what you should talk about. You would be interested in knowing what the audience required of you, rather than in what you required of the audience.

The same holds true in your selection and use of public-relations media. Find out what the reader or listener wants from you, and give it to him. People want information, news, help, and entertainment. Editors and station managers hold their jobs on their ability to fulfill these desires day after day. If you can help them with reader or listener service features, you will find them ready and willing to co-operate.

Another point worth mentioning is that public news and communications service people are of the anonymous type. We know and like our favorite newspapers and radio stations. We take for granted their excellent editorials, news coverage, make-up, programs, features, printing, distribution and the frequent near-miracles of human effort which go into special editions and "extras" on major news breaks. But think how little we know about the people who do the job. Our point here is that, in your daily business relations, there is often opportunity to reverse the publicity scheme and to win recognition for the anonymous men and women in news and radio fields whose work is so often an outstanding service to the community.

Membership in local clubs, business, welfare, religious, and fraternal organizations plays a larger part in the public relations of small business than in that of large business, for obvious reasons. The small-business man is the number one public-relations representative of his business. His personal and social contacts and activities constitute an important part of his public-relations work, whether he plans them that way or not. Business and personal reputations are closely related, at least until your reputation as a business success is firmly established.

The good will of employees and their voluntary missionary efforts, in turn, to win the good will of the general public are powerful factors in good public-relations work. Again small business has the advantage over large business in winning the help of employees, for several reasons. First, employee relations are personal relations with the owner-manager. Better morale and teamwork are more easily achieved. Members of an outstanding personnel team like to talk about a job well done. The act of talking

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about a job well done, coupled with personal endorsement of the service aims of the team, is a logical and natural way to spread the employees' own morale and good will to the general public. Second, the small business can encourage such natural boosting from its close-knit employee team with greater safety than can the large firm whose employee relations must be a department job because of the size of the organization. Loss of personal touch with employees, added to the variable of union influence, often prevents large companies from availing themselves of this helping power of employee good will.

As long as your employees know you, and like the job that you and they are doing together, they can do valuable public-relations work on the outside, as well as good customer-relations work as part of their daily jobs.

In summary then, the ten commandments of good public relations for small business are as follows:

1. Declare your service idea or ideal. Let it combine fact and promise. Think of it as an individual and distinctive label for your business.
2. Choose the best wording by test. Try several proposed versions on an impartial jury of friends and acquaintances.
3. Once chosen, stay with it.
4. Make it the key idea of your service standards, business policies, operating methods, and procedures.
5. Design it into the physical appearance and atmosphere of your business establishment.
6. Indoctrinate your personnel with it. They should know it, understand it, and be shown how it is part of your guiding policy.
7. Plan your theme, live your theme, project your theme to the public. Give it to them as information, as news, as help, as entertainment.

8. Keep your public relations activities on a strict basis of honest and real service to people, not as schemes to promote free advertising for your business.

9. Measure your activities in terms of reader or listener interest. Are they in good taste, interesting, informative, helpful, entertaining, truthful, authoritative, and based upon fact?

10. Be your own best public-relations representative, and encourage your employees to consider themselves the personal representatives of your business to the public. People like to hear employees speak well of you, but the commendation must be voluntary and honestly deserved.

If these steps are carefully planned and carefully carried out in your public-relations program, the results in public good will should be highly beneficial to your business. However, the results of your public-relations work should be carefully and constantly checked. The Gallup Poll tests and checks public opinion on many different subjects day in and day out, over the entire nation. A few intimate and impartial friends can do the same for you by keeping their eyes and ears open in your behalf. Community opinion usually is short, simple, and definite. You will find that friends, customers, and even outsiders will be able to give you a fairly clear picture of public attitude toward you and your business.

If it is good, be thankful. If it is not, be doubly thankful—for the information! Learn from mistakes, and plan action to correct them. In this way you will acquire a practical skill in public relations which will serve you well in your business career.

GOVERNMENT AND TAXES

FOR the past twenty years you have heard much about the high cost of uncertainty in business and government relations. You may have wondered why businessmen should make so much of the uncertainty involved in increased government control, when the uncertainties of normal competitive enterprise loom so large in comparison.

The answer lies in the fact that for nearly a generation more and more government regulation of business has been carried on by rule of men rather than by rule of law. Under the rule of law, coercive powers are defined and bound by fixed rules which must be observed by the government as well as the governed. As a result persons subject to the law know exactly where they stand, and can plan accordingly. Under rule by men, blanket authority or power is given to government administrators or directors. Their decisions, directives, and rulings have the power and authority of law with none of the responsibility of democratic law-making.

The primary effect upon small business of rule by men and the resultant stream of directives and decrees has been one of uncertainty and complication. Modern business like modern farming has increased in complexity to a point where a high degree of ability and training is required to succeed. Small business is quite complicated enough without adding to it these daily changes in rules

and regulations. Complexity and red tape can paralyze a small business just as effectively as it can the constructive government and legislative processes in Washington.

Thus an important part of your preliminary planning should be given to making up an outline of federal, state, and local laws, regulations, directives, and ordinances which apply to your business.

The best source of such a check list is your own lawyer. He should be able to write up a simple digest to serve as a legal guide in organization and management planning. He should list those things which you must do in order to comply with social security, federal old-age and state unemployment insurance, tax laws, and fair-trade laws, as well as health and safety laws for your employees and various local ordinances.

The fact that paper work necessary to government regulation and control of business has doubled and redoubled in the past ten years has caused a great deal of worry and negative emotional thinking among businessmen. This may be due to the threat of more red tape to come rather than to the size of the present load. Aside from questionnaires, directives, and surveys, most government paper work can be simplified and organized to take far less time than is commonly believed. Tax and social-security records can be made a simple extension of normal business records. Businesses in which tax records cause the greatest hardship usually are those whose managers are *not* keeping minimum-essential records in the first place.

If you will have the necessary tax records set up as part of your bookkeeping and pay-roll record system, and operate them as part of your books, government paper work will be lessened accordingly.

For example, under the Federal Social Security Act you must keep a complete record of salary or wages paid to each employee. Treasury Department forms require names of employees, social-security numbers, occupations, wage rates, pay-roll period, regular and excess earnings, deductions for income tax, social-security tax, unemployment tax, and group insurance, if any. Also required are net amounts paid to employees, amount of taxable earnings, and amount of tax withheld from earnings. In addition you must furnish each employee with a statement of wages paid him or her during the year.

Most business concerns pay twice a month by check. Today most pay checks are statements as well as checks. They list gross earnings and itemize all deductions on a section of the check which can be detached and retained by the employee. Quarterly, semiannual, or annual statements of earnings and deductions are made up from your records of the data on each pay check.

You can see how much calculation has been added to the make-up of a business pay roll. The day has passed when a small-business man can dig into his pocket each Saturday night and hand his employees their pay for the week in cash.

However, a small-business man does not have to calculate his pay-roll and tax deductions for each employee "by hand," so to speak. There are several pay-roll and tax calculators on the market which save an enormous amount of time and paper work by doing the job for you. These are precomputed tables, based upon different hourly rates. If you pay James Smith 80 cents per hour for a 36-hour week, you simply scan the 80-cent-per-hour column down to 36 hours and read off the amount of his pay check. In another section the various tax deductions

for that amount are given. Provision is also made for figuring overtime.

Pay-roll and tax calculators for the average small business cost about fifteen dollars. You will find that they pay for themselves in less than a month of use.

The three different tax deductions which you will be required to make from employees' pay checks are (a) social security, the federal government old-age retirement plan, (b) part or all of the federal income tax, under the pay-as-you-go plan, and in some states (c) state unemployment insurance, provisions of which vary according to state laws.

Other taxes which may or may not pertain to your business include sales and excise taxes, occupational-license taxes, property and real-estate taxes, as well as your own federal and state income taxes.

In addition to acquiring an outline of laws and regulations which apply to your business, you should plan to devote a definite part of your time and money to political activity. Many businessmen will disagree with such a proposal, holding that business and politics are full-time jobs, and that never the twain should meet. Others view political trends with alarm and never quite get around to doing anything about them.

In the typical American community the political and civic efforts of small-business men follow a familiar pattern. Nine out of ten avoid spare-time volunteer activity as they would the plague. The few who do volunteer are often labeled "do-gooders" and "crackpots." They are promptly overloaded with work and given little appreciation and no co-operation. Naturally there is every incentive to "get out from under" as soon as possible.

This habit of political inertia is a carryover from the

late nineteenth and early twentieth centuries. During this period the American people were so busy building and expanding a free economy that with the exception of election periods little thought and effort were given to business participation in politics and government. "Least government is best government" was the order of the day.

However, the political and social changes in the United States during the past two decades have brought new problems and responsibilities to all of us, and more especially to small-business men. We are faced with the choice of active, intelligent participation in our nation's affairs or the possible loss of our business economy to some form of corporate statism.

In order for us to meet our responsibilities and to plan a constructive program of better relations between small business and government, we should try to understand some of the reasons for present trends—not the negative emotional fears but simple arithmetical facts.

Let us begin with the dollars-and-cents relationship between Capital, Labor, Management, Government, and the Consumer. Take for example the building of an automobile. Capital must supply the tools and material. Labor must assemble the car. Management must organize the process so that Capital earns a surplus upon its investment, Labor earns a surplus beyond its cost of living, and the Consumer gets a surplus each year in the form of a better car at a lower price. Government collects its surplus in the form of taxes from Capital, Labor, Management, and the Consumer alike. The vital element which makes possible greater surpluses and at the same time a better car for less money is technological improvement in production and product.

Obviously this dollars-and-cents relationship between

Capital, Labor, Management, Government, and the Consumer, must be a partnership which is mutually profitable to each partner. As a partnership it is so complex and its profit equilibrium is so delicate that the moment it becomes a Kilkenny cat fight, everybody loses.

If Capital manipulates for more than its normal share, the capital position of business weakens and the value of its product decreases. If Management and Labor agree to boost wages and prices too high, the Consumer walks out. If Government takes too much in taxes, or the Consumer gets too much car for too little money, Business's productive efficiency, capital structure, and product value deteriorate accordingly. If any of the partners are short-changed for any reason, they react as follows: Capital goes into government bonds; Labor loses its production efficiency and its capacity as a consumer; Management looks for a better job; Government increases the national debt; and the Consumer stops buying.

The point is that technological advance in the United States permits a known rate at which we can *earn* more and more for less and less. Any attempt by one or more of the partners in American economic enterprise to exact more than its share of technological economic progress is simple, applied piracy. Economic groups geared for war rather than for productive partnership can easily cancel out technological advance and destroy economic growth.

Most of our present difficulties stem from the old human trait of wanting something for nothing. We have watched the rapid growth of econo-political pressure groups formed for the purpose of promoting something for nothing or preventing the opposition from getting something for nothing.

American small-business men can do yeoman service to the Congress and to the nation by working against any attempts to promote something for nothing, regardless of the pressure group involved, or the effectiveness of its propaganda. Also we must do everything within our power to create a new dollars-and-cents harmony among the partners of our productive business economy, based upon intelligent self-interest and American team play.

Our political aim might well be to re-establish the rate of normal business growth in the United States. With the exception of war expansion, American business growth has been stunted for nearly twenty years. Our economic machine, which produces new jobs and opportunity for *earned* prosperity, has been operated at less than one-third of its capacity since 1930. At that time the partners in our productive economy had their first serious falling out. Capital (in terms of people with too much money following a period of prosperity) had overreached itself in an attempt to get something for nothing. It inflated security values (cost of ownership) in American business to the bursting point. Its something-for-nothing share depended upon inflationary manipulation rather than the normal earnings of business. In the depression that followed Government swiftly took advantage of the people's indignation and, with the promise of something for nothing to the little man, won the power to increase its control over business, and at the same time to increase taxes and the public debt. Labor also was organized as a gigantic econo-political pressure group, determined to fight for a larger share of a shrinking economy.

Thus at the beginning of the war we found the partners in free enterprise at loggerheads and better organized to fight one another than against the Axis or for a

more abundant life! In relative social strength, Government stood first, with Labor a close second, and Capital, Management, and the Consumer practically out of the running.

The war reunited the partners in the greatest production effort of all time. Capital, Labor, Management, Government, and the Consumer overtook and outproduced the Axis on every front. And while all was far from quiet on the home front, the record speaks for itself.

As this is written postwar strikes are in full swing, yet the future looks promising for an even greater period of earned prosperity. For the first time in almost a generation Americans are thinking in terms of new business opportunity rather than *status-quo* security. That is why each of us who can owes it to America to start a small business—to start it right—and make it pay. If we will keep our eyes on the American birthright of opportunity and continue to build a bigger and better economy, future security will take care of itself.

Our economy is an example of what can be done when millions of free men and women are permitted to work out their own destiny, each in his or her own way. The results in terms of material wealth and human benefit have been unsurpassed. The results in terms of native intelligence, hardihood, ingenuity, initiative, and self-reliance have been no less remarkable. It seems to the writer that our most vital task is to reconcile these merits of a business democracy with the increasing measures of government control over business. Our job is to retain these constructive and productive virtues, and at the same time to safeguard the public interest. Equally, we bear a moral obligation not to sacrifice any freedom of action which the public interest does not require.

This is really the crux of the matter, but negative emotional thinking often obscures it. No intelligent businessman desires to eliminate the antitrust laws, the Federal Reserve System, the Federal Trade Commission, the Securities and Exchange Commission, and many other instruments and agencies which operate by rule of law. But controls and directives which risk making government a super agency of business management and thereby jeopardize the constructive virtues enumerated above are not of a piece with "public interest."

Unless we are prepared to accept state socialism, freedom within the limits of socially necessary safeguards must be allowed to business enterprise, and particularly to small business. The corner grocer has a job to do which Government, staffed with even the best of retail merchandisers, cannot duplicate. Protected from unfair trade practices and from excessive regulation, he will do it. And in doing it, he will contribute his measure to a stronger, more productive economy and security which is the goal of the American people.

Americans in Government are beginning to realize that new business must be planted and cultivated to support and replenish our national economy. It is no longer a crime to make an honest dollar, especially if a new job is created in the making. Once again it has taken a war to demonstrate that whenever there is a job of unlimited expansion and production to be done, pride and self-interest are our motives, while good-neighbor teamwork and fair play are without exception the most practical and efficient methods.

The healing process has begun. It will be up to businessmen to see that it is continued. Remember that American business in the past decade has reaped the ef-

facts of more than a century of bad public relations with the American people.

Government represents people and public opinion. Government cannot go one step farther in regulation and control than public opinion allows. The fact that it has been allowed to go as far as it has is a challenge to public-relations-minded American businessmen.

We do a magnificent selling job on goods and services. But what of our *social salesmanship*? What of our educational responsibilities to the American people? Do we show them the connection between new business and new jobs? Do we teach them the "how's" and "why's" of purchasing power? Do we prove the case for free enterprise? Do we offer specific plans for economic development? Do we educate them in how to make an American business economy do a bigger and better job?

We do not. American business could afford, and might well consider a hundred-million-dollar educational program to clear up false concepts and lack of understanding of its place in American life. Government states its case. Labor states its case. But on the whole Business continues long on commercial salesmanship and short on social salesmanship.

In the preceding chapter public relations was defined as "how to win friends and influence people." What better way is there to make a friend and influence a person than to show him or her how to get and hold a better job? Labor offers its people better wages and working hours. Government offers people the promise of security. Actually *neither in itself has the power to supply these elements.*

Labor and Government have taken over the *strongest selling points* of business democracy and used them to

gain more and more control over it. And we businessmen have abdicated our rights to these powerful arguments and let the battle for public support and approval go by default!

As a result there are those in Labor and Government who believe that they *can* take over the functions of free enterprise and do a better job of it. Moreover, they have won some of our people over to their way of thinking. They will win more, unless American businessmen wake up and show the people that better jobs, shorter hours, and more security result from the growth and expansion of productive enterprise and not something-for-nothing socialism. The tail has wagged the dog long enough.

