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ADDRESS

BY

Edward N. Hurley

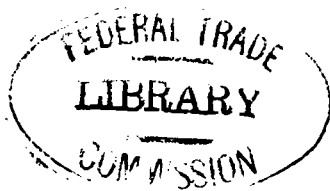
Vice-Chairman Federal Trade Commission

BEFORE

The Tenth Annual Meeting of the
National Wholesale Grocers' Association
of the United States

at

Boston, June 15, 1916



ADDRESS OF EDWARD N. HURLEY

Mr. President and Members of the National Wholesale Grocers' Association of the United States:

It is an honor to be invited to address your Association, one of the strong and progressive trade organizations of our country. The wholesale and retail grocery business constitutes a most important part of the world distributing system. There have been many changes in details connected with the industry, but the large essential facts remain the same from year to year. Whether supplying the mining camps of California in the days of the forty-niners, or furnishing up-to-date delicacies to-day for the city dweller's table, the main features of supplying a primary human want remain the same.

The question of distribution of food products is a most important one. I believe it is one of the most important questions before the country to-day. The high cost of living is materially affected by any increased cost in the distribution of these products. The margin of profit is so close that the distributor who starts to sell outside his freight zone is automatically prevented from competing in other fields.

Your theory that the manufacturer can distribute his product through the jobber collectively far better than he could through individual effort seems to me to be very practical, as we all know that it is very expensive for a manufacturer or merchant to sell a single line at a small margin and make a profit.

This most important question, which affects our people as a whole, should be taken up by the Government in co-operation with the food distributors and traders of the country as an economic question. The Federal Trade Commission hopes to have some facts from the food producers and distributors that will be helpful when we complete within a few months our Report on Industries. Your organization has devoted a great deal of time and money with the object of solving your many problems. I am particularly pleased that you are devoting every effort to improve your cost accounting system, with the view of working out a system that will show the returns on all your products. The great trouble with most of our manufacturers and business men of the country to-day is that if they are manufacturing or selling, say, six different products they may be making a profit on three of them, but on the other three losing money. Is it fair for any manufacturer or jobber to sell part of his product at a profit and the other part at a loss? Don't you believe that he should charge a proportion of his overhead and selling expenses to every article that he handles, and isn't it a mistaken policy to sell any article at a loss? This method of doing business frequently forces competitors to fail, particularly when they have to compete with manufacturers and jobbers who are making substantial percentage of profit on part of their line and are

competing unfairly with their other line by cutting and demoralizing prices.

Gentlemen, every article sold should share its percentage of overhead, executive, accounting and selling expenses. It is the only safe way to conduct a business. To claim that your overhead is reduced because you are handling a large volume and to handle any product solely for this reason is causing more trouble in this country than any other one method.

Methods of Distribution Improving.

The study of the best and most direct methods of distribution are receiving to-day a consideration equalled only to that given to manufacturing.

The saving of time and expense through the creation of a closer co-operation between the wholesaler and retailer, as evidenced by your Arbitration Committees, and the standardizing of terms and discounts, are moves in the general direction of better business methods. Even more important is a study of the costs of doing business. You are all familiar with the splendid work of the Bureau of Business Research of Harvard University in preparing a standard form of accounting for retail grocers, already adopted by many stores. A similar form is under consideration for wholesalers.

The success of the retail grocer is a vital matter to the wholesale grocer. All are part of one system of distribution. Whatever helps one helps the other. If the retailer knows his costs through having a proper system of cost accounting he will be able to do a successful business for a long time, and the wholesaler will have the same man to deal with year after year, instead of a constantly changing grocery customer. Stability in the industry is the result. With a reduced percentage of failures and fewer credit losses, there should come a lessened cost of operation to both wholesale and retail grocers, and both the distributor and the public should be benefited.

In the interests of all it is desirable that the financial losses that flow from ignorant competition be reduced as much as possible. The entire community is damaged when its merchants fail. Some one has to pay the loss. The far-sighted jobber is interested in seeing that the retailer has a fair margin for the services which he performs. It is proper that you advise and counsel the small retailers in your towns. Those to whom you extend credit should recognize the necessity of knowing the cost of selling in order that they may continue to operate a successful business.

For several decades our Government has worked out through the Interstate Commerce Commission a constructive program for the railroads of the country. It has also made effective through the Agricultural Department measures likewise helpful to the farmer. In these cases it has approached the problems in the spirit of co-operation, and the results have been beneficial to all.

The Government's attitude toward business, however, presents again a contrast. The trouble has really been one of point of view. Govern

ment action has usually been negative, always scattered and seldom constructive.

