CHAPTER 1

HOW SUCCESSFUL BUSINESSES ARE BUILT

SIR FRANK NEWNES, BART.


Among the most fascinating chapters in the romance of business there is none more full of human interest than the life-story of many of the outstanding men who have created some great businesses. My purpose is not to retell these romances here, but to indicate in what manner some great industrial concerns have been gradually built up from small beginnings. I shall try to exemplify, from a few selected instances, the fundamental basis and the guiding principles that are common to nearly all. Finally, I shall say a word on the great changes and the newer developments that have taken place within the last few years.

No business concern of any standing and importance has become what it is by reason of haphazard happenings. A bright idea, or a sudden inspiration, has often been the genesis of what has become a big business undertaking, but between the genesis and the ultimate realisation we usually find there lies the story of the life-work, not of one mind, but of several minds.

If we take at random only half-a-dozen names out of many well-known businesses that have arisen from small beginnings to big concerns, we find that the life-story of their founders is practically the same in each case, Sir John Barker, Sir Joseph Lyons, Sir George Newnes, Lord Northcliffe, and Lord Leverhulme.

Their business lives may be summed up in a few words—a definite purpose, vital interest, restless activity, enthusiasm, determination, and staying power. One may be splendid in ideas, but, devoid of those other qualities, and the capacity for seeing things done, nothing results. It will be found without exception that the keynote of all these men was initiative, vital interest, and determination.

First Beginnings

Let me take first the case of my father, the pioneer of popular periodicals and magazine literature. The available capital with which he started was trifling—less than five hundred pounds. To-day the Company he founded has a capital of £800,000. His success was perhaps the more remarkable because he was not a trained journalist, and, as a matter of fact, began life in a wholesale draper’s establishment and then became a commercial traveller. When he started “Tit-Bits” he knew nothing about the technical side of printing and publishing, and his great success was due, not only to the fact that he was always evolving new and fresh...
ideas, but was the result of sustained concentration and continuity of purpose.

There was nothing in the early days connected with my father's business that he did not think worth his personal attention. He had an amazing capacity for taking pains; much depends in all new ventures upon how things are done; he would seize the psychological moment; he would launch new things in the most attractive form; he would anticipate others where he could; he believed in the popular price. As the business grew, his chief concern was the problem of finding efficient helpers, men who were not afraid to take on responsibility. One of the maxims of the late Sir Joseph Lyons was, "Let your employees rise with you." It is humanly impossible for any one person to build up and control a business of even moderate dimensions without the able assistance and cooperation of other men. There is a limit to the amount of work any one man can do and his success ultimately depends largely on his choice of assistants.

The Company founded by Sir Joseph Lyons and Mr. Gluckstein has today a capital of nearly £6,000,000, and employs 30,000 people. The fundamental idea here was simply this. Sir Joseph Lyons had the gift of anticipating public needs, and he had the business capacity to put his ideas into a practical shape. He wrote: "The turning-point of my life came when I went into a dirty little London restaurant one day, ordered the least uninviting dish, and sat down to eat. The waiter was a long time bringing my food, and when he brought it, it was cold, badly served on a dirty plate, and placed on an equally dirty tablecloth."

"Maybe I was in a somewhat critical mood that day, but as I sat in that little restaurant I began to think how difficult it was for the average person to get a small meal served up in a clean, appetising manner. The more I thought about the matter, the more I became convinced that it was a universal want. I went off to my friend, Mr. Montagu Gluckstein, who, even in those far-off days, was a great organiser, and we formed a partnership and a plan of campaign."

"An exhibition at Newcastle-on-Tyne was in the process of organisation, and we got the refreshment contract. We engaged the first Blue Hungarian Band that ever came to England, at £100 a week, during the run of the exhibition, and, although people thought we were raving mad, we did not forget our own formula—bright and pleasant surroundings—and felt that even the profits on a twopenny cup of tea, and a penny plate of appetising bread and butter, would be sufficient if we could only do a large business."

Business Planning

That seems easy. But there is more here than meets the eye. A great deal of estimating, budgeting, and business planning was involved. "It was a question of facts and figures. We saw, for example, a certain article costing 1½d. being sold for 6d. Could we, after allowing for cost of plant and working expenses, sell it at 4d.? More organisation and planning; then we found we could. Then we went farther. As we made our profit we increased our quality. We took smaller profits, doubled the turnover, and so we grew."

Sir Joseph Lyons had the vision, but, as he admitted, he was assisted by two of the cleverest organisers in the kingdom. No haphazard methods. "Whenever a scheme was brought to us we put our heads together to consider it and look out for 'the nigger on the fence'—that is to say, we looked for the weak spot. It is a puzzle to find the 'nigger.' When you have got him you must either
discard the scheme or get rid of the nigger.”

The same thing applies to other businesses, applies to them at every turn of the road. The essentials of the rise of this business from small beginnings to that which became the biggest catering concern in the world were, said its founder himself: “finding our groove; concentration; keeping faith with the public; buying in the right markets; choosing the right employees; letting our employees rise with us.” It is interesting to know that he laid stress on the last two. The guiding principles of this Company were to discover its public, to stick to it, study its requirements, and cater for its wants to the best of their ability. In a word, concentration and continuity. That policy led to the formation of allied concerns which now control some of the biggest and best known cafés and hotels in the world.

It must not be imagined that it was always an easy road; it never is; there are usually mistakes and setbacks. The overcoming of difficulties is another trait of successful men. Sir Joseph Lyons and his associates found a nasty “nigger on the fence” after they had undertaken the construction of the Trocadero, which to-day every Londoner knows as a prosperous business. The “nigger” was only appeased after £100,000 was found to make good a miscalculation of costs.

Sir John Barker

Among the biggest Stores in London is that of John Barker & Co., Ltd., with a capital of about £2,300,000. Sir John Barker said, “One need not combine all the talents in order to be successful”—almost a repetition of Sir Joseph Lyons’ statement. He was also fond of reminding his staff that “there is no such thing as luck in business.” One may have a stroke of luck or a lucky spell; but an occasional stroke of luck does not come along every week or every month.

The fundamental basis on which Sir John Barker began was ambition. He was the son of a Maidstone brewer. He had no leaning towards his father’s business, and the Mecca of his ambition was London, because “I looked on London as the world itself.” He apprenticed himself to a provincial drapery warehouse; in time he transferred himself to London.

He had little money of his own and launched out for himself on borrowed capital. He set out with the determined purpose of supplying the hundred and one requirements of a well-to-do locality at the smallest margin of profit, instead of what were called prohibitive West End prices. “The public found they could rely on my word and all the rest followed as a matter of course.”

A modest remark this, “as a matter of course.” A business consisting of two small shops does not grow into such a gigantic emporium as “Barker’s” as a matter of course. Note the foresight and planning at the outset. He had determined to introduce popular prices, and he chose to establish himself in a high-class residential district. Naturally, the first thing he had to face was “the many difficulties and prejudices that had to be overcome,” just because he deliberately chose the neighbourhood he did. And the great business he thus founded on such a solid basis has continued to grow and expand under the able control of Sir Sydney Skinner, who also started life in a small way and has worked his way up to his present great position in the business world.

The New Era

To-day is the era of big business, combines, and amalgamations, so big that it is impossible for any one man to exercise personal control in all branches. The day of the all-round manager is disappearing. This is the
opportunity for the ambitious young man, for whom there is perhaps more
prospect to-day in filling highly paid
posts in a big business than in new
ventures; lucrative positions which
demand management ability, initia-
tive, and the power to direct and
control. These positions are always
available for the right man; the
trouble is to find him.

I would not say that the day for
enterprising brains to start fresh busi-
nesses, that may conceivably grow
into big ones, has gone, that the
opportunities are no longer there,
that the great developments of Joint
Stock Companies and the new fashion
of combines, amalgamations, and the
formation of trusts has made it im-
possible for new businesses to be
started with any hope of great success.

That would not be true. The lack
of one thing gave Sir Joseph Lyons
his chance; the lack of popular
literature gave Sir George Newnes
his chance; the lack of a halfpenny
newspaper gave Lord Northcliffe his
chance; these opportunities are not
likely to occur again, but others will,
and no doubt, here and there through-
out the country, there are young
ambitious men starting small busi-
nesses that one day will blossom into
great enterprises. I should remind
them of the advice of Henry Ford:
“The young man with ambition
ought to take a long look ahead and
leave an ample margin of time for
things to happen.”

The huge business of Courtaulds
was started in a modest way only,
comparatively speaking, a few years
ago. What is now the Crittall Manufac-
turing Company, Ltd. (with a
capital of about £1,000,000), was
started by a Braintree working black-
smith whose first staff consisted of
two men and a boy. The men he is
looking for to-day, Mr. Crittall has
just said, are the £1,500 a year men.
We have also seen within recent years
the rise of several motor businesses
from small beginnings to huge enter-
prises. Sir W. R. Morris, the motor
manufacturer of Cowley and Oxford,
began his business career as an
apprentice and then started to make
bicycles for friends. Soon he was
building and selling the Morris “push”
bicycle. In order that he might
exhibit at a motor bicycle exhibition
in 1904 he worked for four days and
four nights without sleep so as to get
his bicycle finished in time.

Financial Assistance

In one respect, the ambitious young
man of to-day, fruitful of practical
ideas and with the capacity for busi-
ness building, has a decided advantage
over the same kind of young man of a
previous generation. He will ex-
perience probably less difficulty over
the question of finance.

Many must have read with interest
some remarks made in January 1927
by Mr. Beatham Pease, Chairman of
Lloyd’s Bank, regarding the assistance
granted by Banks to the trading com-
pany. The advances made by that
Bank, he stated, represented half the
total amount of the Bank’s assets.
It is a mistake to think that the Banks
do not cater for the smaller borrower.
As Mr. Pease said, “It is the ‘small
man’ with whom we are chiefly
concerned, and it is ‘the small man’
who figures most prominently in all
aspects of our business.” It appears
from Mr. Pease’s statement that, deal-
ing with the year 1926, no less than 84
per cent. of the borrowers of this one
Bank have average overdrafts of no
more than £614, accounting for 43
per cent. of the total overdrafts.
The total overdrafts of firms in the
retail trade amounted in 1926 to no
less than £13,000,000, spread over
21,668 borrowers, which gives an
average overdraft of about £610.

Few people probably realise to
what extent the big Banks assist
traders. For example, Lloyd’s Bank
in the year I have mentioned advanced,
as I have said, over £13,000,000 to the
retail trade; and the overdrafts
represented by the Iron and Steel Trades amounted to over £3,000,000; to the Coal Trade nearly £4,000,000; to the Chemical Trade nearly £1,000,000; to the Paper, Printing and Publishing Trades, £1,800,000; to Agriculture, £18,500,000; and to personal and professional people, £43,500,000—in this last case the average overdraft was £545.

Taking the total number of all overdrawn accounts of this one Bank, the average overdraft was £1,200. These figures, as Mr. Pease says, effectively answer the statement sometimes made that banks do not cater for the smaller borrower. Such, then, is one advantage offered to the young aspiring business geniuses of to-day. Another is the facility with which money can be raised by forming prosperous businesses into private or public limited liability companies, a few instances of which I have mentioned.

During the last five years (1921–26) the average number of new companies registered with a capital between £100,000 and £500,000 is 199, and new companies registered over the same period having a capital of over £500,000 averaged 34.

Opportunities of To-day

But, undoubtedly, the opportunities for successful new ventures become fewer. For most ambitious young men the opportunities now lie elsewhere. The last twenty years have witnessed a revolution in the size and nature of industrial concerns, and the tendency is to even greater combinations. The demand for men of great organising powers, of administrative ability, and of managerial capacity is more than it ever was. This applies to every department of a great enterprise, whether supervision or administration, whether production or selling, finance or accountancy, whether technical, commercial, or secretarial. The specialised kind of work must be entrusted to men with specialised knowledge. The big business of to-day is built up, not so much by the enterprise and ability of one man, but by several individuals working in unison, each an expert in his own domain. This demands no less from these individual men than it would if their energies were devoted to smaller businesses of their own creating.

Great Businesses and Great Positions

The great business of Lever Bros., Ltd., was founded by one man, but in these days it has a large Board of Directors, and an army of highly paid men who have scope for all their energies as managers and departmental managers, and technical advisers. So it is also with Imperial Chemical Industries, Ltd., with a capital of £49,000,000; with the Dunlop Rubber Company, Ltd., with a capital of about £20,000,000; the General Electric Co., Ltd., with a capital of £9,000,000; Courtaulds with £20,000,000; Fine Cotton Spinners, Ltd., £11,000,000; Rylands & Sons, Ltd., £3,500,000; Guest, Keen & Nettlefolds, Ltd., £13,000,000; Vickers, Ltd., £15,000,000; Harrod’s Stores, £10,000,000, and so on, in practically every kind of industry.

There are posts in many of these huge undertakings that attract men of the highest attainments; the political world and the professional world have been forsaken by many eminent men for the richer rewards of business life. The Board of Directors and the management of many business concerns may be compared to a political Cabinet of Ministers, each in charge of his own particular department.

The business with a small capital behind it is, in the majority of industries, hopelessly out of date when it comes into competition with large concerns which are the feature of the day. Great and efficiently managed combines are so circumstanced that they are able to supply
public needs more cheaply than can the business run by individuals whose activities are restricted. The idea behind combinations of firms engaged in the same kind, or similar kinds, of business is more than the elimination of competition; it is co-operation and control. Great combinations cut out waste, effect economies, and promote efficiency; thus the productive power of industry is greatly increased.

**Amalgamation and the Future**

We see these combinations on every hand; even the great Banks have combined, and to-day we have the “Big Five.” I cannot do better than quote the opinion of the Chairman of one of the “Big Five” on the subject of business amalgamations and the part they are likely to play in the future development of British trade. Speaking at one of the annual meetings of the Westminster Bank, Ltd., the Chairman, the late Mr. Walter Leaf, said:

“You will, perhaps, allow me to sketch out what, in my opinion, are the lines on which industry is destined to develop in the near future. It is by these that we should judge the rightness of any particular step, approving it if it coincides with the general movement which is shaping the economic future.

“It would seem, so far as I am able to judge, that the spirit of the age is developing industry on the following main lines. First, there is in progress a rapid broadening of the area of capital; the joint-stock system is quite rapidly breaking up the ownership of capital and passing it on in small parcels to the little shareholder. As a consequence of this, the owners of capital delegate the control of their business to professional managers, who are paid chiefly by salaries. Next, there is a marked tendency to amalgamation of businesses on the largest possible scale.

**Amalgamation, but not Monopoly**

“Finally, there is a growing recognition of the fact that this amalgamation must not proceed to the point where it becomes a monopoly or a menace either to the State or the worker, and this consideration brings with it the definite reservation by the State of such a controlling influence as will provide that the public interests of all are duly observed, and that there shall be nothing in the nature of exploitation in any private interest. The future organisation of industry will be ruled by the two main principles—that production must be upon the largest possible scale, but that it must be vitalised, by rivalry and competition; and to this end the State will intervene to see there is no danger of monopoly or operation in the interest of one particular class.

“Let me illustrate this by the case of our own industry—namely, banking. You know that it is not long since bank amalgamations were proceeding at a rapidly accelerating pace, till it seemed likely that the whole banking business of the country might be collected into a few hands. The State thereupon intervened, and laid a veto upon any more amalgamations by the big banks; that veto is still in force. But the control of the State goes even further than this.

“The banks have been deprived by the State of the control of currency and the power of creating credit involved in it. That, which was once considered to be the very essence of banking, now belongs to the Treasury. And the control of the rate of interest, by which all deflation or inflation is managed, has equally been confided to the Bank of England, and in this the joint-stock banks have no voice whatever. Beyond this, the Bank of England, acting with, if not directly on behalf of, the Government, exercises a very real control over the policy of the joint-stock banks, as was made clear enough very recently in the enforcement of the embargo.
on the issue of foreign loans. And, generally, the banks recognise it as their duty to support the policy of the Bank of England. They are thus for all practical purposes as much under control as if they were nationalised, while at the same time, instead of being governed by a bureaucracy and red tape, they are stimulated by the keenest of competition among themselves, and by a professional pride in the standard of efficiency thus set up and maintained.

"Moreover, their management is practically democratic. The holdings of shares in the Big Five banks are, as you doubtless know, so numerous that each holding represents a very small capital. There are in effect about 275,000 shareholders among the five, owning an aggregate capital of over £60,000,000, giving an average holding of under £220; the subdivision of capital can hardly go much further. Moreover, the executive control is entirely in the hands of the staff. The directors, to whom the duty of supervision is entrusted, are themselves the paid servants of the shareholders.

Similar Policy in Other Industries

"Another rapidly growing and important industry which is now in course of reorganisation on very similar lines is that of electric supply. So far as London is concerned the lines were laid down some forty years ago with the idea of establishing active competition. London was divided up into a number of small areas, some of which were handed over to municipalities, others to private companies; in the latter case provision was always made for two competing companies in each area. The system worked fairly well at first, but as the supply developed the limitations of the small companies became intolerable; amalgamation was forbidden, and the supply of London was seriously threatened.

"Legislative provision has now (January 1927) been made by which the London area is divided between large groups of companies and local authorities associated in a manner which will enable electric energy to be produced on the largest scale, while the charges of the companies are strictly limited, and the harmonious working of the whole is entrusted to a joint electricity authority working under the ultimate control of the Electricity Commissioners, a public body. The new Electricity Act which has just been passed is, in intention at least, an extension of the same general principle to the whole country. In the case of the railways, I need hardly remind you that the same policy of amalgamation in large groups under the control of a body of Commissioners has been carried through by legislation.

"This appears to me to be the constructive tendency which is shaping the future of industry. It involves a recognition of the fundamental fact that, in order to induce men to put forth their full energy in production, it is necessary to foster the spirit of rivalry, which is only stifled by official monopoly. And at the same time it recognises a sentiment which has imposed itself upon the public conscience, a sentiment which is too powerful to be ignored. This is the conviction that those who are in control of great businesses must operate with due regard for the common weal, and not only for their private profit; that the management of great aggregations of industrial power is not merely a private, but a public trust."

Fundamentals

What the ambitious young men of to-day have to study is how to fit themselves for the higher posts of responsibility in these huge enterprises. The essentials are just those essentials to be found in the conduct of smaller concerns; the specialised knowledge needed is just the same in
kind in either case. The fundamental subjects are just those which are dealt with in the work to which I contribute these few observations.

I have said that the founders of big businesses had always at the outset a watchful eye on all the details which, no doubt, they felt could not, in the first stages, be left to anyone less interested than themselves. In course of time, to the business magnate, details, beyond a certain point, become irksome, but somebody has to see to them, and capable lieutenants and a competent, zealous staff have to be found as the business gradually extends and expands, department by department, and the best brains can be paid for.

The ambitious young business man should concentrate his attention on details and little things from the very outset. Nothing has a greater bearing on the formation of character and an orderly practical mind. The visionary person despises details, and is likely to die in a ditch contemplating the heavens. The great thing is to retain the power to distinguish essentials, to be progressive, and to keep a straight course.
CHAPTER II

COMMERCIAL MANAGEMENT

BY

THE EDITOR


I

INTRODUCTORY

As a general truth, it may be said that the measure of success of a commercial or industrial business centres in the Management. This administration may be in the hands of an individual, or may comprise a body of managers with whom rests the general control of the business.

How much character and personality count for is the subject of another chapter (see Vol. I, Ch. III). That experience and expert knowledge are indispensable factors need hardly be pointed out. That the man or men possessing initiative, judgment and courage will always hold their position is certain.

Things that Matter

Every experienced manager knows that it is not enough to see that the business runs smoothly, that efficiency is maintained in the staff, and that the general equipment is of a high order in every other respect. The management in their outlook must be always a long way ahead of their staff, engaged in their day-to-day work. It is the business of the management to look ahead, to originate and plan schemes for future operations.

It is the manager who can visualise what these future opportunities are likely to be, and by letting his fancy or imagination play round them, who evolves fresh plans and activities. He will try to sense by keen observation the trend of his public’s requirements, before these even become expressed. Some gifted individuals have an extraordinary intuition in this direction, but the majority only acquire this creative virtue by exercising and cultivating the general habit of reflection, thinking, reasoning, and, having arrived at conclusions, acting.

It is upon the foundation of carefully observed facts that the imaginative mind proceeds to build up plans for future activities. The creative faculty is the one most worth cultivating in every business man who is at the head of affairs. Without it he will flounder in the morasses and quagmires of doubt and indecision.

It goes without saying that sound judgment must go hand in hand with imagination. No sensible manager will become obsessed with novelties just for the sake of novelty. That point of view is fraught with peril.

One other peril of managing directors, general managers, and departmental managers alike, if they would be progressive, is the peril of getting
immersed in details and a settled groove. The mind that would be active, and have its chance, is the mind with some leisure to roam about in search of ideas, leisure at times to look at the business operations from a somewhat detached point of view. Otherwise the mind becomes clogged and stultified. A certain amount of detachment is essential to observation; in this sense it is true that the outsider sees most of the game.

Training and Experience

It has been frequently stated, and it is true, that the higher positions carrying responsibilities are exceedingly difficult to fill by reason of the dearth of able men to fill them. Thousands of men, imagining they have the ability, do not believe that statement. The writer has interviewed many of them, and the point that usually emerges is this. They tell you they have the feeling that they have the ability to fill the post; the “feeling” is generally that, and nothing more; it usually becomes apparent that they are unable to visualise what the requirements are, and break down when they come to detail their qualifications; the mental status is the stumbling block.

They may have potential qualifications, but, lacking training or experience in the particular work, they forget, or, rather, they do not realise, how chary the managing director has to be who has taken many applicants at their own valuation and given them their chance. The experiment has usually failed by reason of the mental “qualification” turning out to be superficial or inadequate.

The men who would fill higher posts cannot expect the employer to suffer sad losses because his new manager, buyer or salesman, lacking skill and training, is only using his position in gaining experience. Men who would fill responsible positions cannot expect to be taught their job; they must know it; at least, they must be somewhere on the way to give the employer confidence in them.

What such disappointed men should think about is this. There is no faculty of the human mind that does not lend itself to cultivation by training. For business purposes, it can be trained rightly or wrongly. The bookish-educated man is apt to be slow, self-centred and lacking in originality. He is usually slavishly reliant on others in the turmoil of business.