There are many ways to improve teamwork between Government and Business. Here are twelve suggestions for the small-business man.

1. Learn the laws and ordinances which apply to your business.

2. Get acquainted with the government people with whom you will have to deal.

3. Make tax records and paper work a regular part of your bookkeeping system, to save time and improve efficiency.

4. Correspond with your representative or senator occasionally *when you have nothing to sell*. Commend him for constructive effort. Report honestly the opinion in your community.

5. Never write "canned" letters condemning a bill. Write your own opinion and support it with facts.

6. Help to organize the political voice of small business in your community.

7. Organize a modest public-relations program for small business in your community. Preach the gospel of better jobs, more security through business enterprise and a free economy. Let your congressmen know about your efforts.

8. Use the various government aids to small business. Thank them promptly for services received.

9. Offer your congressmen practical support and group suggestions for simplifying business regulations. They are a hard-working lot. They do not know all the answers. Most of them will tell you that the only time they hear from constituents is when something is wanted, or something is disliked.

10. A small-business group can render public service to the community by compiling digests of proposed legislation and sampling public opinion on them. Charts, maps, and diagrams are prepared by businessmen and often carried by the local newspapers together with the pros and cons of public opinion.

11. Small business can publicize good work of elected representatives, as well as its reasons for opposing bills up for a vote.

12. Last, but not least, be patient in your relations with government. There is an uptrend in teamwork. Relations are improving. Let us work to keep them that way. Remember that better teamwork between Government and Business begins with the grass roots of public support and approval of business. Our main job is to make friends and influence *people*. Productive enterprise has the one and only genuine and original guaranteed offer of new jobs and security for more people. It is true. It is believable. It can be proved beyond question.

We must begin to tell and sell our story before it is too late.

BUSINESS THINKING

THE day has passed when the average American small-business man can concentrate on running his affairs with little or no thought to economic and political trends which threaten the very existence of free enterprise. These trends are due in large measure to (a) modern mankind's growing belief in the proposition that it is possible to get something for nothing, and (b) the increasing tendency of the average man to sell personal and political freedom for a mere promissory note of economic security. At this point we should examine some of the economic threats to our American business democracy and see whether they do not suggest lines of positive counterattack on our part.

Mass production and distribution—in other words, modern business economy—is a new development in the history of the human race. While it has cut the average American's working hours to less than half and has raised his real wages, or purchasing power, more than 400 per cent in less than a century, still there remain serious faults to be corrected. These faults grow out of the fact that modern business economy requires a high level of intelligent and enlightened self-interest on the part of the human beings who participate in it. The good-neighbor policy of live-and-let-live is basic to its sound operation and growth. The good-neighbor, live-and-let-live thought patterns and policies of pioneer America were responsible for its phenomenal growth in this country.

On the other hand, nothing slows or impairs the operation of modern business economy more quickly than mass fear and restrictive thought patterns of dog-eat-dog and "the devil take the hindmost." Once the people who participate in the economy stop working for an increased share in an *expanding* economy and start manipulating for a bigger share of a static or *shrinking* economy, the machine slows or stops. Depression and decay set in.

In other words, the chief flaw in our free economy is its sensitivity to the thoughts and actions of people in the mass. Prosperity and depression cycles in American economic life are in large measure the mass mental ups and downs of the American people.

On the upswing, hard work, confidence, and initiative lose their momentum as times get better. We settle into a slowdown of effort and efficiency, living on the fat of the land, so to speak. Then comes a dramatic break in confidence, usually in the stock market. Everybody retrenches, or slows his participation in our economy. The strength of securities and other negotiable paper, whose value is in large measure set by mass confidence, begins to evaporate. Normal business slows, and profits begin to vanish.

Then follows the depression, in which deadwood and inefficient operations are eliminated or reorganized. People settle down again to hard work and the exercise of initiative and determination. Fear is replaced by positive thought and productive activity, and a new upswing is started.

As the nation's businessmen, we have two chief responsibilities: (1) to level off, or minimize, the peaks and valleys of our prosperity-depression cycles, and (2) to generate purchasing power, to broaden its distribution,

and to protect the national economy against the inflation and evaporation of purchasing power which can and does take place in the mass mind of "we the people!"

Our job of leveling peaks and valleys of prosperity-depression cycles lies in a positive program of education. Science nullifies the harmful effects of many physical and mental ups and downs (cycles) in human experience through education and the elimination of fear. Cyclical extremes are leveled by understanding. Our task is to understand their causes, perfect our methods of forecasting them, give the American people frequent and accurate reports of the economic-mental state of the nation, and enlist their co-operation in combating boom-or-bust trends before they get out of hand.

The American people will work hard, and work together, for any clearly defined and desirable objective. The national record in two wars has shown that beyond question. In each instance pride and self-interest were their driving motives; but the impossible in production and transportation for the fighting fronts was achieved by democratic teamwork. The same voluntary unity of effort, the same pioneer spirit of co-operation which resulted in the American tradition of live-and-let-live, can achieve security in a free and growing economy, if the "how's" and "why's" are clearly shown and understood.

It is in the generation, distribution, and protection of purchasing power that American business has made its most expensive mistakes. These have been far from deliberate and cannot be blamed upon base motives or wrong intentions, for business enterprise is its own biggest casualty. No businessman *wants* the life expectancy of his enterprise to average only sixty-six months! Such mistakes have been made through lack of know-how,

through inexperience in mass distribution, and through misunderstanding of purchasing power and its related laws of pricing and profit.

Many businessmen still believe that as long as there is profit in a transaction, somebody must gain it and somebody else must lose it, *in the same proportion!* If this were true, we would still be calling one another Ug and Lug back in the Stone Age. Man's progress has been measured by the increase of his profit, or surplus of time, goods, and money over his Stone Age subsistence level.

The first law of equity in distribution is that every transaction must be profitable to producer, distributor, and consumer alike. Conversely, if any party to a transaction loses, all parties lose. The economic effect of such loss boomerangs on the temporary "gainer" via depressions, heavier taxes, job losses, and general inactivity.

Applied to the problem of purchasing power, the law of equitable distribution might be restated as follows: Every product or service must generate purchasing power equal to its economically correct price. And the purchasing power generated must be divided and distributed as a series of lesser costs or prices, each of which is economically correct.

Economically correct prices or price components (costs) are those necessary to perpetuate a business or a national economy. They can be determined with mathematical precision by the use of price-engineering methods.

We must realize that every cent charged for a properly priced product or service represents *human cost*, paid to people throughout the entire process of production and distribution. Human cost is purchasing power. Therefore, each product or service *generates* purchasing power equal to its final selling price.

If this final selling price is inadequate to cover the human cost of production and distribution, somebody loses, and our economy as a whole suffers the loss of purchasing power equal to the difference between the actual selling price and the economically *correct* selling price. This loss results in lower wages and salaries to labor, loss of earnings to stockholders, and a halt in the normal improvement of product or service, i.e., retrenchment and retrogression. It invites unequal and unfair distribution of purchasing power. Labor, management, and stockholders each try to minimize losses in purchasing power at the expense of one another.

Such dog-eat-dog tactics are not confined to periods of economic retrogression. But the writer believes that business done at a loss, with the subsequent fear of insecurity, is the chief cause of economic-political pressure groups and the perennial armed truce between our economic partners Labor, Capital, Management, Consumer, and Government.

In many ways we are like a group of inexperienced men trying to operate a turbine of unlimited output. Our group income depends upon the horsepower which we as a group can make it produce. Right now, because of lack of knowledge, understanding, and teamwork, our turbine is operating at only a fraction of its capacity and the group income is not satisfactory. Instead of working together in a concerted attack upon the problem of increasing the output of our machine (and with it our own pay roll), we are too busy fighting one another to work at all. We are far more concerned with obtaining a larger share of a shrinking group income at the expense of other members of our economic team. At the same time we bitterly criticize the machine for a limited output. We

glibly diagnose its trouble as overproduction and underconsumption and let it go at that.

We worry and fret about our ability to produce more than we can consume, a premise which simply is not true. The fault lies not in our economic system but in ourselves. We have yet to apply elemental principles of price engineering to problems of distribution and purchasing power.

Business history proves that the scientifically correct price can be obtained for worthy and needed goods and services when that correct price is known. Likewise, no sane person continues to transact business at a loss, unless through hypnotic fear of competition, or wishful thinking about volume expectancy, or a wrong estimation of what his right price must be. Business studies show that the wrong estimate of the right price is the chief cause of underpriced goods and services.

We can increase and protect purchasing power (a) by political action to establish fair price minima, thus eliminating ignorant or willful price chisellers; (b) by demanding the right price for our own goods and services and paying correct and adequate prices for the goods and services we buy; and (c) by educating the public on the vital importance of generating and distributing national purchasing power at full instead of 60 per cent of capacity.

We must realize that "I can get it for you wholesale" really means "I can get it for you at a discount which you will more than make up for later in high taxes, loss of your job, and depression!"

Once the American people understand the connection between buying at loss prices and the concomitants of depression and lost jobs, they will have started a new economic era of unlimited production and distribution.

Those who participate in it will be motivated by intelligent self-interest and understanding. Their well-being will be achieved by a practical and successful application of those good-neighbor policies of live-and-let-live which have served America so well for so long. Such policies and methods of democratic teamwork and fair play will enjoy new standing and prestige. In fact, they will be accepted as rules in a new and better business economy.

If anyone asks you, "Why should I pay the full, profitable price for something I can get at half-price?" ask him three questions: (1) How many jobs has he lost because of depressions? (2) How much extra in taxes has he paid during depressions? (3) Is he willing to take a 50 per cent cut in salary or wage rate for the privilege of buying things at half price?

A bargain which buys the other fellow out of a job is no bargain at all. It is a boomerang—an economic boomerang!

If we insist upon throwing such boomerangs, by making every purchase a cut-price or loss-price transaction, we have no reason or right to complain if we are hit by our own throws! We simply cannot buy the other fellow out of a job without eventually losing our own or supporting him on relief.

Economically, there is no such thing as a cut price or bargain. Your purchase price in such a transaction represents merely a *down payment!* Sooner or later you pay the difference in higher taxes, wage or salary cuts (decrease in your own purchasing power), or loss of your job or business.

There is no theory here. There is nothing more radical than business-engineering facts, which show that the health of our national economy is dependent on the

health of all its parts. Prosperity declines when business is done at a loss; depression is the inevitable aftermath. And the chief cause of business done at a loss in the American fetish of low consumer prices, which has resulted in shortsighted, dog-eat-dog buying habits and a boomerang economy! For example:

Suppose you are a shoemaker, and I a hat-maker. I buy your shoes, and you buy my hat. Each of us charges the other ten dollars (ten dollars for the shoes and ten dollars for the hat). Each of us nets a two-dollar profit on the exchange. But as customers or consumers we also gain or profit from the exchange, to the extent that you need and will get good wear from my hat, and I need and will get good wear or value from your shoes.

Each now enjoys the other man's product. Each of us has collected his cost of material, labor, overhead, depreciation, and distribution. In addition, each has a needed profit surplus with which to pay taxes, dividends, and a bit left over to buy new equipment and product improvement. Next year we will be able to make either a *better* shoe or hat for ten dollars, or the same quality shoe or hat for less than ten dollars, even though we collect our correct and necessary earned profit. That is the good-neighbor method of creating and dividing foods, services, and wealth (or the scientifically correct process for the generation and equitable distribution of purchasing power).

If, however, through shortsightedness or lack of understanding, we exchange our ten-dollar shoes and hat for *seven* dollars, what happens? Each has what he considers a real bargain. It is the bargain exchange which boomerangs into poverty and economic decline. Now how is that possible?

We have exchanged our goods, but we have neither generated nor distributed the purchasing power *required to prevent depression and decline!* Each fails to collect his rightful, earned surplus with which to fulfill tax and dividend obligations. Both fail to collect earnings with which to buy new equipment and improve the product. Hence we fail our customer obligations.

By means of our bargain exchange of products for seven dollars, we *give away* profit surplus equal to two dollars. This is two dollars' worth of our right to grow, our obligation to increase wages by improved equipment and greater output per man-hour of labor, and our duty to create better customer value. But we go a step farther and lose or give away a third dollar's worth, not of surplus, but of *producing assets!*

Certainly I cannot use, and do not want, a dollar's worth of your shoemaking machinery, nor you a dollar's worth of my hat-making machinery. It just does not make sense. Yet, before the war 40 per cent of us kept right on doing business this way year after year!

We bought and sold at prices which could only result in lower wages, worse materials, smaller customer value, business failure, and retrenchment equal to the exact difference between the loss price and the economically correct price of business done at a loss.

In the so-called recovery years of the early nineteen thirties, production nearly equaled that of the relatively prosperous twenties, yet the volume of American business done at a loss more than doubled. Nearly 40 per cent of business by volume was so handled, and about two out of five concerns sacrificed their right to grow, to pay better wages, and to create better customer values each year. The records show that these firms gave away plants,

equipment, pay rolls, and other producing assets at the rate of *one dollar's worth* for every *ten dollars' worth* of business transacted.

In 1937 a comparison of ratios of employment to production for 1928 and 1937 showed the following "lag" in employment in 1937: manufacturing, down 9 per cent; service industries, down 7 per cent; trade and finance, down 12 per cent; transportation, down 30 per cent; public utilities, down 30 per cent; construction, down 70 per cent; mining, down 50 per cent. Total unemployment was between eight and nine million, whereas, according to comparisons with 1928, it should have been one million or less. The big question at the time was, Why all this unemployment in comparison to 1928, when total production held up to approximately the same level? The answer was both simple and fairly obvious.

Technological advances, financed by surplus earnings and new-venture capital, have increased the output per worker (and with it the purchasing power of his hourly real wage) an average 2 per cent per *year* over the past hundred years. Thus the normal expectancy for the nine years between 1928 and 1937 was 18 per cent more production for the same man-hours, or approximately 18 per cent *fewer* man-hours for the *same* level of production.

But surplus earnings and venture capital do more than merely finance technological improvement. They finance new and increased production, which in turn generates more purchasing power for wider markets and consumption. This means that they find new and better jobs for people displaced by technological advance in old industries and absorb new employees produced by the growth in population.

Now let us go back to 1937 and see what really hap-

pened. To begin with, the capital investment per employee, for the first time in one hundred years, registered an alarming drop of nearly 10 per cent for the period 1929-37. The policy of tax-and-tax and spend-and-spend merrily taxed and spent the seed corn of economic growth right along with purchasing power drawn from every other possible source.

Technological development continued because it was and is the safest protection during depression against competition. But capital for new production, new growth, and new markets was, for all practical purposes, totally eliminated from American economic life.

Thus the problem of unemployment in 1937 included (1) 18 per cent fewer man-hours required for the same production as in 1928; (2) an *increase* in labor man-hours per week (*also for the first time in one hundred years*), which meant that fewer people were putting in the total man-hours; (3) which in turn released more people for new enterprise or unemployment; and (4) as government tax policies eliminated venture capital and raised the mortality risks of new enterprise, the result simply had to be continued unemployment. This is not theory. It is plain arithmetic. Why, then, should our government find it necessary to start a policy of tax-and-tax and spend-and-spend? Why did it need so much money at such a low rate of interest that it must drive savings and surpluses out of investment markets into government securities? The answer is, Largely to support the casualties of sick business! Government tax policies did not start unemployment. They merely made it permanent. We Americans loafed, speculated, and bought our way into the depression.

World War I put us into high gear of production and

expansion and resulted in the generation of tremendous purchasing power. We became lazy, complacent, and overconfident; we began doing too much business at a loss, buying the other fellow out of a job. Nobody cared, for always there were new jobs, new capital, new enterprise; that is, until one morning everyone awoke to the fact that maybe there *is* a limit. Maybe this is *it*.

And it was!

The point is that prosperity varies inversely with the amount of business done at a loss, regardless of *why* it is done at a loss. Goods and services exchanged at cut prices or loss prices destroy national purchasing power equal to the exact difference between their loss price and their economically correct price.

