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The growth of accountancy has paralleled the industrial and commercial development of the United States. As business grew and expanded, greater demands were made upon accountants, until today the auditing of books and checking of accounts usually comprises a comparatively small part of the engagements performed by the well-established accounting organization. As business and commerce have broadened, so have the fields covered by the accountants become equally broad, until now all phases of business organization, operation and control are embraced in their activities.

I feel hesitant in proceeding so far into an exposition of the activities undertaken by our profession, and yet it seems necessary for me to do so in leading up to a discussion of my subject which necessarily embraces the whole business structure.

Business needs better accounting control. In fact, because of its absence, the business structure is in danger. President Coolidge once was quoted as saying that "The business of America is business." That is undoubtedly true, and being true it likewise means that when the business structure totters, the entire national well-being becomes seriously affected.

Let us briefly consider a few of the problems with which business is beset.

First is the effect of competition. Now, competition is a healthy condition, and one of the famous American campaign cries was that "Competition is the life of trade." Today, we have the opposite picture. Competition is fast becoming the death of trade. There are today two very distinct and different types of competition. First is the competition that exists between concerns producing and selling the same general type of product. That is the well-known kind of competition. Then there is the second and very much more serious kind of competition, namely, competition between products. This latter type of competition is distinctly a product of the new high-pressure machine age.

Consider, for example, the phonograph industry. Ten years ago, few responsible people would predict anything but continuing

* Portion of an address before the Kiwanis Club of Haverhill, Massachusetts.

prosperity and expansion for the phonograph companies. People were constantly moving to a higher standard of living, and were becoming more and more musically minded. The business was divided between about six leading firms, and prices were maintained upon a fair level, so that all concerned could make profits and at the same time give the public fair treatment. That was the kind of competition that is the life of trade. Then what happened? Out of the laboratories stepped genii with little boxes. They calmly twirled a dial and flooded the place with beautiful music, in fact, with everything the phonograph had, plus more, out of the air. Almost over night, the surplus of one of the largest phonograph companies was reduced from several million dollars to practically zero, and today, the mechanical phonograph is becoming rare.

Again, consider the refrigerator industry. While the condition existing among the ice box manufacturers was not quite as satisfactory as that of the phonograph manufacturers, the industry was on the whole in splendid condition. Sound and intelligent competition existed between the various manufacturers. Then, about ten years ago, we began to hear of this or that household installing one of those funny ice boxes that didn't use ice. In fact, in 1922, I sat in the office of the president of one of the largest refrigerator manufacturers in the country and asked him what he was doing to meet the approaching problem of competition from the electrical refrigerator. "Nothing," said he, waving his hand, "the electric refrigerator is a fad; it is not practical and will never seriously compete with ice." So there he sat in his fool's paradise, built of glass on shifting sands. And his reasoning seemed perfectly logical: it could not happen, but it did. And as an indication of just how strenuously it happened, consider the fact that two companies alone have sold approximately 1,500,000 electrical refrigerators in the United States. There are 1,500,000 high-priced ice boxes that he and his fellow manufacturers did not sell and will never sell.

So much for competition.

Then we have the effect of changing tastes on business. Let us consider men's clothing, as men are supposed to be conservative creatures and not given to quick and startling changes, particularly in the matter of dress. Well, let us see how it goes in this industry. Not so many years ago, many of us wore tubular hosiery. Then what happened? Over night, no one wanted tubular hosiery any more. Everyone demanded "full-fashioned" stockings. The result was that the hosiery manufacturers who had been reasonably prosperous for years suddenly found themselves with large investments in plant and equipment, all prepared to manufacture stockings in tremendous quantities for which there was no demand. Likewise, the wholesalers and retailers with those goods on their shelves found it not only impossible to sell the stockings at the regular price but next to impossible to move them at any price. One large hosiery manufacturer, who had spent millions of dollars in building up goodwill for his tradename in the consciousness of the buying public, suddenly found his plant obsolete and his goodwill valueless because his machines would not knit "full-fashioned" stockings.