II

MENTAL EQUIPMENT

The young man with a University education, or who has been too long at a Public School, enters an environment that is too often distasteful after the atmosphere he has breathed. He is mentally antagonistic to his surroundings, because his brain has been organised in other directions; he has formed a habit of mind that is frequently difficult to change. He has to learn to be quick-witted and self-reliant, and accustom himself to irksome routine. He is sometimes slow to learn that business discussions and decisions have no resemblance to argumentative school methods. Although life is a blend of thought and action, it is usually true that the abstract world of thought, and the business world of action, develop different types of mind. As Emerson said, “Commerce is a game of skill which every man cannot play.”

The mental faculties that are most in need of training, in nine cases out of ten, are those that tend to alertness of mind, to keen observation, to sustained concentration, to quick decision and a capacity for getting things done. To perform routine methods and follow on old lines is an easy thing; but to think out new lines which are essential from time to time, and to act independently on one’s own judgment and take the responsibility of the result, need special gifts. Influences calling for new methods and
changes in policy are always at work; in fact, a certain quickness in detecting such influences and changing conditions, and providing for them, has been the making of many a large enterprise.

There are some who would say that mental culture of a high order is incompatible with the business mind; in other words, that the habit of mind of the scholar is quite different from the habit of mind of the business man. Generously speaking, that may be true, but the point need not be discussed here. We would only remark that undoubtedly in these days the conduct of a large business makes a serious demand on the mind and the time of the business man; it does not leave him much leisure to pursue academic studies. He has a definite object before him; it calls for unflagging pursuit, continual thought and reflection.

The majority of successful business men, although possessing highly organized brains, would not, in the academic sense, be termed "educated" by their scholastic friends. Nor would the business man claim that scholastic attainments are of much use to him so far as his business is concerned. He is content with his store of "worldly" knowledge—a clear brain, mental activity and abounding common sense. His school has been intercourse with his fellow-men; his wits pitted against theirs; he has no slavish dependence on books; he has experienced the truth of a saying of the late Professor John Stuart Blackie (perhaps wearied of book-learning): "The original and proper sources of knowledge are not books, but life, experience, personal thinking, feeling and acting. . . . Books are no doubt very useful helps to knowledge, and in some measure also to the practice of useful arts and accomplishments, but they are not, in any case, the primary and rational sources of culture, and in my opinion their virtue is not a little apt to be over-rated, even in those branches of acquirements where they seem most indispensable. They are not creative powers in any sense; they are merely helps, instruments, tools, and even as tools they are only artificial tools, superadded to those with which the wise prevision of Nature has equipped us."

The business man experiences a life of intense vitality and if anyone is in touch with "the original and proper sources of knowledge" it is he.

"Education" is not the index of a man's mental powers; while we do not say it in any combative sense, the brain power and mental activity of the "uneducated" successful man of business, speaking generally, are equal to those shown by men occupied in academic pursuits or in the professions. From the very nature of his work he has been led to cultivate close intercourse with his fellow-men, to practise keen observation, to develop imagination, to draw conclusions, and all his mental activities are personal to himself. If he does not dream the dreams of philosophers, of poets and artists, he may have come as near to fundamental cosmic realities as any one of them.

Whatever our mental equipment, it should be supplemented by a good training in the principal business requirements, even if it be only theoretical. It is seldom that any one person has the opportunity of getting a practical training in every department of a large business house, and no one who aspires to fill a responsible position can hope to be thoroughly qualified if he does not have more than a nodding acquaintance with most of the subjects dealt with in these volumes.

Of character we need not speak here. More than one managing director of a great business has expressed in print his conviction that where honesty and integrity are the settled policy of the business, the greater and more lasting is its success. The confidence of the public is secured by
fair and fixed prices, based on intrinsic worth and reasonable margins of profit. The goodwill of permanent customers is a better asset than disgruntled victims.

Continuity of Policy

An important matter in management is to preserve continuity in business policy. To select the thing you want to do, and pursue it steadily month after month, is the essence of policy. It need be no hard and fast circumscribed policy; it will be flexible and adaptable, but always a fixed policy. The point about a fixed policy is “that one can judge of its success or otherwise, but indiscriminate and spasmodic ventures are disturbing both to staff and customers.”

In the multitude of counsellors there is always danger of diversion into all sorts of by-paths. Most prosperous concerns have a reputation in one particular direction, built up by years of steady application; reputations are not made in a day. A first coat of varnish on the body of a motor car does not seem to make much difference, but after a second and a third coat you suddenly find that the plain wood has become a polished surface, which reflects your face when you look at it. Not one, but the accumulated effect of all those coats of varnish was responsible for the result.

That is the case with business. If every day you are continuous, you will see results.

It may not be possible to define the policy in so many words where it is the outcome of one dominant personality, but if the staff cannot define it, they can feel the unwritten secrets of those in command.

And continuity is almost another word for tenacity. It is this tenacity and persistence that enables one to concentrate in defending a business against competitors and marauders.

The policy that makes for permanent efficiency is always preferable to opportune and spasmodic efforts which aim at a temporary success. All this does not mean that there is to be no audacity in thinking out new ways, new methods and development schemes—far from it.

In management it is, first of all, knowledge and judgment that count, and after that the capacity for action.

Judgment

Good judgment is founded on knowledge. If you were asked for an opinion upon a question in mathematics your opinion would not be worth having unless you were well versed in mathematics. It is also clear that if you were asked to pass an opinion on the texture of, say, a table-cloth, your judgment would be worth little unless you knew a great deal about table-cloths. If your judgment were asked on a question of medicine—supposing you were asked why little Tommy’s metabolism was bad—it is obvious that your opinion would be worth nothing unless you knew something of the intricacies of digestion and of the burning up of food in the human body.

So it is with all technical subjects. Judgment must depend upon technical knowledge. And yet good judgment is more than that. It by no means follows, that, because a man possesses technical or scientific knowledge, he has got good judgment. Even with such knowledge, one may not have the power to give a wise opinion upon certain phases of business, or upon the affairs of life. Good judgment is a quality of the mind which enables persons to form a just estimate about facts which they understand. It is curious that many people who have excellent judgment about the affairs of life and about business propositions, particularly about the prices and equality of goods and so forth, are unable to explain the processes by which they arrive at their conclusions. And yet they are usually right. There are some whose judg-
ment is almost invariably sound or with a very small percentage of wrong conclusions.

The mind of the commercial manager should not be rigid, but elastic. He should be capable of taking long views and have a wide outlook; sympathetic, yet critical; not afraid to yield a point to the keen enthusiast. He will not be afraid to trust his own judgment when confronted with new ideas, if he has experience and knowledge at his back.

**Optimism**

The sanely optimistic man is also an asset to any staff. He is as invigorating as a breath of fresh air. The genial and optimistic frame of mind helps things forward; it creates atmosphere. The person given to doubting and hedging is the one likely to be beaten; he is half beaten at the outset; whereas the one with the confident idea he is going to win is likely to win; at any rate, he has the frame of mind calculated to win. His own optimism acts as a spur to himself and others. Some people are naturally optimistic, but others are not. But optimism is a point of view which can be cultivated, just as cheerfulness can. About the foolishly optimistic ones we need say nothing. They are easily detected by their own beacon light of warning.

**Problems of Management**

Few principals or general managers of progressive businesses have much time to devote to matters of daily routine, beyond receiving reports from heads of departments, and necessary consultations.

When the various departmental divisions and staff arrangements are settled—with proper division of responsibility—and an intelligent routine established, and in addition a general system of control instituted, the principal or manager is free to devote himself to his proper function—to frame policies, to lead, to explore new avenues of progress, in a word to generalship.

This does not mean that he renounces all concern with automatic routine. If the organisation is good and his report system intelligent, facts, figures and reports will keep him sensitive to slackness here, and to weakness there. The percentage of efficiency in every concern tends to get lower where there is not periodical investigation and adjustment. No routine is sacred; no methods remain permanently the best. The business machine, like the human machine, tends to run down, or, at least, it changes with passing years. Gradual changes for the worse have to be carefully scrutinised. The horse carriage-builder, or horse 'bus-builder of yesterday becomes the motor car manufacturer of to-day.

We have mentioned control. This, along with leadership, is the most vital function of a commercial manager.

The control of the Sales side of the business, the control of Buying, the control of Expenditure, the control of Finance, are subjects that require constant attention. They are intimately related, and we may consider them all generally, for the moment, under the heading of Finance. No one man can control all the many operations of a big business without an efficient body of sub-managers behind him, who should be given as free a hand as possible; but control of some kind over these lieutenants must be exercised. There are many things that cannot be delegated to departmental managers, and there must be co-ordination. There can be no water-tight compartments.

The prerogative of a General Manager is to have possession of all the vital facts concerning the business. In all consultations, or conferences, or meetings of a Board of Directors, one thing is important—a knowledge of all the relative facts of the matter under discussion. If the various members of a Board of Directors had
all the facts of a matter before them, they would probably come to a like decision; if not, they would know on what particular they differed.

III

FINANCE

A separate section in this work is devoted to the subject of Finance. The capital employed in a large company, and the manner in which it is raised, belong to the province of the principals, or to the directors. There are aspects of this subject, however, which intimately concern managers. In large measure it is they who determine how the capital is employed, and employed to the best advantage. If a company is over-capitalised; that is, if the issued capital is more than the business can earn in profits to pay reasonable dividends, the fault does not lie with the management.

The working capital of a limited liability company may fall far short of its total issued capital (see Chapters V and VI), thereby proving a serious handicap to its dividend-earning powers. Insufficiency of working capital is the rock on which many a business comes to grief. That part of a company's capital which represents money paid, or shares issued to vendors, or promoters, or used in providing buildings, plant and equipment may be out of all proportion to what is left in liquid form as working capital.

Working Capital

The point which will engage the manager's attention is this amount of working capital: the money, that is, which is available for him to buy and hold the maximum stocks, to meet working expenses, to provide the credit represented by the book debts, to maintain an adequate bank balance, to meet all liabilities promptly. In particular he will see to his bank balance, for there are always emergencies to consider. There may come adverse times, for instance, or there may come sudden opportunities when stocks can be bought in exceptionally favourable circumstances. If heavy interest has to be paid for loans or overdrafts much of the gilt is taken off the gingerbread. Loans and overdrafts have also a bad effect on the credit of a concern.

The manager has, therefore, to exercise supervision of finance. He may have to curtail his activities, remembering how important it is to buy on the most favourable terms. On the other hand, it is necessary to carry ample stocks and to give as extended credit as rival firms. The test of dividends, therefore, is not always the test of good management and remunerative trading. If the concern, whether a private or limited company, is over-capitalised, that is no fault of the management.

To most energetic, progressive managers the question of finance is irksome; to be compelled to study too many statistical records and details of finance worries the active mind of the manager, who feels his energies are better employed in doing those things which really count in the long run. Here the benefit of an efficient accountant and cashier can save him both time and worry, by providing such periodical statements and returns as he can readily digest. Such statements would show the total purchases and sales and the variation of stocks, expenses totals, financial summaries, together with the bank balance at stated periods.

These periodical statements and statistical returns are fully exemplified in the chapter on Organisation. It is only needful, therefore, to say here generally that the particulars thus provided should be studied in relation to the larger question of finance. There will be some quota of Capital reserved for purposes distinct from trading, capital that may be required for buildings, machinery and plant
and necessary extensions thereof. It is well also to have ample liquid resources for contingencies of various kinds. If reserve funds, and profits earned, are merged in the business, all locked up in stock, or machinery, financial embarrassment may ensue. It often does arise from rapid progress of a business. In such cases the trading is apt to outrun the available working capital. This subject is developed in the chapter on Organisation.

How, therefore, to make the most of the working capital at his disposal is the question for the principal or the manager of a business.

The value of stock that can be carried, and the control of buying or manufacturing, has a foremost place in counsels of the management. If the working capital of a business remains at more or less the same figure, then, obviously, production (or, with a merchant, buying) must be regulated by sales. For the cash to pay for purchases, or production, comes from sales receipts. A balance between income from sales, and production expenditure (or, with a merchant, purchases), must be, therefore, maintained. The annual balance sheet will reveal the difference in amount between liquid assets (and assets that can be readily realised) and liabilities. But one cannot safely wait for the results of an annual balance sheet, and guesswork should be eliminated in every sphere of business.

**What Cash Discounts Mean**

Many matters of detail are also of importance. There should be a proper policy as regards the giving, or taking, of Bills of Exchange; useful and all important as they are in financing business transactions, if not handled with due regard to the financial resources of the business, they may prove dangerous expedients. One other detail; the actual loss in failing to take advantage of every available discount is of far more importance than is generally realised. If in order to obtain a three months' extension of credit you give your creditor a Bill for that period, and on that account sacrifice a settlement discount of 2½%, you must recollect that you are paying for this accommodation at the rate of 10% per annum for the use of the money for that period.

To take another illustration of the unprofitableness of sacrificing discounts. If the *prompt* terms were 3½% discount in ten days, or 2½% monthly account—and these are not uncommon terms—you can, by taking the 3½% (thus paying within 10 days instead of 30 days), gain £1 5s. on every £100, which is equal to about 20% per annum on the money employed. It would be an exceptional business that could utilise its capital so well as to enable it to do so in a more profitable way than by taking advantage of discounts in such a case as this.

It should be the aim of every well-conducted house, as far as possible, with due regard to all the conditions of their operations, to reach that stage where they can take advantage of all prompt cash discounts.

**IV**

**EXAMINATION OF ACCOUNTS**

Every manager should understand the fundamentals of accountancy, first in his own interest, that he may feel satisfied as to the staff or professional accountant's methods; secondly, that he may thoroughly appreciate the significance of financial statements, the bearing of figures, and be able to draw correct conclusions. (Lord Beaconsfield said there were three degrees of lies: lies, d—d lies, and statistics.) He will frequently find that figures showing net results do not always tell the whole truth.

Analyses will often reveal, hidden away somewhere in the details, something that had been forgotten, some special expense, transaction, or provision, which gives a different complexion to the year's results. A
change in the method of distributing establishment expenses, or in the bookkeeping treatment of certain "transactions," the creating of reserves for contingent losses, or the writing back of such reserves when no longer required, and other similar affairs should always be reckoned with in considering departmental results. Otherwise the operation of one year's trading may appear to be better, or worse, than is in reality the case.

Holding the Balance

Again, departmental managers are very keen on their accounts showing the best results. They may dispute the accountant's fairness in allocating establishment overhead expenses or other adjustments, and the manager is often called upon to decide what is strictly fair between contending parties; as the final court of appeal he may have to act in this quasi-judicial capacity. Some very nice points arise also on which there may be a difference of opinion as to the differentiation of capital and revenue expenditure.

It is not always easy to distinguish to what class such expenditure may belong. If it is capital expenditure the year's profit and loss account is not affected. A revenue expenditure, on the other hand, decreases the profit. Again, as to the treatment of special expenses, as, for example, heavy advertising, or development expenses, in one year. Is the benefit of that expense worked out in one year, or two years, or more? There are other kinds of expenditure in one year which, it may be argued, are properly chargeable against the profits of the ensuing year.

Doubtful Methods

Suspense accounts created to spread abnormal expenses over a period are justifiable, but, if not rigorously dealt with, dangerous.

The following statement appears in the report of a large company, published on the day of writing this:

"The directors have written off the Profit and Loss Account the Advertising carried forward from last year, amounting to £456,441." A wise proceeding, even if the benefit of the whole of the advertising was not completely worked out. Big items of what is called a non-recurring nature are often spread over a period, but should an unfavourable year happen the temptation is to write off as little as possible from such suspense account. The cumulative effect of such methods may be embarrassing.

Where subsidiary companies keep independent accounts, it is not obligatory on the parent company to bring into its profit and loss account any loss sustained by one of its subsidiary companies. Such things as these are hidden up in many published accounts of limited companies.

The item "Debtors and Debit Balances" in a balance sheet may cover a multitude of sins. So, likewise, the item, "Shares in Other Companies," appearing among the assets in so many balance sheets, may represent either an under-valuation or an over-valuation.

The question of secret reserves and other matters are considered in the chapter in Vol. I on Limited Liability Companies.

Another point on which the manager may have to adjudicate is that of Depreciation. There is no one system of writing off depreciation that will apply to every business and to every kind of asset. Every well-conducted business will, of course, make ample provision for the depreciation of every wasting asset, whether securities, buildings, machinery, furniture or fittings, or merchandise. No haphazard method of dealing with depreciation should be tolerated, otherwise confusion will arise and the accounts will only be misleading. Provision for every kind of depreciation should be made each year by charging against the profit and loss account the estimated percentage of depreciation for
the year. The methods of computing depreciation is treated elsewhere.

All these things indicate the advantage to the manager of a large concern, or a modest one, for that matter, of being conversant with the principles of accountancy and finance. In appraising the standing of other businesses, such knowledge is also valuable.

V
CONTROLLING OVERHEAD CHARGES

We come now to the control of expenses. The detailed methods of supervision and control will be referred to presently and also in the chapter on Organisation. In the management of a business control of overhead charges is very important. We need not stop to consider in what way, exactly, accountants define "overhead charges" or "working expenses." They will probably say they are charges connected with non-productive work, but what one person considers to be non-productive work, another person may think otherwise. He may take a different view.

The practical point at issue is, when overhead charges seem to be in excess of what they should be in relation to turnover, what is the best direction in which to turn to effect a reduction?

In the absence of complete information, it is quite possible, with decreasing sales, for a manager to think he is still making a sufficient margin of profit, while in reality he is not. His final accounts at the end of the year may give him a rude shock.

The Datum Line

Where accurate methods are employed for controlling expenses, a normal datum line—the outcome of experience over a period of years—will indicate whether the range of overhead expenses, reckoned as percentages on sales, is satisfactory, or unduly high. The percentage doubtless will vary from time to time over a period of twelve months. The object of this statistical control is to see that the safe mean is maintained on the year taken as a whole. Notable differences will be investigated betimes.

It is not an easy thing to adjust overhead charges to the varying circumstances of the business. Whether times are good or bad, certain expenses—rent, rates and taxes, salaried officials, expenses of administration and so on—go on. It is always well to know what proportion overhead charges, which comprise a multitude of things, including certain salaries and wages, should bear to the total turnover over a period. If the normal proportion rises seriously, it is evident that some steps must be taken to restore the balance as far as can be.

Solving the Problem

The problem may not be an easy one to solve. The first direction to which one turns attention is usually the staff. That may be right; it is more often wrong, if it is an efficient staff. As another writer has said, "It is always a question requiring a very nice adjustment, according to the circumstances of the case, as to how far it is desirable to curtail expenditure in quiet times by reduction of staff. It is naturally a question that must be determined in each case upon the individual circumstances, but the larger the concern, and, therefore, the less the amount of the personality of the proprietors that is actually put into the business, the greater will be the need for a permanent senior staff thoroughly familiar with the rules of the house."

If the business "slump" is only a temporary one, the wise manager will be careful that he does not run the risk of a permanent loss in adjusting expenses. It would be bad policy to interfere too much with production charges or "expenses." For instance, the drastic cutting down of advertising appropriations may have the effect
of worsening the sales records; that depends entirely on the nature of the business in question. The departure of good salesmen, or any other capable members of the staff, may likewise have permanent bad effects. The loss of efficient men, it should be borne in mind, may be a gain to some rival who may make good use of their services, to the disadvantage of the firm losing them. The point the manager will bear in mind is the question of efficiency. Generally it will be found good policy to bear temporary loss rather than incur the risk of permanent injury. How best to secure increased efficiency is, therefore, the problem; for increased efficiency spells better results. A remedy for excessive overhead expenses must, of course, be found; the chief himself will settle the principle on which a reduction of expenses is to be effected, and the individual members of the executive staff will be left to do what is needful. The thing has to be tackled.

An experienced business man referring to this subject sums up the matter thus: "Times of expansion, when those responsible for the organisation and management are worked to their utmost capacity, and when they are also earning good profits, are not the times when, having done the work that lies immediately to hand, men are going to sit up at nights thinking how they can effect small economies; but on the other hand, in bad times, when they have not enough to occupy them fully, they have time on their hands, and the vision of dwindling profits is a very active spur to the imagination in devising methods of saving money and preventing waste."

"That particularly applies to those in the most responsible positions, but in a sense it applies to practically all save the lowest grades. Prosperity is in a sense demoralising, and leads to extravagance; adversity, on the other hand, tends towards economy. That is one reason no doubt why, as between times of great pressure and comparatively slack times, business profits do not vary more than they do in practice."

There is a point in connection with sales which has an important bearing on this subject of overhead expenses, to which we shall refer presently in dealing with the sales end of a business.

VI

STAFF PERSONNEL

The responsible heads of departments, from the managing director downwards, find that amongst their duties one of the most vital is the selection and handling of the personnel of the staff, particularly those of the staff who can promote, or retard, the progress of the business. The head of a department must exercise fairness; he must possess considerable will power and the power of decision, a courteous firmness of manner and an optimistic outlook.

Organising Ability

The two authors of "Office Organisation and Management" (Mr. Lawrence R. Dicksee and Sir H. E. Blain) will pardon us quoting the following paragraph from that admirable book:

"For the more marked success, organising ability of the highest order is, of course, necessary. But, after all, what is organising ability, and is it not possible to acquire it, at all events to a fair extent? It is true that many men have that gift of intuition which enables their minds to grasp almost with lightning rapidity the bearings of a case, that logical faculty which marshals up without difficulty the pros and cons of a knotty point which must be settled, that ability of foretelling results of events which is almost uncanny in its far-sightedness, that grasp of method and of detail which makes their brain like an orderly cabinet from which may be obtained at a second's notice whatever information may be required, and
that capacity for rapid and accurate decision which almost amounts to genius.

"But, on the other hand, much of each of these qualities may be attained by that 'infinite capacity for taking pains,' which, we are told, is akin to genius and is asserted by some to be genius itself. The cultivation of a habit of business accuracy, the thoughtful study of varying idiosyncrasies and types of character, the careful tracing of cause and effect, research into sources of commercial information, the compilation of useful notes, a tactfully exercised curiosity acted upon by a _soupçon_ of that 'gospel of discontent' which is so powerful an incentive to those who desire to mount life's ladder, will go far to foster powers of organisation, and there are many ways in private and social life in which useful experience may be obtained. Honorary secretariats of some of the numerous organisations which play so large a part in modern life offer most useful opportunities of acquiring valuable experience, and are of unmistakable benefit from the training point of view when the duties connected with them are undertaken with intelligence, enterprise, and industry."