A year in which 40 per cent of American business is transacted at a loss destroys more purchasing power than the cost of World War I. When two out of five producing concerns start giving away or wiping out producing assets, the destruction is far greater than was caused by the Japs at Pearl Harbor, Guam, Wake, or the Philippines. Such a wiping-out process throws seven to ten million people on relief, destroys their jobs, short-rations their children, liquidates their abilities, destroys their faith in themselves, their country, and their free economy. Done by an outsider by force of arms, such a thing would in effect amount to total conquest. Done by ourselves through shortsightedness and lack of understanding, it is, to say the least, an economic disgrace.

Thus we have a true and appalling picture of healthy business (actually in the minority) putting people to work, while the sick majority is forced to cut wages or throw employees on relief faster than the healthy minority or even government agencies can handle them. Moreover,

it becomes obvious that government costs of unemployment relief are a measurable part of surplus earnings (purchasing power) which sick business has failed to collect (generate). As taxes, these uncollected earnings and wages are loaded upon the peoples and products of healthy business to support the jobless casualties of sick business competitors, who (together with all of us who buy at loss prices) are responsible for the whole mess!

Nor is that all.

This tax-and-tax and spend-and-spend policy by government forces the costs and prices of the healthy business to a higher level. And to top it, the manager of a healthy business must sell his goods or services in harder times (caused by sick business and cut-price consumer) to poorer people, in direct competition with, and in a market shrunk by, the very cut-rate, bankrupt, loss-price goods or services which *cause* sick business, and whose poison both business and government try desperately to combat!

Thus our job in perfecting and maintaining a democratic business system of unlimited production and distribution in the United States involves three vital responsibilities: (1) to educate ourselves and our customers in the ups and downs of minds and emotions in the mass which cause prosperity-depression cycles; (2) to educate ourselves and our customers in the vital necessity of generating and distributing adequate and correct purchasing power in every business transaction (and practice what we preach!); (3) to educate ourselves and our customers in Congress on the above two points, plus the catastrophic effect of a continued downward trend in the amount of invested capital per employee. Remember, the 2 per cent per year increase in output per employee

is going on and on. Venture capital and business incentives of a reasonable expectancy of surplus earnings for new peacetime enterprise (i.e., the components of business growth) were nearly twenty years behind schedule at the end of the war.

Not counting technological advances during the war, if output per employee shows an increase at the normal rate, our 1928 so-called high level of production now requires 40 per cent fewer man-hours. Had there been no war and had production remained at the 1928 level, Congress right now by simple arithmetic would have an unemployment expectancy of slightly under twenty million Americans!

Aside from the war, the investment in war plants, and a postwar upsurge in new-business development (financed mostly by earnings), government fiscal policies have blocked the investment of a minimum of sixty-five billions and a maximum of two hundred billions of dollars in new business, and the creating of thirty to fifty million new jobs between 1930 and the present. These are conservative figures based upon long-time trends. The first is an extension of the average of the nineteen twenties. The second is an extension of the 1929 high point. Had new-business investment continued without improvement at either level, sixty-five to two hundred billions of dollars more in new business and thirty to fifty million more new jobs would have been recorded in the nineteen thirties and the nineteen forties.

And so it will be up to us to prove to Congress that an oversight in policy has cut the growth rate of old and new enterprise for twenty years. But the business needs of people continue to grow and grow. Ten more years of the present policy and Congress may have fifteen million un-

employed on its hands, a dying economy, bled white by taxes and dog-eat-dog social-economic habits, and some form of corporate state will be in the offing.

As this is written, the government seems ready to take the tax brake off one hundred billions in new-investment capital. That alone will not be enough. Government must do its share towards helping to find and develop promising new enterprise to absorb it. Surplus purchasing power generated by the war will form a backlog of investment capital for years to come. If we are to avoid waste and loss of it in security markets too small to absorb it, economic rejuvenation and development must be the order of the day.

Let us consider a thought-starter toward national planning for the rebuilding and expansion of a free competitive economy.

Suppose the government co-operated with the Committee for Economic Development to help a new generation of small-business men round out training and experience necessary to succeed in small business. Once the candidate could satisfy the local committee and his local banker that he had the ability, training, experience, and at least part of the savings necessary to start his business, he could obtain a government-insured loan for the remaining capital required. The money would be lent by the bank or a local small-business investment fund. (The latter is operating in many communities.)

The effect would be to plant, like trees, thousands of hardy, young business enterprises, with chances of success heavily in their favor. Each man would earn his opportunity by study and training, by serving the necessary apprenticeship, and by saving part of the necessary capital. Each man would *pay his way* by his own initiative,

industry, and thrift. Each would pay his capital loan from tax-free earnings earmarked for debt retirement. Debt losses to banks and to the government would be very small, because candidates would be required to satisfy local businessmen and bankers of their training, ability, and experience, which the businessmen (through the local C.E.D.) would help them acquire.

How much would the government realize in new jobs for its cost in bad debts of insuring such loans? The answer is an exciting challenge.

Let us begin by figuring the cost to government of its present unemployment compensation of \$25 per week for twenty-six weeks. The cost is \$650 per year, per unemployed person.

Here is the challenge.

For \$650 Congress could help to create a minimum of fifteen and a maximum of forty brand new jobs in small business! At the cost of maintaining one man on relief it could help to put fifteen to forty men to work in productive enterprise. Now how is that possible?

Let us examine the proposition in terms of simple arithmetic.

First, it takes \$2,000 to \$2,500 capital investment to create one new job in small business.

Second, according to figures of the United States Congress Temporary National Economic Committee, bad-debt losses on Federal Reserve Bank loans to business amounted to only seven-tenths of 1 per cent. California's Bank of America reports a similar low bad-debt loss on its loans to small business. However, for the sake of argument suppose that the government authorized banks to liberalize loan policies to allow for a bad debt loss of 2 per cent. In other words, for every \$650 lost by the gov-

ernment's (2 per cent) insuring loans to small business, \$32,500 could be invested by local banks or community investment pools in new small-business enterprise. At \$2,000 capital investment per new job created, that comes to sixteen new jobs in small business.

If by expert selection and training of small-business candidates, losses could be held to 1 per cent or even to the Federal Reserve level of seven-tenths of 1 per cent, that \$650 would put from \$65,000 to \$85,000 new-venture capital to work and create from thirty-two to forty-two new jobs! All for the cost to the government of supporting one man on relief.

Would it work? Ask the Bank of America. Ask other organizations who lend to well-trained, qualified small-business men.

Ask Paul W. Litchfield, chairman of the board of the Goodyear Tire and Rubber Company. For the past ten years at Litchfield Park, Arizona, Mr. Litchfield has combined the idea of training and financing candidates for modern farm ownership and operation. There is no philanthropy involved. It is a straight business proposition. This is the way it works.

The candidates are average young Americans, in good physical shape. They go to work as wage laborers, beginning as farm hands. They learn farming, and, when they are ready, graduate to share-croppers. If they make good as share-croppers, they become leaseholders, working land that some day will be their own. Finally they are permitted to buy their farms on time payments over a long period. Most of them pay for their farms in little over half the time allowed.

The reason this farm colonization project works is that there is not one iota of something-for-nothing in it.

Every farm has been earned and carved out of desert land. The answer has been hard work and water. No promises are made, no short cuts given. The success of the venture has been attributed to offering nothing but opportunity to learn, earn, and own. The mental wages of self-respect are high. The satisfaction of starting from scratch without subsidy, without charity, to earn and own a farm has paid dividends of honest success and achievement.

The same plan could be made to work in small business if, and only if, it is organized as a straight business proposition with absolutely no trace of subsidized paternalism. Something-for-nothing is the surest way to kill initiative, self-respect, and the habit of hard work. This suggested system of "learn, earn, and own" can be used with success to "plant" thousands of hardy, new small businesses throughout the country. Further proof of its possibilities will be found in the records of large oil companies and other concerns who train dealers, let them operate on a lease basis, and later sell them the stations or stores.

Learn, earn, and own can be made the *A B C's* of a new "planned economy" for America. You can help plan it. Your customers will "control" it. Government can encourage and insure it, at a fraction of the cost of unemployment.

LET'S GO TO WORK

EARLY in 1946 I conducted several classes in small business at a naval separation center. Informal business clinics were held, with a panel of experienced small-business men to answer and discuss questions from class members, most of whom were planning businesses of their own. During one of the final sessions, a young seaman ready for discharge posed a question which might well be the subject matter for all books on small business. He had taken correspondence courses offered by the United States Armed Forces Institute and had participated in the clinics. Now he wanted to know—

“What immediate steps can I take to start my own business? How shall I begin—now, today?”

“How much money have you saved?” I asked.

“About twenty-two hundred dollars.”

“What kind of business are you planning to operate?”

“A drug store.”

“Have you ever managed a drug store?”

“No, but I have worked as pharmacist and clerk.”

“Then I suggest that you find a job in a drug store and round out your retail-drug-management experience. This will give you time needed to complete your financial arrangements, find a good location, and organize the details of opening your own store.”

At this point the reader may face a similar decision. You may be marking time in a job you do not particular-

ly like, or not working while you decide the kind of job or business to undertake. Whatever your present status, your first step is a decision and a plan. Decide what is to be done and plan your activities on a time schedule. You should measure your money and your experience against the requirements of a new enterprise. The comparison should enable you to decide how much *time* you are going to need to (a) round out your business training and experience, and (b) to organize your new business.

Remember that business training and research take time and money. If you plan to start a small business, you cannot afford to live off your bank account, which is your first source of investment capital.

To nine out of ten candidates for new small business, especially men and women who lack experience, this will mean taking a job until the training and groundwork for a new business are completed. If you have successfully managed the type of business you plan to organize, your problem is one of completing market studies, financial arrangements, and the details of organization as soon as possible. In other words, your time requirement is, at the most, only a few weeks. An interim job would hinder you in the intensive and vital work of organization.

If you have inherited or plan to buy a business, or if you have an opportunity to assume management of a going concern, make a very careful appraisal of your experience and training. Plan to learn every phase of management of the business. In this case, time for training, rather than for organization, will be your chief concern.

For an entirely new small enterprise, the necessary market studies and details of organization (for the experienced businessman or businesswoman) should take two to four months. The time required depends upon

type, size, and location of the business, plus the ability and experience of the new owner. Bear in mind that careful planning shortens the expensive period between first commitments and opening day. All costs of rent, salaries, and operating expenses, before production begins or before you open your doors to the public, must be charged against precious investment capital. There is no operating income to absorb them.

If you have never managed a small business, plan to take at least six months for self-training and organization. A full year is not too much, especially if your personal savings are less than four or five thousand dollars. Nor should this period be thought of as one of marking time or delay. It will be the busiest of your career. You will be working at a regular job (preferably one in the line of business you intend to follow). Your "spare" time should be devoted to (a) the study of bookkeeping, selling, advertising, purchasing, or any phase of the business in which you lack training and experience; (b) research, or the gathering of all facts and figures necessary for a successful start; (c) planning every step in the "where, when, and how" of your opening day; (d) completing most of your organization before you give up your job.

Business studies can be taken in person or by correspondence from most schools and colleges. Six months or a year of modern business refresher courses not only will help prepare you for a business of your own but will also help you get back into the habit of *thinking* in terms of peacetime business activity. Men in charge of business courses at accredited schools and colleges will give you valuable advice and supervision. They can help you in the second part of your "spare"-time job, that of gather-

ing your necessary facts and figures. They can help you plan. They can help you select and install your accounting system and business records. They can advise on market research and how best to reach your market.

Courses in bookkeeping and accounting, marketing and retailing, if you plan a retail business, should be seriously considered as part of your self-training. Good part-time evening courses in these subjects are available at most colleges and business schools.

Step 2, then, in your immediate planning is to take whatever business refresher courses that are needed to round out your business training.

Step 3 is to buy two notebooks and a scrapbook. These may be purchased at any stationery or ten-cent store. Ordinary three-ring binders with manila divider or tab sheets will do for the notebooks. The scrapbook should be large enough to take magazine pages, news clippings, and miscellaneous printed matter.

Notebook number one should be made your safe-deposit box for all facts, figures, and ideas relating to your business. It should be divided into sections, each marked by means of a tab sheet. Here are some suggested titles:

1. **COMMUNITY or SALES AREA.** This section would contain the results of your community or trading-area business survey, population and business trends, sources of income, distribution of income, type and size of community, civic aggressiveness, community needs, purchasing power, laws, ordinances, taxes, and political and social make-up.

2. **MARKET.** Notes on results of your market survey. Dollar volume of business done in your line. Competition (who does how much?). Type and strength of competition. Number, type, location, and average income of your potential customers. Customer needs, likes, and dislikes. Business

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mortality in your line. Customer buying habits, customer loyalty, and conservatism. Average length of business build-up in your line. Local sales margins and profit.

3. IDEAS. New-business ideas which show promise in this type of community. Notes on your observations of successful operations elsewhere. Notes on the key "service idea" or theme of your business. (Later this section can be transferred to a new-business idea card file as suggested in Chapter 4.)

4. COSTS. Cost and expense studies of businesses similar to yours in size and type of operation. Successful ratio and percentage data. Model budgets. Ideas for holding down all starting expense and investment costs.

5. SUPPLIERS. Sources for raw materials, equipment, merchandise, miscellaneous supplies, and business services. List and learn to know your suppliers. Know their products, prices, credit policies, and services to your business. List your equipment needs and plan to cover them on the best terms possible.

6. FINANCE. Notes on community capital sources for small business. Check the services of local banks. Compare local banks for strength, aggressiveness, and co-operation with small-business concerns.

7. PROMOTION. These notes should include all ideas for promoting your business. Sales ideas and methods, advertising notes, public-relations ideas, and notes on special services to customers should be filed under this heading for use in planning a successful start.

8. ORGANIZATION. Make up your own check list of preliminary organization. List needs and details which must be handled well ahead of your final weeks of preparation. Check and organize details which must be handled immediately prior to opening day. Remember that time is money. Your aim here is to save both time and money by rapid, effective organization between first capital commitments and opening day.

9. ACCOUNTING. Notes on bookkeeping and record systems used by your type and size of business. These should include data on simplified accounting systems for small firms which are available from business-machine companies and also commercial printers and office-supply houses.

10. CREDIT. Under this heading you should accumulate all necessary information about local credit conditions. How much business in your field is done on credit? Familiarize yourself with local sources of credit information. Get acquainted with the credit "feel" of the community. Are the people conservative or extravagant in their credit purchasing? What is the average credit period for your type of business? These facts are highly important, for they will help you to avoid costly mistakes in credit policy.

These and other sections of your own choosing can make your "facts-and-figures" notebook a valuable aid to sound planning and management. The job of digging out and digesting information will in itself broaden your understanding of your new-business problem. The more you know, the less you worry. Worry stems from uncertainty and lack of knowledge. Business planning, with all the facts at hand, not only increases your chances of success but also eliminates a great deal of worry and uncertainty in the process.

Your second notebook should be one of plans, objectives, and preliminary organization. It should be a detailed outline of the "what, why, and how" of your business operation.

Begin with a clear, simple description of the type and size of business you propose to start. Such a description is the "what" of your business. It is a statement of basic objectives.

Next define your key service ideas. *Why* should your customers prefer you to your competitors? What is your

primary appeal, or plus value, from your customers' point of view? Is it sound? Is it strong? Has it been successful elsewhere? Can you deliver it in full measure?

The "why" of your business thus becomes a statement of customer need (your opportunity) as well as customer-service value (your responsibility).

The greater part of your second notebook will be given over to a detailed plan of operation. Every phase of organization and operation should be planned in advance. This is the all-important "how" of your business. Leave as little as possible to guesswork and chance. Circumstances will dictate more than enough changes in daily tactics, without leaving basic plans vulnerable to chance and expediency.

