SPECIAL REPORT 16 SEPTEMBER 1965

MANAGING THE FARM SUPPLY BUSINESS Ten Areas.

WILLSON AND SMITH

Agricultural Extension Service, University of Minnesota
in cooperation with
U.S. Department of Agriculture, Federal Extension Service,
Division of Marketing and Utilization Sciences

AGRICULTURAL EXTENSION SERVICE, UNIVERSITY OF MINNESOTA SEPTEMBER 1965

MANAGING THE FARM SUPPLY BUSINESS--Ten Areas

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ACKNOWLEDGMENTS

Thanks are due Dr. Leon Garoian, Mr. Max Glass, Mr. Richard O'Connell, and Dr. Homer Preston who served on an advisory committee for this project. Their assistance in helping us formulate various ideas as well as their constructive criticism at various stages is gratefully acknowledged. The final responsibility for the material published herein rests with the authors.

A special word of thanks is due Mr. Paul O. Mohn of the Federal Extension Service who represented the U. S. Department of Agriculture in developing and coordinating the agreement under which this work was done. His efforts in "smoothing the path" greatly implemented the conduct of the work.

This publication was prepared under the provisions of a cooperative agreement between the Agricultural Extension Service, University of Minnesota, and the Federal Extension Service, U. S. Department of Agriculture, Contract No. 12-05-300-54.

Issued in furtherance of cooperative extension work in agriculture and home economics, acts of May 8 and June 30, 1914, in cooperation with the U. S. Department of Agriculture. Luther J. Pickrel, Director of Agricultural Extension Service, University of Minnesota, St. Paul, Minnesota 55101.

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FOREWORD

This report is part of a project designed to improve managerial and operating efficiency in farm supply firms. As a result of an assessment of management strengths and weaknesses in local operations, 23 problems were identified. The 10 management areas discussed here were ranked as those most in need of major educational assistance.[1]

The material presented is designed for use by teachers rather than for popular consumption. In a publication of this kind the treatment of each of the areas cannot be considered as exhaustive. The intention is to provide a general frame of reference for the instructor on which he can, if he chooses, build his own materials. Selected references are provided to assist in this process.

Standard business terminology is used throughout. This can be adapted by the instructor to fit the particular needs of groups which may be accustomed to different terminology. Furthermore, the instructor would normally be expected to make allowances for differences in objectives which may occur between various types of business organizations.

The user is warned to tailor the material to fit the level of sophistication of the clientele he hopes to reach. For those who have had little exposure to any formalized management training the material presented here may be a rich diet. In this case considerable translation by the instructor may be necessary. On the other hand, for those who have had considerable management training the material plus additional readings may be appropriate.

There are several "points of view" from which the several areas considered may be examined. The "point of view" reflected in this report derives from the experiences in

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[1] See Frank J. Smith, Jr., et. al. The Farm Supply Industry — A Report on Opportunities and Problems, University of Minnesota, Agricultural Extension Service, Special Report No. 15, Chapter 3, October 1965.

the management field of the senior author. R. A. Willson, presently Dean of the Banff School of Advanced Management, was business administration specialist in Agricultural Extension at the University of Minnesota when this material was developed. He formerly held executive positions at General Foods Corporation and at Studebaker Corporation where he was responsible for business planning and development, personnel and public relations, and economic studies. He also directs R. A. Willson Associates, Management Counsel. The junior author, who served as coordinator for the overall project out of which this material was developed, assisted in the process of conceptualization and acted as a sounding board and critic for the senior author. He is Associate Professor and Extension Economist at the University of Minnesota.

F.J.S.

1. PROCESSES OF MANAGEMENT

Commentary

Few will argue that technical knowledge of a business is any longer sufficient preparation for the job of managing it. A manager must be trained in processes of management distinct and apart from his unique knowledge of the industry, his company, and his immediate environment if he is to make his proper contribution to his organization. Time does not permit him to acquire these skills by trial and error. And, the magnitude of the risk in mismanagement is now so great as to rule out dependence on management by intuition.

Increasingly, the manager must be professionally trained for his job. He must have an abiding curiosity about more effective ways of getting his job done. He must lend himself to a disciplined development of skill in the several activities which together may be defined as processes of management.

We found relatively little interest in this point of view among managers of farm supply retail outlets. They appeared content to base their efforts on a combination of familiarity with the business itself, a measure of seasoned "common sense," and personal relationship with their customers, directors, and the town fathers.