**Estimating Character**

The ability to read character is a great asset; where an appointment has to be made, much depends on forming a true estimate of the character and mental qualities of the applicant. One attribute is usually fairly easy to detect; that is, the quality of ambition. The young man who is of a naturally ambitious turn of mind is at least "a starter" in the race to the top. He must not be taken at his own valuation, for no doubt he has some flaw that he has not detected himself. However, ambition is an essential trait in the character of an assistant, because the man whose mind is continually set on mounting the ladder will certainly get as high as his capacity permits.

It is too frequently the case that "taste" for a job, and talent for it, do not co-exist in the same individual. To have a "taste" for an out-of-door position in preference to an indoor one is no guarantee of proficiency as a commercial traveller; to have "a taste" for writing and designing advertisements does not argue talent in that direction. To feel a keen natural interest in one's particular work is all to the good, but, again, the principal, experienced in judging men, while recognising that as a favourable symptom, will need to be convinced of more positive virtues in his man.

An analysis of the mental characteristics of successful men in commerce, as in the professions and other walks of life, reveals certain qualities which they possess in common. Amongst them we find an ambitious temperament linked with inflexible resolution; a quick mind and a restless activity; a courageous outlook, self-reliance and confidence; a capacity for evolving original ideas, and the faculty of taking great pains in getting his ideas carried through. The value of originality in a man lies in this: it opens up fresh fields, it _creates_ business; progress is quickest and easiest where there is less competition, than in old ways.

Charm of personality is always of great value where it exists, but where the control of a large _personnel_ is concerned it is of less importance than a tactful disposition supported by firmness and will power. To find the right man for each particular appointment is a thing of first importance, and no pains should be spared in the effort. The next thing is to let them be trained according to their own individuality.

Temperament, particularly, has to be considered in many appointments. A man may have done good work indoors as a team worker under supervision. "On the road," away from any controlling influence, and having to rely entirely on himself, he may
not be a success. He may lack self-reliance, be unadaptable, be easily intimidated and feel himself quite at sea. He may be a good man indoors, but ineffective as a traveller. Conversely, the impulsive, temperamental man, the man with natural ambition and impatient of restraint, may be a difficult person to handle indoors, but he may be in his element as an outdoor salesman.

Receiving Ideas

Every business man holding a directing or an executive position should be on the look-out for men with ideas, although probably he has had discouragement enough in this direction to make him impatient of people who claim to have "ideas." A blank wall of conservatism, that bars anything new, is the most discouraging obstacle to progress that can be imagined. A director of a great business has rightly said, "Sometimes it is the unimaginative mind of the person to whom the suggestion is made which fails to see the possibilities of an idea. There are people who receive a suggestion from a member of the staff as though it were an impertinent interruption, or as if they were conferring a great favour by even listening to it. It is as though they thought their own 'importance' would suffer if they admitted that anyone could think of an idea before they did. We have often heard, 'It's no good suggesting anything to him; he's sure to turn it down.'"

"Now, anyone who is in a position to receive suggestions, whether he is the chief of a great business or a departmental manager, should realise the value to the business of a receptive encouragement towards suggestions. Perhaps only one in fifty ideas may be actually practical when examined, but as regards the others a proper reason for rejection should be given, and the one who thought of them should be encouraged to try again, helped perhaps in his next attempt by the knowledge gained in the first refusal. A receptive encouragement inspires a courage to think constructively, and creates a spirit of cooperation for the benefit of the business and its members."

Four Grades of Employee

Mr. Oliver Sheldon divides employees into four grades. "(1) The man who requires to be told how to do it and needs watching and checking all the time; (2) The man who requires to be told what to do and how to do it, but can be depended upon to carry out instructions; (3) The man who simply requires to be told what to do, and who will find the best way to do it; (4) The man who initiates."

The same author remarks, "The consequences, delceterious to the interests of both employers and workers, of putting 'square pegs into round holes have never been fully realised. An ill-fitting screw receives the immediate attention of the mechanic, but an ill-placed man is left to work his own way. We trust too much to the adaptability of men. Men are not adaptable as regards their fundamental characteristics. A clumsy man can never become dexterous. An intelligent man will never be content with unintelligent work. Even if men were adaptable, we should still have the waste due to the rubbing off of fine corners and the discontent arising from unsuitable application of effort."

Heads of departments should, as a general rule, be relieved from being over-burdened by detail work. They should have time to exercise their imaginative and inventive faculties, which, if well directed to inquiry, research, and investigation, will lead to improvements and developments of business. The trouble is, that, as efficiency means doing work in the best way it can be done, and as the number of people who are efficient in this sense is limited, the head will generally prefer to do it himself."
Experience and Training

In these higher positions, where mental qualities are so important, the next thing to be considered is the applicant’s technical knowledge and experience. The all-round man is not so desirable as the specialist; first, because the specialist knows his particular subject thoroughly, and, secondly, the fact that he has applied his mind to mastering one thing is some proof of his capacity to master another. The specialist even in a humble sphere can always handle his department or his work in the most efficient way. He has acquired expert knowledge; he knows the quickest, surest and most economic methods. There is nothing haphazard about him. He has developed a capacity for action, a knack of getting things done. It is the lack of that capacity which is at the root of so much disappointment.

Almost as much care should be exercised in filling subordinate posts. The subordinate positions should be looked upon as the training ground for higher posts. For that reason youths of the right calibre should be selected. It is among the youths of average ability, outstanding ability being so rare, that one looks for the coming men. A few of them are certain to be of the kind that make the most of their opportunities, and they will be in a few years something more than men of average abilities. They will have outstripped the others.

In another chapter there is a description of the work of a technical school; there are many similar technical institutions giving instruction and training in the business arts and crafts throughout the country. The capable managers of large businesses should remember these schools are turning out the kind of assistants that they require from time to time. Indeed, it would be all for efficiency if more attention was given to the production of certificates of some kind or other when engaging even junior members of a staff. There is good reason for asking a clerk to produce some sort of certificate in such subjects as shorthand, elementary book-keeping, business routine, arithmetic and like subjects. Throughout the country there are many institutions, societies and other bodies issuing such certificates to students; institutions like the Chambers of Commerce, the Society of Arts, the College of Preceptors, the Oxford and Cambridge Joint Board and numerous other bodies.

In the higher branches of study there is the Institute of Secretaries, the Institute of Chartered Accountants, the Institutes of Actuaries, Bankers and so on. There are also numerous private schools and colleges turning out well-trained students in salesmanship, advertising and other specialised subjects.

No theoretical training can be a substitute for a practical experience, but such training is valuable in cultivating the business faculty, in training the mind, in giving the beginner some insight into, and acquaintance with, various subjects; it is some guarantee also to the employer that such students have demonstrated their will to make the most of themselves by sacrificing some part of their leisure hours to studies which demand personal thinking on the part of the student, industry and perseverance. They are working constructively, with some end in view, which is a great thing.

The possibility of staff friction, jealousy, and the undesirable type of rivalry should be minimised so far as possible. These things usually occur where there is no proper line of demarcation of work and responsibility. The division and subdivision of departments, or of individual responsibility, will differ, of course, in different businesses. But even in smaller concerns the allotting of responsibility is important.

The Question of Remuneration

There is often no more puzzling problem than settling the remunera-
tion of members of the staff. The manager who seeks to pay the lowest possible salary or commission is not in touch with accepted modern principles. The difficulty that frequently confronts the manager or executive is the method of remuneration as regards the more important members of the staff, those who have it in their power to create and develop business, or to maintain and further efficiency, or, in a word, those who can directly influence manufacturing economics or sales results.

Should departmental heads, buyers, salesmen, advertisement managers, and others be paid by a fixed salary, or have the added inducement of a commission or bonus arrangement? And, if so, on what basis?

Some will argue that a fixed salary is the preferable method, adjusted from time to time in harmony with proved ability; the objection they urge to the commission basis being that, while it may be satisfactory enough, say, to the salesman, it is not always so to the business. A salesman whose remuneration may be largely dependent on commission is tempted to take the line of least resistance, to devote himself too much to a profitable line of goods, or to a fruitful territory, or to certain big customers, or to granting undue concessions to customers for the sake of influencing orders. He is averse to developing his ground, to doing pioneer work, to bothering about the smaller things. These are some of his temptations.

On the other hand, those employers who favour the commission and bonus principle maintain that these drawbacks can be overcome, that the incentive of commission to a salesman is obvious, and that he is justly entitled to share the rewards of successful business, in proportion to the success. If two men are equally good salesmen, the one, however, working poorer ground than another, that does not prevent an equitable adjustment. The test of remuneration in both is ability.

While writing these words, the following paragraph attracted our attention in a weekly trade paper: "It is almost invariably disastrous to put a cheap man on a fully developed and remunerative territory. The experiment has been tried over and over again, and never, so far as I am aware, with success. A cheap man does more harm on a fine territory than he does on a poor one, simply because he has more opportunities of doing harm. When a territory is once fully developed, it takes a good man to keep it up to the mark, although, perhaps, it does not require the services of the best man on the force."

The wise manager will use his judgment; circumstances and individual cases require special consideration. Further, the inducement that makes a special appeal to one salesman does not to another; some like to feel they have a certain stated income, others like to take the risks of an undefined income, dependent on their ability. So it is with other members of the staff; in the main, the commission basis is favoured. And the employer’s attitude should be, "What is the most I can afford?" not "What is the least I can give?" Where a good all-round standard of efficiency is maintained, better salaries can be paid; whereas there is inefficiency it reacts on the efficient, because it must affect the general standard of salaries that can be paid.

Travellers’ Expenses

The question of agreements and methods of remuneration of salesmen has been already referred to. (See Vol. I., Chapter XIV.)

Selling expenses tend to increase with increasing competition. In many instances the use of a motor car by outside salesmen has superseded railway travelling. It is no uncommon practice for employers to purchase a car for their travellers, who in turn pay for it by instalments under an agreement on the following lines:—
COMMERCIAL MANAGEMENT

The firm buys the car and becomes the owner; the traveller pays an agreed sum to the owner on signing the hire purchase agreement, and the balance in stated instalments at regular weekly or monthly intervals; he covenants to keep the car in his own possession and in good repair, to pay licences, taxes and insurance, the owner retaining the policy of insurance and the full benefit thereof. During the continuance of the hiring agreement it may be part of the arrangement that the traveller will not take up any other occupation. In the event of default in payment of instalments, or in the observance of the terms and conditions of the agreement, the agreement may be determined, and the owner takes possession of the car without being entitled to repay any sums paid by the hirer.

The agreement may contain a clause providing that, in the event of the traveller determining his engagement with the firm, he may purchase the car by making full payment of any balance of the instalments, and any other sums of money which may become payable under the agreement, and the owner agrees to assign to him all rights in the car. If the hirer duly performs and observes all the stipulations of the hire agreement, and shall have completed payment of all the instalments, the hiring agreement comes to an end and the car becomes the property of the hirer.

Whether travelling expenses are based on a fixed sum, or actual out-of-pocket expenses, is a matter of arrangement. A conference of the Sales Managers’ Association recently discussed the subject, and we take the following summary of the discussion from “System.”

“It was shown that individual experience was divided between a fixed expense allowance and the payment of expenses as reported by the salesmen. It had been found by many firms that the fixed sum, either arranged from year to year, or month to month, or defined in the salesman’s agreement, avoided any friction or ill-feeling. If at the outset the question of what expenses were legitimate was thoroughly gone into, and then a sum decided upon, discussions were avoided. If the traveller was able to make anything out of his expenses well and good.

“On the other hand, some firms had found that fixed expenses tended to make the salesmen chary of increasing expenses to go long distances in the interests of the firm, when such action might mean the overstepping of his allowance. This, of course, tends to circumscribe effort.”

We may venture the opinion that there is not a great deal in this last argument.

VII

MANAGING THE SELLING SIDE

The most difficult problem in many industrial businesses to-day is that of marketing, or selling. It is not true nowadays that demand regulates the supply. The seller has to go in search of the buyer as often as not. Modern selling, to a larger extent than ever before, consists in creating demand by stimulating amongst particular classes of the community a desire for the article.

The Economics of Selling

Thus the marketing of goods has become an expensive affair. It is well enough known that, as a general rule, it costs more to distribute goods than it does to manufacture them. The retail price is made up of manufacturing cost, plus the selling, or distributing costs, and the latter is generally almost as much as the former. Often it is far higher, especially if the goods have to pass through the hands of middlemen before they reach the consumer. The necessary middlemen may include wholesaler as well as retailer. In several trades the middle-
man shows signs of disappearing; the manufacturer is dealing directly with the retailer, and sometimes with the consumer.

In this respect the organisation and control of the sales side of a business are, therefore, as important as the manufacturing side. Not only have markets to be found, but an economic basis of marketing goods has to be fixed and maintained, if sales are to be remunerative.

The economic factors include, not only the services of sales managers, travellers and staffs, but the cost of warehousing and stock-holding, transportation and the cost of mechanical distribution, advertising and so on. In a manufacturing business the aim of costs systems is to ascertain what are the actual costs incurred at different stages of the work, and that these costs are maintained at a figure that will show a profit on the sale price of the article. A cost system—although it may have a different name—is as necessary for the marketing of goods as it is to the manufacturer, if the desired percentage of net profit is to be realised and maintained with any degree of certainty.

Co-operative Methods

It is problems like these that have given rise in recent years, on a large scale, to the grouping under one control of different businesses engaged in the same branch of industry. The same combinations, merging of interests, and the forming of cartels for co-operative advertising, selling and marketing of goods, have taken place in America and on the Continent.

This policy of co-operation does not suit every kind of business, but in many industries it works in a satisfactory way to all concerned. Independence in management and organisation is maintained in the individual businesses, outside the immediate purposes of these selling and marketing groups. Frequently the objects extend beyond selling, and aim at controlling raw material and at manufacturing it. The subject and its bearing on modern industrial business are further considered elsewhere in this work.

The aims of these groups and combinations are the elimination of all unnecessary and redundant expenses, and reduction of distributive costs all round. Smaller business firms working on their own must also have continually in view the reduction of overhead charges and the elimination of every item of unnecessary expenditure. These things call for expert knowledge and the means of comparing cost percentages with rival firms.

The Salesmen

Elsewhere in this work a chapter is devoted to Organisation. There, some typical examples of statistical records and other forms are given, designed to keep the management in touch with the affairs of various departments. Statistical forms of this kind are invaluable; it may be that a principal, or a sales manager, knows the work and character of his outside salesmen or travellers so well that he thinks he can dispense with statistical records. That is a mistake. They are useful because appearances are not always what they seem. Complete facts and figures placed before one in writing will often reveal things that otherwise would have escaped notice. They are also records from which the capable manager can make useful deductions.

The commercial manager must have complete knowledge of his travelling staff and their work, and retain control of this side of the business. A good traveller is usually a man of marked individuality and is often not very amenable to rigid rules and regulations. More than usual confidence has to be placed in men of this type; personality is a big asset in salesmen if it is the right kind of personality.

A salesman may succeed in certain circumstances and fail in others. The
manager who uses the inductive method of reasoning is apt to jump to conclusions; he forms certain ideas about Jones, but these conclusions may not be based on the true facts about Jones. The apparent failures of Jones may have reasons behind them which have not been properly considered. Jones may have been sent into the provinces with a certain line of goods to sell, this same line of goods having done well in London under the salesmanship of Robinson.

Both the manager and Jones had harboured the idea that they would meet with equal success in the provinces. They did not, so what more natural than blame Jones? It was the “idea” that was wrong, and not Jones who was the cause of failure. Deductive reasoning is the method of arriving at conclusions from accepted or established facts. In this case the deductive method would have established the facts before Jones was sent into the provinces.

In similar ways, both as regards plans and individual men, many problems can be approached. It will be observed that the sending of Jones to the provinces was the practical method of finding out the facts; if the failure was put down to Jones, then Newbody may be sent; and after Newbody’s failure some other person, so that the experiment may be expensive; all of which goes to indicate that both deductive and inductive methods of getting at facts should be employed.

Ascertaining Facts

It is of first importance to ascertain reliable facts both about men and selling schemes before employing either. Once a manager has facts before him he can draw sound conclusions and use his judgment, but not before. Then he can formulate his sales organisation with some degree of confidence. The easiest way to solve any problem is to collect and array the facts; and often to put them down on paper is to clarify the mind in forming a judgment on them.

Changing Conditions

Conditions change, in some businesses very quickly, in others more slowly, and here a watchful eye is necessary. The decline of many an important business has been traceable to a lack of foresight in this direction.

A year or two back a large wholesale company paid dividends for the year amounting to £120,000. It dealt in a finished article, which was also the raw material of another industry, and was sold both to manufacturers and to the public through the trade. The company employed thirty travelers, and had a number of large customers. About that time it lost one of its best customers, and had to build up new business in a period of special difficulty. During the next two years the profits were insufficient to pay the preference dividend. There were several directors, each of whom had spent a lifetime in the business.

An expert in business research was called in to investigate. The following results ensued; in the delivery and transport services alone economies were effected which equalled four per cent on the preference shares; of the thirty salesmen, the great majority were found to be not making their expenses; each of these men had held the same territory for years; a re-organisation of selling methods proved successful in what had been unprofitable territories, with the result that lost ground was gradually recovered.

The loss of that one big customer at a critical time in the company’s history was the means of letting in new light upon the whole internal organisation of the enterprise; the research that was conducted involved a great deal of laborious enquiry, and the analysis of sales figures and of territorial possibilities; but the result proved the labour to have been worth while.
In another instance a textile manufacturer's customers were the large merchant firms who at the time of the great slump were quite unable, either to give him further orders, or to pay for the goods already supplied with which their warehouses were stocked. For certain reasons he could not brand his goods and sell direct, so his whole business almost came to a standstill. Then a number of markets overseas were specially investigated for possibilities of developing sales, and several of them were found to be suitable for an intensive stimulation. This, combined with the merchandising of the goods under the maker's brand to suit the varying conditions of the countries chosen, proved so successful that within three years these markets were alone sufficient to absorb the whole output.

When business difficulties arise it is the practice to call in an expert accountant. More often it would be found to be more to the purpose to call in a research expert, for there is a technique in research and investigation, akin to the technique of scientific and engineering research.

Intensive Tests

It is highly desirable, periodically, to make an intensive examination of the sales organisation, and of salesmen's reports and sales records. The palsy-hand of routine is apt to afflict certain outside salesmen who have an established connection, and who doggedly follow their accustomed ways. They are apt to be slow to spot the trend of events, and to keep their principals informed of changes that are taking place.

The potentialities of demand in a particular territory should be appraised and borne in mind when studying the reports, and results, of salesmen's work. Salesmen's reports are naturally framed to shadow forth their own efficiency; too seldom have commercial travellers the time to give to a survey, and a deliberate study of conditions in their areas. The wide-awake manager will look for some signs of initiative when looking through the reports of his staff.

There are usually certain matters about which the manager of a business has occasionally to remind his salesmen. Some goods have a quicker sale than others, and, on the principle of taking the line of least resistance, it will be frequently found that an undue proportion of a traveller's orders are for the easier sold goods which usually bring less profit, and the more difficult classes are in the background. The salesman has in mind the volume of his orders; the manager, however, expects him to have constantly in mind the goods which, maybe, are more difficult to sell, but on which there is a greater percentage of profit.

The manager, therefore, studying travellers' sales reports, may have to pointedly draw the attention of salesmen to deficiencies in this respect in their work.

Every year, by the pressure of necessity, selling is becoming more scientific. The wise manager will not only measure his salesmen, but he will measure his markets. He will have them surveyed in the light of his particular product. "Who are the potential buyers?" "What is the purchasing capacity of a particular community?" "What proportion of business have I in relation to other competitors or to the whole?" "If not, are my goods right, or is my selling organisation at fault?" "What is the element of competition I have most to concern myself with—price, suitability of article, service, or what?" These are a few of the questions he will put to himself. All the facts of a case must be known before judgment can be formed, and action taken. It is problems like these that make business such an interesting pursuit to live men.

This is where the subject of business research comes in; it is a branch of business of recent growth and is dealt
with in a separate article. We repeat here a paragraph from Mr. Jackson's article on Salesmanship, as it concerns the management more, perhaps, than the individual salesman.

"It is often worth while to put a doubtful territory to a thorough intensive test, according to the nature of the article; the immediate result more than likely will not repay the advertising and salesmen's expenses, but if the market thus opened up is likely to remain a 'lasting market the initial outlay, or development expenditure, may prove quite remunerative in the end. One experiment of the kind successfully carried through will be repeated elsewhere, and the total business may accumulate to a very appreciable amount. Any observant person can see for himself throughout the country how frequently one or two particular manufacturers' brands of goods monopolise the shops, while other manufacturers' are conspicuous by their absence. Very often this is simply due to the 'not worth while' policy of non-progressive sales managers. It is a matter for individual sales managers to settle for themselves, but if such development efforts are undertaken they should be carried out in the first instance in a thoroughly intensive form, so that the test will be conclusive."

**On Taking Risks**

In manufacturing businesses it is sometimes good policy to accept orders in times of depression at a price that will not cover the cost, if the full proportion of overhead charges forms part of that cost. The overhead charges always go on, and, just because of that, a manufacturer may lose more by refusing an order at a certain price than he otherwise would. If he accepts the order the overhead expenses are distributed over the larger output. This is not an argument for cutting prices, but simply for meeting exceptional conditions.

Now, the merchant has overhead charges just as the manufacturer has. On the same principle, therefore, a merchant may find it the better policy to sell a larger quantity of goods at a lower price, than have a certain unsaleable surplus left on his hands.

In some businesses—the drapery and other trades, for example—it is a fixed policy to buy a larger quantity of goods, where better terms can be got for the increased quantity, than will be probably sold at the highest selling price fixed, the risk taken being the expectation of selling the surplus at a "marked down" price at the end of the season. How far this may turn out to be profitable, and how far the percentage of selling cost may be reduced over the turnover as a whole, depends on the surplus, and the price obtainable. The principle is analogous to the differential rates at which Railway Companies carry certain classes of goods. The freight in itself, for such special articles, may be unremunerative, but as no saving, or a very trifling saving, would be effected in ordinary working expenses if the freights were refused, the net effect is that the low rates for increased freights operate to reduce the overhead charges and is consequently a gain to the business.