Plan. Do not improvise. If you know exactly what you want and exactly where you stand, the little day-to-day reasons why something "can't be done" are less apt to throw your judgment off balance and result in costly mistakes and delays.

After all, planning a business operation is not unlike planning a military campaign. If headwork and paper work on logistics and basic strategy have been done carefully and thoroughly in advance, think of the time, energy, and headwork which are released for day-to-day tactical details, once the operation begins. The same is true of your business. If your plans and policies are prepared, revised, and ready for opening day, your own time, energy, and headwork are freed for the important task of exceeding first sales objectives.

In outlining the plans for your business, do not overlook the essential factor, time. Performance must be planned against time. In fact the purpose of management planning is to achieve maximum performance with men,

money, and materials at hand within a given period of time. Much of your planning will involve setting up model budgets, based upon estimated sales volume for one, three, or twelve months. If your sales quota is achieved and expenses are held within limits, earnings for the period usually approximate those of the original budget. You say you have had a good month, or quarter, or year; and you set up your new budget accordingly.

Likewise, in your original business planning your notebook of plans and objectives will contain far more than notes on operating procedures. It should contain at least two or three budgets and performance schedules for your first year in business. One might be likened to a "par" performance. Another should be figured at 10 to 15 per cent above, and a third 10 to 15 per cent below your par figures. Of course, par should be the expense budget and sales estimate closest to your normal expectancy. (Normal expectancy, as you will remember, is 7 to 10 per cent of total volume in your line for your sales area.) Your results for the first year should fall somewhere within the volume covered by the three estimates.

In addition to your facts-and-figures notebook and your plans-and-objectives notebook, you will find that an ordinary scrapbook is a convenient supplement to both. Invariably you run across articles, news clippings, letters, and samples of printed matter of special value as reference material. A scrapbook enables you to keep this material at hand in a practical and convenient form.

A well-kept and well-indexed scrapbook will save you time and effort in making notes for your facts-and-figures notebook. Many facts and figures can be kept in the form of graphs, tables, underlined paragraphs, and success-story articles. Small clippings can be pasted in and

mounted on the regular pages of your scrapbook. But many items will be full-page magazine articles and large-size printed material, easily mislaid if not filed in some convenient form.

Next on your list of things to do is to assemble your business library. Suggestions for a two-foot shelf of business books for small-business men are listed in the bibliography, page 351. By now you should have a fairly definite idea of your own needs in the way of working handbooks and manuals for your business. Some of the volumes listed may be texts in business courses which you may find advisable to take during your period of business training.

Your program between now and opening day should include filling the gaps of your knowledge of bookkeeping, business law, merchandising, salesmanship, etc., as well as obtaining facts and figures about your proposed operation. Ask the advice of businessmen who know you about what you need to study and make arrangements to take these subjects. Excellent correspondence courses in business subjects are available everywhere.

However, you may find that you prefer face-to-face guidance and help in your business studies. If so, avail yourself of the many valuable and well-taught evening courses in high schools, colleges, and universities, special courses from approved business schools, and business courses given by veterans' organizations, chambers of commerce, and the committee for economic development in your community.

Regardless of your formal schooling in business subjects, your own small collection of working handbooks and manuals will prove of lasting value in your day-to-day management problems. A good reference book has a

way of keeping first principles fresh in your mind. These principles in turn often suggest simple, obvious answers to daily problems and decisions, which, if they pile up, can easily cause a growing tension and confusion.

Your business library should include subscriptions to one or two good general business magazines as well as the outstanding trade journal in your field. Census figures and other vital statistics for your community or sales area should also be part of your working library. Nor should you overlook the many excellent printed aids to business offered by government agencies, notably the Bureau of Foreign and Domestic Commerce and the Bureau of the Census (see bibliography). Your business library should also include a good handbook (if one exists) dealing with your type of business. Many good texts have been published on specific business operations. If none exists for your purpose, write to the leading trade journal in your field and ask for a list of articles on organizing and operating a business of the kind that appeals to you. Some trade papers may be able to send you back issues containing such articles, or tear sheets of the articles, or even reprints or multilith reproductions. However, the chances are that you will have to study and make your own notes from the back-number files in your local library.

From your own two-foot shelf of manuals, texts, and business data will come 60 to 70 per cent of the facts and figures for your notebook. The remainder will result from your own face-to-face business research. This means interviews and consultations with your local Chamber of Commerce, your local Committee for Economic Development, local veterans' organizations, trade associations, and possibly government experts, such as the field men of the Bureau of Foreign and Domestic Commerce.

Your primary aim in such consultations is to obtain information and constructive suggestions. You can save your time and theirs by planning each interview in advance. Have in mind a clear picture of what you want. State your problem, outline briefly the steps you are taking to prepare yourself, then listen. You will be both surprised and gratified by the practical help and advice you can get from men with years of experience in your field. Do not be bashful about taking notes during the interview. After it is over, sit down and write it up in note form, as if you were a business reporter. If what you have heard is worth while, get it on paper as soon as possible.

Thus far we have outlined the preparatory steps of your business self-training. These are (a) weighing capital and experience against the requirements of your business to determine time needed for study and organization; (b) rounding out training, experience, and savings (if necessary); (c) assembling facts, figures, and ideas into your notebooks and scrapbook; (d) assembling your two-foot shelf of manuals, texts, and business-data books; and (e) getting personal interviews with business advisers. This is the educational phase of your business training. Pin it down to a definite time schedule. Get in the habit of aiming for a completion date. The habit of meeting deadlines helps you to avoid any let-up in effort caused by indefinite planning.

In the later stages of your business studies, you will find yourself ready to go into the action phase of self-training. You will be ready to take up the problems of your market, your location, your costs, your profit objectives, and to answer these problems as far as possible with a series of practical business ideas in the form of a planned procedure.

By now you will have decided the type and size of business you propose to start. By now you will have definite ideas where you propose to locate. Thus your problem becomes one of practical business reconnaissance. It is up to you to determine on the basis of your own research facts and figures whether or not the community of your choice needs and will support your new business enterprise. As this is perhaps the most important single decision of your business career, you can readily understand the vital importance of your second step in the action stage of your boot training, which is . . .

Measure your market. The procedure for making a market survey is found in Chapter 7. Use of government data in your market studies is explained in the booklet, *An Outline for Making Surveys*, available from the United States Bureau of Foreign and Domestic Commerce. In simplest terms, your market research should answer three questions: (a) How large an area will you serve? (b) What is the total yearly volume in your line for that area? (c) Is 10 per cent of that volume more than enough to support your business during the first year?

Action step number three is to compile your prospectus. As shown in Chapter 6, your business prospectus is the preview of the "what," "why," and "how" of your new enterprise. Its "what" is a description of the business. Its "why" describes the opportunity, or need for the business. Included is a preview of your expense budget and a statement of earnings based upon an estimate of sales volume. The "how" describes improved operating methods and, for many concerns, includes a résumé of the experience and accomplishments of its management personnel.

Every new-business prospectus is based upon the big

"little" word IF. *If* sales are such-and-such, and expenses can be held to thus-and-so, earnings will be excellent. Sample expense budgets and estimates of earnings for new business are easily (and often) plucked out of thin air. You will find that bankers and experienced investors are far more interested in how you arrived at your figures than in the figures as such. For example, if you can support your first-year sales estimate by 10 per cent of total volume as normal expectancy, plus several case histories to prove it, you strengthen the soundness of your own estimate. Likewise, if your operating budget is based upon national average figures, corrected to local conditions, and if known items such as rent, salaries, heat, light, and taxes are both reasonable and in line with your budget figures, these facts can support and prove the accuracy of your budget.

The *x* factor in any business prospectus always will be whether or not the sales quota can be attained. But if your sales objective can be shown to be not unduly high and you can satisfy your financial backers that your sales methods are modern, aggressive, and have worked in other localities, the "how" of your sales effort gains strength and authority. Your third step then, is to compile your prospectus and to support each proposal with the strongest possible proof in the form of facts, figures, and case histories.

Action step number four is to plan the key policies of your new enterprise. These are the basic rules for the operation and management of your business. They should be clear, simple, and forthright. Devote plenty of time and careful consideration to them. As you work on your planning notebook, you will find that your key policies will take shape and define themselves.

Step five in the action stage of self-training is the actual organization of your new business. It will entail the purchase and assembly at your new business address of everything in the way of equipment, materials, or merchandise, and the personnel needed for opening day. It calls for canny purchasing and careful planning of details, in order to hold the drain upon your investment capital to an absolute minimum. In business, time is money. During preliminary organization, time is capital expense. There is no sales income to pay the time-costs of organizing, and certainly none to make up for their loss or waste. You can avoid the latter by careful planning and close personal supervision.

And finally will come opening day, your first day in business for yourself. It will be a day of mixed emotions—of excitement, anticipation, hope, and determination, not unlike a wedding day. And, like a wedding, it will be both a fulfillment and a beginning. A fulfillment of thrift, careful planning, and hard work; and the beginning of new responsibility, satisfaction, and opportunity. It will be the first day in a new and exciting job, that of being your own boss. You will have become a job *giver*, rather than a job taker. You will take your place in a generation of stubborn, self-reliant creators of a new and greater earned prosperity. You will become one of a peculiar species of "game bird"—the only breed upon which the "open season" runs three hundred and sixty-five days each year.

You will be an American businessman!
Godspeed, and luck to you.

**APPENDIX, BIBLIOGRAPHY
AND INDEX**

APPENDIX I

Outline for a Market Survey

HERE is a general outline for a small-business market survey. It covers only those marketing subjects which are common to most small businesses. Naturally each type of small business has market-survey questions which apply to its special field. Questions pertaining to your enterprise, therefore, should be listed as part of your own survey.

Market reconnaissance for your business will require two types of research effort. The first is to obtain facts and figures already assembled and available from agencies such as the Census Bureau, the Chamber of Commerce, and the Committee for Economic Development. The second is your field survey, in which you get out and talk to people about their needs, and their likes and dislikes, which from now on are strictly your business.

Many of the subjects listed below are from *An Outline for Making Surveys*, published by the Bureau of Foreign and Domestic Commerce, of the United States Department of Commerce. It will be noted that under each subject the necessary agency or published source of material is given which will supply most of the answers to your questions about that subject. *An Outline for Making Surveys* covers more than market research. It is recommended for study not only to help you prepare your own list of market survey questions but also to save you time and trouble in finding the answers. In addition, it will aid you to determine for yourself the scope of your sur-

vey, or just how far you want to go in measuring the market for your business.

For example, you will undoubtedly use most of the suggested subjects under Part I, "Basic data on your type of business operation." Probably you will add subjects of your own. On the other hand, rarely will you use *all* subjects under Part II, "Basic community or regional market data." Nor is it necessary to go into such complete detail for most small-business market surveys. Remember that this outline is a guide—a thought-starter. It is up to you to pick and choose and compile a list of market questions which fit your business problem.

- I. Basic data on your type of business operation
 - A. Business volume in your field
 - B. Competition
 1. Number and size
 2. Location
 3. Length of life
 4. Market characteristics and type of customer served
 5. Financial strength
 6. Community rating
 - a. Management skill
 - b. Customer approval
 - C. Customers
 1. Definition of, as to income, economic needs, personal characteristics
 2. Average worth in sales volume and profit to your business
 3. Number of potential customers in your sales area
 4. Percentage of total needed to break even; to attain normal volume

A-C: Sources include trade and business bureaus, chambers of commerce, committees for economic development, United States Census

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figures, and special market studies by manufacturers, government agencies, and educational institutions.

D. Location

1. In relation to customer traffic
2. In relation to geographic sales area
 - a. As regards sales techniques and media
 - b. As regards customer service and shipping
3. In relation to suppliers
 - a. Of raw materials
 - b. Of merchandise
 - c. Of parts or subassemblies
 - d. Of technical or artistic services

D: Field survey plus local sources of information

II. Basic community or regional market data

A. Number of Persons

1. Total in metropolitan area
 - a. As close an estimate as can be made for the corporate city and such extensions into the surrounding area as are covered by the survey
 - (1) Male
 - (2) Female
 - (3) Number classified according to age, sex, and race
 - b. Total in corporate area

a-b: Bureau of the Census, *Number of Inhabitants; Characteristics of the Population*; Vols. I and II of *Census of Population, 1940*.¹

2. Percentage of total for the United States, the city, region, or other area (such comparisons, if any, as may apply to the purpose of the survey)

2: Bureau of the Census, *Number of Inhabitants*, Vol. I of *Census of Population*.

¹ All references to the Bureau of the Census are to the Sixteenth Census of the United States (Washington, Government Printing Office, 1941-43), unless otherwise specified.

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3. Number of families

- a. Total in metropolitan area
- b. Total in corporate area

a-b: Bureau of the Census, *Population and Housing, 1940—Families, General Characteristics by States, Cities of 100,000 or More, and Metropolitan Districts of 200,000 or More.*

4. Growth (steady-rapid) and status (permanent-temporary)

- a. Total increase or decrease in population, 1920-40

a: Bureau of the Census, *Number of Inhabitants*, Vol. I of *Census of Population, 1940*; Bureau of Agricultural Economics, *Volume and Composition of Net Migration from the Rural-Farm Population, 1930-1940.*

- b. Actual or estimated change in total population since 1940

b: Bureau of the Census, *Estimates of the Civilian Population of the United States, by Counties: November 1, 1943*; War Production Board, *Summary of Changes in Civilian Population during the Period April 1, 1940, to April 1, 1943.*

5. Composition

- a. Race
- b. Native white
- c. Predominating nativity of foreign born

6. Literacy

5-6: Bureau of the Census, *Characteristics of the Population*, Vol. II of *Census of Population, 1940.*

7. Other (such additional characteristics as may be important to the local situation)

7: Surveyor's analysis.

B. Consumer purchasing power (estimated income, in dollars, of individuals and families, considered in relation to cost of living)

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1. Wages, salaries, commissions, etc., and business income from occupation, with a breakdown, if locally feasible, by the sources of income
 - a. Agriculture (income that residents in the survey area may derive from the surrounding farm area)
 - a: Bureau of the Census, *Census of Agriculture*, 1940, Vol. II; Bureau of Agricultural Economics, *Agricultural Prices* (issued monthly); Bureau of Agricultural Economics, *Rural Level of Living Indexes for Counties of the United States*, 1940; Bureau of the Census, *Ranking Agricultural Counties: 1940 and 1939* (contains farm-expenditure data).
 - b. Mining (income that may be derived from coal and other mining activities by residents of the survey area)
 - b: *Consumer Market Data Handbook*, 1939 (contains 1935 data).
 - c. Electric light and power and gas
 - c: Officials of local utility companies.
 - d. Manufacturing
 - d: Bureau of the Census, *Census of Manufactures*, 1940, Vol. III; *Consumer Market Data Handbook*, 1939 (contains 1935 data).
 - e. Construction
 - e: Bureau of the Census, *Construction*, Vol. IV of *Census of Business*, 1939.
 - f. Transportation
 - f: Local transportation-agency officials.
 - g. Communication
 - g: Local communication-agency officials.
 - h. Trade
 - h: Bureau of the Census, *Retail Trade and Wholesale Trade*, Vols. I and II of *Census of Business*, 1939; *Consumer Market Data Handbook*, 1939 (1935 data).

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i. Finance

i: Local authorities.

j. Government

j: Government authorities in the community or area surveyed.

k. Service

k: Bureau of the Census, *Service Establishments*, Vol. III of *Census of Business*, 1939.

l. Miscellaneous (all other sources of wages, salaries, commissions, etc., and business income)

l: Local authorities, chamber of commerce, etc.

2. Interest from savings accounts in

a. Banks

a: Federal Deposit Insurance Corporation, *Assets and Liabilities of Operation Insured Banks* (issued annually); financial statements of banks in local newspapers.

b. Postal savings

c. Other depositories

b-c: Local authorities (data usually not available except through field survey).

3. Net income from investments

a. Owned real estate

b. Stocks and bonds

c. Miscellaneous (royalties, shares in co-operative establishments, etc.)