Not so many years ago, most men wore high shoes in the winter, and some men wore them all the year through. Now, almost every one wears low shoes continuously. Here again, this change took place with cyclonic rapidity and had a far-reaching effect. The shoe manufacturer who failed to sense the changing trend and continued his regular production schedules was out of luck. The retailer was caught with stocks of stagnant goods on his shelves, while the effect of this change in fashion had a most depressing result on the leather industry and the shoe lace industry, not to mention the cotton yarn industry and the mercerizing and dyeing industry.

Here are, briefly, a few examples of changing style.

Another factor that has had a tremendous effect upon some industries is directly the result of the increased prosperity and purchasing power of large groups of people. Starting with the world war, the purchasing power of the masses in the United States was enormously increased. For a time, this had a stimulating effect upon business generally. Then it began to affect individual industries. Some were helped and others were damaged. As we made more money, we developed more expensive tastes, and our scheme of living stepped up a notch or more, depending entirely upon the status of our new station. For example, we stepped out of the cotton class into the silk class. Here is an instance of increasing prosperity and increased purchasing power which severely damaged an entire industry. In fact, it is my opinion that increased purchasing power on the part of the masses, more than any single factor, can be blamed for the enormously reduced demand for cotton-mill products.

Finally, a fourth factor that has had great effect upon business is that of rapid transportation and communication. With the radio and the telephone, combined with the enormous amount of national advertising that is being done, people in the most remote communities are thoroughly acquainted with product and style changes. Think, for example, what this era of speed in communication and travel has done to the local jobbers and wholesale houses around the country. Large national chains or other organizations are selling directly to the local retail grocer or druggist or dry-goods merchant, and the jobber or wholesaler who used to get this business has followed or is following, the buggy manufacturer over the hill to oblivion.

Examples of this sort could be multiplied many times and in many different industries. The instances mentioned clearly indicate the tremendous and powerful forces that are gnawing at the very fundamentals of American business. Therefore, I repeat that the business structure is in danger, and unless first aid is given promptly and energetically, chaotic conditions can quite conceivably develop.

As a people, we are temperamental, bombastic and single-track minded. We capture an idea and then we ride it to death. We have the biggest of everything—the biggest automobiles, the biggest buildings, the biggest bull markets and the biggest bear markets, the biggest booms and the biggest panics. When things are going well, they can never change, and then when they go ill, we are sure they will never improve. Nationally, it seems almost an impossibility for us to weigh all sides of a problem, reach a sane solution, and then abide by it devoid of sentiment. Therefore, because of this national temperament, it becomes imperative for us to develop and place into effective use some means of guiding ourselves between the economic pitfalls and hold in check our outbursts of unwarranted optimism and pessimism.

"Well," one asks me, "what do you propose as a solution to this problem?" My answer is that the first step needed is intelligent and effective accounting control. By accounting control, I do not mean simply a so-called cost system with a multitude of pretty forms operated by a battery of clerks with pencils on their ears. Neither do I mean simply a more modern set of books in the office. One could have both of these and yet not have any semblance of accounting control. By accounting control, I mean a complete and continuous grasp of all phases of business. Every business, whether a manufacturing or trading enterprise, has three fundamental divisions. These divisions are:

1. Producing
2. Distributing
3. Managing.

These basic divisions are present in every enterprise, whether it is a peanut stand on the corner or the United States Steel Corporation. All have the same problems of producing, distributing and managing with wide local variations. The problem that every executive has to face is how to control these phases of his business.

It was not long ago that production was the important problem of the manufacturer. For years, his only problem was that of procuring a sufficient quantity of goods to fill his orders. There was little question that there would be a demand for his products after they had been manufactured. As a result, our manufacturers concentrated upon the problem of making the finest goods obtainable. We were committed to the proposition that "if a man build a better mousetrap, write a better book or preach a better sermon, the world will beat a path to his door." As manufacturing became more developed and commenced to take its rightful place beside agriculture as a major industry, and, further, as more and more people became dependent upon employment in factories for a livelihood during the last two decades of the nineteenth century, an increasing amount of thought was accorded to the importance of manufacturing economies. This resulted in speeding up production, manufacturing in huge quantities for stock and, in general, elimination of special order or job work to a considerable extent. This practice continued with increasing momentum during the first two decades of the present century, until it reached a climax as a result of this constant growth in producing ability upon an ever-increasing scale of efficiency, coupled with industrial plant expansion brought about by the great war.