**VIII**

**THE BUYING SIDE**

The buyers employed by big concerns will be experts in their particular line. The buyer who knows everything about silk—or whatever the commodity may be—as well as how, when and where to buy, will score over the buyer who knows less about it. Men possessing special knowledge in these directions are an immense asset to the management. Every employee who can speak from intimate personal knowledge and with authority on any particular matter is in continual demand. The manager, therefore, who has to appoint a buyer has no easy task. In addition to the buyer having
an expert knowledge of his merchandise and skill in buying, he must also be a man of quick judgment in forecasting the trend of affairs, including change of fashions, and foreseeing public wants and demands. Here again it is mental qualities, intuitions, and the faculty of sensing the public pulse, that count for so much.

Successful Buying

A commercial manager will require to satisfy himself as to how a buyer plans his buying, what markets, home and foreign, he is acquainted with, and that he is thoroughly up-to-date in his knowledge of market movements and competitive prices. A manager must also satisfy himself that his buyers have the necessary ability to know exactly how he stands as to stocks and to the rate of turnover. It is a failing of some buyers to yield to the temptation to buy more than can be successfully sold, when the chance comes along to buy at abnormally low prices. Care should be exercised that the limit of the customers' power of consumption is not placed too high, otherwise, no matter how cheap the purchased goods may be, they will be expensive if they cannot be sold.

"Dead stock" is the bugbear of some businesses; it may be a serious problem if not constantly dealt with. If stock unsaleable in the ordinary course of business is not cleared out promptly, it is unlikely to improve as time goes on. It should be tackled promptly, even at a sacrifice. It is a source of irritation and discouragement to all concerned, besides occupying space and locking up a certain amount of capital.

Where the principal, or commercial manager does not do the buying himself, it is desirable that all the buying should be limited to as few persons as possible, and these must be of known probity. The secret of success is the buying of goods—whether raw materials or finished products—in the right market, at the right price, and at the right time. Buying in many cases is a very speculative proceeding, as the balance sheets of many large concerns show in times of slump or abnormal difficulties. Over caution may be as disastrous as over confidence. It all comes back, once more, to judgment and knowledge.

The Managing Director of an extensive business has very truly said, "A buyer needs courtesy and tact in buying and in interviewing the commercial traveller. It is a very great and grave danger in the case of many buyers that they do not extend quite the amount of courtesy they should towards the man who wants to sell them goods. I think that perhaps any success I personally have had as a buyer is due to the fact that I never turned down anybody's goods; I always looked at everything that a traveller, merchant, or agent might have to show me, and it is sometimes in the most extraordinary ways that one gets the very best article shown him. The buyer who does not extend that tact and courtesy to those who desire to do business with him is doing his firm a very ill-service indeed."

A buyer should be made acquainted with the gross profits he is expected to realise on his particular department. To this end he should know what are the percentage costs on turnover, for salaries, departmental expenses, losses on merchandise sold at less than normal prices, and everything else that concerns his particular province. Above all, he must keep in touch with the progress of sales, if there is to be any proper regulation of buying. The buyer must be in his own department what the manager is to the business as a whole.

Central Buying

Recent years have seen new developments in the formation of commercial trust companies, and amalgamation of interests in many directions. In particular, the retail drapery and store trade has been notable for purchasing
group control. The buying policy of these combines is concerned with the centralising and co-ordinating of the buying on the plan of the wholesale trade. Time will show to what extent this experimental policy will prove successful. That there are solid advantages is apparent; on the other hand, there are many drawbacks as an offset to the advantages. The wholesale traders play a greater part in the business of manufacturers than the drapery stores do, and naturally the wholesale trade is averse to direct relationship of manufacturers with the retail trade. The tendency will be for one set of manufacturers to cultivate their connection with the independent group of retail businesses, and another set to confine themselves mostly to the trust companies, grouped together for direct buying from manufacturers.

IX

SOME POINTS IN LAW

Commercial Law is the subject of a separate chapter in this work. Probably there are few business managers who would claim to have such an intimate knowledge of the commercial law of England as would enable them to pass an elementary examination in the subject. Nor is it necessary; the mysteries of the law can be left to trained lawyers, while ordinary prudence and knowledge may be sufficient to transact usual business transactions without the risk of serious mistakes.

It is well, nevertheless, that every person holding an executive post should know enough to prevent him doing anything in the ordinary way of business that is contrary to law. He should have some kind of working knowledge of legal principles that govern business conduct; he should in particular have a good knowledge of the formalities of contracts.

As stated elsewhere in this work, the commercial law of England is for the most part common law; that is to say, the law which has grown up out of the customs and usages of the community, and has from time to time been confirmed by the Courts. A great deal of the great body of common law has, of course, never been formally enacted by Parliament and is, therefore, not to be found in actual Statutes of the Realm. It is the ‘unwritten law.’ Although business usage, or custom, plays a very great part in commercial law, no trade custom will be enforceable if it is contrary to some recognised legal principle, or to a Statute of the Realm.

Some Legal Maxims

Many fundamental principles of law are crystallised in ‘Legal Maxims.’ We quote the following passages on the subject of Legal Maxims from Lord Riddell’s Things That Matter as an interesting illustration of legal principles.

Legal like other maxims are framed with the object of stating general principles in epigrammatic form. But it is one thing to lay down general principles and another to apply them to particular cases. Consequently the application of legal maxims is by no means easy. The problems usually arise, ‘Does the maxim apply?’ and ‘If it does, is the case under review an exception?’ The difficulty is increased by the complexity of modern life and the accumulation of a vast mass of statutes and legal decisions. A knowledge of fundamental principles is, however, essential. They are the lawyer’s compass. The exigencies of the particular case may require him to take this or that course, but unless he understands first principles he will be certain to make mistakes. Many of the maxims date from the time of the Romans. Being manifestly founded on reason, public convenience, and necessity, they form part of the law of every civilised nation.

Volenti non fit injuria.

That to which a man consents cannot be considered an injury.

Note.—This is an important and far-reaching maxim, but it has its limitations. In some cases a party has no power to consent—in other words consent makes no difference. Yet generally speaking acquiescence and consent form a good defence.
For example: If a man voluntarily releases his rights he cannot afterwards enforce them, but he must not be deceived into making the release, and in most cases some consideration or a deed is necessary for the effectual giving up of a right. There is another class of case, however, in which consent and acquiescence are important factors. A man who contributes to an injury which he sustains is precluded from recovering damages from the other party to the injury. This is what is called "contributory negligence."

Qui facit per alium facit per se.
He who does anything by another does it by himself.

Note.—When four hundred years ago the Pope's cat allowed the Pope's monkey to use her paw to pull chestnuts out of the fire, she little thought that her action would be immortalised in two valuable stories. "Pulling chestnuts out of the fire" for someone else and "acting as a cat's-paw" are phrases we all use and understand. But the law does not allow the schemer to escape. If you employ an agent you are liable for what he does within the scope of his authority, and to indemnify him for the consequence, unless indeed the parties are engaged in an unlawful act. For example, if, when driving for you, your motor-driver negligently knocks someone down you are liable to the injured person. On the other hand, the agent must display the utmost good faith in his dealings with his principal. He must not make secret profits or use his position to secure advantages for himself except with the consent of his principal.

Qui tacet consentire videtur.
He who is silent appears to consent.

Note.—In popular phraseology "Silence gives consent"—but this maxim must be applied with great caution. For example: If you propose to a lady, and she says nothing, you must not assume that she consents. On the contrary, the implication is that she does not, unless the silence is accompanied by acts capable of only one construction.

Res inter alias acta alteri nocere non debet.
One person ought not to be injured by the acts of others to which he is a stranger.

Note.—This is one of the leading maxims concerning the law of evidence. A man's acts and declarations are binding upon him as evidence against himself, but it would be manifestly unjust that he should be bound by those of strangers who were not his agents.

Res judicata pro veritate accipitur.
A thing adjudicated is received as true.

Note.—When a matter has been adjudicated upon by the Court in proceedings between the same parties it is regarded as settled.

Expressio unius personae vel rei, est exclusio alterius.
The express mention of one person or thing is the exclusion of another.

Note.—This rule states one of the first principles applicable to the construction of statutes and other documents. Special words override and control general words. To give a crude example: If a document says that Smith was killed with a sharp instrument and then goes on to say that he was killed with a hatchet, the mention of the hatchet excludes any other species of sharp instrument from consideration. But caution is necessary when dealing with this maxim, as its application depends upon the intention of the parties as discoverable upon the face of the document.

De minimis non curat lex.
Of trifles the law does not concern itself.

Note.—This rule applies to all legal matters. It is not restricted to evidence. Trifles are often important, but the law preserves a sense of proportion.

Nimia subtilitas in jure reprobatur.
Nice and subtle distinctions are not sanctioned by law.

Note.—See the previous maxim.

In jure non remota causa, sed proxima spectatur.
In law the proximate, and not the remote, cause is to be regarded.

Note.—This is a salutary maxim. Life is made up of "one damn thing after another," and each thing hinges on some other thing like the House-that-Jack-Built. Consequently the law confines itself to the immediate cause. The person, however, who does an act is responsible for the natural and necessary consequences. For example, where the defendant threw a lighted squib into a market-house during a fair, and the squib fell upon a stall, and the stall-keeper to protect himself threw the squib upon another stall from which it was again thrown, thus blinding the plaintiff, it was decided that the person who originally threw the squib was liable for the damages sustained by the blinded man.

Injuria non prasumitur.
Injury is not to be presumed.

Note.—It must be proved.
Interpretatio tali in ambiguis semper fienda est, ut evitetur inconvenientia et absurdum.

In ambiguous things such an interpretation is to be made, that what is inconvenient and absurd is to be avoided.

Note.—This requires no comment.

Nullus commodum capere potest de injuria sua propria.

No one can take advantage of his own wrong.

Note.—This maxim expresses one of the primary rules of justice. Supposing, for example, that Smith contracts with Jones to do certain work within a certain time, Jones finding the materials, and the materials are not forthcoming, Jones cannot, if the work is not completed in the stipulated time, sue Smith for breach of contract.

Verba intentioni, non e contra, debent inserire.

Words ought to be made subservient to the intent, not contrary to it.

Note.—In construing documents the object of the Court is to ascertain the intention of the parties and to give effect to it.

Ignorantia facti excusat; ignorantia juris non excusat.

Ignorance of the fact excuses; ignorance of the law does not excuse.

Note.—In theory everyone is supposed to know the law, except children under a certain age and insane persons. On the other hand, ignorance of a material fact may excuse a party from the legal consequences of his conduct. For example, in the absence of fraud money paid with full knowledge of the facts but through ignorance of the law is not recoverable, whereas the contrary applies where money is paid in ignorance of the facts. Thus, where credit was not given in an account for a sum already paid by the plaintiff who, in mistake and in the hurry of business, paid the balance shown to be due, he was allowed to recover the amount overpaid.

Contracts

We have said that every business manager should be fairly well acquainted with the law of contracts. Serious consequences may ensue if, for instance, you proceed with a contract before it is in fact a binding contract in law. An agreement to be legally binding must be an unqualified acceptance of a definite offer. In illustration we may quote the following passage from another article in this work.

This is most important to remember, because business men frequently fall into the mistake of supposing that by an incomplete acceptance they are entering into a contract. How often, for example, does one find in a business letter a phrase such as this: "The other terms to be settled between us later"?

It cannot be too firmly borne in mind that such a phrase vitiates the acceptance, and is indeed no acceptance at all. To reach an agreement there must be a definite offer of which no term is left undecided or indefinite, and equally a definite and decisive acceptance. This does not mean that the offer first made must be accepted in terms. As often as not, an offer which is made is not acceptable in some particular, and he to whom the offer is made says: "I will accept your offer to sell me such and such goods, but I must have a definite date for delivery," or some other qualification of that kind.

Take a case as an example:—A writes, "I beg to offer you 10 pieces of gabardine at 7s. 6d. per yard." B replies, "I accept your offer for 10 pieces of gabardine at 7s. 6d. per yard, but I must have a definite date for delivery not later than the end of November." This is not an acceptance of the offer, but a counter offer to buy the cloth at the price if delivery be given before the end of November. To complete the agreement A must reply, "I can give you delivery 5 pieces the first week in October and 5 pieces the last week in November" (or some other date). Still the agreement is not complete unless B writes back to say, "I accept your delivery dates."

Again, except in the case of contracts made by deed, every contract to be binding must be entered into for valuable consideration. A simple
contract may be made by word of mouth, or by an express act implying consent, as for example, when you enter a 'bus on the street; without more ado than entering the 'bus you agree to pay the regular fare.

Questions under this principle frequently arise where claims are made by commission agents. Suppose you have a house to sell and a house agent who knows the fact, without instructions from you, mentions it to one of his clients who comes round to see you, and buys the house. On these bare facts you would not be liable to pay a commission to the agent.

But suppose the agent sent the intending purchaser round with his card or a note so as to acquaint you with the fact of the introduction, and that the introducer was a house agent, and you accept the introduction and do business, you would be liable for commission, because you know, or ought to know, that the agent is effecting the introduction in the hope of reward; or to put it another way, he is offering and you are accepting his professional services, and if you subsequently promise him a certain sum you are bound to pay it.

**Principal and Agent**

Most business managers have to engage the services of agents from time to time; they ought, therefore, to have some idea of the law as it applies to principal and agent. They should know, for example, in what way the acts of any person, who may hold the position of an agent of another person for the time being, may bind the principal. In general, an agent may be appointed by writing, or by word of mouth, or there may be implied authority, as, for example, where a person who has not in fact appointed another to be his agent, but by his behaviour induces people to suppose that the other person is his agent. Thus, if you are in the habit of allowing someone to order goods in your name, or for sale, without repudiating these acts, you will probably be liable for the transactions on the ground that you held out that person to be your agent.

Questions frequently arise also as to how far the authority of an agent extends; if commercial travellers are not intended to collect accounts as well as take orders, the principal ought to put upon his invoices, "All payments to be made direct to the firm," or some such notice. We need not pursue this subject further here as it is fully dealt with in a later volume of this work.

**The Law of Sale**

In the same volume, the Sale of Goods Act is summarised, a very important subject for every business manager to know something about. Amongst other matters, it deals with the law in respect to the sale, and purchase, of goods and the conditions attaching to such transactions—"warranties," sale by sample, deliveries, documents of title, rights of the buyer and the seller, and so on.

"Warranties" usually have reference to the quality of goods sold. Generally there is no warranty given by the seller applying to the quality or fitness of the goods; the onus is on the buyer, and he exercises his own judgment. In the absence of any warranty, or implied undertaking, that the goods have a particular quality, or fitness, the maxim caveat emptor applies; that phrase means, "Let every buyer look after himself."

The seller of an article is, in general, under no legal liability if he maintains silence, and allows the buyer to buy an article which the seller is aware has not got the qualities which the buyer thinks it possesses. But there are exceptions to this general rule.

"(1) Where a buyer makes known to a seller the particular purpose for which he requires the goods, so as to show that he relies on the seller's skill and judgment, and the goods are of a kind which it is the seller's business to supply (he need not also be the manufacturer of the goods),
there is an implied condition that the goods shall be reasonably fit for the purpose. But if the goods are sold under a patent or trade mark there is no implied condition as to fitness for any purpose, but simply that the trade mark or description is genuine and not a forgery. (2) Where goods are sold by description by a dealer in such goods, there is an implied condition that the goods shall be of good merchantable quality (G.M.Q.), i.e., that they can be re-sold under the description. (3) Where goods are sold by sample the following conditions are implied: (a) that the bulk shall correspond with the sample; (b) that the buyer shall have a reasonable opportunity of comparing the sample with the bulk; (c) that the goods shall not have any defect making them unmerchantable which is not apparent on an ordinarily reasonable examination of the sample.

In all fairs and “open markets” (Market Overt) all bargains and sales of goods are binding and indisputable, and the maxim caveat emptor applies to all such bargains.

It is the custom with some business houses to send goods to a customer on approval, or on “sale or return.” It is deemed that the customer has accepted them (1) when he signifies to the seller his acceptance of them; or (2) if the customer does not return them within a reasonable time, if no time limit is fixed (what is a reasonable time is a question of fact; it may vary according to trade custom); or (3) if the customer gives no notice of rejecting the goods, and deals with them in a manner that shows an intention of acceptance. In all these circumstances the sale stands as an absolute sale, and the price of the goods may be recovered in the usual way.

Warranty

A breach of warranty by the seller does not give the buyer the right to reject or return the goods, but it does give him a claim for damages.

A warranty is very different from a representation about the quality of the goods. The latter, even if untrue, has no effect upon the contract of sale unless it amounts to fraud. If, how-

ever, it does amount to fraud the contract is voidable. A warranty does not depend in any way upon honesty, or belief, or knowledge. If a vendor warrants his goods to have a certain quality he undertakes that they have that quality, whether he himself really believes it or not. If they do not possess the quality warranted, the seller can be made to pay compensation to the buyer, quite irrespective of any question of fraud. He cannot plead that he honestly believed in what he said but was mistaken.

An example will make the matter clear. A sells B a horse for £60, warranting the animal to be sound. B soon discovers that the horse is unsound, and considers his position in the matter. He cannot just return the horse and demand back his £60, but he can claim against A for damages due to breach of warranty. He can, therefore, sell the horse for whatever price he can get for it, and bring a claim against the vendor for the amount of his loss. Thus, if he sells the horse for £20, he can recover £40 from A.

What Warranty Implies

A warranty is said to be implied when it is not expressed in words, but is tacitly understood and is binding upon the parties by law, unless one or other of them expresses any inconsistent intention. Such implied warranties or conditions are

(1) The seller has a right to sell.
(2) The buyer’s quiet possession of the goods must not be interfered with, although there are exceptions to this rule in the case of a pawnbroker, for example.
(3) The goods sold by description must correspond with such description.

Further, the usage of a particular trade may cause certain other conditions suitable to that trade to be implied.
Agreements with Employees

The subject of employment and staff agreements is also one of importance. In the case of men holding executive posts, confidential posts, very responsible positions, and also specially valuable members of the staff, written agreements should be the rule. The principal points of service agreements have been summarised under the heading of commercial travellers and agents, to which chapter the reader is referred.

On reference to what is there stated it will be seen that there is no special legal enactment that covers any particular class of agreement for personal service. In the absence of any written agreement, a dispute arising over terms of service, or dismissal, would come within the common law as it applies to master and servant.

The requirements of an agreement are that it should state the terms of the engagement and how it may be terminated; it must contain the names of the parties concerned, the duties to be performed, the terms of remuneration, and specify any other conditions that govern the engagement. The document should be properly stamped with a sixpenny stamp.

It has also been explained that no conditions embodied in any agreement are valid if they prove to be illegal or unenforceable in law; particular reference being made to such clauses as might be held to be in restraint of trade, as, for example, where an employee on leaving his service is debarred from doing a certain thing, or restrained from entering into similar employment with a rival firm. Such restrictions, in certain circumstances, if they can be held to be reasonably necessary for the protection of the interests of the employer, may be legal, and therefore enforceable. If the restraint is held to be too wide, it will be void. A restriction in certain circumstances might be reasonable, and in another held to be unreasonable.

As has been said also, where the term of the agreement is indefinite, it will be presumed to be for a year; and if the engagement continues beyond the year it is presumed to be for another year. The fact that salary or wages are paid weekly, monthly, or quarterly, does not affect the legal presumption that the term of engagement is for a full year.

In the absence of an agreement, or where an agreement is indefinite on any point, business usage, or custom, in the particular trade will apply. To prove such usage or custom, all that has to be shown is that it is definite, that it is universal in a particular business, that it is well recognised amongst traders as a whole, or traders in a particular line of business.

Notice of Dismissal

The length of notice required to terminate an engagement for service may be either "reasonable notice" or a stated period. Unless length of notice is governed by trade custom, it should be stated in the agreement. In the absence of any express stipulation, a clerk or a commercial traveller is entitled to three months' notice of the intention of his employer to determine the contract. But this rule is not applicable to the case of clerks or other employees engaged by the week, or the month, at a salary which is payable weekly or monthly, and the contract may be terminated by a notice extending over one, or other, of these two periods.

Where a "reasonable notice" has to be given before terminating an engagement, the notice may be made at any time. An engagement extending over a whole year can only be ended by "reasonable notice" terminating at the end of the year. Where the engagement was for a definite time, the contract ends automatically at the conclusion of the
period, and no notice is required on either side.

A firm is entitled to dismiss a manager without notice, if it can be proved that he has taken a secret commission. An employee may be dismissed at any moment, and without notice, for willful disobedience to properly given instructions, drunkenness, dishonesty, gross negligence, immoral conduct, and absolute incompetence. He may be dismissed for permanent disablement, either mental or physical, through illness, conduct incompatible with his duties, or the fraudulent concealment at the time of his engagement of any fact which was material to the contract. An employee who is dismissed without notice, on justifiable grounds, has no claim for wages after the last date previous to his dismissal at which the wages or salary became due.

No legal obligation is laid on the employer to state at the time of the dismissal his reasons for terminating the contract, but in the event of the servant raising an action for wrongful dismissal it will be necessary to satisfy the Court that there were sufficient grounds for determining the hiring. An employer, when dismissing a servant for misconduct, may do so in the presence of a third person without rendering himself liable to an action for slander. In certain cases it may be advisable to ensure that a witness is present who can testify as to what actually took place. Where there are partners in a business, each partner has implied authority to engage and dismiss employees, but no employee can be dismissed if the other partners withhold their consent to it.

The case of servants paid by the day, or the hour, is in a different position, provided that no definite period has been fixed for the termination of the hiring. The wages become due at the end of each day, or each hour, but the practice is to make such payments weekly or fortnightly. When payment is made by the job, a workman is only entitled to receive his remuneration on the completion of the work which he contracted to turn out. Where the work is not completed an employer is entitled, under certain circumstances, to refuse payment.

The wages of a person engaged in any form of manual labour must, in accordance with the provisions of the Truck Act, be paid in coin or other legal tender, except in cases where the workman consents to waive his rights. No deductions can be made for bad or negligent work, unless the contract contains a clause to this effect. It is also illegal to deduct fines, unless particulars of all acts which render an employee liable to deductions are stated in a notice displayed on the premises in a position where it can be easily seen, read and copied.

A contract between employer and servant may be ended by mutual consent, and it is automatically terminated by the death of either of the parties, the wages in the latter case being payable up to the date of death. An engagement with a firm which is not a Limited Liability Company is broken by the death of any of the partners in the concern.