4. Other (all other known sources of local income, such as direct relief, etc.)

3-4: Data on national income from sources such as agriculture, manufacturing, investments, etc., prepared annually by the National Income Unit, Division of Research and Statistics, Bureau of Foreign and Domestic Commerce, are pertinent to these and all other subheadings under "Consumer purchasing power." For general data, state and local income-tax records, where income tax is paid and records are available for reference, are valuable sources of material.

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5. Estimated per capita or per family income

5: Sales Management, Inc., *Survey of Buying Power* (New York, issued annually); local estimates.

6. Distribution of family income by size of income (relative number of families having income below \$1,000 to \$2,000, etc.)

6: Bureau of the Census, *Population and Housing—Families; Income and Rent, 1940*; Bureau of the Census, *Population—The Labor Force; Wage or Salary Income in 1939*, Vol. III of *Census of Population, 1940*.

7. Trends in income in recent years (general increase or decrease; increase or decrease in relation to changes in local cost of living; with respect to income from various industrial categories; for various types of income, such as wages and salaries, investments, interest on savings, etc; and in distribution of income by size of income)

8. Comparisons with other communities or with the United States as a whole (general conclusions to the extent of such supporting data as may be obtainable)

7-8: Bureau of Internal Revenue, Department of the Treasury, *Individual Income Tax Returns, 1941*.

9. Peaks and levels (seasons or months during which local income is normally highest, normally lowest)

10. Pay-roll methods (general analysis concerning the timing of "pay days" for full-time wage-earners and salaried employees in factories and other establishments)

11. Other outstanding characteristics

9-11: Local authorities.

C. Living costs, standards, and conditions, and related indexes of consumer use of buying power

1. Living costs (price trends on consumer goods)

a. General average (as compared with other places)

- b. Commodity prices for food, clothing, etc. (average for year)
- c. Trends (comparisons with previous years sufficient to reveal general trends in local living costs)
- d. Other data on living costs (indicative of specific local advantages or limitations—fresh fruits and vegetables at reasonable cost, etc.)

a-d: Retail prices collected by and can be obtained upon request from the Bureau of Labor Statistics; this bureau also issues statistics on the cost of living and retail cost of food (figures for many cities published monthly); state and local cost-of-living studies include studies made by universities, chambers of commerce, and trade and economic groups (see references in Bureau of Foreign and Domestic Commerce, *Market Research Sources*, 1940; local authorities (intensive study usually involves a local field survey).

2. Family Expenditures

- a. Kinds of goods and services used (by consumers of the various classes)
- b. Average expenditure for major purposes (estimated annual expenditure) by income classes
- c. Comparisons (such comparisons with other years and other areas as are possible)
- d. Other data of special local significance

a-d: Bureau of Home Economics, United States Department of Agriculture, *Family Expenditure Data* (published annually); United States Department of Agriculture, *Rural Spending and Saving in Wartime* (1943); local authorities.

3. Housing

- a. Number of occupied dwellings
 - (1) Percentage occupied by owners
 - (2) Distribution of homeowners by lower, middle, and upper-income levels (estimates)
 - (3) Average value of owner-occupied dwellings; recent trends
 - (4) Age of dwelling units

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- b. Rent (average for year per dwelling unit) as compared with other places; estimates, if possible, of average rents paid by families of the various income classes, and of trends in average yearly rent in relation to changes in family income

a-b: Bureau of the Census, *Data for Small Areas* (in 2 parts), *General Characteristics* (in 5 parts), *Characteristics by Monthly Rent or Value* (in 3 parts), *Mortgages on Owner-Occupied Nonfarm Homes* (in 3 parts), Vols. I, II, III, and IV of *Census of Housing, 1940*; local authorities.

- c. Light, heat, water, and telephone service

- (1) Rates charged for home; comparison with other places
- (2) Recent local changes in rates or service
- (3) Other points of special interest

(1)-(3): Federal Power Commission, *Typical Electric Bill, Cities of 50,000 Population and More, 1943*, and *Typical Residential Electric Bills, Cities of 2,500 Population and More, 1943*; American Gas Association, *Rate Service* (New York); cost of living and retail cost of food; *Water Supply Statistics of American Municipalities* (published by *American City* magazine, 470 Fourth Avenue, New York City); local public utilities offices.

- d. Modern improvements in homes, situation with respect to

- (1) General adequacy of plumbing and heating facilities
- (2) Number of installed air-conditioning units
- (3) Other

(1)-(3): Bureau of the Census, *Census of Housing, 1940*, Vols. I and II; Bureau of Foreign and Domestic Commerce, *Effect of City Water and Sewerage Facilities on Industrial Markets* (out of print, but available in most libraries).

- e. Other data (as may be essential to a true picture of the local housing situation)

e: Local sources of information.

4. Related indexes of consumer use of buying power
 - a. Number of telephones

a: *Consumer Market Data Handbook*, 1939 (1935 data); local telephone company.
 - b. Number of registered automobiles

b: *Consumer Market Data Handbook*, 1939 (1935 data); Public Roads Administration, Federal Works Agency, *State Motor-Vehicle Registrations* (published annually).
 - c. Number of domestic electric meters

c: *Consumer Market Data Handbook*, 1939 (1935 data); Bureau of Foreign and Domestic Commerce, *Basic Industrial Markets in the United States, Gas and Electric Utilities*, 1937; Bureau of the Census, *Census of Housing*, 1940, Vol. II; local power company.
 - d. Number of families having radios

d: *Consumer Market Data Handbook*, 1939 (1935 data); Bureau of the Census, *Census of Housing*, 1940, Vol. II.
 - e. Circulation of newspapers

e: N. W. Ayer and Son's *Directory of Newspapers and Periodicals* (Philadelphia, published annually); Standard Rate and Data Service, Inc., *Standard Rate and Data Service* (newspaper section) (New York, published periodically); local newspaper publishers.
 - f. Circulation of magazines

f: *Consumer Market Data Handbook*, 1939 (1935 data); Standard Rate and Data Service, Inc., *Standard Rate and Data Service* (magazine-farm paper section).
 - g. Trends
 - h. Other indexes (pertinent data are also included under "Banking," "Retail trade," "Construction," and "Real estate")
 - i. Comparisons with other cities or regions and with previous years (sufficient to indicate trends in local increase or decrease, also trends in terms of

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relationship between increased or decreased population)

g-i: Local sources of information for special data applying to the local situation.

5. Other data pertinent to the local situation

5: Local authorities.

D. Wholesale trade

1. Number of establishments

a. Total (all establishments operated by "wholesalers," as defined in the latest *Census of Business*)

b. By types of operation

(1) Full-service and limited-function

(2) Manufacturers' sales offices and travelers

(3) Bulk tank stations (independents and chains engaged primarily in the storing and wholesale distribution of petroleum products)

(4) Agents and brokers ("middlemen" such as auction companies, merchandise brokers, commission merchants, etc.)

(5) Assemblers (cream stations, co-operative marketing associations, grain elevators, and other buyers and sellers of farm products on a wholesale basis)

c. By kinds of business (grocery, drug, etc.)

(1) Independent

(2) Chain

2. Employment

a. Total number of employees (average for year)

b. Number of employees in each kind of business (average for year)

c. Seasonal tendencies

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3. Pay rolls (total for year)
 - a. Part-time
 - b. Full-time
4. Sales
 - a. Total (dollar volume for year)
 - b. By kinds of business (dollar volume for year)
 - c. Seasonal tendencies in sales volume

1-4: Bureau of the Census, *Wholesale Trade*, Vol. II of *Census of Business*, 1939.

5. Local regulations

5: State and local authorities.

6. Number and kind of new establishments between the period covered by the last *Census of Business* and that covered by the preceding *Census*, or during some other recent period for which comparable records are available

6: Bureau of the Census, *Wholesale Trade*, Vol. II of *Census of Business*, 1939.

7. Business failures within the period referred to under item 6.
8. Other facts (special characteristics affecting wholesale distribution through local establishments, such as recent trends toward co-operative wholesaling or other developments of importance)

7-8: Court records, chambers of commerce, etc.

9. Importance of the area as a wholesale trading center (if the area is not itself an important wholesale center, relate this subject to significant facts under "Location" with respect to wholesale markets)

9: Bureau of the Census, *Wholesale Trade*, Vol. II of *Census of Business*, 1939; local sources of information.

E. Retail trade and metropolitan shopping area

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1. Retail trade

a. Number of establishments

- (1) Total (all types and kinds of retail outlets)
 - (a) Independent
 - (b) Chain (national, sectional, and local)
 - (c) Other

(a)-(c): Bureau of the Census, *Retail Trade, Part I*, Vol. I of *Census of Business, 1939*; local field survey.

- (2) By kinds of business (grocery, drug, etc.)

(2): Bureau of the Census, *Retail Trade, Part III, Vol. I*, of *Census of Business, 1939*.

b. Employment

- (1) Total number of employees (average for year)
- (2) Number of employees in each kind of business
- (3) Seasonal tendencies

c. Pay rolls (total for year)

- (1) Part-time
- (2) Full-time

b-c: Bureau of the Census, *Retail Trade, Parts I and III, Vol. I* of *Census of Business, 1939*.

d. Sales

- (1) Total (dollar volume for year)
- (2) By kinds of business (dollar volume for year)

(1)-(2): Bureau of the Census, *Retail Trade, Part III, Vol. I* of *Census of Business, 1939*; survey of buying power; reports of state tax commissions in states levying a retail-sales tax.

- (3) Per capita sales

(3): *Consumer Market Data Handbook, 1939* (1935 data).

- (4) Comparisons with comparable data
 - (a) In preceding censuses

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(b) For other localities

(a)-(b): Analysis by the individual making the local survey.

(5) Seasonal tendencies in sales volume

(5): Bureau of Foreign and Domestic Commerce, *Retail Sales, Independent Stores* (estimates) (issued at intervals); monthly business review by the various Federal Reserve banks; local retailers.

e. Approximate capitalization or size of leading stores (if a particularly important local feature)

e: Local retail-trade association and chamber of commerce; local retailers.

f. Store-operating expenses (such comparisons with other localities as may be possible)

f: Dun and Bradstreet, Inc., New York City; pamphlet on expenses issued by the Merchants Service, National Cash Register Company, Dayton, Ohio; also refer to *Market Research Sources*, 1940, or make specific inquiry to the Distribution Division, Bureau of Foreign and Domestic Commerce.

g. Uniformity of store policies (with respect to credit, returned goods, advertising, frequency of deliveries, etc.)

h. Attitude of principal stores toward each other (generally co-operative or otherwise, as indicated by membership in local organizations, such as chambers of commerce, retail credit associations, or other credit agency, etc.)

g-h: Local merchants' associations, store executives, and proprietors.

i. Local regulations

i: Municipal and state authorities.

j. Store locations in general with respect to shopping areas (downtown, suburban, etc.) in rela-

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tion to trends in population within the area and convenience to customers

j: Local survey for detailed study (in some cities, chain-store organizations or other authorities have made special investigations).

k. Number and kind of new establishments between the period covered by the last *Census of Business* and that covered by the preceding *Census* or during some other recent period for which comparable records may be available

l. Number of business failures within the period

k-l: Dun and Bradstreet, Inc.; court records and local authorities.

m. Other facts (such as principal wholesale sources of locally retailed foods, clothing, and furniture, if the local situation seems to warrant a direct inquiry on this point)

m: Local retailers.

2. Metropolitan shopping area

a. Consumer buying "radius" in square miles as indicated by such measures as density of population in suburban areas (census method), extent of the city's newspaper distribution, retail-store deliveries, and use of the city's internal transportation facilities

b. Extent of suburban-customer patronage of downtown stores

c. Patronage of local stores by consumers from other cities

d. Other important considerations

a-d: Bureau of the Census, *Characteristics of the Population*, Part I, Vol. II of *Census of Population*, 1940; Map of the Consumer Trading Areas of the United States, 1935 (Hearst Magazines, Inc., New York, 1935; available only to advertising

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agencies and national advertisers); Hagstrom's four-color Retail Trading Area Map of the United States, 1936 (Hagstrom Company, Inc., New York, 1936); local newspapers and chambers of commerce; other local authorities (the local situation may suggest a special field study).

F. Buying habits of local consumers

1. Proportion of cash purchases to total purchases; comparisons with other communities; apparent trends with respect to installment buying

1: Bureau of the Census, *Credit Sales and Receivables*, 1939.

2. Apparent general preferences of shopping hours of the day, days of the week, and time of the month
3. Buying in other places by local consumers
 - a. Estimated percentage (of total purchases) bought elsewhere
 - b. Classes of goods most frequently bought elsewhere
 - c. Names of cities from which goods are frequently purchased
 - d. Recent trends in connection with extent of outside buying
4. Other important characteristics (applying to an analysis of why trade is lost to or gained from competing communities)

2-4: National Advertising Department, Scripps-Howard Newspapers (New York), *Market Records, Buying Habits, and Brand Preferences of Consumers in Sixteen Cities*, 1938; other local studies referred to in *Market Research Sources*, 1940; adequate information on the local situation may involve a special field study.

G. Newspapers, radio stations

1. Newspapers
 - a. Names of papers
 - (1) Dailies (classified as morning, evening, other; and as Democrat, Republican, Independent, etc.)

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- (2) Weeklies
- b. Revenues from
 - (1) Subscriptions
 - (2) Newsstand sales
 - (3) Advertising
- c. Employment and pay rolls (for year)
 - (1) Number of executives, contributors (average)
 - (2) Number of other employees (average)
 - (3) Salaries and wages (dollar volume)
- d. Largest circulation area (square miles covered by routes)
- e. Important changes or trends within recent years
 - (1) Amount of increase or decrease in largest circulation area
 - (2) Number and kind of papers added or discontinued
 - (3) In equipment
 - (4) Advertising rates and volume
 - (5) Activities and influence (co-operation on local surveys, charity drives, etc.)
- f. Other significant features (such dates of establishment as are of interest, etc.)

a-f: N. W. Ayer and Son's *Directory of Newspapers and Periodicals* (New York, published periodically); *Standard Rate and Data Service*; advertising rate cards of local newspapers and editors, officers, and files of local papers.

- 2. Radio stations (essential details concerning names of stations, ownership and employment, revenues and wattage; and significant trends in importance as advertising medium, etc; any additional details suggested for newspapers that apply to the community's radio facilities)

2: Managers of local stations.

APPENDIX II

A Work Sheet for Retail Planning

*Prepared by the
Distribution Division, Bureau of Foreign and Domestic Commerce,
United States Department of Commerce*

IF you are thinking of establishing a retail store, you need to think of hundreds of things; you are about to make an important decision. Careful thought in advance will prevent many mistakes and will help to avoid the loss of your savings. The following check list will suggest some of the questions which should be considered in advance. Obviously this list does not cover everything—no list could. It does suggest some of the more important things and some of the troublesome minor things as well. This list should be used as a starter. Going through it thoughtfully should start your mind working along the right channels and help you make sound final decisions.

I. POINTS TO CHECK WHEN PLANNING TO START A RETAIL STORE

Not everyone can successfully operate a store of his own. Some special knowledge, experience, and "know how" is essential in every line of business. Adequate capital in hand or in sight is also necessary. In addition there are some personal factors which help or hinder the man who wants to be his own boss. Honest self-appraisal is always difficult but must be made. The points which follow should help you in your preliminary thinking about starting your own business.

*A check or notation
in this column will
show you have con-
sidered each point.*

Your personal qualifications:

Have you had previous experience in this line of business? _____

Have you ever bought merchandise before? _____

Do you know the characteristics of the merchandise you will handle? _____

Do you have the special technical skills which are needed? _____

Have you ever supervised the work of others?
Been boss? _____

Have you ever hired people? Met a payroll? _____

Have you ever dealt with the public? Do you like to meet people? _____

Have you ever sold? _____

Can you boss yourself? Drive yourself to do what is necessary? Are you a self-starter? _____

Do you have imagination? Energy? Initiative? _____

Are you willing to work long hours? _____

Can you overcome obstacles? Fight down discouragement? Keep plugging? _____

Have you considered working for someone else to get more experience? _____

Your financial qualifications:

How much have you saved which you can put into the business immediately? _____

How much do you have in the form of other assets which you could, if necessary, sell or on which you could borrow to get additional funds? _____

Have you some place where you could borrow money to put in the business? _____

Have you considered saving more money before starting for yourself? _____

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Note: You will want to compare these figures with the more detailed estimate of requirements you will make later.