Unfortunately, our business men and our Government have been losing valuable time during the past fifteen years in trying to settle our economic and business problems, not by co-operation, not by any scientific method which will bring about results beneficial to our people as a whole, but by resorting to the courts. I know business has been sick, and business has undoubtedly been in a large measure to blame for its illness, but instead of sending for a doctor who could prescribe a remedy that would give practical and permanent relief, the Government sent for lawyers, and you know the result.

A wrong feeling has existed in this country as to the proper relations between Government and business. Even when I went to Washington I had the feeling that business men did not want to co-operate with the Government, but I learned very quickly that they are all eager to co-operate and willing to do everything in their power that the Government desires.

We are talking a great deal these days about mobilizing our industries and co-operating for industrial preparedness. We have been floundering about for many years with no definite plan; in fact, the first step has hardly been taken toward solving our industrial problems and toward attaining the result which we all know is absolutely necessary. Co-operation requires the interest and good will of both sides. Business men are anxious to co-operate with our Government. It is now the duty of the Government to lend its active constructive aid, and it is the earnest desire of the Federal Trade Commission to do everything in its power to help foster American industries.

Federal Trade Commission and Definite Steps Forward.

The Federal Trade Commission is endeavoring to-day to work out a comprehensive, constructive solution of our business problems. We have taken definite steps toward getting at the real facts of industry from manufacturers. Within a few months we hope to be able to give manufacturers first-hand information about their business. I am satisfied from this investigation that the business men of the country are anxious and willing to co-operate with the Commission. I know it. We are in receipt of thousands of letters expressing their appreciation of our efforts. In preparing this Report on Industries we have sent out many thousands of forms, and the percentage of firms objecting to filling them out is almost negligible. This in itself is evidence of their willingness to do their part and assures us of a basis of fact upon which we can co-operate.

Present Attitude of Department of Justice.

The Chamber of Commerce of the United States has a Federal Trade Committee, of which Mr. Harry A. Wheeler, of Chicago, is chairman. Last autumn the Attorney General of the United States after a number of conferences with this committee issued a statement defining the atti-

tude of the Government in anti-trust cases which has been reassuring to business men and dispelled some uncertainty which had been said to exist. He stated that no court proceeding was ever instituted by the Department of Justice until after a most exhaustive investigation in the course of which the parties complained against are given full opportunity to be heard. He stated further in substance that in admittedly doubtful cases where the parties acted in good faith no criminal action at all would be brought, and that even no civil proceeding would be started without first giving the parties an opportunity to abandon the course of conduct, regarded by the Department as illegal.

Bettering Business Methods.

The activities of trade associations like yours and similar business organizations are manifold, and the business done by their members runs into the billions. These groups of associated business men are putting forth special efforts to improve systems of cost accounting, bettering their processes of manufacture, standardizing their output, obtaining credit information, and endeavoring to advance the welfare of their employees, and are bound to be most important factors in our country's development in the course of the next few years.

Special commendation should be given to associations that are endeavoring to build up industry in these constructive ways. Successful production and successful merchandizing require many steps in the process of changing the form of the raw materials, and putting the product on the market at a figure adequate to cover the cost of production and the cost of selling and net some profit to the producer, without charging the consumer an excessive price, and neither the individual manufacturer nor the Government alone can work out the many serious economic and business problems involved, so successfully, as can a group of associated producers, laboring together in co-operation. These associations, when conducted intelligently and rationally, with the thought of bringing about improved business conditions, will make it possible for our industries to compete in price and quality in the markets of the world.

Bettering Conditions of Labor.

The question of giving to our workmen continuous employment so that they may average longer periods of prosperity can be solved and other plans for their welfare can be worked out, through trade associations. As we have grown in manufacturing capacity we have come to realize that our employees are one of the most important parts of a successful establishment. That management is successful which is not only efficient in working out economies in production, but which also has the real interests of its employees at heart, and which is anxious to have as many of its employees stockholders as possible, and which also realizes that without the hearty co-operation and enthusiasm of their men the best results cannot be obtained. Many corporations and firms are now raising salaries and wages without the request from their employees. These ben-

efits are commendable and should be supplemented by movements for the general welfare, planned and put into effect by our trade associations.

Trade Associations and Government.

Business and Government can co-operate through trade associations better than in any other way. The Federal Trade Commission's report on industries will furnish associations with facts and figures, not now available, which will enable them to assist in developing and stabilizing their industries. We talk much nowadays about industrial preparedness and the mobilizing of our industries in case of war. This can be accomplished through trade associations more quickly than in any other way. In the countries of Europe these associations, in co-operation with the governments, have been important factors in improving industrial conditions and particularly in extending foreign trade.