Where a firm is voluntarily dissolved, the act constitutes a breach of contract with its employees, who are entitled to full wages in lieu of notice. Where, however, the firm undergoes reconstruction, and offers to employ its servants on terms equivalent to those given under the former conditions, an employee who refuses to accept service is still entitled to damages, but these are only of a nominal character.

**Giving a Character**

There is no legal obligation on an employer to furnish a character to a servant who leaves his employment, or who has been dismissed. If made in writing, or orally, and communicated only to the person who is interested in employing the servant, it is privi-
leged. Where the communication is made by telegram or on a postcard, which is open to being read, it ceases to be privileged. Good faith is the essential thing in any circumstances; there must, of course, be no malicious derogatory statements. Nor must any laudatory character be given if the person giving it knows it to be false. If a false character is given and induces another person to employ a man or woman and that person suffers in consequence, the person giving the character may be liable in damages.

The Law of Fraud

Another subject of which the general manager should have a working knowledge is the law of fraud, for fraud is always a reason for the avoidance of a contract. It has also a distinct bearing on the bankruptcy laws, and the laws dealing with public companies, both of which subjects are discussed elsewhere.

Fraud is described as a false representation of facts, made with a knowledge of its falsehood, or recklessly without any belief in its truth, and with the intention that such representation should be acted on by the party defrauded and actually inducing him to act upon it. But fraud does not of itself render a contract void. There can be no fraud in the legal sense unless there is dishonest intention or moral fraud, and an honest belief in the truth of a statement, even if such belief is unfounded, is a good defence to a charge of fraud.

Fraud, however, is a wrong in itself, quite apart from any question of contract. If a person makes a false statement knowing it to be false, in order to induce another person to act upon it, and if that other person does act upon it and is injured by acting thus, he has a right to damages against the person making the statement. For instance, if A writes to B stating, in order to induce B to give credit to C, that C is quite solvent—when as a matter of fact he knows that C is insolvent—A is guilty of fraud. If B, having believed this false statement and acted on it by giving credit to C, suffers loss in consequence, he has a right to recover damages from A, although there was no contract between A and B.

Contracts Obtained by Fraud

If fraud is used in order to induce a person to make a contract, that person is not bound by the contract, for it is clear that consent obtained by deceit is not really consent. In a case of this kind, however, the contract is not void, although it is voidable. The person wronged has the alternative of holding the other party to the agreement and recovering damages from him for any loss he may have suffered owing to the fraud. The party who was responsible for the fraud must accept whichever alternative is offered to him.

It should be noticed, however, that when once the person deceived, having acquired full knowledge of the fraud, acts in such a way as to treat the contract as still binding, he cannot afterwards repudiate it; he must abide by his first decision. His remedy is the right to compensation for any loss he has sustained.

What is Fraud?

To constitute fraud a representation must, as a general rule, be a false statement about an actual matter of fact. A statement about future intention will not usually be regarded as fraud by the courts, the reason being that it is difficult to prove the existence of intention, which is the essence of the case. A change of intention after the representation does not make the representation false. The existence of intention, however, may be a matter of fact. If a person induces another to make a contract by a statement of future intention and it can be shown that in fact the intention was a different one, the statement is fraudulent.
An example will elucidate this point. The directors of a public company issue a prospectus inviting the public to buy the debentures of that company. Therein they state that the money obtained by this sale will be used for the purpose of buying additional plant and enlarging the premises. As a matter of fact they have already decided to use the money to pay off the company's existing debts. They are thus guilty of fraud.

However, to prove fraud in connection with a company prospectus is by no means an easy proceeding, although there may be statements therein which are false, or at least misleading. Any person who is a party to the issuing of a prospectus inviting the public to subscribe for shares in a company is liable, it is true, to pay compensation to any person who takes shares on the strength of any untrue statement in the prospectus, and in consequence suffers loss. But he can free himself from the charge by showing that he had reasonable ground to believe, and did in fact believe, that the statement was true, or that the untrue statement was made on the authority of the report of an engineer, valuer, accountant or other expert who was considered, on reasonable grounds, as competent to make such a report. He who alleges the fraud must, as a rule, prove the fraud.

The Commission of Fraud

Fraud can be committed in many ways. It can be in writing, it can be spoken, or it can be merely in conduct. In fact it can be in any manner by which a false impression can be conveyed; but, it is important to note, a charge of fraud will not lie against a person for withholding material facts.

The exceptions to this rule are, however, worthy of note. In certain classes of contract the parties are presumed to deal with one another on terms of mutual confidence and in such the mere non-disclosure of material facts may amount to fraud. Instances are contracts of suretyship and of insurance. In a contract of suretyship, if the creditor and the debtor hide from the surety any fact that goes to show that the surety is undertaking a greater risk than he knew, he is not bound by the contract.

Again, in a contract of insurance the person insured is bound to tell everything within his knowledge, or which he has reason to believe is not within the knowledge of the other party, that goes to increase the risk. The concealment of any material fact makes any contract of insurance, whether life, fire, marine, accident, or any other, voidable at the option of the insurer. Again, suppose a party to a contract has made a statement which, at the time of making, he believed to be true, but which afterwards he finds out was false. In these circumstances he is bound to disclose to the other party the fact that the statement was false. If he does not make such a disclosure, but allows the other party to act as if his original statement were true, he is guilty of fraud.

Another possible case of fraud is when a person carelessly makes an untrue statement under such circumstances that, if reasonable care had been taken by him, he would have known it to be untrue! This is evidence of fraud, but it does not necessarily amount to fraud. If the person making the statement honestly believed the statement to be true, however unfounded his belief was, he is not guilty of fraud.

The difficulty of proving fraud is evident very often in trade circles where many persons, anxious to sell their wares, indulge in a good deal of exaggeration about their merits. It is usually very difficult to draw the line between such exaggerated statements and actual fraud. Each case depends upon its own relevant facts.
The business man should not be readily deceived by the tricks of the trade, for he cannot successfully bring a charge of fraud unless he shows that he has really believed the statements made to him and incurred loss by acting upon them.

FORM OF AGREEMENT FOR MANAGER

An Agreement made this the day of , One Thousand Nine Hundred and BETWEEN SMITH AND SMITH LIMITED whose Registered Office is situate at Colebrook Street in the County of London (hereinafter called "the Company") of the one part AND JOSEPH SAMPSON of Park House, Crouch End in the County of Middlesex of the other part WHEREBY IT IS AGREED AS FOLLOWS:

1. FOR A PERIOD OF FIVE YEARS from the First Day of January One Thousand Nine Hundred and Twenty-seven the said Joseph Sampson shall act as General Manager of the said Company and shall give his whole time to the management and superintendence of the business of the said Company and shall not engage in any other business or occupation, and the said Joseph Sampson shall act in accordance with the instructions from time to time given to him by the Managing Director of the Company.

2. THE SAID JOSEPH SAMPSON shall be just and faithful to the Company in all things and shall preserve the Company's secrets.

3. THE SAID JOSEPH SAMPSON shall not except in pursuance of a resolution of the Board pledge the said Company's credit for any sum exceeding One Thousand Pounds in any one transaction.

4. THE COMPANY shall pay to the said Joseph Sampson a salary of pounds per annum payable monthly on the first day of each month and if during the continuance of this Agreement in any year commencing on the First Day of January the net profits of the Company exceed

Pounds (after providing the reserves appropriated in the balance sheet and profit and loss account for the year, deducting bad debts and depreciation of buildings and plant, such net profits to be certified by the Company's Auditors, such particulars to be final and binding) the Company shall pay to the said Joseph Sampson by way of extra remuneration an additional sum of Five Per Cent of the amount by which such profits exceed the sum of Pounds, such extra remuneration to be paid within twenty-one days after the publication of the said balance sheet in each year.

5. THE SAID COMPANY shall pay to the said Joseph Sampson his reasonable hotel and travelling expenses when he is travelling on the Company's business.

6. IF THE SAID JOSEPH SAMPSON shall be guilty of any wilful act of misconduct in the course of his employment, or if he shall become bankrupt or compound with his creditors the Company may by notice in writing determine this Agreement.

7. IF THE SAID JOSEPH SAMPSON shall be unfit for a consecutive period of six calendar months to perform his duties owing to illness the Company may by notice in writing determine this Agreement.

8. THE COMPANY shall indemnify the said Joseph Sampson against all liabilities incurred in the performance of his duties.

9. IF OWING to some act or default on the part of the said Joseph Sampson he shall leave the Company's service before the expiration of the period of Five Years mentioned in Clause I hereto, the said Joseph Sampson shall not either directly or indirectly for a period of Five Years from the First Day of January Nineteen Hundred and Twenty-seven engage or be concerned in a similar business in England or Wales. The said business engaged in by the Company being of a specialised nature, the parties hereto hereby declare and admit that this clause is necessary for the protection of the Company.

IN WITNESS whereof the Company has caused its Common Seal to be hereunder affixed and the said Joseph Sampson has hereunto set his hand and seal the day and year first above written.
CHAPTER III

BRITISH EXPORT TRADE


I

INTRODUCTORY

A Committee was appointed by the Government in 1924 to enquire into the conditions and prospects of British commerce, with special reference to the export trade. Sir Arthur Balfour, K.B.E., was the chairman of this body, which is known as the Balfour Committee. The first report was issued in 1925. It is mostly concerned with the main features and the prospects of British trade in overseas markets.

The facts and figures that are given, and the conclusions presented in this report are based on information received from overseas markets, supplemented by other material available in Government Departments. In view of the great range of the enquiries made, and the conclusions arrived at, it is deserving of study by everyone who is interested in the subject and this does not mean business men alone.

Survey of Export Markets

The problem of ascertaining exact comparative figures is difficult. There have been great and abnormal changes in the prices of commodities as a result of the War; there have been also violent fluctuations in the gold values of the world's currencies. Other factors are connected with both internal and external conditions. The problem, therefore, is one of some complexity, for adjustments in respect of all these changes have to be taken into account.

The broad conclusions of the Committee are, nevertheless, sufficient for practical purposes. As compared with pre-war days, there has been a considerable shrinkage in the real volume of the world's foreign trade, "and it is further evident that the increased percentage of the world's trade which appears from the figures to fall to our share masks a real falling off in the total volume of goods exported from Great Britain."

In 1924 the volume of British exports was 75.5 per cent. of the 1913 volume, after the adjustments mentioned have been taken into account. There are other allowances mentioned by the Committee, that might also be taken into account, which would modify the figure given and bring the 1924 exports to something like 80 per cent. of the 1913 volume.

It would appear that there has been a considerable excess in the rise of the price level of exports, compared with that of imports. "The apprehensions which are widely entertained that a material factor in checking the recovery and expansion of the volume of our overseas trade is the great increase in productive and distributive costs, reflected in an abnormal increase of selling price," is confirmed.

The report proceeds to survey in
detail the respective overseas markets, and particular classes of goods, with the object of measuring the relative importance of each of the contributing factors; and to separate those factors which are in their nature permanent and irremovable from those which are transitory, or capable of control.

"If it could be said that British trade is not only holding its own in comparison with that of other countries, but is sufficient in volume to provide full employment for the population of the United Kingdom, we might regard the fluctuations of particular overseas markets with comparative complacency, except in so far as a serious falling off in any particular market might be an index of some future danger to the maintenance of our general trade position. Given that we were exporting up to the limit of our producing capacity, changes in the local distribution of our exports would be a matter of secondary interest from a national point of view.

"That this comfortable position is far from having been reached is plainly shown, not only by the statistical indications of the deficiency in the volume of our exports compared with pre-war times, but also by the large number of workpeople in the United Kingdom unable to obtain employment." ¹

The falling off in British exports to particular markets is due to a combination of causes. For example, three reasons are assigned for the decline in exports of British cotton piece goods to India. The falling off between the pre-war year of 1913, and 1923, equalled no less than 57 per cent.

An examination of available data is "sufficient to enable a rough calculation to be made of the relative extent to which the decline of consumption, increase of home production, and keener foreign competition have contributed to the aggregate decrease of British exports of cotton piece goods to India. The result is to show that, in this particular case, about three-fifths of the total decline is to be attributed to diminished consumption, about a quarter to increased local production, and about one-seventh to increased foreign competition."

Instances of other classes of exports to different countries indicate that in some cases the predominant cause of the falling off in exports is an increase in local production in overseas countries; in other cases it is a decline of local consumption; and in others the competition of imports from other than British sources.

II

BRITAIN'S NEEDS

There never was a time in the history of our country when the need to increase our export trade was more necessary. There never was a time when it was more needful to watch the tendencies and developments of foreign competing markets. There never was a time either when it was more necessary to examine our manufacturing, our selling methods and distributing organisation, our efficiency, our means and capacity for developing British overseas trade and indeed everything that can possibly affect this vital problem.

These things are bound up with large-scale production, the efficiency of plant and equipment, cheaper transport, and, of course, productive costs. In the matter of competition, British firms may be handicapped by the conditions of wages and working hours as compared with those of other countries.

More than most countries, Great Britain depends upon the maintaining of her export trade to pay for a large

¹ The Survey of Overseas Markets, Part I of the Balfour Committee Report. Published by His Majesty's Stationery Office.
proportion of her food, and of the raw material which of necessity she has to buy abroad for her manufactures, as well as for many finished goods which she imports.

England is the most densely populated of any of the principal countries of the world and is totally unable to produce within her own area sufficient food for home consumption, whether of grain, meat, dairy produce, or fruit. Large imports of all these are necessary for her daily sustenance; and with the improvements in refrigerating plant on train and ship-board, their importation has grown easier, and the incentive to produce the utmost possible at home has correspondingly grown weaker, so that the volume of foodstuffs purchased from abroad is rapidly increasing.

Great Britain is also pre-eminently a manufacturing country, nearly three-quarters of her population being congregated in seven large industrial areas where their basic occupation is the conversion of raw materials into finished goods. For the most part these raw materials have also to be purchased from abroad. For all these purchases her annual indebtedness to foreign countries has risen to enormous figures.

Paying for Imports

There are four chief means by which the bill for these huge purchases is liquidated. Goods are received from overseas against

The actual exportation of gold and bullion,

The interest due on British investments in foreign lands,

The payments due from foreign countries for shipping freights on British vessels, and what are known as invisible exports such as insurance, banking transactions and other services; and most of all, against

The export of British manufactured articles.

Great Britain, in a word, depends for her existence on what she sells to the world. We must sell if we would live. That is clear.

But in addition, it is the fact that if our factories are to be fully employed they will only continue to be so by maintaining our export trade; the reason for this being that our limited home market is insufficient to consume a very large proportion of the things we produce. Our own consuming population is too small to assimilate all we can make.

Put in another way, our population is too large if, for means of livelihood, our factories have to depend on articles to be consumed by ourselves. To provide employment for the population, therefore, we are again dependent on our export trade.

Again, the export trade is not to be considered as a thing apart from home trade; the two are inextricably mixed up, because large-scale production means production for both markets, and large-scale production is cheap production, whether the products are marketed at home or abroad.

III

FACTORS THAT OPERATE

We quote the following passage from The Survey of Overseas Markets issued by the Committee on Industry and Trade and already mentioned.

"Taking the world as a whole, the widespread development of home manufactures [in individual countries] to meet needs formerly supplied by imported goods, is, by general consent, one of the outstanding features of the post-war economic situation. And this is perhaps the most important permanent factor tending either to limit the volume, or to modify the character, of British export trade.

"In part, this tendency is a natural and universal one, inseparable from healthy economic progress, and dating
from a period long before the war; but undoubtedly the tendency has been stimulated by war conditions and necessities.

"The cutting off of usual sources of supply, and the abnormal demand for certain classes of products for war purposes, compelled many countries, including Great Britain, to embark on the manufacture of goods in respect of which they had hitherto been dependent on import.

"Hence, when the return of peace conditions led to the demobilisation of war industries, there was in many countries an effort to preserve certain of the industries which had been established or greatly expanded during the war—an effort based either on reasons of national security or vital interest, or on more general grounds of commercial policy.

"Not only had local vested interests grown up during the abnormal period of interrupted intercourse, which naturally clamoured for support, but not infrequently industries improvised under pressure of the emergency were found to have struck root and to show capacity for permanent maintenance and growth, with or without the shelter of a tariff or other safeguard.

"Naturally, the progress of industrial demobilisation during the last few years has had the effect of destroying or greatly curtailting a large number of emergency industries throughout the world, which were wholly or mainly devoted to supply war shortages and which could never expect to be self-supporting under peace conditions."

"Many examples of this phenomenon will be found in the surveys of different markets which are contained in the present volume. Only a few illustrations can be given here.

**Changed Conditions**

"In several British Dominions the tendency to foster local manufacture of goods has undoubtedly been strengthened by the experience of war. In Canada there has been a remarkable growth of manufactures; while in Australia great efforts are being made to develop industries, and in particular the woollen manufacture.

"In India, which previously depended on importation for most kinds of industrial products, the war called into being a number of industries to supply the gap caused by the cutting off of the former sources of supply. The movement towards industrialisation has since been reinforced by nationalistic sentiment and fostered in various ways by governmental action; and, whatever set-backs it may receive in the future, the tendency to develop home industries has undoubtedly come to stay.

"In South America, Brazil has developed a number of industries (including textiles and boots and shoes), the annual value of the products being estimated in the *Survey* at forty-five million pounds.

"In Argentina the volume of industrial production is estimated to be from two to three times the pre-war output. In Chile it is stated that 'in almost every branch of industry attempts are being made, usually with success, to produce in the country goods that have hitherto been imported.' Among the examples mentioned are cement, where the growth of the local industry has reduced imports from 144,000 tons to 34,000 tons, and wire nails, the imports of which are now entirely displaced by home manufactures.

"The growth of lignite production in Germany and the development of hydro-electric power have both tended to displace coal formerly imported into certain markets.

"It is impossible, in the absence of general production statistics, to estimate the total increase of manufacturing industries which has taken place since the beginning of the war in countries in which such manufacture had previously been comparatively undeveloped, but the general tendency may be illustrated
by the following figures with regard to certain industries and countries.

"The number of cotton spindles in Japan, China, India and Brazil in 1913 was about 10 millions; by 1924 the number had risen to nearly 18 millions. Between 1913 and 1922 the number of cotton power looms in India and Japan rose from 120,000 to 200,000. The annual production of steel just before the war in Japan, China, India and Australia was 360,000 tons. In 1922 it was 858,000 tons.

"Although in individual cases industries artificially encouraged may fail, it is impossible to expect that the general tendency towards the growth of local manufacture will be reversed or slow down, inasmuch as it is based on the inevitable desire of progressive countries to achieve some degree of diversification in their industries, and not to remain entirely dependent on the production of food and raw materials.

The Effect of these Changes

"The most obvious and immediate effect on British trade, and on international trade in general, is, of course, a restrictive one. Goods that formerly found a ready sale in a particular market are now wholly or partially excluded by the competition of the locally produced article under the protection of an import tariff.

"If this were the whole story, the future of British overseas trade would indeed be a gloomy one. But there are certain partial compensations which may in the long run be of great importance to British traders, provided always that their methods and organisation are sufficiently flexible to be capable of adaptation to new and varying conditions.

"In the first place, the new local manufactures are, generally speaking, concerned at the outset with the simpler and coarser classes of goods, and the immediate result is not only to restrict international commerce, but to drive it more and more on to the finer qualities of manufacture. We have already called attention to this factor as affecting the valuation of British exports, and there is little doubt that it has had an appreciable, though probably less marked, influence on the scale of values of manufactures exported by our chief competitors.

"It follows that, while the total volume of international trade open to competition may be diminished, there is a probability that an increased share of what remains will be captured by the exporting country most capable of adapting its production to special qualities of goods.

"At present we find that the reputation of this country in most markets for quality of goods stands high compared with that of its competitors. The difficulties met with by British trade in competition with other export countries arise much more from questions of comparative cost than of comparative quality. Any tendency for competition to develop on the basis of quality should, therefore, prima facie be beneficial to us, if, under the head of quality, we include all that makes an article suitable to its purpose and attractive to the intended purchaser, and do not merely measure it by the standard of what is, or has been in the past, most approved in the country.

"It is, of course, unlikely that any compensation of the kind indicated above would of itself be sufficient to counterbalance the decline in external demand for the commoner grade of goods.

"The second compensation is more indirect and distant, but may nevertheless be very important in the long run. New industries create new wants for plants and material, and, though this demand cannot of itself be sufficient to counterbalance the loss of the market for the goods themselves, we have also to take into account the demand resulting from the increased purchasing power of those for whom the local industries provide employ-
ment. Part of this purchasing power will almost inevitably be expended, directly or indirectly, on foreign goods.

"Whether or not the product of the new industries is itself exported, it tends as a rule to give rise in the long run to a new demand for imports, either on the part of the same or of some other country. For example, concurrently with the development of a huge manufacturing power in the United States, the growth of export of wheat and meat from that country has been checked, owing to the increased home demand and the faster growth of the industrial than of the agricultural population.

**Outstanding Features**

"The effects of the whole development on international trade have, of course, been very complex, but there are two outstanding features. First, the great increase of wealth derived from industry has given rise to a luxury demand almost irrespective of price, which enables certain classes of high grade British goods to surmount the present high tariff walls.

"Secondly, the slowing down of U.S.A. exports of wheat and meat has stimulated the growth of export of these foodstuffs from British Dominions and South America, and thus helped to maintain the demand of those countries for manufactures in which British goods predominate.

"A consideration of cardinal importance in this connection is that the capacity of overseas markets to absorb imports of manufactured goods is strictly limited by the outlets which are available for the exports of their local produce.

"Conversely, Great Britain's capacity to absorb imports of food and raw materials is conditioned by its ability to find markets for its manufactures. Although, under modern conditions of trade, it does not necessarily follow that the countries which buy the produce of overseas countries will export an equivalent amount of goods directly to the same markets, it is clear that, other things being equal, a country like Great Britain, which is one of the greatest consumers of imported materials and foodstuffs, must be in a relatively strong position for securing a full share of the export of manufactures by which payment for these materials and foodstuffs is made.

"To the individual trader, who has habitually exported a particular class of goods to a particular market, and to all those who have specialised in the production of these goods, it may appear somewhat cold comfort to be reminded that the loss of this market may, in the long run, be offset by fresh developments of trade in other articles to other markets, from which they personally are by no means certain to benefit.

"It is only when the problem is looked at broadly from a national point of view that the importance of the compensations is fully apparent; but, even from this point of view, the temporary loss and suffering entailed by industrial transition must not be lost sight of.