Income from the business:

What are your present earnings? _____

How much can you make as the owner of a store? _____

Have you compared this with what you could make as an employee? _____

Are you willing to take lower earnings while getting started? For how long? _____

Are you willing to risk uncertain or irregular income for the next year? Two years? _____

Note: When more specific estimates are made, you will want to review these questions.

When to start your business:

Are general business conditions good or bad? _____

How are conditions in the line of retail business you are planning? _____

Have you made a forecast of the business outlook for the next year? _____

Is your personal situation right for a start now? Your age? Your present job? Your future prospects? Your family responsibility? _____

II. POINTS TO CHECK WHEN DECIDING ON THE LOCATION OF YOUR STORE

Operating a store in the right place contributes to the success of the store. Living in a place he likes helps the owner to be happy. So the choice of a location is both a business and a personal problem. It is necessary to consider many things when deciding if there is an opportunity for you in a particular location. Sometimes it is necessary to choose one of several locations, or which of several stores to buy, or between buying a store and starting a new one. Your decision

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on these questions will be easier if you organize your thoughts. Putting the main favorable and unfavorable points down on paper will help you to compare different locations.

Economic factors in the community:

Are the industrial or agricultural conditions good? _____

Is the trend up, down, or stationary? _____

Is the source of the community's wealth well diversified and varied, or is it a one-industry community? _____

Are the major industries old and well established, new and growing, or recent and uncertain? _____

Are the industries stable or subject to wide fluctuations? _____

Is the economic outlook for the community promising, uncertain, or poor? _____

Is the population of the community growing, standing still, declining? _____

Is the wealth and income of the community well distributed? What proportion of the families are wealthy, well-to-do, moderately well off, poor? _____

Are transportation facilities, professional services, banking facilities, schools, and so on good, adequate, or poor? _____

Are the civic associations aggressive, adequate, stagnant, or poor? _____

The need for a new retail store in this community:

Have you canvassed the community to determine the number of stores of this type now operating? _____

Have any stores of this type closed recently? Why? _____

Are the stores which are in operation busy? _____

Is the public adequately served by the present stores? _____

Are people now going out of the community for the products you would sell them? _____

Is another store in your line needed? _____

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Competition:

- Do competitors leave an opening for you to enter business because they are not alert and aggressive? _____
- Are competitors old and well established? _____
- Are competitors' stores modern and attractive? _____
- Will competition be strong and active or weak and sluggish? _____
- Do you have a competitive chance? _____

Advice from others:

- What do the wholesalers think of the prospects for a store in this community? _____
- What do the manufacturers' representatives think of the prospects for a store in this community? _____
- Have you talked to a banker? What does he think about your plan? _____
- Would he think enough of the venture to loan you money? _____
- What do local businessmen in noncompeting lines think of the prospects? _____
- What do the representatives of the companies selling store equipment or fixtures think of the prospects for a new store in your line of business? _____

Buying a going business:

Note: There are some additional points to consider when buying a going business.

- Why does the owner wish to sell? _____
- Have you checked his claims about the business with his copies of his income tax returns? _____
- Are the sales increased by conditions which are not likely to continue? _____
- Have you consulted a lawyer to be sure that the title is good? _____

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- Has your lawyer checked the public records to see if there is any lien on record against the assets which you are buying? _____
- Are there any accumulated back taxes to pay? _____
- Is this a bulk sale? Has the bulk sales law been complied with? _____
- Does the present store have good will to offer or are there many people in the habit of not trading there? _____
- Is the stock a good buy? How much would have to be disposed of at a loss? How much is out of date? Unsalable? Overvalued? _____
- Are the fixtures and equipment the modern type you would select now? Or would they be unsuitable? Overvalued? In poor condition? _____
- Are you going to buy the accounts receivable? Are you sure they are good? How much are they worth? _____
- Would you assume the liabilities? Are the creditors willing to have you assume the debts? _____

III. POINTS TO CHECK WHEN STARTING YOUR STORE

The points in this section are set forth on the assumption that you have decided to start a store of your own and have selected the community in which to operate it. Before opening the doors some decisions have to be made and some plans prepared. Here it is necessary to think again about some of the things you considered earlier. And for that matter, some of the things considered here might also suggest points which would modify your decision to start now, for example, the financial requirements. Or the services offered by others, as another instance, would suggest the decision you should make as to what services to offer if you are to have the best opportunity in that community. So, just because this list is divided into sections shouldn't prevent you from looking at it as a whole, or even skipping back and forth through it.

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The building and its location:

- Is the site good for this type of store? _____
- Are there other similar stores near by? _____
- Are most of the passers-by potential customers? _____
- Is the section zoned for commercial occupancy? _____
- Is the space adequate? For present needs? For future needs? _____
- Is the space too large? For present needs? For future needs? _____
- Are the display windows suitable? _____
- Is the front modern and attractive? _____
- Is the entrance at grade level? Wide enough? _____
- Is there storage space for reserve stock? _____
- Is there a rear or side entrance for deliveries? _____
- Is the construction sound? Attractive? _____
- Will any major remodeling or alterations be necessary? _____
- Are there enough electrical outlets for your purposes? _____
- Are the plumbing facilities adequate? _____
- Is there a satisfactory heating plant? _____
- Are there any built-in fixtures or equipment you can use? _____

Rental terms:

- Is the term of the lease long enough to protect you? Even if you make major alterations? _____
- Are there provisions in the lease for cancellation? For subleasing? For renewal? _____
- Does the lease provide for reimbursement for alterations? _____
- Is the rent a fixed dollar amount? Or a percentage of sales? _____
- Is the amount of the rent in proper proportion to the estimated sales? _____

RETAIL PLANNING

Equipment and fixtures:

Note: Of course the money available and the cost of the equipment and fixtures will limit your freedom of choice. But the more limited the funds the more important it is to plan well. The following questions may help in this planning.

Have you determined your equipment needs? _____

Your fixtures? _____

Have you planned for expansion and future additions to your equipment? To your fixtures? _____

Can additions and replacements be easily and harmoniously made? _____

Have you held your purchase plans to the minimum? Without omitting any essential items? _____

Are your fixtures and equipment properly suited to the needs of your store? To the lines carried? To the customer appeal? _____

Is your investment in fixtures and equipment in proper proportion in your financial structure? _____

Are you going to pay for the equipment or fixtures on the installment plan? Have you decided the maximum monthly payment you can safely contract to make? _____

If buying fixtures and equipment as a part of the purchase of a going business: Are they a good buy? Is there a lien on them? Are they similar to the modern type you would select now? Have you checked to make sure they are in good condition? Do you need all of them in your operation? _____

Planning your stock:

Have you estimated how much your total stock should be? _____

Have you broken this estimate down into the major lines to be carried? _____

SMALL BUSINESS

- Has your stock selection been guided by an analysis of consumer preference in your community? _____
- Have you set up a model stock assortment to follow in your buying? _____
- Have you worked out any stock control plans to avoid overstocks, understocks, out-of-stocks? _____

Your source of supply:

- Have you made arrangements with wholesalers? For each line of goods? _____
- Have you decided what merchandise you will buy from manufacturers? _____
- Are there any lines of goods which you can get the privilege of handling exclusively? What are the franchise arrangements? _____
- Have you considered affiliating with a voluntary or co-operative group? _____
- Have you planned to make your account more valuable by concentrating your buying? _____

Selecting your help:

- What is the method of paying employees in the community? _____
- What is the prevailing wage scale? What do you plan to pay? _____
- Do you want to hire men, women, part-time, experienced, or inexperienced people? _____
- Are satisfactory employees available locally? _____
- Would it be advantageous or disadvantageous to hire someone now employed by a competitor? _____
- What skills are necessary? _____
- Will employees supply skills you lack? _____

Your accounting records:

- Have you planned a bookkeeping system? _____

RETAIL PLANNING

- What additional records are necessary? _____
- Do you have a cash register? Adding machine? _____
Other recording devices? _____
- Do you need any special forms or records? Can _____
they be bought from stock? Must they be printed? _____
- Are you going to keep the records yourself? Hire a _____
bookkeeper? Have an outsider come in _____
periodically? _____
- Store policies:*
- Have you decided your service policy? _____
- Are you going to deliver? _____
- Are you going to sell for credit? _____
- Are you going to operate on a self-service basis? _____
- Do most of the other stores in the community _____
offer full services or do they operate on a _____
cash-carry or limited-service basis? _____
- Is your best opportunity to offer more services, _____
or to make an economy appeal? _____
- What will be your returned goods policy? _____
- Do you have the additional capital necessary _____
to carry accounts receivable or to buy _____
delivery equipment? _____
- Have you considered store policy in selecting lines? _____
- What lines do competitors carry? _____
- What lines are lacking which customers would _____
buy? _____
- Do you have the capital and space to carry all _____
the lines carried by competitors? _____
- Do you have the capital and space to carry any _____
lines not carried by competitors? _____
- Have you considered the profit possibilities _____
of the various lines? _____
- Do you have the knowledge and experience _____
necessary to handle the various lines? _____

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- Have you decided on your price policies? _____
Are you going to make a price appeal? _____
What price appeal do competitors use? _____
Are you going to compete on price, or quality,
or on service? _____
What price ranges would best appeal to most of
the people in the community? _____
Have you decided on your store hours? _____
What hours do competitors remain open? _____
Would you attract trade by opening earlier?
Remaining open later? Being open on
Sundays or holidays? _____
Will you have the personnel to be open
on these hours or days? _____
Have you decided on your promotion policy? _____
Are you going to do outside selling? _____
Are you going to advertise in the newspaper? _____
Are you going to rely on display windows
to attract trade? _____
Are you going to do direct mail advertising? _____
Are you going to use handbills? _____
Are you going to use radio advertising? _____

Note: Each of the decisions made on these policy questions affects, and is affected by, other situations and decisions. So at each stage it is well to review again the questions raised previously, especially under location, competition, and financing.

Your financial arrangements:

- Have you made an estimate of the capital
you will need? _____
How much will you invest in merchandise
inventory? _____
How much will you invest in equipment? _____
How much will you invest in fixtures? _____

RETAIL PLANNING

- How much will you need to modernize? _____
- How much will you need to pay operating expenses (rent, salaries, supplies, light, etc.) for two months? _____
- How long will it be before the business will start making profits? _____
- Have you funds to pay the operating expenses until the business pays its way? _____
- Have you funds for the salary you will pay yourself during the period the business is getting started? _____
- Have you figured out where, if it is needed, you can get additional capital? _____
- Is there any reserve available for unexpected needs? _____

Estimate of sales and profits:

- What are the sales you can reasonably plan to make the first month? _____
- What are the sales you can reasonably plan to make the first six months? _____
- What are the sales you can reasonably plan to make the first year? _____
- What is the gross profit you can make on this volume of business? _____
- What expenses can you forecast as being necessary? _____
- Is your own salary included in these expenses? _____
- Is the net profit and salary adequate? _____

Note: The answers to these questions are the acid test, both of the feasibility of the proposition, your ability to finance it, and your desire to go ahead. Everything which has gone before is tested here.

IV. POINTS TO CHECK WHEN GETTING READY FOR THE OPENING

Opening right is important. The points listed here may remind you of some details which are easy to forget. But don't

SMALL BUSINESS

think this list is complete. It omits more than it includes, but it should be useful in giving you a start. Maybe you will want to add to it yourself from time to time before opening day so no details will be overlooked.

Has the stock arrangement been planned?

- Have you received the stock ordered? _____
Has a place for all of it been planned for? _____
Has stock to feature in the windows been selected? _____
What goods are going to be given preferred display
position in the store? _____
Are necessary display fixtures on hand? _____

Have you bought the necessary insurance?

- Has fire insurance been purchased?
Windstorm? Cyclone? _____
Has insurance protecting against damage suits
and public liability claims been purchased? _____
Has workman's compensation insurance
been provided? _____
Has burglary and hold-up insurance been
considered? _____
What other hazards should be insured against? _____

Have you complied with regulations and other legal matters?

- Is a license to do business necessary?
State? City? _____
Is a license necessary to handle special commodities? _____
Have you checked the police and health
regulations as they apply to your business? _____
Have you obtained a social security number? _____
Have you worked out a system for paying the
withholding tax for your employees? _____
Have you worked out a system for handling
sales taxes? Excise taxes? _____

RETAIL PLANNING

Are the accounting and sales forms ready?

Have you a supply of sales tickets? _____

Have employees been told how to make out sales tickets? _____

Do they know how to handle cash sales? _____

Do they know how to handle charge sales? _____

Are forms ready for handling returned goods? _____

Cash refunds? _____

Have you a system for recording sales to the owner? To his family?

Have you made your promotion plans?

Has the opening advertising been prepared? _____

For the newspapers? _____

For the handbills? _____

For the direct-mail advertising? _____

Have inducements to customers who come in the first day been planned? Flowers? Merchandise supplies? Free goods? _____

Is there enough merchandise on hand for the first day's business? _____

Have attractive leaders been selected? Are there enough of these leaders on hand? _____

Have you arranged for your store signs? Over the entrance? On the windows? _____

Is your display window dressed? _____

Have the minor details been thought of?

Has wrapping paper, string, gummed tape been provided? _____

Have the meter deposits been made? _____

Has the telephone been installed? _____

APPENDIX III

Ratio and Percentage Guides

A. TYPICAL OPERATING AND MERCHANDISING CHARACTERISTICS OF 50 RETAIL TRADES, 1939

(Reprinted from *Standard Ratios for Retailing*, 1940, by permission of Dun and Bradstreet, Inc.)