There should be a greater degree of organization and of mutual helpfulness in all lines of trade and industry, so that American business may be welded into a commercial and industrial whole; the part of the Government being to co-operate with business men, on request, to bring about the results that will benefit business and hence promote our national welfare.

Views of President Wilson.

President Wilson's views on trade associations may be of particular interest to you. In a letter addressed to me, under date of May 12, 1916, he says in part:

"Your suggestion that trade associations, associations of retail and wholesale merchants, commercial clubs, boards of trade, manufacturers' associations, credit associations, and other similar organizations should be encouraged in every feasible way by the Government seems to me a very wise one. To furnish them with data and comprehensive information in order that they may more easily accomplish the result that they are organized for is a proper and useful Government function. These associations, when organized for the purpose of improving conditions in their particular industry, such as unifying cost accounting and bookkeeping methods, should meet with the approval of every man interested in the business progress of the country."

Cost Accounting.

A preliminary study of industry generally, made by the Federal Trade Commission, has revealed the fact that only a very small percentage of the manufacturers of the country make any charge for depreciation of plant or of equipment, and that their products were priced and their profits determined before reckoning this vital and important item. A manufacturer who figures his profits without adequately providing for depreciation and who pays dividends on that basis is paying dividends out of capital and not out of profits.

Uniformity in Accounting Methods.

The subject of more uniformity in cost finding is at present receiving the careful attention of many manufacturers and trade associations. A number of trade associations are in this way achieving marked success in strengthening their industries. It is being demonstrated that a knowledge of cost determined by a uniform practice can improve trade conditions to a remarkable degree. By a uniform practice I mean a common classification of costs, both manufacturing and selling, a uniform method of distributing overhead expense, and a uniform method of providing for depreciation with rates more or less standardized. Where this condition exists, production statistics which are comparable and which will inform and guide the whole industry are obtainable. Manufacturers can then talk in the same language and will be in a position to profit by each other's experience, to conduct their plants more efficiently, and to establish prices more intelligently.

Example of Dangers of Lack of Adequate Accounting Methods.

For example, take two manufacturers, say Jones and Brown. They are in the same line of business and bank with the same banker. Jones keeps an accurate cost accounting system, charges off liberally for depreciation on his buildings, machinery, etc. He charges his jigs, tools, dies and patterns against the cost of operation every month or at least every quarter. His overhead is distributed equally and fairly. He quotes a fair price on his product and his customers recognize that they are getting value received. He has a large bank account and is considered a conservative and substantial business man. Brown, his competitor, on the contrary, does not keep a cost accounting system; does not charge off for depreciation except a small amount at the end of each year. Brown maintains that his buildings and machinery are as good as they were twenty years ago. He charges his jigs, tools, dies and patterns to capital account and considers them valuable assets. He figures that he has been quite liberal when charging off ten per cent. for depreciation on these items at the end of the year. He is a heavy borrower at the bank, and the banker is probably loaning him money that Jones, his competitor, has on deposit. This furnishes Brown working capital, to do what? To continue to run his business in a slipshod, slovenly manner, to cut prices and ruin the industry in which they are both engaged.

Ignorant competition is most dangerous to the development and success of our country. The Clayton Act and the Federal Trade Commission Act have no control over this menace. It is estimated that ninety per cent. of the manufacturers and merchants in Germany know absolutely what their goods cost to manufacture and sell. If you compare our figures, which show, according to estimates, that only 10 per cent. of our manufacturers and merchants know what it costs to manufacture and sell their products, you have the answer as to why Germany has been so successful in developing such a high

standard of efficiency in manufacturing and distributing their products not only in Germany but in the markets of the world.

It is a fact well understood among business men that the general demoralization in a large number of industries has been caused by firms who cut prices not knowing what their goods actually cost to manufacture. The cost of selling also, which is equally important, is almost wholly lost sight of. Are the officers of the companies who are cutting prices right and left, irrespective of their costs, *fair to their customers, stockholders, or competitors?*

Quality and service are becoming greater factors in the field of merchandising. Long after the price of a product is forgotten the *quality of that product is remembered.*

Accounting Essential to Progress.

Government has complained about business. Business men have complained of the attitude of the Government toward business. Whatever justification there may have been in the past for such complaints, to-day there is a better understanding between Government and business. Since better business methods usually begin with better methods of cost accounting, scientific cost keeping becomes in a very definite sense the basis of our prosperity. The Government, through the Federal Trade Commission, by recommending the subject of costs to the business men of the country at this time, and offering to aid in the actual development of proper cost systems, is endeavoring to do a constructive piece of work which is of the greatest importance. The problems of credit and finance, of foreign trade and unfair methods of competition, and of labor and capital—all will begin to solve themselves once the subject of costs receives on every hand the attention it rightfully deserves.