**Practical Lessons**

"The practical lessons to be drawn by the trading community from the surveys of overseas markets are plain. The widespread growth of local manufacture has come to stay, and is likely to develop. It does not necessarily follow that international trade as a whole will shrink, but its local distribution will necessarily be affected. Concurrently with this geographical re-arrangement, there will probably be a continuous trend or shift towards the importation of the higher qualities or more distinctive classes of goods. This double re-adjustment is bound to make great and increasing demands on the foresight, intelligence and adaptability of those concerned in overseas export trade, and the future of British commerce will depend in no small degree on the capacity of British manufacturers and traders to understand and react to these changing conditions.
"While the continuance of the present tendency to develop national manufactures must be taken for granted, British traders are deeply interested in the character of the measures by which that development is sought to be obtained. Broadly speaking there are four classes of measures by which different countries endeavour to give an advantage to the products of home industry as compared with imported goods:

(a) Customs tariffs,
(b) prohibitions or restrictions, with or without a system of licences,
(c) special privileges, concessions, or subsidies to local industry,
(d) State control or monopoly."

We have reproduced the foregoing passages, practically in full, from the Balfour Committee report, because of their interest and importance. Further reference to it is made on subsequent pages of this chapter.

IV

THE NEED FOR NEW MARKETS AND HOW THEY ARE TO BE GOT

Great Britain is the pioneer exporting country. She still enjoys many of the advantages of the long experience of her merchants and their wide connections overseas; from the ubiquity and efficiency of her merchant marine; from the fact that London is the home and centre of the world’s marine insurance; from her worldwide banking system, and, partly, from the sentimental ties and merited repute which give her goods a preference in the markets of the Empire.

The pioneering days may be said to be over; the problem now for British exporters, in the face of increasing competition, is how to hold their position by initiative effort, by adaptability, by discarding every hampering method arising out of her past supremacy. New needs call for a new spirit and new methods, renewed zeal and an enterprising policy.

An open eye should be kept for fresh developments of trade; in this respect some of the smaller countries offer great opportunities. Such is Ceylon, for example, and the Malaya States, both of which are rapidly developing, and India still offers prospective opportunities.

"Canada," we are told by the Balfour Committee, "will not buy from Britain on the score of quality only. It must be quality plus suitability, and reasonably prompt availability.

"Styles, standards, usage and advertising, common to Canada and the U.S.A., differ in very many instances from those prevailing in the United Kingdom. Quality alone, no matter how strong the sentiment may be, will not overcome an unsuitable style, bad packing or delay in delivery.

"Another factor affecting British exports to Canada is the latter’s rapid progress in the production of fully manufactured goods suitable for the home market.

"For instance, the large volume of goods of American styles on the Canadian market is not by any means supplied entirely by factories in the U.S.A. Canadian branch factories of U.S.A. firms contribute a very large proportion of the manufactured goods needed by the Dominion. The number of such establishments exceeds 700 and is sometimes placed as high as 1,000.

"Importers in the Dominion of Canada expect a manufacturer or merchant exporter, desiring a share of their orders, to make business free from irritation and to offer a service at least comparable with that usual in North America. Canadian imports of fully manufactured goods are today approximately worth $500,000,000 per annum, and goods partly manufactured account for about $80,000,000. Of a total of $580,000,000 for fully and partly manufactured goods purchased by the Dominion, the United Kingdom secures only 22 per cent., despite a substantial preferential duty on nearly everything imported. It is thus obvious that the existing trade
is not only large enough to make it worth while, but that the United Kingdom does not secure nearly as much as she should.

American Methods

"The sale of goods by the method of appointing agents on commission is the policy adopted generally by United Kingdom firms in the Canadian market. While this arrangement is moderately successful, there is no doubt that it places British goods at a disadvantage compared with United States products in competing classes.

"U.S.A. firms not only employ agents on commission; they also establish branch warehouses, where stocks are kept and can be supplied at once. This is particularly necessary, for example, in machinery of every kind, so that spare parts may be readily available.

"British goods have to compete, therefore, with U.S.A. firms carrying stocks on the spot, and, in addition, with their agents on commission. At certain strategic points, such as Toronto and Vancouver, a letter posted to the nearest U.S.A. centre—Buffalo in the case of Toronto and Seattle in the case of Vancouver—is delivered on the following day and goods can be shipped on receipt of the order. This alone is instrumental in marketing large quantities of goods irrespective of price and quality.

"The proximity of the large market of the United States enables that country to trade with Canada at an advantage over the more distant British market, notwithstanding the tariff preference granted to the latter. The British exporter has two cheap ocean routes to Canada, one to Montreal and the other through the Panama Canal to Vancouver, but the element of time can be overcome only by the carrying of stocks in the country.

"Unreliability in delivery, or the time taken to fill an order, are two of the most difficult matters requiring solution if British trade to Canada is to expand. The fact that the goods have to be transported some thousands of miles by sea, and often enormous distances by rail as well, does not impress the Canadian importer. He knows that most of his regular needs can be filled by Canadian or U.S.A. factories distant from one to five days' rail journey. The proximity of the factory also means, in practice, that the Canadian merchant has so much less money tied up in stock.

"In nearly all the large Canadian cities many Canadian manufacturers carry stocks in their own warehouses for prompt delivery to the local trade, including electrical goods (wire, cable, apparatus and household appliances), the smaller engineering articles, saws (for mill and household use), collars, shirts, boot polishes, paints, aluminium ware and other household utensils, bags and trunks, and many others.

"Local merchants are thus enabled to secure such supplies at a moment's notice, and are not vitally interested in other sources of supply from which delivery is a matter of months.

"It is possible for United Kingdom exporters to meet and overcome to a very large extent the difficulties to which reference has been made."

Where Great Britain has Regained her Trade

The fortune of British exporters in regaining their position in competitive overseas markets since the war has been very varied, and much still remains to be done.

As regards South Africa, for example, Great Britain "has almost maintained her position as the chief source of supply of South Africa's imports, contributing 52 per cent. in 1923 of the total, as against 54 per cent. in 1913."

British exporters have regained much of the ground lost in Argentina. Our total exports, however, are less by 7 per cent. than in 1913, while those of the United States are up by 6 per cent.
India’s imports of cotton yarns from the United Kingdom in 1923–24 were 21,790,000 lbs., compared with 37,836,000 lbs. in 1913–14. Piece goods imports from the United Kingdom showed an 8 per cent. reduction since pre-war days; the imports of India from Japan in the same period showed a corresponding increase.

Piece goods are amongst the most important imports of India from the United Kingdom, and in this market India is our chief customer. Our chief competitors of late years have been Japan and the United States. We have a considerable trade with India in iron and steel and an increasing trade in machinery for her textile industries. Nearly 50 per cent. of the trade of the United Kingdom with India is in textile goods; we have the biggest share in woollen manufactures.

The Importance of India

An authority on this subject has said, “Though England is well to the fore in her exports to India, this class of import into India may be viewed with mixed feelings, for there is no reason to doubt that India, in course of time, will develop manufacturing centres in which the jute, cotton, wool and other raw produce raised in India will be turned into the finished product, and in proportion to the increase in her capacity to manufacture for her own internal requirements, so must the demand for England’s piece goods and the like diminish.”

The Indian market merits the closest attention of British traders. We, therefore, quote the following passage from “The Finance of Foreign Trade,” by William F. Spalding, who concludes one of his chapters with some remarks on this subject taken from an Indian paper, The Pioneer, of 19th October, 1925:—

“Although the Indian market for imported goods is an enormous one, it is doubtful whether its extent and potentialities are so fully realized by manufacturers as they ought to be. Notwithstanding trade depression and the slackness in purchases resulting from high prices, India imported goods by sea in the year 1924–25 to the value of £185,000,000, of which the share of the United Kingdom, in round figures, was something like £100,000,000.

“...That India offers a great field for cotton manufactures is known to all. But her market absorbs an infinite number of imported articles, ranging from machinery, railway plant, agricultural implements and motor cars, to the medicines, soaps, and a vast variety of other goods which are sold, not only in European shops but in the Indian bazaars. The bazaar trade is rapidly expanding, since the use of imported articles of many descriptions is increasing among the Indian population.

“...What is of intense interest at the present time is the vast possibilities of Indian agriculture. Although, in the aggregate, imports from abroad represent many millions in value, the average purchasing power of the people is low. But a small increase per head in that purchasing power will inevitably bring about a larger demand for imported goods, and it is here, from the point of view of the supplier of the Indian market, that the decision announced by the Secretary of State and the Viceroy in regard to agricultural development assumes immense importance...”

It is recognized by competent authorities that the addition of many millions of pounds to the annual agricultural output can readily be accomplished if the efforts now being made by the Agricultural Departments are extended on sound lines, and there is no question as to the results that can be achieved.

“Another branch of the activities of the Agricultural Departments is the breeding of cattle. The indigenous cattle of India are of very poor quality, and millions of cultivators are debarred from using modern ploughs as their animals are not strong
BRITISH EXPORT TRADE

enough to draw them. The Agricultural Departments are therefore striving to produce good draught bullocks."

As The Pioneer further says, the increase of the wealth of the cultivating classes, when the better class animals take the place of the present inferior types, will be enormous, as it is estimated that at the present time there are about 150,000,000 bovine cattle in India. The demand for modern ploughs would rapidly increase if strong draught animals were available instead of the weak cattle now in general use. The men who are in closest touch with agriculture are most optimistic about the future.

In a speech at Simla, Lord Reading declared that: "As I grow older in my service to India, as I learn to understand her problems, as I perceive more keenly the anxieties of India, I come more and more to the conclusion, aided and assisted by those who have the knowledge and experience, that the great industry of India to which India must look for her regeneration is her agriculture; and we must do all we can to further it."

The population of British India is 247,000,000, and of India, including the States, 319,000,000. It is not difficult to realize the increase that will be effected in the demand for imported goods as the standard of living of this great population improves. Some of Great Britain's competitors have no illusions on this point, and are straining every nerve to secure a strong commercial foothold in the Indian market.

Exports to Australia

In the case of Australia, British exporters have fared better in late years than in some other markets; the percentage of British domestic exports taken by Australia was greater in 1925 than was the pre-war figure of 1913.

The true test, however, is to compare the British share of Australia's competitive imports with that of other countries. Competitive imports exclude those which are of a kind not manufactured or produced in the United Kingdom. On this basis our proportion of Australian trade as compared with the pre-war year of 1913 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>1913.</th>
<th>1923.</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Empire</td>
<td>63-2</td>
<td>60-4</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>11-8</td>
<td>17-2</td>
</tr>
<tr>
<td>Germany</td>
<td>11-4</td>
<td>22-4</td>
</tr>
<tr>
<td>Other Countries</td>
<td>13-6</td>
<td></td>
</tr>
</tbody>
</table>

British trade thus shows a falling off, while America's shows a considerable increase.

Australia is the United Kingdom's second best market. (The best is India.) The total imports into Australia in the year ended June 30, 1925, amounted to £157,143,296. The following statement shows the imports from the chief supplying countries in the years 1923 to 1925.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>British Empire</td>
<td>£68,304,423</td>
<td>51-9</td>
<td>£63,607,743</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>5,004,253</td>
<td>3-9</td>
<td>5,046,519</td>
</tr>
<tr>
<td>Germany</td>
<td>24,556,329</td>
<td>18-8</td>
<td>34,550,659</td>
</tr>
<tr>
<td>Japan</td>
<td>3,956,150</td>
<td>3-0</td>
<td>3,557,834</td>
</tr>
<tr>
<td>Other Countries</td>
<td>23,611,706</td>
<td>22-4</td>
<td>33,849,668</td>
</tr>
<tr>
<td>Total</td>
<td>131,757,835</td>
<td>100-0</td>
<td>140,618,293</td>
</tr>
</tbody>
</table>
Graphs showing the proportion of British exports taken by certain of the British dominions as against the proportion taken by certain foreign countries.

Australia and New Zealand versus Western Europe.

Australia versus South America.

Empire versus Europe.

India versus Far East.
The year 1923–4 showed a serious falling off in the United Kingdom's proportion of the trade with Australia, and there was a further decrease during the year 1924–5. The percentage of the imports from Great Britain which had been 51·9 per cent. fell to 43·9 per cent. of the whole. There was, it is true, in 1924–5, an increase of £5,500,000, but this country was not obtaining the same share of the trade as she had formerly received.

A serious rival in one line is the United States. From 1922–3 the imports from that country had risen from 18·8 per cent. to 24·6 per cent. in 1923–4, and the proportion remained almost unchanged in 1924–5. This growth was largely due to the increased trade in American motor cars. British manufacturers, however, are taking steps to meet this competition.

The Balfour Committee considers that the present share of the United Kingdom in a valuable market like the Australian will not be retained without severe competition from the United States and other countries. Australia offers many advantages to the British trader, a generous British preferential tariff, a strong sentiment in favour of British goods, a strong, progressive banking system, and a market which must expand with a greater or less degree of rapidity depending on the success of the immigration schemes in operation, or to be introduced.

Trade Rivalry in Australia

"In specific trades, according to the statistics for 1922–23, United Kingdom superiority seems to be well established in textiles (76·9 per cent.) and apparel (55·7 per cent.). In the cotton textile trade, the United Kingdom is supreme, the trade is thoroughly well organised, and her position is apparently unassailable.

Stationery and paper manufactures (71·9 per cent.), paints and colours (73·2 per cent.), earthenware, china and glass (59·5 per cent.), are other commodities in which this country is well established. The weakness of the United Kingdom’s position appears to be in machinery, engineering and allied materials.

In these cases, competition has to be faced from local manufacturers, as well as severe competition from the United States, and possibly from Germany in the near future. United States competition also continues in the goods classified as metals, metal manufactures, and motor cars, and in steel plates, sheets and sections. Undoubtedly the United Kingdom manufacturer owes something of his continued success generally to the tariff preference accorded to him.

Japanese competition is principally in silk goods. German competition is at present small; the resumption of direct trading between Australia and Germany only took place in August, 1922, and the operation of the Industries Preservation Act may have its effect upon the import trade from that country. Before the war imports from Germany were considerable. Imports of German goods in 1913 were valued at £7,000,000. Textiles and machinery and other metal manufactures composed the bulk of the trade. In 1922–23 imports of German goods were valued at £573,000 only.

"Although the proportionate share of the United Kingdom in the Australian market has been slightly reduced during the years mentioned, she still retains a preponderating share of Australia's imports. There is, however, ample scope for increased activity on the part of British manufacturers and exporters, and their Australian representatives, if their existing share in the trade is to be retained."

The following is a summary of exports from the United Kingdom to Australia for the year ending June 1925.
Foodstuffs of all kinds          954,719
Beers, Spirits and other alcohol Liquors 1,791,001
Tobacco                         228,393
Apparel—Textile and Manufactured 26,782,623
Oils, Fats, &c.                 309,134
Paints and Varnishes            471,687
Metals and Machinery           24,827,221
Rubber and Leather             800,003
Wood and Wicker                 224,264
Earthenware, China, Glass and Stoneware 1,529,768
Paper and Stationery           4,692,738
Jewellery, Clocks, &c.          1,002,094
Scientific and Optical Instruments 825,334
Drugs, Chemicals and Fertilizers 1,873,447
Miscellaneous                   2,937,381

The imports into Australia from Great Britain during this financial year, therefore, reached the not inconsiderable sum of £69,047,807.

New Zealand

The export trade of the United Kingdom to New Zealand compares favourably with the pre-war position. "The purchasing power per head of the population is very high, and patriotic sentiment in favour of British goods is very strong. The progress of the country has been extraordinary, and, as the population increases, the importance of the market to the United Kingdom manufacturer will increase also."

Some of New Zealand's imports of miscellaneous goods run into respectable figures. For instance, the following figures represent imports from the United Kingdom, and the steady increase in their value is shown by a comparison between the figures for 1914 and those for the annual fiscal period ten years later.

The very large increase under the heading of steel, iron and machinery is mainly due to an increase in the amount of machinery imported into New Zealand, the value of the imports rising from £634,210 in 1914 to £2,162,110 in 1924, and an almost similar ratio of increase exists in the articles which are classed under the sub-division of miscellaneous metals and metal manufactures.

<table>
<thead>
<tr>
<th></th>
<th>1914</th>
<th>1924</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel, including hats and caps</td>
<td>£1,336,888</td>
<td>£2,046,984</td>
</tr>
<tr>
<td>Boots and Shoes</td>
<td>365,545</td>
<td>788,527</td>
</tr>
<tr>
<td>Drapery, Haberdashery, Linens, Woollens, and Textiles</td>
<td>2,101,213</td>
<td>3,971,787</td>
</tr>
<tr>
<td>Hosiery</td>
<td>102,990</td>
<td>328,755</td>
</tr>
<tr>
<td>Silks</td>
<td>55,673</td>
<td>129,585</td>
</tr>
<tr>
<td>Iron, Steel, Machinery, Nails, Railway Plant, Tools, &amp;c.</td>
<td>2,903,497</td>
<td>7,010,682</td>
</tr>
<tr>
<td>Sugar and Tea</td>
<td>1,114</td>
<td>129</td>
</tr>
<tr>
<td>Beer and Spirits</td>
<td>740,717</td>
<td>1,743,667</td>
</tr>
<tr>
<td>Paper, Books, &amp;c.</td>
<td>542,241</td>
<td>1,122,991</td>
</tr>
<tr>
<td>Miscellaneous—Arms, Motors, Bicycles, Explosives, &amp;c.</td>
<td>2,365,019</td>
<td>4,307,797</td>
</tr>
<tr>
<td>Unspecified Articles</td>
<td>1,349,370</td>
<td>1,745,922</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>11,954,276</strong></td>
<td><strong>23,203,826</strong></td>
</tr>
</tbody>
</table>

**SELLING METHODS IN THE EXPORT TRADE**

For all who can possibly do it, there is no doubt that the first step in seeking to commence, or to develop, an export business is to make a personal visit to the countries it is proposed to cultivate.

There is nothing like first-hand information, and there is nothing so essential to forming right judgments as an exact knowledge of all available facts. Things are not always what they seem to be on the surface, in the export trade or in any other walk of life.

To get the actual facts of an existing situation is always of first importance. We shall not follow here the average critic of British business methods, who decries his lack of initiative, his complacency, his stubborn adherence to worn-out methods, his lack of adaptability, and the rest of it.
That is not to say there is no ground for criticism; it probably is true that manufacturers and export merchants sometimes fail to realise sufficiently the peculiar needs of overseas wants, or to provide for them specially.

The Balfour Committee has put on record complaints of several countries regarding the unsuitability of the British article to local needs. It may be due to ignorance of local conditions and requirements, or it may be due to a disinclination to cater for these special needs. It is also definitely stated that, on the whole, American firms are more active in their efforts to meet the special needs of certain countries than are British manufacturers.

**Dominion Complaints**

There is complaint in Australia and New Zealand, and in some other countries, as to the unsuitability of the British article to local needs. "Where this is so, it will probably be advisable for British manufacturers to send out a representative to study local conditions and requirements. On the whole, American firms have, perhaps, been more active in this respect than British." Where successful competition is met with, the reason is usually one of price. But not always, price has not been the only deciding factor in reducing the number of British cars. Horse power, wheel base, road clearance, have all affected sales, in the past. This applies to many small cars so popular in England. Outside the main highways roads are not good, and in many country roads it is necessary to keep to wheel tracks. This cannot be done with cars of small wheel base. In winter, ruts become deep and a good road clearance is necessary. While the small car is suitable for the city owner, for he seldom leaves main roads, it is the man in the country to whom a car is a necessity, so road clearance must be considered.

British motor manufacturers are alive to the position, and an expert delegation (at the date of writing this) is about to set out to investigate again the whole position of overseas markets. What applies to the designing, manufacturing and marketing in the motor trade applies to other trades as well.

**Adaptability to Local Requirements**

The selling of motor tyres has been left to agents in New Zealand and Australia, but American manufacturers have had factory experts resident there to study local conditions, and to back up the efforts of their agents.

An agent for stationery goods states it as a fact that, although the size of New Zealand and Australian pound notes is very much larger than that of English notes, yet English manufacturers of leather note cases, wallets and purses, continue to send out cases which are useless for the purpose.

English firms produce many fine games for children and wonder why they cannot sell them. In New Zealand, Rugby is the national game and children do not understand the game of "soccer."

Freight rates are so high that manufacturers must consider size in preparing an article for export. Many lines of fancy goods that sell well in England have no chance of sale in the Dominions, as landing charges often amount to over 100 per cent. If a 20 per cent. saving in freight charges could be effected, the articles might become saleable.

While the factor of quality may be the main one in one particular country, that of cheapness is the deciding factor in another country. The primary thing with many buyers is quality, and in quality Britain excels. Price, however, is not always a secondary consideration. Take the case of a hammer at 7s. 6d. The artisan wants that, for he knows its quality. However, he represents only a small per-
centage of users. Amateur carpenters who quickly lose or leave hammers outside in all weathers, pay three shillings for the foreign make; it fills the bill.

The peculiar needs of a country and the psychology of the people of that country have to be studied. The surplus stock, therefore, manufactured for home production, will not always find a ready market in another country.

Value of Personal Knowledge

This brings us back to our first statement regarding the necessity of a personal visit to such countries. The interested person can study the conditions on the spot; he can ascertain at first hand whether his goods are entirely suitable; he can estimate the nature of the competition he will have to face; he will form his own judgment as to the best means to employ in engaging agents, or in effecting distribution—and these things are all important. It is a mistake to rely entirely on reports, or to take things too much for granted. The following illustration of this was given to the writer.

There are a great many boot and shoe manufacturers in Great Britain doing a large export trade, but quite recently it was almost universally believed among them that there was no market for British boots and shoes in Canada; their total exports to that country had dwindled in 1923 to £82,000. One English manufacturer had the courage of the contrary opinion, and, at the end of a single year, his sales in Canada had more than equalled the aggregate British sales for the year previous in that country. A few other British manufacturers followed his example, and the exports rose in two years to nearly a quarter of a million, while the demand was rapidly expanding, and, meanwhile, the sale of American-made shoes in Canada had dropped by £20,000.

How the German porcelain manufacturers wrested from the British a large proportion of the export trade to India is an old story, but contains a lesson of enduring value. They studied the situation carefully from statistics first, and then sent a representative to India to report. This man noticed the small size of the Indian egg and its ridiculous appearance, or, rather, disappearance, in an ordinary English egg-cup. He collected eggs from various districts, measured them, and averaged their dimensions, and sent to Germany for a supply of specially small egg-cups.