TRADE	Net Sales Per Store Dollars	Profitable Concerns	Concerns Renting	Concerns With Cash Sales 90 o/o or More	Total Expense	Salaries of Owners and Officers	Wages of All Other Employees	Occupancy Expense	Advertising	Bad Debt Losses	Profit or Loss (L)	Gross Margin	Inventory Turnover Times Per Year	Per Cent of Net Sales	
														Per Cent of Total Reporting	
1 Alcoholic Beverages	28,100	70	90	76	24.2	9.8	5.4	3.3	0.5	0.4	2.6	26.8	6.6		
2 Bakery Shops	29,900	73	77	74	48.0	11.0	20.9	6.1	0.7	0.2	6.0	54.0	13.8		
3 Confectionery	11,200	74	80	79	29.3	12.0	6.6	6.6	0.5	0.3	4.8	34.1	10.8		
4 Dairy and Poultry Products	37,500	75	46	29	35.5	8.6	12.1	3.4	0.9	0.6	3.7	39.2	35.9		
5 Drinking Places, Taverns, Bars	17,700	72	63	88	31.9	10.8	9.0	5.9	0.4	0.7	4.0	35.9	15.8		
6 Groceries	21,300	66	80	31	16.9	7.0	4.2	2.6	0.6	0.4	1.5	18.4	10.0		
7 Groceries and Meats	31,400	70	69	19	17.3	5.7	5.6	2.3	0.6	0.5	1.9	19.2	13.5		

8	Groceries with Filling Station	17,150	62	51	25	15.7	7.9	2.7	2.8	0.3	0.8	1.1	16.8	11.3
9	Meats	29,800	71	92	43	21.7	7.8	6.2	3.0	0.4	0.3	1.8	23.5	50.8
10	Restaurants and Other Eating Places	20,500	78	80	88	39.2	8.3	16.3	6.8	0.6	0.4	4.1	43.3	25.9
GENERAL MERCHANDISE AND FARMERS' SUPPLIES														
11	Country General Stores	19,550	66	44	18	15.4	6.2	4.2	2.2	0.5	0.8	2.5	17.9	3.9
12	Dry Goods and Gen. Merchandise	26,100	69	82	51	25.1	8.2	6.7	3.9	1.1	0.5	3.0	28.1	2.0
13	Farm Implements	48,600	52	56	7	18.7	6.2	5.4	2.0	0.4	0.5	1.0	19.7	2.9
14	Farmers' Supplies	59,000	73	43	20	15.0	4.2	4.3	1.9	0.3	0.5	2.5	17.5	8.7
15	Limited-Price Variety	17,400	76	89	90	26.5	9.4	7.2	5.1	0.8	0.2	5.0	31.5	2.8

APPAREL

16	Custom Tailors	15,000	64	100	35	61.9	17.3	26.8	8.0	1.6	0.9	1.3	63.2	1.7
17	Family Clothing (including Children's Shops)	27,800	70	85	47	27.3	8.4	6.9	4.7	1.3	0.6	3.3	30.6	2.0
18	Furs	25,400	72	86	13	44.6	14.4	10.5	6.9	2.5	0.6	5.6	50.2	2.0
19	Lingerie, Hosiery, Millinery, Accessories	8,600	69	92	61	32.5	12.6	6.8	8.0	1.0	0.2	3.3	35.8	2.8
20	Men's Clothing	29,150	73	86	35	23.3	9.6	6.5	4.5	1.5	0.6	3.5	31.8	1.8
21	Men's Furnishings	20,900	61	94	67	33.2	11.3	6.4	8.3	1.2	0.5	1.0	34.2	1.9
22	Shoes	22,000	67	91	59	30.7	10.4	7.3	6.0	2.0	0.3	2.2	32.9	1.8
23	Women's Ready-to-Wear	20,000	59	94	43	28.7	9.2	7.0	5.3	1.2	0.4	1.8	30.5	3.8

(Continued on next page)

TRADE		Per Cent of Total Reporting		Per Cent of Net Sales								
24	Automotive Accessories and Parts	24,900	75	29.1	8.8	9.1	3.7	1.1	0.8	5.2	34.3	3.0
25	Filling Stations	18,700	71	22.3	8.8	5.8	4.3	0.4	0.5	2.0	24.3	15.9
26	Garages (with Repairing)	16,800	63	6	14.9	15.9	6.8	0.8	1.0	2.1	48.9	4.0
27	Motor Vehicles	136,500	65	2	2.5	6.5	1.5	0.6	0.3	1.2	17.1	8.3
AUTOMOTIVE.												
FURNITURE AND HOUSEHOLD WARES												
28	Electric and Gas Household Appliances	24,400	60	32.8	10.1	10.7	3.5	1.5	0.5	2.5	35.3	4.6
29	Floor Coverings	25,800	75	34.7	12.6	10.0	4.4	1.0	0.5	2.3	37.0	3.1
30	Furniture	37,700	72	33.7	8.9	9.8	5.1	1.5	1.0	4.4	38.1	2.7
31	Furniture and Undertaking	25,200	67	37.5	12.2	8.4	4.7	1.5	1.5	4.6	42.1	1.9
32	House Furnishings	24,700	72	37.2	12.5	11.3	5.2	1.0	0.7	2.2	39.4	2.8
19.8	10.0	5.1	2.4	0.8	3.9	3.3	8.600	57	93	42.1		

Survey Number

BUILDING MATERIALS AND HARDWARE

34	Hardware	24,300	64	72	13	26.7	8.9	7.6	4.0	0.9	0.6	2.4	29.1	2.0
35	Paint, Wallpaper, and Glass	18,700	62	85	11	32.7	11.8	8.2	4.2	1.3	0.8	2.2	34.9	2.6
36	Hardware and Farm Implements	4,100	54	57	1	20.6	6.5	6.2	2.3	0.6	0.5	0.2 (L)	20.4	2.4
37	Hardware and Furniture	31,200	65	61	7	26.9	9.2	7.5	3.5	0.9	1.0	3.0	29.9	1.9
38	Lumber and Building Materials	59,800	68	26	4	24.0	6.5	8.2	2.4	0.5	0.8	2.9	26.9	3.2

OTHER RETAILING

39	Books	30,500	55	96	33	34.8	9.7	10.2	6.2	1.0	0.1	0.6	35.4	2.3
40	Cigar Stores and Stands	15,000	67	97	79	21.6	9.2	4.8	5.6	0.3	0.3	2.3	23.9	8.0
41	Coal and Other Fuel	33,000	75	42	9	27.3	8.4	8.6	2.2	0.6	0.6	2.8	30.1	8.0
42	Drugs	21,500	68	82	57	28.1	9.6	7.8	4.8	0.9	0.3	2.4	30.5	3.1
43	Gifts, Novelties, and Souvenirs	8,900	71	90	69	36.0	15.4	6.1	9.7	0.9	0.5	6.3	42.3	1.8
44	Jewelry	17,550	69	90	18	43.6	17.0	10.4	6.4	2.1	1.0	5.3	48.9	1.1
45	Monuments	16,300	68	49	38	59.1	16.0	17.7	3.1	1.1	0.9	3.0	62.1	1.3
46	Musical Instruments	19,650	69	93	16	37.6	12.4	10.2	4.7	2.2	0.4	2.1	39.7	3.0
47	Florists and Nurseries	15,700	69	56	9	53.3	15.4	16.9	6.0	1.4	0.6	5.1	58.4	3.7
48	Office Equipment and Supplies	165,000	79	95	--	37.4	10.4	13.3	4.0	1.2	*	3.0	40.4	3.2
49	Sporting Goods	26,100	62	98	28	30.5	10.5	7.2	4.9	1.3	0.4	2.7	33.2	3.1
50	Stationery	25,200	69	86	36	30.0	10.1	7.9	5.7	0.9	0.3	3.0	33.0	2.9

MEDIAN (All trades)

* Not available.

		24,550	69	82	28	30.3	9.7	7.7	4.7	0.9	0.5	2.6	33.7	3.1
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B. THREE OPERATING STATEMENT DIFFERENCES BETWEEN PROFITABLE AND UNPROFITABLE RETAILING IN 50 TRADES, 1939

(Reprinted from *Standard Ratios for Retailing, 1940*, by permission of Dun and Bradstreet, Inc.)

TRADE	Gross Margin Advantage	Operating Expense Economy	Speed of Inventory Turnover
FOODS, BEVERAGES, AND RESTAURANTS			
Alcoholic Beverages	+ 2.6	-23.5	- 3.0
Bakery Shops	+14.5	-12.7	-12.9
Confectionery	+35.7	-10.7	+ 1.9
Dairy and Poultry Products	+12.3	- 7.9	-34.8
Drinking Places, Taverns, and Bars	+23.1	- 6.9	- 4.9
Groceries	+21.9	-17.6	+ 5.2
Groceries and Meats	+27.4	-10.3	+ 9.5
Groceries with Filling Station	+50.8	-15.5	+17.6
Meats	+21.0	- 2.3	+15.9
Restaurants, Eating Places	+17.0	-10.4	+31.0
GENERAL MERCHANDISE AND FARMERS' SUPPLIES			
Country General Stores	+48.5	-19.3	+ 8.1
Dry Goods and General Merchandise	+15.5	-19.9	+11.1
Farm Implements	+64.9	- 7.7	+ 3.4
Farmers' Supplies	+37.0	-12.7	+ 1.2
Limited-Price Variety	+21.6	-17.8	+ 3.7
APPAREL			
Custom Tailors	- 4.0	-19.6	+18.8
Family Clothing	+21.8	-12.8	- 5.0
Furs	- 6.5	-32.4	+ 5.0
Lingerie, Hosiery, Millinery, Accessories	+24.7	- 7.9	+66.7
Men's Clothing	+10.9	-18.8	+11.8
Men's Furnishings	+ 7.3	-18.6	+26.7
Shoes	+16.1	-11.2	0.0
Women's Ready-to-Wear	+24.4	-12.3	+ 8.6

Automotive

Automotive Accessories and Parts	+30.0	-11.1	-14.7
Filling Stations	+20.4	-11.5	+ 8.0
Garages (with Repairing)	+25.1	- 5.9	+ 5.1
Motor Vehicles	+24.7	-11.2	+ 9.0

Furniture and Household Wares

Electric and Gas Household Appliances	+17.2	-18.7	+14.0
Floor Coverings	+20.1	- 6.8	-18.2
Furniture	+12.5	-19.3	+16.7
Furniture and Undertaking	+20.1	-22.2	-10.0
House Furnishings	+17.6	-12.8	+11.5
Radios	+ 0.7	-29.5	+16.2

Building Materials and Hardware

Hardware	+18.1	-17.9	+11.1
Paint, Wallpaper, and Glass	+ 6.7	-18.7	+22.7
Hardware and Farm Implements	+17.6	-20.6	+31.6
Hardware and Furniture	+27.5	-12.8	0.0
Lumber and Building Materials	+11.8	-21.3	+10.0

Other Retailing

Books	+12.2	- 7.5	- 4.3
Cigar Stores and Stands	+17.4	-16.6	-26.4
Coal and Other Fuel	+20.5	-19.4	+ 6.4
Drugs	+10.8	-15.8	+18.5
Gifts, Novelties, and Souvenirs	+10.8	-34.7	0.0
Jewelry	+11.5	-19.8	+20.5
Monuments	+ 4.3	-20.4	+40.0
Musical Instruments	+ 1.0	-21.5	-38.9
Florists and Nurseries	+ 9.6	- 9.9	0.0
Office Equipment and Supplies	+16.6	-14.5	0.0
Sporting Goods	+20.4	-21.3	0.0
Stationery	+13.2	-11.7	+11.5

Median (All Trades)

	+17.5	-15.6	- 7.2
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C. TYPICAL SALES, MARGINS, EXPENSES & PROFITS IN 1936 AND IN 1939 FOR 39 RETAIL STORES

(Reprinted from *Standard Ratios for Retailing*, 1940, by permission of Dun and Bradstreet, Inc.)

(Sales volume in dollars; gross margin, total expense and profit or loss in percentage of net sales)

TRADE	Sales Volume		Gross Margin		Total Expense		Profit (or Loss)	
	1936	1939	1936	1939	1936	1939	1936	1939
Alcoholic Beverages	20,100	28,100	25.8	26.8	23.9	24.2	1.9	2.6
Bakery Shops	19,300	29,900	47.6	54.0	45.2	48.0	2.4	6.0
Confectionery	12,000	11,200	32.7	34.1	28.6	29.3	4.1	4.8
Taverns and Bars	18,300	17,700	39.8	35.9	32.7	31.9	7.1	4.0
Groceries	21,700	21,300	17.5	18.4	15.8	16.9	1.7	1.5
Groceries and Meats	34,300	31,400	18.5	19.2	16.4	17.3	2.1	1.9
Groceries with Filling Station	10,800	17,150	16.7	16.8	14.1	15.7	2.6	1.1
Meats	27,200	29,800	23.3	23.5	20.6	21.7	2.7	1.8
Restaurants, Eating Places	21,900	20,500	41.1	43.3	37.9	39.2	3.2	4.1
Country General Stores	22,300	19,550	17.9	17.9	15.6	15.4	2.3	2.5
Farm Implements	36,200	48,600	19.4	19.7	17.4	18.7	2.0	1.0
Limited-Price Variety	14,300	17,400	31.1	31.5	24.5	26.5	6.6	5.0
Custom Tailors	13,900	15,000	56.4	63.2	53.4	61.9	3.0	1.3
Family Clothing	33,300	27,800	30.1	30.6	24.5	27.3	5.6	3.3
Furs	25,900	25,400	49.0	50.2	43.3	44.6	5.7	5.6

Men's Clothing	35,200	29,150	31.9	31.8	26.4	28.3	5.5	3.5
Shoes	19,300	22,000	32.4	32.9	28.7	30.7	3.7	2.2
Women's Ready-to-Wear	24,100	20,000	30.0	30.5	27.3	28.7	2.7	1.8
Men's Furnishings	22,800	20,900	30.8	34.2	26.3	33.2	4.5	1.0
Filling Stations	16,700	18,700	23.3	24.3	21.0	22.3	2.3	2.0
Garages (with Repairing)	15,400	16,800	41.3	48.9	40.1	46.8	1.2	2.1
Motor Vehicles	134,300	136,500	16.9	17.1	14.7	15.9	2.2	1.2
Electric and Gas Household Appl.	25,000	24,400	35.7	35.3	31.0	32.8	4.7	2.5
Floor Coverings	27,800	25,800	37.8	37.0	33.2	34.7	4.6	2.3
Furniture	40,600	37,700	39.1	38.1	32.5	33.7	6.6	4.4
Furniture and Undertaking	24,900	25,200	43.9	42.1	36.3	37.5	7.6	4.6
Radios	7,500	8,600	46.7	44.5	40.8	42.1	5.9	2.4
Hardware	23,300	24,300	29.4	29.1	25.8	26.7	3.6	2.4
Paint, Wallpaper, and Glass	15,100	18,700	37.4	34.9	32.8	32.7	4.6	2.2
Hardware and Farm Implements	36,900	44,100	22.8	20.4	19.8	20.6	3.0	0.2 (L)
Hardware and Furniture	26,600	31,200	30.5	29.9	26.3	26.9	4.2	3.0
Books	20,700	30,500	31.7	35.4	29.8	34.8	1.9	0.6
Drugs	20,800	21,500	31.5	30.5	28.5	28.1	3.0	2.4
Gifts, Novelties, and Souvenirs	7,500	8,900	41.7	42.3	39.9	36.0	1.8	6.3
Jewelry	15,200	17,550	46.4	48.9	41.6	43.6	4.8	5.3
Monuments	18,000	16,300	65.0	62.1	63.8	59.1	1.2	3.0
Musical Instruments	15,400	19,650	39.5	39.7	36.4	37.6	3.1	2.1
Sporting Goods	20,500	26,100	33.6	33.2	29.5	30.5	4.1	2.7
Stationery	17,000	25,200	34.5	33.0	31.5	30.0	3.0	3.0

D. 1945 RETAIL HARDWARE STORE EXPERIENCE

(Figures prepared by the National Retail Hardware Association and published in *Hardware Retailer*, its publication.
Reprinted by permission.)