Following the collapse of the 1920 artificial business boom, our manufacturers, distributors and retailers were suddenly confronted with a radically increased competitive condition, of a character that had not been previously experienced. Effective selling assumed an importance that had never before been accorded this phase of commercial activity. Directly new and radically different methods of industrial control became necessary. Instead of the former procedure that had been found so effective during the past generation, it became essential to adjust all schedules to the consumer's demand, as it was definitely found to exist through the sales-promotion division of the business. Those concerns and those industries that were not too deeply involved in tradition immediately started the development of improved sales methods and took steps to balance their manufacturing with their distribution. Naturally, the new industries that had grown up in the period when this transition from a seller's to a buyer's market was becoming more pronounced were able to adjust themselves much more readily to the changed conditions than were the older concerns and industries who had enjoyed in many instances phenomenal growth, both in size and profits, under the old order of things. Therefore, those concerns and those industries that have been able to control all phases of their business from the raw material through to the ultimate consumer are the ones that are in the saddle today.

What has accounting to do with this? This is a sales problem. Quite true, but my reply is that accounting has a very great deal to do with it. In the first place, business is conducted solely for profit. Without profit, there can eventually be no business. Therefore, the first consideration of the executive, whether he be a manufacturer, a wholesaler or a retailer, is that of making an adequate profit. I wonder how many men feel that they are not making a satisfactory profit in business at this time. We are in the midst of a depression of far-reaching importance. As a result, we are prone to tell ourselves that our unsatisfactory showing is directly the result of the depressed state of business. In some instances, that is true. For many industries and many concerns, however, the depression never will be over. It is in periods of adversity that we develop strength. Therefore, business men all over the United States are as never before studying every phase of their business—strengthening the organization here, cutting expense there, increasing efficiency over yonder. The result of all this will mean that the strong and the fit will thrive at the expense of the weak and unfit. Therefore, I repeat that for those without vision the depression will never end.

Now the first step in the improvement programme is to know where we are. Profit accounting will furnish this information. I say "profit accounting" advisedly. We have too long been thinking in terms of cost accounting, general accounting, sales accounting. Each of these divisions has its proper place in the whole piece, but it is in profits that we are interested. Therefore, why not start with profits as the objective? We are told by experts on thrift that the way to save money is to determine the desired amount and then put it away regularly before paying other bills. There is no difference between operating a business and handling one's personal affairs. If the individual man continues to spend all he makes, he is operating at no profit and will eventually experience difficulties. The same is true of a business organization. Therefore, profit accounting provides a profit as the first step. We first determine the percentage of profit we desire to make. This we deduct from the selling price, leaving as a result the total desired cost of the article. Next we tabulate the actual cost of producing the product. This will include absolutely all costs—material, labor, manufacturing expense, selling expense, administrative expense—in fact, every cost that should be borne by the product in question. The total actual cost so obtained will then be compared with the total desired cost. If the total actual cost is lower than or equal to the desired cost, the profit desired will be obtained if the goods are sold at the determined selling price. If, on the other hand, the actual cost exceeds the desired cost, there are three plans to consider:

1. To increase the selling price
2. To reduce the cost
3. To accept a lower net profit.

Under this plan of profit accounting, we face the problem while yet corrective measures can be taken, instead of waiting until the end of the year or other period and suffer disappointment at the result.

As a part of the programme of finding out where we stand is the problem of the market. Who is going to buy our goods? The large and successful concerns are spending tremendous amounts of money in answering this question to their satisfaction. It is useless to keep on producing if in the aggregate more goods of this kind are being offered for sale than can be profitably sold. Blindly indulging in the practice of trying to sell enough goods at a loss to make a profit in a market that is over-stocked is one of the fundamental reasons why so many formerly successful concerns have met disaster. Let me also sound a note of warning. Simply hiring additional salesmen and attempting to force sales is not the answer. In fact, more often than not this practice merely aggravates an already serious situation. It is not the volume of business that counts. It is the volume of business sold at a profit that interests one. And profitable sales can not be obtained simply by high-pressure driving methods. They can not be obtained by following someone's lead. They can only be had through intensive and intelligent study of all sides of the merchandising and sales problem. Not only must one know the volume of business available in each class of products, but one must also know how many are competing for the business and the ability of the industry to produce this volume. These are the problems studied today by successful firms in all kinds of business to avoid spending time and money in chasing business, where, due to the excess of production over consumption, adequate profits are impossible.