While they were coming he studied the bazaars and means of distribution; when they came they were sold quickly in all parts of India, and the demand for more of them grew rapidly. Very soon they had become so established that people had to buy German breakfast and tea services to match their egg-cups, and dinner services followed in due course. The adaptation of one small article to suit a local peculiarity was the means of securing an immense new export market for a large range of products.

One British manufacturer, when he was close on sixty years of age, paid his first personal visit to the markets in which his firm was interested. Two years later he said that his trip had been worth £100,000 to the business of which he was chairman. He had never before realised the importance of a personal inspection.

The exporter must know what alterations are necessary in particular articles if they are to meet the needs of foreign customers. He will very often discover that something more than climatic conditions enter into the question.

A British merchant travelling in Egypt enquired of an importer why he bought German tools instead of British, which were of better quality although of slightly higher price. The reply was that the cheaper and less enduring tools were what he wanted. His customers were Mahommedan,
and whenever a tool broke it was "the will of Allah"; and the oftener they broke, the oftener the caravans came into Cairo and bought other goods.

Meeting Local Conditions

The people of different countries have different habits; some special peculiarities of their own; some idiosyncrasies deep rooted that must be recognised if we would do business with them. It is not every country, for instance, where the position of the drive in a motor car is from right to left, as in England. In Latin-American countries the opposite is the rule. A matter of this kind, of course, necessitates a change in the product and the same thing applies in other directions. Sometimes the expense of special adaptation, unless the market is a big one, may not be worth while. The steam engines used on the railroads of the United Kingdom are not always the best type for the light railway systems of India or Egypt, where tractors are often preferred for economy in working. These problems must be settled by individual manufacturers. They are always cropping up in various industries.

The point may arise, of course, when a manufacturer has to decide for himself whether he shall export the articles he makes for the home market, or whether he will adapt his plans to manufacture specially for export.

Service and Publicity

The method of marketing goods in the Dominions or in foreign countries is another matter of vital importance. In this connection it is stated that Americans are to the front in the matter of what is called "Service." That is to say they help the importer to dispose of articles bought. Sometimes this is done by publicity campaigns; it is asserted that the United States does nearly 75 per cent. of the trade of Australia in vacuum cleaners, owing to active selling and advertising campaigns.

Publicity should be applied to the sale of goods in foreign countries, much in the same way as it is used in the home markets. It is admitted that this is not so easy to do, or to control, as it is at home. The selling plan must be left to experts conversant with all the conditions that apply in individual cases. The same principles will be applied as in the home market: sometimes the media employed will be trade journals; sometimes the columns of the daily or weekly papers; sometimes advertising matter and export catalogues. Naturally, catalogues will be written in the language of the foreign customer and the information should be the fullest possible.

A great many British firms when appointing an agent consider no more is necessary. Some firms whose home advertising amounts to 5 per cent. of turnover do not spend ½ per cent. in publicity in the Dominions, yet wonder why returns are not greater.

"Service," to the foreign customer, may go further than this publicity. In engineering and allied products in particular, service may take the form of expert instruction in the use of machines and the like. A technical man will be provided to give such advice and supervision as is often required.

This form of service has proved of incalculable value in connection with the maintenance of depots where spare parts can always be obtained for many types of machinery where prompt delivery is essential.

Sweden obtained and held the supply of separators and many lines of dairy factory machinery; experts were sent from Sweden and were always at the buyers' service. When he is two months from the source of supply it is serious when broken parts cannot be replaced locally, as it may cause a stoppage to numbers of men; a manufacturer in the Dominions has to watch this aspect.
The Placing of Agencies

On the subject of trading methods the Trade Commissioner for Australia says: "Australia is at present Great Britain's second largest export market, although her population is only about 6,000,000. This fact alone should be sufficient to attract the attention of firms in the United Kingdom and to lead them to look more closely into the possibilities of development of this extremely valuable market.

"The magnitude of Australia and the diversity of its requirements in themselves demand that firms should give the closest possible study, not only to the market as a market, but to the geography of the country, its variations of climate, the differences in its peoples and diversity of its economic life, all of which have a very important effect on its trade.

"It is only when one begins to attempt to cover Australia by travelling over it and round it that the difficulties of organization facing any firm which sets out adequately to extract the maximum amount of business from the Commonwealth can be realised. I am afraid it is a fact that a large number of firms who sell goods to Australia have little, if any, appreciation of these things. The majority are probably satisfied to sell to 'London shipping' as long as this method brings business.

"The placing of agencies in a country like Australia requires the most careful consideration and appreciation of the differences between the various States and the influence which these differences will have in the choice of an efficient organization. There are some well-known firms who have their own branches throughout Australia, and with whom agencies may safely be placed with the assurance that attention will be given to the agency in every part of Australia where business might be done.

"These firms, however, are relatively few, and it naturally follows that, being few, they are in most cases well supplied with agencies, and are often unable to consider further offers. In cases in which it is impossible to arrange agencies with such a firm, it is desirable, if not essential, to consider carefully the appointment of separate agents in each State. Although there are firms who operate throughout the whole of Australia, each State may be said to have its own separate and peculiar trading organisation."

On the whole, what the Trade Commissioner says is true; but there is no doubt that the most satisfactory thing is to appoint a chief agent, say, in Australia and New Zealand, who arranges for sub-agents in districts. This applies particularly where stocks are carried. There is little trouble in arranging with live firms to take control of a particular line for a district; the chief agent is able to judge results.

In the main, the Trade Commissioner is also right when he says, "An all-Australia firm which may occupy a position of prime importance in one State may be of only secondary importance in another, and a purely local firm may in its own State be of greater importance than a much larger and more important all-Australia firm in that particular State.

"Further, one firm may operate in Queensland and New South Wales alone, or in Victoria and South Australia alone, or in South Australia and Western Australia alone, or in each one of these States alone. These circumstances require consideration, and it is really only by personal contact in Australia itself that one can ascertain exactly what is the significance of any one particular firm—however generally important it may be—in any particular State or locality.

"To appoint an agent in either Melbourne or Sydney for the whole of Australia, merely because he asks
for the agency, is often to rule out the possibility of securing the majority of the trade which might be available.

"There are exceptions, of course, and I have known of cases in which agencies have been given in this way with highly satisfactory results. This only happens, however, in cases where the main agent so appointed is energetic enough to organise thoroughly throughout the whole of Australia, either by the establishment of his own branch offices, or by the appointment of sub-agents, on terms sufficiently favourable to the sub-agent to make it worth his while to push sales.

"It has been pointed out to me repeatedly, and particularly in States like Western Australia and Queensland, that main agencies are often given for the whole of Australia to firms in either Melbourne or Sydney, who have no adequate organisation in the outlying States. It is only natural that some firms should willingly accept agencies of this kind, which it would well repay them to work themselves in the East, while, from other States, in which it was not worth their while to put in any active organisation, they would be satisfied to draw a certain amount of commission.

"So it sometimes happens that the business of British firms, which is well looked after in the larger States, is neglected or insufficiently pushed in the outlying States owing to lack of proper organisation. Some of the best agents in these outlying States are not prepared to accept sub-agencies, or if they do accept them, they do so only until such time as they can secure a direct agency themselves for similar goods. . . .

"It is impossible absolutely to guarantee the bona fide and suitability of firms wishing to operate agencies, but in these days it is possible to reduce the chances of mistake to a minimum if proper enquiry is made and sufficient thought is given to the needs of the market.

In spite of this the goodwill of many British firms of high repute has been seriously prejudiced in Australia by the appointment of agents who would never have been appointed had the firms at home taken proper steps to understand the trading organisation of Australia, and to ascertain the standing and experience of the agent in question.

"How necessary it is to have an extensive and efficient organisation may be realised to some extent by a consideration of the distances of the various buying centres from one another and the almost hopeless impossibility of working Australia from any one centre.

"Melbourne and Sydney are, of course, by far the most important purchasing and distributing centres; in fact, the two States of which they are the capitals import about 77 per cent. of the total imports into Australia, but in themselves the requirements of these two centres vary considerably for climatic and other reasons, and the channels of trade are to a considerable extent distinct. Queensland and South Australia import about £12,000,000 value each, or about 8-6 per cent., of the total imports of Australia, while Western Australia imports about £7,000,000 and Tasmania about £1,600,000 in value.

"The following figures show the relative purchasing power in imported goods of the population per head per annum in each State:—

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<tr>
<td>New South Wales</td>
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<td>Victoria</td>
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<td>Western Australia</td>
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<td>Tasmania</td>
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"These figures are some guide to the extent to which trade in Australia is decentralised. The distances alone make this decentralisation necessary. . . .

"It is well known that Australia is extremely well served by its London
merchanting and buying agency organisations, but firms at home are inclined to regard all the various firms composing these organisations as of one type, classed under the general description which British firms give to this class of trade, viz., 'London Shipping'. . . .

"As a matter of fact, there are very important differences which it is well that firms at home should appreciate, if they wish to realise clearly the nature of the business which they themselves as manufacturers are doing with a country like Australia; and it is necessary that they should realise this.

"British manufacturers must be aware that a very great number of orders which reach London closed on particular firms of manufacturers, never reach those firms because they are diverted by London buying houses at their discretion. In fact quite a considerable business has grown up in London of London agents of British and Continental manufacturers securing the diversion of orders from firms nominated in indents. In this way a great deal of the effectiveness of a manufacturer's selling organisation in Australia may be defeated.

"British manufacturers must study the intricacies of Australian importing, so that they may know exactly what they are doing, and where and how their goods are going to Australia, if they are to secure the maximum of business which might be available for them."

Advantages of a Branch Office

This matter of agencies is an important one for every exporter, and the support given to them from home is equally important. A contention widely voiced is that the supply of lists, catalogues and advertising matter falls far short of that from America, which country has also the great asset of a preponderating circulation, especially in Canada, of American magazines, periodicals and literature, all carrying advertisements.

An increasing number of manufacturers are handling their own export business, dealing directly with the foreign buyer, without the intervention of the middleman.

Partly, this is due to the action of large importing houses overseas, who get into direct touch with the manufacturers of the goods they need; they rely on export merchants chiefly for sundry articles of which they want a varied assortment in small quantities.

Where the volume of business justifies it, the establishment of a foreign branch by British manufacturers and export merchants has everything in its favour. The exporter with a foreign branch has the advantage of keeping in closest touch with his market; stocks can be kept, ensuring prompt delivery; show rooms are open to customers; in a word, the facilities which home buyers enjoy are given to foreign customers.

In the case of machinery, tools and many articles of a technical nature, it is an advantage to have a man on the spot who thoroughly understands the goods he has to sell, and is able to demonstrate their special qualities and uses. A general merchant overseas, dealing in a great variety of imports, cannot be expected to apply the same intensive salesmanship to a particular line that it would receive from the resident representative of its producer.

It is not contended that there are no drawbacks in establishing foreign selling branches; amongst them is the expense; in certain classes of fashion, seasonable, and other goods with a short "life"—certain kinds of books, for instance—unsaleable stocks may accumulate.

Still, for firms with ample capital, whose exports run into high figures, the advantages are manifest; service and personal attention are rendered possible; credit problems, and the standing and reputation of potential customers, can be investigated on the
spot instead of at a distance; and the principals at home are kept in close touch with changing conditions in their markets overseas, and are immediately advised of any new trend of demand or competition, and of any modifications in the product that would enhance its local appeal.

The Individual Salesman
Comparisons have been made between British and American salesmen. It serves little purpose to generalise on such a subject. Both have their share of good, and of indifferent, salesmen. American salesmanship has become a fine art, and the energy and resource of the American salesman are no doubt excellent, because they are very skilfully trained. The value of personal salesmen, directly employed by the British export merchant, cannot be over-rated; working on the spot a thoroughly trained salesman will often effect sales in the teeth of higher prices simply by reason of the superior quality of his goods. But it depends on the salesman.

It is perhaps unfortunate that British firms are often their own keenest competitors. Six firms in the shoe trade, for example, may be found selling independently, each competing in the same line of goods, types and prices.

The American is fond of reducing types and styles to a minimum with a view to economy in manufacture; in one instance they have reduced the variety of patterns from some eight hundred to about fifty. There is no question that too great a variety of patterns increases manufacturing and selling costs. It has been urged that firms in certain businesses should group themselves for selling purposes overseas; many firms have working arrangements something after this style. It is to the sales end of their business that exporters should look for increased business.

In the absence of a selling branch overseas, the exporter will probably resort to selling agents. We have made reference to this subject on a previous page. Despite long years of experience, it is too often the case that the same mistakes continue to be made, and exporters are not always fortunate in the agents they employ. There are agents and agents, and great care has to be exercised if the right people are to be appointed.

Some offer their services on so-called mutually advantageous terms, generally with a view to obtain an expenses allowance from as many firms as possible. Occasionally, with smaller exporters, this may be a feasible arrangement, but the repute of such agents should be known personally to the exporter. They may do little in return for an allowance, they may even hamper business if they are interested in competitive goods which pay them better.

Supporting the Agent
Once a selling agent has been appointed, it is important to support his activities by generous advertising and continuous supplies of samples or stocks, and by meticulous attention to his communications and suggestions. In this connection The Times Special Correspondent wrote in April, 1926, as follows: “Service by the principal to the agent is essential. In Canada complaint has not infrequently been made by agents of British exporters that they receive far less support than their colleagues who have American goods to sell.

Their telegrams are either answered only by letter or entirely ignored; their suggestions are not acknowledged and apparently not considered; they are not helped like their rivals by generously planned advertising campaigns and by a willingness to supply a steady flow of samples and maintain adequate stocks where desirable. The distributor for a British house is seldom able to say to the retailer as the American distributor can, ‘My firm will sell these goods for you by
our advertising campaign; all you have to do is to stock them.'"

This point has been also stressed in reports issued by the Commissioners of Overseas Trade.

Export Merchant Houses

The functions of export merchant houses are (1) to purchase goods for foreign and overseas markets, which they will sell on their own account; and (2) to act as indent merchants, that is, they receive orders from abroad and place them with the home exporter. These indent houses, therefore, act for the buyer, not the seller.

The export merchant proper acts on his own behalf in purchasing and shipping goods, and selling them through his branches or connections in other countries, on his own account. He assumes all responsibility.

Different merchant firms specialise in East Indian business, in Australian, Continental, South American, or Mediterranean; some confine themselves mainly to exporting textile piece goods, while others deal in general merchandise.

In the nineteenth century these merchant shippers built up Great Britain's export trade, carrying her goods to all parts of the world, and easily finding markets for them in exchange for the foreign cargoes they brought back; but now that British goods are faced everywhere with keen competition, markets have to be sought, effective salesmanship has become necessary, and manufacturers take more part than heretofore in the disposal of their products.

One consequence is that there is less distinction now than formerly between the merchant proper and the indent merchant, who acts as a buying agent for importers overseas. His orders come to him in the form of indents, which may be either "open" or "closed."

A closed indent is an order to buy certain specified goods from a specified firm, and to ship them according to instructions.

An open indent specifies the goods, but leaves it to the discretion of the indent merchant to buy them where he thinks best. In this case it is his business to find out the most profitable sources of supply, to purchase and collect the various goods, to arrange for their proper packing and their shipment, and, if he has been so instructed, for their insurance.

The tendency is more and more for indents to be "closed," as overseas buyers gain a fuller knowledge, through the development of advertising, of the names and products of specific firms.

Shipping Agents

Shipping agents are firms who specialise in all the details of the export trade, in packing, forwarding, warehousing, choice of routes and dealings with the shipping companies. The larger ones possess their own wharves and warehouses, their own packing departments, their own road transport and river boats or lighters. Both manufacturers and merchants often find it profitable to turn over to them the whole arrangements for the transport of their goods, from the factory of their origin to their ultimate destination.

By collecting various consignments, and shipping them together, they can frequently obtain better terms for each exporter than could have been obtained for the small parcels separately; and while bills of lading issued by shipping companies as a rule cover the sea voyage only, the leading shipping agents issue "through bills of lading," which cover transhipment and road or rail transport from the port as well.

Direct Buying

A considerable number of both foreign and colonial houses do their own buying in Great Britain, and an increasing proportion of the export trade is transacted in this country.
COPY OF LLOYD'S FORM OF POLICY

No Policy or other Contract dated on or after 1st January, 1924, will be recognised by the Committee of Lloyd's as entitling the holder to the benefit of the Funds and/or Guarantees lodged by the Underwriters of the Policy or Contract as security for their liabilities unless it bears at foot the Seal of Lloyd's Signing Bureau.

Be it known that

as well in their own Name, as for and in the Name and Names of all and every other Person or Persons to whom the same doth, may, or shall appertain, in part or in all, doth make Assurance, and cause themselves and them and every of them to be insured, lost or not lost, at and from

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upon any kind of Goods and Merchandises, and also upon the Body, Tackle, Apparel, Ordnance, Munition, Artillery, Boat and other Furniture, of and in the good Ship or Vessel called the

whereof is Master, under God, for this present Voyage, or whosoever else shall go for Master in the said Ship, or by whatsoever other Name or Names the same Ship, or the Master thereof, is or shall be named or called, beginning the Adventure upon the said Goods and Merchandises from the loading thereof aboard the said Ship as above

upon the said Ship, etc., as above, and shall so continue and endure, during her Abode there, upon the said Ship, etc.; and further, until the said Ship, with all her Ordnance, Tackle, Apparel, etc., and Goods and Merchandises whatsoever, shall be arrived at as above

upon the said Ship, etc., until she hath moored at Anchor Twenty-four Hours in good Safety, and upon the Goods and Merchandises, until the same be there discharged and safely landed; and it shall be lawful for the said Ship, etc., in this Voyage to proceed and sail to and touch and stay at any Ports or Places whatsoever and wheresoever for all purposes

without Prejudice to this Insurance. The said Ship, etc., Goods and Merchandises, etc., for so much as concerns
the Assured, by Agreement between the Assured and Assurers in this Policy, are and shall be valued at

Touching the Adventures and Perils which we the Assurers are contented to bear and to take upon us in this Voyage, they are, of the Seas, Men-of-War, Fire, Enemies, Pirates, Rovers, Thieves, Jettisons, Letters of Mart and Countermart, Surprisals, Takings at Sea, Arrests, Restraints and Detainments of all Kings, Princes, and People, of what Nation, Condition, or Quality soever, Barratry of the Master and Mariners, and of all other Perils, Losses, and Misfortunes that have or shall come to the Hurt, Detriments, or Damage of the said Goods and Merchandises, and Ship, etc., or any Part thereof; and in case of any Loss or Misfortune, it shall be lawful to the Assured, their Factors, Servants, and Assigns, to sue, labour, and travel for, in and about the Defence, Safeguard and Recovery of the said Goods and Merchandises, and Ship, etc., or any Part thereof, without Prejudice to this Insurance; to the Charges whereof we, the Assurers, will contribute, each one according to the Rate and Quantity of his Sum herein assured. And it is especially declared and agreed that no Acts of the Insurer or Insured in recovering, saving, or preserving the property insured, shall be considered as a waiver or acceptance of abandonment. And it is agreed by us, the Insurers, that this Writing or Policy of Assurance shall be of as much Force and Effect as the surest Writing or Policy of Assurance heretofore made in Lombard Street, or in the Royal Exchange, or elsewhere in London.

Warranted free of capture, seizure, arrest, restraint, or detainment, and the consequences thereof or of any attempt thereat (piracy excepted), and also from all consequences of hostilities or warlike operations whether before or after the declaration of war.

Should the above clause be deleted, the following clause is to operate as part of this Policy:—

Warranted free of any claim based upon loss of, or frustration of, the insured, voyage, or adventure, caused by arrests, restraints or detainments of Kings, Princes or Peoples.

And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured at and after the Rate of

IN WITNESS whereof, we the Assurers have subscribed our Names and Sums Assured in London.

N.B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general, or the Ship be stranded; Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent.; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per Cent., unless general, or the Ship be stranded.
The larger houses maintain permanent branch offices, generally in London, to whom they send particulars of their requirements and these maintain a staff of expert buyers.

Other houses send over their buyers periodically, who tour the industrial European countries as well as the United Kingdom, in search of what they need; their sailing and itineraries are listed whenever possible in the trade papers of the various industries, and manufacturers and merchants get in touch with them. It is the case that many important buyers do not now go out in search of goods; competition for their business is keen and they sit in their offices, where they see representatives that come to them in increasing numbers.

VI

EXPORT ROUTINE

The routine of a large export merchant’s office differs from an ordinary mercantile office only in detail.

There will be found various departments, each with its own particular work. One department deals with the indent orders which the export merchant has to execute.

When the indents are received they may include a great variety of articles. The indents are dissected, or sorted out into the various classes of goods, and the lists are passed on to the buying department, whose business it is to place the orders to the best advantage. In the case of "closed" indents, it is only a matter of making the best terms with the suppliers who have been specified in the indent. With an "open" indent the buyers have a free hand to purchase at their discretion on the best terms obtainable.

In closed indents the particular articles are defined as regards the maker, quality and pattern, so that the articles have to be purchased in the quarters named. The indent merchant may be allowed a certain latitude, but the exercise of his discretion is usually confined within very narrow limits.

Where there is "open" business at the export merchant's disposal, the competition to secure it is very keen, and more responsibility rests on the export merchant, for here judgment and an expert knowledge of markets are required. The form of the indent is that of an ordinary order form, the goods and quantities being specified, and instructions given as to shipping, numbering and marking.

When all the orders have been placed, arrangements have to be made as to shipping. If the goods are to be shipped direct by the suppliers, specific instructions will be given. If the export merchant attends to the shipping, his own receiving department will be furnished with a list of the goods to be received. They will be checked and packed in accordance with the instructions.

There may be more than one shipment, as frequently separate dates for delivery may be specified in the indent, and these have to be adhered to. The shippers of goods must be very wide awake if they would ship to the best advantage, for conditions are always changing; to miss a boat may cause serious inconvenience to the client at a distance.

This is a matter to which exporters should give more attention. Extreme care is often taken in the final inspection of goods, strength of casing, packing, and wastage of space and even big manufacturers often consider that they have done all when these things have been seen to and the case is sealed and sent for shipment.