		ACCORDING TO VOLUME OF SALES			
		<i>United States</i>			
		<i>Average</i>			
		<i>All Stores</i>	<i>Under</i>	<i>Sales</i>	<i>Sales</i>
		<i>Reporting</i>	<i>\$25,000</i>	<i>to</i>	<i>\$100,000</i>
		<i>\$25,000</i>	<i>to</i>	<i>\$50,000</i>	<i>\$100,000</i>
		<i>Group</i>	<i>Group</i>	<i>Group</i>	<i>Group</i>
		<i>Average</i>	<i>Average</i>	<i>Average</i>	<i>Average</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
		<i>100.00%</i>	<i>100.00%</i>	<i>100.00%</i>	<i>100.00%</i>
		<i>70.75</i>	<i>70.35</i>	<i>70.15</i>	<i>70.85</i>
		<i>29.25</i>	<i>29.65</i>	<i>29.85</i>	<i>29.15</i>
		<i>6.25</i>	<i>11.75</i>	<i>7.75</i>	<i>5.40</i>
		<i>6.80</i>	<i>3.05</i>	<i>5.40</i>	<i>7.40</i>
		<i>13.05</i>	<i>14.80</i>	<i>13.15</i>	<i>12.80</i>
		<i>0.25</i>	<i>0.25</i>	<i>0.25</i>	<i>0.25</i>
		<i>0.55</i>	<i>0.45</i>	<i>0.60</i>	<i>0.55</i>
		<i>0.15</i>	<i>0.15</i>	<i>0.15</i>	<i>0.15</i>
		<i>0.25</i>	<i>0.40</i>	<i>0.25</i>	<i>0.20</i>
		<i>0.20</i>	<i>0.10</i>	<i>0.20</i>	<i>0.25</i>
		<i>0.45</i>	<i>0.35</i>	<i>0.50</i>	<i>0.45</i>
		<i>0.10</i>	<i>0.15</i>	<i>0.15</i>	<i>0.10</i>
		<i>0.25</i>	<i>0.30</i>	<i>0.30</i>	<i>0.15</i>
NUMBER OF STORES REPORTING					261
AVERAGE SALES PER STORE					\$146,755
NET SALES					100.00%
COST OF GOODS SOLD					71.40
MARGIN					28.60
SALARY EXPENSE:					
Owners' and Managers'					3.95
Salespeople, Office and Other Employees					8.70
TOTAL SALARIES					12.65
OTHER EXPENSE:					
Office Supplies and Postage					0.30
Advertising					0.55
Donations					0.15
Telephone and Telegraph					0.20
Losses on Notes and Accounts					0.25
Delivery Expense (other than wages)					0.35
Depreciation Delivery Equipment					0.10
Depreciation Furniture, Fixtures and Tools					0.15

Rent	2.00	2.95	1.95	1.60
Repairs to Building	0.20	0.20	0.20	0.15
Heat, Light, Water, Power	0.55	0.95	0.50	0.35
Insurance ¹	0.40	0.50	0.40	0.35
Taxes (not including Federal Income Tax) ¹	0.60	0.70	0.60	0.65
Interest on Borrowed Money ¹	0.10	0.15	0.05	0.05
Unclassified (including store supplies)	0.70	0.55	0.75	0.85

TOTAL EXPENSE (Interest on Investment not included) 19.80 22.95 20.30 19.40 18.70

EARNINGS ON SALES
Cash Discount and other Earnings (pctg. on Sales) 9.45 9.55 9.75 9.90 9.90

TOTAL EARNINGS (before Federal Income Tax)² 1.45 1.40 1.40 1.40 1.65

TOTAL EARNINGS (before Federal Income Tax)² 10.90 8.10 10.90 11.15 11.55

Salary per Owner or Manager \$ 2,390 \$ 1,715 \$ 2,175 \$ 2,700 \$ 3,785
Salary per Salesman ----- 1,355 1,530 1,530 1,720
Salary per Office Employee ----- 1,215 1,370 1,370 1,630
Salary per Other Employee ----- 1,245 1,350 1,350 1,415
Salary per Employee (other than owner or manager) 1,475 1,140 1,340 1,470 1,660

Sales per Person Employed (excluding shop employees) 15,665 11,440 14,825 15,470 18,140

MERCHANDISE INVENTORY (per \$10,000 of sales) 2,170 3,095 2,380 2,130 1,795

CURRENT ASSETS (per \$10,000 of sales) 4,535 5,795 4,810 4,395 4,140

TOTAL ASSETS (per \$10,000 of sales)² 4,810 6,310 5,155 4,640 4,345

TOTAL LIABILITIES (per \$10,000 of sales)² 440 440 465 430 440

NET WORTH (per \$10,000 of sales)² 4,370 5,870 4,690 4,210 3,905

Credit Sales (percentage of sales) 29% 20% 24% 29% 39%

Capital Turn Times (excluding real estate) 2.34 1.75 2.16 2.42 2.61

Stock Turn Times 3.42 2.37 3.08 3.46 4.10

Owning Real Estate used in business 36% 31% 29% 37% 44%

¹ Figures for Insurance, Taxes and Interest do not include amounts paid in connection with real estate ownership, such items being included in rental expense.

² Exclusive of Real Estate.

E. OPERATING RESULTS FOR 43 FIRMS OPERATING INDEPENDENT VARIETY STORES: 1944

(Reprinted by permission from *Expenses and Profits of Limited Price Variety Stores in 1944: Chains and Independents*, by Elizabeth A. Burnham. Harvard University Bureau of Business Research, Bulletin No. 123)

ITEMS	Aggregate Figures Computed from the Combined Dollar Figures of the 43 Firms	Median and Range Figures	
		Percentages Computed from the Figures for Each Firm Taken Individually	Percentages Computed from the Figures for One-Half the Reported Figures, Centered on the Median, Lay between the Limits Listed Below
Aggregate Number of Stores	45	----	----
Aggregate Net Sales	\$2,542,283	100.00%	----
Average Sales per Store	\$56,495	\$47,383	\$31,033
Change in Sales (1944/1943)	----	118.13	109.75
Net Cost of Merchandise Sold (including freight, express, postage, and truckage)	66.68%	66.42%	64.73%
GROSS MARGIN	33.32	33.58	31.14
Salaries and Wages:			
Executive	5.36%	5.98%	4.06%
Other	8.76	8.00	5.52
Total Salaries and Wages (subtotal)	(14.12)	14.24	11.74
Tenancy Costs (including Heat)	2.74	2.82	2.16
Light, Water, and Power	0.52	0.51	0.37
Depreciation of Fixtures and Equipment	0.63	0.58	0.34
Supplies	0.74	0.78	0.52
Advertising	0.55	0.37	0.17
Insurance (except on real estate)	0.37	0.35	0.26
			68.86%
			35.27
			7.54%
			9.44
			15.63
			3.75
			0.71
			0.79
			0.98
			0.72
			0.51

Taxes (except on real estate or income):

Sales						
Other	0.73	0.00	0.00	0.00	0.00	0.00
Miscellaneous Expense	1.62	0.64	0.47	0.83	0.83	0.83
Total Expense before Interest	<u>22.02%</u>	<u>22.25%</u>	<u>20.18%</u>	<u>24.47%</u>	<u>24.47%</u>	<u>24.47%</u>
Total Interest ²	2.19	1.99	1.63	2.85	2.85	2.85
TOTAL EXPENSE including Interest	<u>24.21%</u>	<u>24.54%</u>	<u>22.33%</u>	<u>25.93%</u>	<u>25.93%</u>	<u>25.93%</u>
NET PROFIT	9.11%	9.20%	5.64%	11.56%	11.56%	11.56%
Net Other Income (including interest on Net Worth)	2.48	1.95	1.50	2.90	2.90	2.90
NET GAIN before Income Taxes:						
Percentage of Net Sales	11.59%	11.92%	7.76%	14.06%	14.06%	14.06%
Percentage of Net Worth	27.49	31.04	17.66	41.96	41.96	41.96
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories	3.82	3.82	3.27	4.48	4.48	4.48
Discounts and Allowances Received	•	1.00%†	0.91%†	1.31%†	1.31%†	1.31%†
Freight, Express, Postage, and Truckage	•	1.86†	1.42†	2.14†	2.14†	2.14†
Population of City	----	3,070	1,804	6,632	6,632	6,632

• Data not available. † Usable figures for this item were given on less than 75% of the reports.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² Total interest includes any interest paid on borrowed capital plus an imputed charge for interest at 6% on net worth other than real estate. The latter interest is credited back under Net Other Income so that the final net gain is not affected by the inclusion of such interest as expense.

F. COMPARATIVE OPERATING FACTS OF 125 FOOD STORES

(Reprinted by permission from *Operating Expenses of 125 Food Stores*, published by *The Progressive Grocer*, national magazine of the food trade)

Average Sales	\$413,380	\$478,313	\$118,497	\$ 64,303	\$ 50,177	\$133,433	\$ 56,156	\$ 50,016	\$ 65,739	<i>Average 25 General Stores</i>
Average Inventory	20,021	27,398	5,860	3,672	3,099	7,488	4,201	3,938	14,106	<i>Average 25 Service Grocery Stores</i>
Cost of Merchandise Sold	342,900	377,555	99,166	53,310	40,634	103,845	47,691	40,778	52,380	<i>Average 10 Cash Grocery Stores</i>
Per Cent of Sales	82.95	78.9	83.7	82.9	80.9	77.8	84.9	81.5	79.7	<i>Average 10 Service Combination Stores Over \$100,000</i>
Margin	70,480	100,757	19,331	10,993	9,543	29,588	8,465	9,238	13,359	<i>Average 25 Service Combination Stores Under \$100,000</i>
Per Cent of Sales	71.05	21.1	16.3	17.1	19.1	22.2	15.1	18.5	20.3	<i>Average 10 Counter- Service Cash- Combination Stores</i>
OPERATING EXPENSES	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>	<i>Per Cent of Sales</i>
Owner's Salary	1.02	.9	1.8	2.6	3.4	2.4	3.2	3.7	3.3	<i>Per Cent of Sales</i>
Other Salaries and Wages	6.85	8.8	5.9	6.0	6.3	8.1	4.6	5.4	6.2	<i>Per Cent of Sales</i>

Rent	1.33	2.4	1.2	1.4	1.2	1.4	1.7	1.4	1.4	1.3
Delivery	.06	.2	.1	.4	1.1	1.4	.5	1.1	1.1	.4
Advertising	1.30	1.4	.7	1.1	.6	.8	.5	.5	.5	.7
Donations & Dues	.07	.1	.04	.1	.1	.04	.05	.1	.1	.1
Telephone & Telegraph	.08	.04	.1	.1	.2	.2	.1	.2	.2	.2
Wrapping Materials	.80	.8	.7	.6	.6	.66	.4	.5	.5	.6
Misc. Supplies—Laundry	.25	.3	.3	.3	.4	.5	.2	.3	.3	.4
Heat, Elec., Water, Gas	1.00	.7	.7	.7	.8	.7	.5	.5	.5	.6
Losses—Bad Accts., Checks	.02	.06	.05	.07	.3	.4	.01	.2	.4	.4
Interest Paid	.05	.1	.01	.03	.1	.1	.02	.1	.1	.2
Repairs and Depreciation	.41	.4	.6	.4	.7	.9	.3	.5	.5	.7
Insurance	.28	.3	.3	.2	.3	.3	.2	.2	.2	.3
Taxes, Permits, Licenses	.22	.2	.3	.3	.4	.5	.3	.5	.5	.4
Soc. Sec., Unemployment Tax	.32	.4	.2	.4	.1	.2	.1	.1	.1	.2
Other Expenses	.24	.4	.2	.3	.3	.2	.02	.1	.1	.2
Total Operating Expense	14.30	17.5	13.2	15.0	16.9	18.8	12.7	15.4	16.2	16.2
Net Profit	2.75	3.6	3.1	2.1	2.2	3.4	2.4	3.1	4.1	4.1
Margin on Sales	17.05	21.1	16.3	17.1	19.1	22.2	15.1	18.5	20.3	20.3

SMALL BUSINESS

G. RESTAURANTS

(Reprinted by permission of the National Restaurant Association.)

Items	Self Service	Table Service
Costs of Goods Sold	46.1%	46.8%
Salaries and Wages	26.9%	26.5%
Social Security Taxes on Payrolls	1.3	1.2
Laundry	1.2	1.9
Fuel for Cooking, Electricity, and Lighting	2.6	2.9
Ice	.5	.5
Meaus, Stationery, and Printing	.2	.6
Cleaning Supplies and Expense	.6	.6
Advertising	.9	.6
Telephone, Telegrams, and Postage	.1	.2
Federal, State and City Taxes and Licenses	.9	.9
Replacements (China, Linen, etc.)	1.1	1.0
Repairs	.7	.9
Rent	5.6	6.4
Water	.3	.3
Insurance	.6	.6
Depreciation & Amortization	2.6	2.1
All Other Expenses	3.0	1.8
TOTAL EXPENSES	49.1%	49.0%
GROSS MARGIN	53.9%	53.2%
NET PROFIT	4.8%	4.2%

APPENDIX IV

A Sample Bookkeeping System for a Small Business

SINCE the Revenue Act of 1940 became law, small-business men have been required by law to keep permanent business records for income-tax purposes. Passage of the law immediately emphasized a problem of which management engineers and public accountants have long been aware—that a considerable percentage of small-business men keep no business records.

The past few years have seen a steadily growing demand for simplified bookkeeping records. Small-business and professional men who cannot afford a system installed by a certified public accountant, or who are located beyond reach of the growing number of low-cost accounting and tax services for small business, have found themselves sorely in need of simple, nontechnical business-record systems.

The following publications contain many examples of simplified record systems for small business. Many of the examples are classified by type of business: service stations, restaurants, beauty parlors, food stores, wholesale establishments, and other common small businesses.

Dome Simplified Weekly Bookkeeping Record, by Nicholas Picchione (C.P.A. and tax specialist), published by the Dome Publishing Company, New York, and available through bookstores and office-supply stores.

Specimen pages from the *Dome Simplified Weekly Bookkeeping Record* are reproduced herewith by special permission of the Dome Publishing Company and Nicholas Picchione.

WEEK ENDED March 29

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EXPENDITURES				
ACCT. NO.	ACCOUNT	TOTAL THIS WEEK	TOTAL UP TO LAST WEEK	TOTAL TO DATE
DEDUCTIBLE				
1	MDGR. - MATERIALS	30 86	360 19	391 05
2	ADVERTISING		26 00	26 00
3	AUTO EXPENSE		10 00	10 00
4	BAGS, PAPER & TWINE			
5	COAL & OIL	6 00	50 00	56 00
6	DELIVERY EXP. †			
7	DONATIONS		5 00	5 00
8	ELECTRICITY		16 40	16 40
9	FREIGHT & EXPRESS †			
10	GAS	3 00	9 00	12 00
11	ICE			
12	INSURANCE			
13	INTEREST			
14	LAUNDRY	14 00	160 00	174 00
15	LEGAL EXPENSE			
16	LICENSING			
17	MISCELLANEOUS EXP.			
18	OFFICE EXP.		12 60	12 60
19	POSTAGE		2 05	2 05
20	RENT		90 00	90 00
21	REPAIRS		1 00	1 00
22	SHOP EXP. †			
23	TAX - SOCIAL SECURITY		6 00	6 00
24	TAX - STATE U. L.			
25	TAX - OTHER			
26	SELLING EXP.			
27	SUPPLIES	4 80	48 00	52 80
28	TELEPHONE	5 80	11 90	17 70
29	TRADE DUES & SUBS.			
30	TRAVELING EXP.			
31	WAGES & COMD.	48 75	600 00	648 75
32	WATER †			
33				
34				
35				
36				
37				
38				
NON-DEDUCTIBLE				
39	EQUIPMENT - NOTES			
40	FEDERAL INC. TAX			
41	LOANS PAYABLE			
42	LOANS RECEIVABLE			
43	PERSONAL	90 00	360 00	390 00
44				
45				
TOTAL THIS WEEK		143 21		
TOTAL UP TO LAST WEEK			1768 14	
TOTAL TO DATE				1911 35

† Professional men omit.

TOTAL RECEIPTS FROM BUSINESS OR PROFESSION			
DAY		AMOUNT	TOTALS
SUN.			
MON.	24	12 80	
TUES.	25	16 50	
WED.	26	11 40	
THURS.	27	10 80	
FRI.	28	50 30	
SAT.	29	70 50	
TOTAL THIS WEEK			182 30
TOTAL UP TO LAST WEEK			2346 35
TOTAL TO DATE			2528 65

SPECIMEN
PAYROLL

EMPLOYEE	TOTAL WAGES	DEDUCTIONS			NET PAID
		SOC. SEC.	INCOME TAX	OTHER	
1 John Jones	30 25	30	70		29 25
2 Mae Brown	19 90	20	20		19 50
3					
4					
5					
6					
7					
8					
		50 15	90		48 75

*Above taxes when paid should be entered as follows:

SOCIAL SECURITY TAXES:

ACCT. NO. 23—EMPLOYER'S TAX

ACCT. NO. 31—EMPLOYER'S TAX

INCOME TAX:

ACCT. NO. 31 WITHHOLDING TAX

SMALL BUSINESS

Shaw's *All Facts*, improved bookkeeping system available through Montgomery Ward and Company.

Simplex Business Record System, available through Sears and Roebuck Company.

Mercer Systems, available through independent bookstores and office-supply stores or from Mercer Systems, Inc., Seattle, Washington.

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