

GOVERNMENT AND BUSINESS.

Address of EDWARD N. HURLEY, *Vice Chairman,*
Federal Trade Commission, before the Associated Advertising
Clubs of the World, at Philadelphia, June 29, 1916.

Cooperation and industrial preparedness are the most important questions before the business men of the country today.

The Associated Advertising Clubs of the World are doing their part in an unselfish patriotic way to help improve and solve our many merchandising problems, which are related so vitally to the business strength and health of our nation.

But I question whether you gentlemen realize the great power you possess for improving conditions in our industrial life. While you have accomplished many things your most important work is before you.

The country needs at this particular time the cooperation of a strong national organization with energy and good judgment, which has the entire confidence of the Government, and of the banking and business world.

The Associated Advertising Clubs of the World have these qualifications and under the leadership of your capable and efficient President and executive committee you can do our country even a greater service in the future than you have done in the past. I regard it an *honor* to be invited to address your association.

GOVERNMENT AND BUSINESS.

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

The Government's attitude *toward business*, however, presents a contrast. The trouble has really been one of point of view. Government action has usually been negative; always scattered and seldom constructive.

SPIRIT OF ADVERTISING MAN IN GOVERNMENT'S BUSINESS.

Little things very often are responsible for misunderstanding and may cause ill feeling when there is on substantial reason

for it. Let me illustrate what I mean from the field of business activity with which you are familiar.

You sell merchandise by advertising and when you receive by mail a lead from your "ad" your letters in reply are written with great care to further interest your "prospect" in your product and if possible to close the sale. You *must* write letters *that pull* in order to make your advertising pay.

In contrast with your methods the United States Government which I understand transacts 90 per cent of its business by mail does not write letters *that pull*. Most of them are addressed as —"Sir—*You are hereby notified*" and the balance of the letter is generally couched in terms which put the recipient on the defensive and make helpful cooperation utterly impossible.

I have been informed that a few years ago in one of the departments at Washington, which comes in daily contact with the business men of the country, it was found that the word *please* was being used in telegrams. Instructions were given to *stop its use* and employees advised that if they should in the future use it in telegrams they, personally, would have to pay the expense.

This same department took the position that when the Government acknowledged a letter from a business man that it was not necessary to say, "We thank you for your favor of blank date," on the theory that the Government did not have to thank any one.

Gentlemen, is there any quicker way to separate friends or to force customers off of your books or to create a break between business men than to send out cold sarcastic letters? I honestly believe that much of the ill feeling that has existed between Government and business for the past 15 years has been caused by the discourteous letters that were written by the department at Washington to business men.

If the Government Departments transacted business and wrote letters in the same *spirit you do*; if in fact each department at Washington had an advertising man who is accustomed to write letters *which really sell service*, government would become popular and the administration continuing this practice would increase its influence greatly—for giving service to the public in a courteous and civil manner.

There is, indeed, a better feeling between government and business today. The Federal Trade Commission is desirous of

cooperating with *business* men and our efforts have demonstrated that it is *easy to have their hearty cooperation* if the proper cooperative spirit is shown by the Government.

If the Government continues to improve its methods of corresponding with the business men, tax payers, and others having dealings with it and in other ways to recognize the community of interest between it and business men, a much friendlier feeling will prevail and government and business will be united in a sympathetic effort to solve our great industrial and commercial problems.

TIME FOR CHANGE OF ATTITUDE.

It is unfortunate that our business men and our Government have been losing valuable time during the past 15 years in trying to settle our economic and business problems, *not by cooperation*, not by any scientific method which will bring about results beneficial to *our people* as a whole, but by resorting to *the courts*. I know business has been sick, and business has undoubtedly been in a large measure to blame for its illness, but instead of sending *for a doctor* who could prescribe a remedy that would give practical and *permanent* relief, the Government sent for lawyers *and you know the result*.

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

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

FEDERAL TRADE COMMISSION AND DEFINITE STEPS FORWARD.

The Federal Trade Commission is endeavoring today to work out a comprehensive, constructive solution of our business problems. We have taken definite steps toward getting at

the real facts of industry from manufacturers. Within a few months we hope to be able to give manufacturers first-hand detailed information about their business.

BETTERING BUSINESS METHODS.

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

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

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

VIEWS OF PRESIDENT WILSON.

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

“The White House Washington

May 12, 1916.

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

“It is my hope that, in addition to the other work which the Federal Trade Commission is doing, it will ascertain the facts regarding conditions in our various industries. If it finds that an industry is not healthy, it should, *after carefully considering the facts, in cooperation with the parties interested,* suggest a practical and helpful remedy. In this way many of our difficult business problems might be solved.

“I am very anxious to see you continue to cooperate with the business men of the country along the lines upon which you are working.

Cordially and sincerely yours,

WOODROW WILSON.”

DEVELOPMENT OF ADVERTISING.

From the early days when the Town Crier and the sign-board were the principal publicity agents employed, to the modern newspaper, poster and illustrated magazine with its pleasing presentation of current commodities, advertising has traveled a long way. Its evolution since the invention of printing has been rapid, and the field of advertising has expanded until it includes today widely varying lines of activity, as shown by

the many departmental organizations included in your large unit, the Associated Advertising Clubs of the World.

The work of your association deals with a part of the field of business which is most important—the marketing of commodities. Selling and advertising are bound up together. To find the need and to supply it are two sides of the same shield. The usefulness of a manufacturer to the community is greatly extended through advertising. Merchandising has passed far beyond the confines of the old time market place. It now extends over whole continents—over the entire world, and it is advertising which makes possible national merchandising.