But that is not everything. Rates of freight vary, and it should be the business of every exporter to see that his customer obtains the best freight rate. A mistake in freight in bulky articles of small value can make a difference of 40% in landed cost, and it not infrequently happens. The expert shipping clerk is a great asset, for he has a good deal to do
with regard to maintaining the trust and confidence of the firm's overseas customers.

**Packing**

Packing for export may either form a department of the exporter's own establishment, or may be carried out by independent firms who specialise in such work.

Shipping agents, already mentioned, frequently combine with their own business that of packers and shippers for other firms. Different methods of packing are needed both for different classes of goods and for different destinations. Broadly speaking, the methods are divided into casing, crating and baling.

The more expensive kinds of casing, such as wood lined with oil baize or with tin, are usually insured at lower rates; many textile goods have to be "made up" for packing, i.e., roughly stitched together in certain folds of measurements; other more cumbersome goods, such as articles of furniture, are "knocked down," or taken to pieces in such a way that they can be easily put together again upon arrival; protruding handles are removed, and hollow goods are nested; everything is done which will save space, as the majority of freight rates are based upon ton measurement, or cubic space occupied, and not upon ton weight; a ton in this case being taken as 40 cubic feet of space.

Besides security against rough handling and the risks of pilferage, climatic conditions must be considered; also the methods of overland transport at the other end, the varying customs regulations of foreign countries, whether they are based on weight, either gross or net, and sometimes even the religion of the country; tarpaulin, for instance, containing animal fat, must not be used for goods consigned to strict Mohammedans.

In packing machinery or similar goods, great care is necessary to have all the component parts, however small, checked over accurately; a single essential missing on arrival may cause great expense and disappointment.

A 200 or 400 gals. galvanised iron tank is now frequently used as a packing case. Not only does it insure sound arrival of the goods, but it lessens the buyers' landing costs. Unlike a case, which is of little value after opening, a tank can be sold; if only cost price is obtained it means that the buyer has no charge for packing; horse hair used for packing earthenware, etc., can always be sold.

When the packages are completed, they are plainly marked by stencil with the shipping mark of the oversea importer on two sides, and the port to which they are consigned. Marks are used instead of full addresses, partly for quick identification, and partly also for secrecy, as well as being shorter.

**The Shipping Note**

All the various shipping lines publish forthcoming dates of sailing. When the exporter, or his shipping agent, has decided on the vessel by which a consignment of goods is to be shipped, and has arranged with the shipping company for freight space to be reserved, he dispatches them with a "shipping note," addressed either to the commanding officer of the ship or to the superintendent of the dock, as may be necessary.

This note specifies the number and description of the packages, their contents and the marks and numbers by which they are to be identified, and requests from the officer to whom they are delivered a "clean receipt" for them. A receipt is "clean" if it does not contain any remarks as to damaged condition on arrival.

It is the officer's business to make sure that all the marks and numbers on the packages correspond exactly with those given in the shipping note, and only to accept the cargo and sign the attached receipt if they do so
The “mate’s receipt” or “dock receipt,” which also contains full particulars of the packages and their identification marks, is then detached from the shipping note and returned to the exporter.

The Bill of Lading

When the cargo is actually on board the vessel, the “mate’s receipt” is exchanged for a more formal document, the “bill of lading,” which is the official acknowledgment by the shipping company that they have received the goods into their custody for transport, and that they undertake to deliver them, on certain specified conditions, at the place named in the bill, and to the person named, or else “to order.”

Bills of Lading, (Bs/L), as issued by the shipping companies, vary in certain details, and in the number of clauses by which the terms of contract are defined, and it is important to make sure before signing them that no unreasonable qualification has been added to the usual conditions.

As a rule the bill of lading includes a statement of the freight charges on the goods, with the primage or special charge for loading them, and when filled in and signed becomes the documentary title of ownership to the goods described on it; only on presentation of the bill of lading can the consignee obtain delivery on their arrival, or the shipper get his bill of exchange discounted at the time of shipment.

Bills of lading are made out in triplicate, or more often in quadruplicate; two parts or copies are sent to the consignee by different vessels, so that if one fails to arrive he may receive the other in good time to enable him to claim the goods; the remaining two parts are held respectively by the shipowner and the shipper for reference. The first bill of lading which is presented at the port of destination becomes the valid one, rendering the others void.

For the export of coal, iron and other exceptionally bulky cargoes, a vessel is chartered from the shipowners and a special agreement is drawn up, known as a charter party, either for the single voyage, or for a period of time during which the vessel is to be under the instructions of the charterer; in such case the charter party takes the place of the bill of lading as the document conveying ownership.

The Freight

The freight note is merely the formal account, or debit note, sent by the shipping company to the shipper, detailing the charges that must be paid before the goods can be finally accepted for conveyance. If a through rate has been obtained, it will include not only ocean freight, but primage, dock dues, transhipment charges, and all expenses to the point of destination. For a large shipment special freight rates may be obtained. Rates are variable: by mail steamer they may be double that of a tramp steamer. If desired, insurance also can be effected through the shipping companies.

Insurance

Sometimes overseas buyers expect quotations of exporters’ prices to be C.I.F., i.e., inclusive of cost, insurance and freight; but whether the quotation has been C.I.F. or F.O.B. (free on board), it is part of the exporter’s business to arrange for the insurance. Marine insurance may be effected in London by the shipper in the name of the consignee, or in his own name, and the policy endorsed to the consignee; the insurance policy, or the certificate of insurance, if the policy is not complete in time, is one of the shipping documents which must accompany the bill of lading, whether this is forwarded direct to the consignee or whether arrangements have been made with a bank to hand it to them against payment for the goods, or acceptance of a draft.
The language of marine insurance documents is complicated by the use of many special words and phrases, and exporters usually employ marine insurance brokers, who are experts in its intricacies, to transact their business for them.

Whether the insurance is to be with Lloyd's or with an insurance company, the initial step is to fill up a "slip" or proposal form declaring the amount to be insured, and the details of the goods and of the voyage; at Lloyd's this slip is initialed by the different underwriters for the proportion of the total risk which they will individually accept. The policy is made out on the basis of the slip, and during its preparation a provisional note, or certificate, is given to the shipper acknowledging that insurance has been effected and the risks are covered.

Exporters who do a considerable trade frequently take out a "floating" or "open" policy, sufficient to cover the goods on the water at any time; the particulars of each shipment is declared as it occurs.

The conditions under which goods are insured vary, and the shipping house generally receives instructions as to the form which the insurance is to take. The best terms are offered by the form of policy which is known as "With Particular Average" (W.P.A.). This enables a consignee to recover any loss, total or partial, arising from the perils of the sea as defined in the contract; these will be found to be almost identical with the principal liabilities which are guarded against by the steamship company in the Bill of Lading. If, however, the policy is effected at the invoice value of the goods the consignee will, in the event of their destruction, lose the profit which he expected from their sale and, in order to cover this contingency, 10 per cent. should be added to the invoice value.

The form of marine insurance known as "Free of Particular Average" (F.P.A.) does not offer the same protection, and the insurance company is not liable under its terms for any claim arising from partial loss through sea-water or bad weather, and is only responsible for partial loss in the event of the ship's stranding, or being on fire, or having been in collision with another vessel. If the form of policy is not specifically prescribed, the consignee should effect the policy which is usually taken out on the particular class of goods, with the addition of 10 per cent. to cover the loss of expected profit.

Certain risks repudiated in the Bill of Lading are not covered by either of these forms of marine insurance, but may be included in the policy drawn out by the insurance company on payment of an additional premium. Goods of a brittle or frail nature may be insured against the risk of breakage in transit, on payment of a premium to be agreed on with the insurance company. The ordinary policy, however, covers loss from breakage if it can be proved that the ship encountered the usual perils of the sea. The risk of leakage of oil, or other liquids, can be covered on terms arranged with the insurers. Loss from pilfering, where the goods are of a valuable nature, has recently become a serious factor and, as a consequence, no premium, however high, will induce an insurance company to cover more than 75 per cent. of the shipping value against loss by theft.

The Invoice

Correct invoicing is a very important part of the business of exporting, not only to prevent difficulties between the exporter and importer, but to facilitate the latter's dealings with the customs officials of his country.

The invoice will state the detailed measurements and descriptions of the goods, a detailed statement of all the charges which make up the various amounts, such as packing, freight, postages and bill stamps, insurance and others, and a statement of the
point to which these charges have been paid.

Customs Duty is based on actual cost (i.e., ad valorem). No duty is payable on insurance, freight, dock dues, cartage or packing, so these items, even where goods are sold c.i.f., should be invoiced separately.

Invoices are made out according as the price has been quoted, which may be "Loco," "f.o.b.," "c. & f.," "c.i.f.," "franco," or "f.a.s."

"Loco" means the cost at the warehouse or the factory.

"F.o.b." (free on board), means the loco price, plus packing, forwarding and shipping charges.

"C. & f." (cost and freight), means f.o.b., plus freight.

"C.i.f." (cost, insurance and freight), is c. & f., plus insurance.

"Franco" (or free), includes c.i.f., plus import duties, and free delivery at final destination.

"F.a.s." stands for "free alongside ship," that is to say, it includes the loading of goods on a lighter, and delivery to the ship's side.

Certificates of Origin and Consular Invoices

The precise requirements with regard to these vary with almost every country; sometimes both are required, sometimes only one; sometimes certificates of origin are required for all goods, sometimes for certain classes of goods only. Where, as in the case of the Dominions, a preferential tariff is in force, elaborate declarations as to the place and cost of manufacture, and many other details have to be made. The purpose of this is partly to protect the British manufacturer, and to ensure that no goods of foreign origin shall be admitted on the terms to which he only is entitled, and partly to prevent dumping from countries with depreciated currencies.

A typical example of such declarations is the form of certified invoice which came into force for all shipments arriving in New Zealand after April 1st, 1926. It includes an invoice, showing in addition to the marks, quantity and description of the goods, their current domestic values in the currency of the exporting country, and their selling price to the purchaser, with the various charges that have been added to make up that price. The certificate requires under the head of "origin" a declaration that the goods were wholly or partially manufactured or produced in Great Britain, and, if partially, that the final process was performed in Britain or one of the Dominions, and that at least 50 per cent. of the expenditure on labour and material was spent in Britain or one of the Dominions.

Information as to the forms needed for shipment to different countries, and as to the regulations governing the various declarations, can be obtained from the Department of Overseas Trade, 35 Old Queen Street, London, W.C., or from the high commissioners and Agents General of the various Dominions and Colonies. There is also a special department dealing with them at the office of the London Chamber of Commerce, while a list of "Consular Requirements" revised and brought up to date is published half-yearly by the Corporation of Lloyd’s, Royal Exchange, London, E.C.

At the various Dominions Headquarters in London an expert from the Customs Department is stationed to advise manufacturers.

Tariffs and other Restrictions

Before the war there were many hindrances to complete freedom of trade between commercial nations, in the form of tariffs, bounties, and State subsidies; but economic forces had far freer play than is now the case. Intercourse was less impeded, the world’s markets were more open, protective tariff walls were lower and less universal.
During the war nations became alarmed at the extent of their dependence on each other, and their efforts to become more self-supporting and to develop their own industries resulted in high tariffs and in prohibitive legislation, modified by a troublesome system of import licenses.

Some of these prohibitions have since been removed, as by Hungary and Czecho-Slovakia, but the tendency is to replace them by still higher tariffs. Known tariffs, however high, are preferable to the uncertainties of the licensing system, which enables administrative officials to discriminate in ways not provided for in their countries’ treaties or its legislation.

The customs tariffs of different countries vary greatly in the basis of their assessment; some are specific, levied on the weight, size, or number of the goods, or on some combination of these; others are ad valorem.

With very few exceptions Great Britain enjoys “most favoured nation” treatment at the hands of foreign countries, her goods being admitted at the lowest rates of customs applicable to any similar imported goods; and in several cases, notably that of France, this treatment gives the United Kingdom a distinct advantage over such important competitors as the United States and Czecho-Slovakia.

The Dominions of the Empire have made great strides in the development of their home industries since the war, and protect them by high tariffs; but these are offset in the case of British goods by various degrees of preferential treatment. The highest preferences are given by Australia and New Zealand, ranging from 10 per cent. to 20 per cent. on dutiable articles, while cotton piece goods are admitted to both countries free. In New Zealand the tariff is imposed for revenue purposes and not protection. If the preferential treatment is sufficiently well marked, the establishment of a tariff may prove an encouragement to British exports; an instance of this is the case of iron and steel wire, the exports of which to Australia trebled in volume during the first two years after they ceased to be admitted free.

VII

THE FINANCE OF FOREIGN TRADE

In another chapter of this work the uses and nature of bills of exchange are fully explained. Bill brokers, discount houses and banks play an important part in affording financial facilities in connection with the export and import trades as explained in the chapter mentioned.

To what extent a bank will afford financial facilities depends upon the exporter’s standing, and the financial credit of the importers.

The exporter may obtain payment for his goods in several ways. He may hand his bill of exchange, with the relative bill of lading (which is his document of title to the goods), to the bank, who will undertake to collect the money.

The exporter may ask the bank to discount the bill, in which case he need not tie out of his money until the bill has been honoured, and the money remitted to him. The bank buys the bill at its face value, less an agreed discount.

In either of these cases the bill of exchange, the bill of lading, the invoice, the insurance policy, and the relative shipping documents, are handed to the banker, who, after he has satisfied himself that they are all in order, will do the rest.

In order that the importer may get the goods with the least delay, and the exporter his money at once, the importer may resort to what is called documentary credits. This method of procedure is something as follows: The importer arranges with his own bank to authorise, say, a London bank (by cable frequently)
to buy the particular exporter's bill of exchange up to a stated amount, in exchange for the necessary bill of lading and shipping documents. The foreign bank makes its own stipulations with its customer in regard to this documentary credit. The effect as regards the exporter is that he gets payment for his goods immediately the shipment is ready.

He will probably be asked to sign a letter of hypothecation. "This document, shorn of all its technicalities, is simply a certificate attached to the bill of exchange; it is signed by the drawer, and describes the nature of the shipment, quantities, etc. This letter of hypothecation states, first, that the bill of lading is lodged as collateral security for the acceptance and payment of the draft; secondly, that in case of dishonour, the holder is authorized to dispose of the goods, and to apply the proceeds towards payment of the bill and expenses incurred; thirdly, that the drawer holds himself liable for any deficiency, and agrees to pay it on demand. When an exporter sells a number of bills of exchange to a bank, a general or 'blanket' letter of hypothecation is given, and is made to apply to any and all of the bills of exchange purchased from that exporter from time to time." 1

These documentary credits are largely made use of in trade with India, China and the East. There are various kinds of these credits (e.g., revocable and irrevocable). "To an exporter the confirmed (or irrevocable) documentary credit is the most desirable of all methods of obtaining payment, except cash in advance. There is no question of loans, advances, or securities—he receives the full amount of his invoice immediately he presents his documents, and all loss of interest falls on the buyer; but it necessitates persuading the buyer to adopt it. This will be dependent upon the position of the exporter—whether he is able to dictate to his customers, or has to go out of his way to obtain their orders. Both buyer and seller will realize that whatever mode of payment is agreed upon, it should be clearly indicated in the contract." 2

There are many foreign importers, of course, who have arrangements with a London house, or agency, to confirm their orders, and with powers to accept bills covering the purchaser.

Exchange rates and foreign currency frequently complicate the financial machinery. If an exporter has quoted his foreign customers a price in sterling, the payment is to be made in sterling. If the quotation has to be made (as it often has) in the currency of a particular country, payment will be made in such currency. In such cases the draft, or the bill of exchange, must be drawn in that currency. Fluctuations in exchange, therefore, have to be reckoned with. Up to a certain point the exporter's bank may safeguard him against such fluctuations by arranging beforehand a "Forward Exchange," which means the bank will arrange the credit at the rate of exchange agreed, and hold it at the disposal of the exporter, who may thus safeguard himself against the risk of the exchange going against him after he has fixed a price to his customer.

**Government Assistance**

For some years past the British Government has experimented with various financial schemes designed to assist the export trade of this country. The idea has been to assist manufacturers to extend their export trade in a way which they might not be able to undertake without such financial facilities as is offered under these schemes. The arrangements are under the Department of Overseas Trade (Export Credits Department),

Spalding, The Finance of Foreign Trade.

Vol. II.

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1 Westminster Bank Booklet.

2 Westminster Bank Booklet.
to whom all applications require to be made. The method of assistance, in approved cases, takes the form of sharing certain risks with the exporter, and also in providing certain financial facilities. The conditions governing the scheme may be had from the Department mentioned.

VIII

CONSIGNMENT ACCOUNTS

To send out a quantity of goods on consignment means that the merchant is sending the goods to an agent or a client for sale on the merchant’s own behalf. The client does not purchase the goods outright for himself; they remain the property of the merchant (the Consignor) until such time as the agent (the Consignee) sells them. The goods are entrusted to the consignee to dispose of to the best advantage. The consignee is remunerated by a commission and whatever net profit results from the sale belongs to the consignor.

The book-keeping entries required when goods are sent to an agent or client on Consignment are of a different nature from those made where the transaction is an actual sale.

When the consignee has sold the goods, or a portion of them, he will send to the consignor an Account Sales, which is a statement showing the price realised, the expenses incurred and the net cash due to the consignor.

For goods thus sent out on consignment a special “Consignment Account” is opened in the ledger. The need for such an account is that as the consignee has not bought the goods he is not in the position of a customer who has; and, secondly, the object of a consignment account is to show what profit is ultimately made on the venture. We shall assume that the Eric Manufacturing Company has consigned to Peter Finlay, Melbourne, goods to the value of £650. The “value” is the cost price to the Company, not the sales price value. In due course the agent, Finlay, disposes of all the goods and renders an Account Sales to the consignors as follows:

ACCOUNT SALES OF NO. 1 CONSIGNMENT RECEIVED FROM THE ERIC MANUFACTURING COMPANY PER S.S. "PRINCE GEORGE."

<table>
<thead>
<tr>
<th>Description</th>
<th>£</th>
<th>s.</th>
<th>d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marks: 3 Cases Goods (Details)</td>
<td>410</td>
<td>10</td>
<td>0</td>
</tr>
<tr>
<td>E.M.C. 1</td>
<td>315</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>156</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>882</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Less:                                 |
| Landing charges                 | 3   | 5  | 0  |
| Storage, Insurance, etc.       | 9   | 6  | 0  |
| Commission, 24%                | 22  | 0  | 0  |
| Bel credere, 1%                 | 8   | 10 | 5  |

Draft for £600 accepted against above consignment
5th January, 1927.

E. & O. F.

Peter Finlay,
Melbourne,
3rd March, 1927.
Meanwhile the Eric Company necessarily incurred certain expenses in shipping the goods which have been charged against the Consignment Account in their ledger, which would now appear as follows:—

Dr. CONSIGNMENT ACCOUNT (PETER FINLAY, MELBOURNE). Cr.

<table>
<thead>
<tr>
<th>Nov. 10.</th>
<th>To Goods . .</th>
<th>£650 0 0</th>
<th>March 1.</th>
<th>By Net Proceeds as Account Sales . .</th>
<th>£838 11 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot; Freight . .</td>
<td>12 15 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Insurance .</td>
<td>5 1 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Sundries .</td>
<td>1 11 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot; Profit transferred to Profit and Loss a/c</td>
<td>169 4 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>838 11 7</strong></td>
<td><strong>838 11 7</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The only entries required for the personal account of Peter Finlay are shown below. It will be noticed from the Account Sales that Finlay accepted The Eric Company's draft for £600 when the consignment was received by him. For Finlay's guidance and information the Company would send him a pro forma invoice with the consignment along with a Bill of Exchange for £600, which Finlay accepted on the security of the goods (or the money may have been advanced to Finlay by his bank, if his credit was good). Finlay's personal account is, therefore, credited with the amount of his draft. When the Account Sales is received Finlay's account is debited with the net proceeds, viz. £838 11s. 7d., leaving a balance of £238 11s. 7d. due by him, thus:—

Dr. PETER FINLAY (CONSIGNMENT ACCOUNT). Cr.

<table>
<thead>
<tr>
<th>March 1.</th>
<th>To Account Sales .</th>
<th>£838 11 7</th>
<th>Jan. 5.</th>
<th>By Draft . .</th>
<th>£600 0 0</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1.</td>
<td>To Balance . .</td>
<td>£238 11 7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>838 11 7</strong></td>
<td><strong>838 11 7</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It will be noticed in the Account Sales that Finlay, in addition to his commission of 2½%, credits himself with a further Del Credere commission, which means that, in consideration of this commission, Finlay took on himself the responsibility of losses arising from bad debts. In normal circumstances the consignee is not responsible for bad debts because he sells the goods as agent for the consignor; the latter, in order to be relieved of such possible losses, may, as in this case, arrange for a special commission whereby the consignee assumes the risk of bad debts. Such an arrangement is termed Del Credere.

Other matters pertaining to Agencies and Consignments, Shipping, Bills of Lading, etc., are dealt with elsewhere. Here we are merely concerned with book-keeping.

The case of an agent receiving goods on consignment for sale on behalf of another person presents no difficulty. If he incurs certain expenses on behalf of the consignor he will simply debit these to the consignor's Personal
Account, also any payments he makes to the consignor. The account is finally credited with the net proceeds realised. Thus, assuming R. Creedy & Co. to be the consignees, or agents, and F. Bailey & Co. the consignors, the account in Creedy’s ledger would be as follows:

<table>
<thead>
<tr>
<th>Dr. F. BAILEY &amp; Co. (FOR CONSIGNMENT EX. S.S. “SULTAN”). Ca.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1.</td>
</tr>
<tr>
<td>&quot; 5.</td>
</tr>
<tr>
<td>&quot;</td>
</tr>
<tr>
<td>&quot;</td>
</tr>
<tr>
<td>&quot;</td>
</tr>
<tr>
<td>&quot;</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>March 4.</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

No Consignment Account is required in the ledger of the consignee or agent. The goods are held on behalf of the consignor and it is sufficient for the consignee to enter the particulars of the goods so held in a warehouse book merely as a record. When the goods are sold the procedure is exactly the same as the merchant making an ordinary sale; the personal account of the purchaser is debited, the credit entry being represented as above in F. Bailey & Co.’s account (proceeds as Account Sales).
On the left, headquarters of the Institute of Chartered Accountants in Moorgate Street, London, E.C.

On the right, the headquarters of the Chartered Institute of Secretaries, London Wall.