As one of the finest examples of complete organization control, let us consider the automobile industry. These organizations, through the control of all their operations from the raw material through to the consumer, have been in the forefront of those that have applied with conspicuous success the methods enforced by this changing era. In 1929, the automobile industry badly overestimated the purchasing ability of the public. The dance of the millions had given them, in common with many others, an erroneous impression of actual conditions. As a result, the industry suffered badly from excess production. The effectiveness of the control of this industry over its business has, however, been clearly shown during the intervening space of time. Instead of blindly producing, manufacturing schedules were immediately adjusted to consumers' demands. Today, the large automobile concerns are shifting production schedules monthly, in accordance with actual purchases.

As representative of the opposite school of thought, consider the textile industry. This industry was exceptionally successful and profitable under the old régime, and as disappointingly unsuccessful and unprofitable under the new conditions. Here we have an industry of specialists with far too little organized effective control. One company spins the yarn, another dyes or bleaches the yarn, another weaves the cloth, another finishes the cloth, and another sells the cloth. Frequently, in addition to these several parties, a commission merchant sells the yarn, another commission merchant sells the cloth to the converter who sells it to the retailer, who in turn sells it to the consumer. When there was business enough to go around and, further, when there was a premium placed upon quality merchandise, this old plan of highly specialized operating was most successful and served to keep each organization thinking only of its particular phase of activity. But when the new competition suddenly appeared, and in almost all branches of manufacturing, plant producing capacity in excess of consuming ability developed, the organization with a direct control over all phases of its business could quickly and effectively adapt its operations to the new and changed conditions where the old concerns with so much handling were hopelessly at sea. Furthermore, until the textile manufacturers take a leaf from the book of the automobile industry and control all phases of their operations through to the consumer, and adjust their manufacturing in accordance with definitely determined consumer demands, they are going to continue in the slough of despond. The solution of their problem is distinctly in their own hands.

A certain cigar manufacturer made it his proud boast that his cigars were distributed in every locality having a post-office in the territory to which he catered. Now that sounded logical. But when modern merchandising analysis, coupled with profit accounting control, was applied to his business, a very different light was thrown on the problem. In Maine, for example, it was found that if this company sold all the cigars used in certain communities, the business would not cover the cost of selling. Here was a case where direct selling had to be coördinated with jobber distribution. Where there was real volume to be had, aggressive direct selling was found to be the thing. But in the sparsely settled regions, it was found profitable to sell only through jobbers situated in the logical trading centers. The result was intensification of effort in the centers of population, and sales also at a profit in the rural sections.

Enormous amounts of money are being tossed away yearly in ill-advised sales methods, when intelligent market analysis, coupled with profit-accounting control, would quickly and effectively point to the proper plan.

Profit accounting, in a word, provides a yardstick of measurement over all phases of operations. This is true of manufacturer, jobber, wholesaler or retailer. A manufacturer must know his manufacturing costs accurately. Furthermore, these costs to be of any real value must be known before the order is taken and not after the goods have been made. A dealer must know his purchase costs accurately. Then regardless of sales methods, he must know what it costs to market different products and what are the costs of doing business, exclusive of selling. Profit accounting provides all this. In addition, it tells one each month how his actual operating results compare with his predetermined measurement. Thus one can constantly keep his fingers on the pulse of the business. He will know where he is going before he starts. He will be leading his business and not chasing it.

I feel very strongly about this radically changed business condition and the apparent failure of our old industries to take steps to meet it. It is the duty of bankers, who are the business and financial advisers of the community, to insist that their customers take steps now to study their individual problems and find out where they are going. They owe it to their customers, depositors and themselves. The future success of business men depends entirely upon control of their business.

Our country will emerge from this depression and march on to greater heights. But many concerns will not be among those present at that time. Now is the time to scrap tradition, to tighten the belt, and to step out. It is the time for us to lift our eyes unto the hills, far across the valley of the shadow in which we are today.