TRUTH IN ADVERTISING.

Service to the community must be the ultimate test by which all advertising is judged. For that reason it is very gratifying to find your association taking a strong stand against fraudulent and misleading advertising. Its adoption of “truth” as its world motto is an important step in insuring the public and the advertiser against deterioration of the service which the ad-man supplies. It means a substantial improvement in the reliability of publicity methods. It means a strengthening of business confidence in all advertising.

ADVERTISER INTERESTED IN SUCCESSFUL MANUFACTURING.

Every advertiser is interested in successful manufacturing, for only the successful manufacturer remains in business, to sell his goods, and to advertise. Whatever promotes manufacturing success, therefore, and business success in general, directly interests the advertising man.

Whatever makes for strong and substantial protection makes for progress in the field of marketing through publicity. For this reason you are vitally concerned with conditions in the business world as a whole.

COST ACCOUNTING.

A preliminary study of industry generally, made by the Federal Trade Commission, has revealed the fact that only a very small percentage of the manufacturers of the country make any charge for depreciation of building plant equipment, or seasonable merchandise, and that their products were priced and their profits determined before reckoning *this* vital and important item.

DEPRECIATION.

The Trade Commission is urging on every business man the absolute necessity of making proper provision for depreciation and doing it monthly or at least quarterly. I think I can safely say that no accounting system will receive the endorsement of the Commission unless it does provide for the inclusion of this most important item of cost.

Statistics show that the percentage of business men who do not provide for depreciation is very large, running over fifty per cent, and this is one of the causes *that has a great influence* on the business death rate. Nearly every man is perfectly willing to include in his cost all items for which he pays out actual money, but he is inclined to overlook those which do not require a visible outlay, and depreciation is one of these which unquestionably exists. Many manufacturers and merchants do not charge *any* depreciation and give as a reason that they keep their plant and stock in first-class condition. This is one of the most erroneous ideas in business today. Every machine, building, and apparatus as well as seasonable merchandise, *like every man*, has a certain period of life and no matter how much care is taken or how much medicine you give the man, death is bound to come.

If the Federal Trade Commission and the Associated Advertising Clubs of the World do nothing more than arouse the American business man to the fact that depreciation does exist, that it is an element of cost, and that he should put it into cost, the time will have been well spent and business generally will have received a benefit.

UNIFORMITY IN ACCOUNTING METHODS.

The subject of more uniformity in cost finding is at present receiving the careful attention of many manufacturers and trade associations. A number of trade associations are in this way achieving marked success in strengthening their industries. It is being demonstrated that a knowledge of cost determined by a uniform practice can improve trade conditions to a remarkable degree. By a uniform practice I mean a common classification of costs, both manufacturing and selling, a uniform method of providing for depreciation with rates more or less standardized. Where this condition exists, production statistics which are comparable and which will inform and guide the whole in-

dustry are obtainable. Manufacturers and merchants can then talk the same language and will be in a position to profit by each others' experience, to conduct their plants more efficiently, *and to establish prices more intelligently.*

EXAMPLE OF DANGERS OF LACK OF ADEQUATE ACCOUNTING METHODS.

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

Ignorant competition is most dangerous to the development and success of our country. The Clayton Act and the Federal Trade Commission Act have no control over this menace. It is estimated that ninety per cent of the manufacturers and merchants in Germany know absolutely what their goods cost to manufacture and sell. If you compare our figures, which show, according to estimates, that only 10 per cent of our manufacturers and merchants know what it costs to manufacture and sell their products, *you have the answer* as to why Germany has been so successful in developing such a high standard of efficiency in manufacturing and distributing their products *not only in Germany* but in the markets of the world.

It is a fact well understood among business men that the

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

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

ACCOUNTING AMONG SMALL RETAILERS.

The Associated Advertising Clubs of the World have taken keen interest in the welfare of the small retailer. The Federal Trade Commission has found them ready and willing to cooperate with us in an endeavor to solve the problem of efficient merchandising.

The distribution of our food products, particularly by the retailer, has an important bearing on the high cost of living and any effort that is put forth to work out this problem in an economic way will benefit the people as a whole.

In cooperation with your organization, the Federal Trade Commission will mail within the next thirty days to every manufacturer and retail merchant in the United States a booklet outlining the correct way of keeping his accounts. If the suggestions of the Commission are followed the manufacturer and retailer will know what it costs him to manufacture and sell his goods.

One of the difficulties with our manufacturers and merchants today is that they may be manufacturing or selling, say, six different products and making a profit on three of them, but on the other three losing money. Every article sold should share its percentage of overhead, executive, accounting and selling expenses. It is the only safe way to conduct a business. To reduce your overhead per unit of sales by handling a large volume of goods, on a part of which you are losing money, is not good business practice.

This method of doing business causes competitors to fail; particularly small merchants and manufacturers, who have to compete with those who are making a substantial percentage of profit on part of their line and are competing unfairly with another line by cutting and demoralizing prices.

Each article should bear its proportionate share of expense and yield a reasonable profit. The enormous financial death rate of retail merchants shows the necessity for something helpful to this large class of our business men. Competition in merchandising is becoming more and more keen. Practically no retailer can remain in business for a long period if his business is not conducted efficiently.

It is an encouraging sign of the times that an organization like yours is devoting time, energy and money to assist the small merchant to improve his bookkeeping methods. This is a great piece of constructive work that will reflect credit on each and every member of your associated clubs.

ACCOUNTING ESSENTIAL TO PROGRESS.

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