Yet they are inevitably engaged in several aspects of managerial practice regardless of the size of the business managed. We have selected leadership, organization development, delegation, control, and decision making as those processes of management to which the farm supply manager should give special attention.

Leadership

Businessmen have finally begun to listen to the sociologists, who have insisted for some time that leadership is not something that one does to or for another but that it is a relationship between two or more people to which each contributes. Seen in this sense,

the manager must think of his leadership not exclusively as a function of command but as a supportive relationship with his organization. He will see his primary duty to stimulate and challenge the organization and, to some degree, as a catalyst, he will seek to enable the organization to do the best job that it is capable of doing. In short, his primary job will be as chief assistant to the men who report to him.

The logic of this point of view about leadership is increasingly apparent as the people involved in our business organizations become increasingly better educated, more sophisticated in their expectations, and more independently mobile. The leader can continue to function in his capacity only so long as he satisfies the needs of the people reporting to him, or conversely, is in a position of being able to deny satisfaction of their needs. Under usual circumstances the first alternative is preferable when a choice exists.

A manager must recognize the contributions expected of him as a leader by his subordinates. It is not enough that he carry a title; it is not enough that he meet the expectations of his shareholders or patrons; it is not enough that he win the confidence of the community or the market he seeks to influence. He must also earn the confidence of the people whom he leads through the skill of the leadership he contributes. Otherwise he is unable to perform his fundamental task as a manager.

The enterprise he seeks to guide cannot possibly achieve its optimum level of profitable operation unless the people involved are committed to its purposes. An able leader will identify the central purpose and supporting objectives for-and with-his organization on a continuing basis, insuring that everyone is conversant with the organization's goals and that each person has a sense of personal commitment to it. This can be induced only by permitting the company's employees to share to some degree in the definition of what is to be undertaken and the urgency with which it must be completed.

If the leader's primary role is to give direction to the business through articulating what is to be done, then his secondary role is surely to coordinate the human and other resources of the business in such a way that the tasks in hand can be most effectively undertaken. Here he is concerned with the precise definition of task, how each task relates to another, and how soon each should be completed.

It has been suggested that the leader is, in effect, the conscience of an organization. He must be prepared to set up the rules of the game and furnish discipline and corrective action whenever the objectives of the organization appear to be endangered by undesirable conduct or attitudes. He must insure that reward is given to persons deserving it, not only materially but in terms of personal recognition. Thus he constantly reinforces conduct which will enhance the attainment of the company's purposes.

Perhaps the most unique contribution a leader can make is to give a continuing reassurance to the members of an organization that they can attain their goals, particularly at times of discouragement and temporary defeat. In effect, his primary mission is to issue to the organization a continuing call to achievement. It is in response to such a challenge that people appear to be willing to rally, when they recognize its relevance to their own needs and purposes.

Organization Development

It is axiomatic that the effectiveness with which people work is in considerable degree influenced by the way in which their work and their relationship with each other is organized. Indeed, a strong case can be made for the point of view that management gets pretty much the behavior it deserves from the way in which its organization is established.

It is not enough to define separate tasks clearly. Of equal, if not greater importance is recognition of the interdependence and interrelationship of the jobs.

Research by the Institute of Social Studies at the University of Michigan has provided much evidence of the existence of informal organization, which seldom corresponds with the picture we see on an organization chart. The manager must be able to identify the informal organization, the functions which appear to be centers of influence within it, and the nature of the leadership which they provide. He must then be able to guide the informal organization to address its energy to the achievement of the company's objectives. This is at least equally as important as directing the formal organization.

Essentially, the task of organization starts with the definition of purpose. Why does this company, department, unit, or function exist? What is it uniquely established to do which other units are not required to do? What contributions should be expected of it by the larger enterprise of which it is a part? Only after the purpose has been clearly recognized and understood by members of the organization and approved by the manager can the form of the organization be confidently determined. For example, if the major purpose of the enterprise is to sell, primary emphasis within the organization must be on the sales function, giving it maximum support. To give major power under such circumstances to the accounting function or the production function would be incompatible with the purpose of the business. Conversely, if the primary purpose of the enterprise is to buy, then correspondingly less emphasis should be placed organizationally on sales. It is not enough for the manager alone to be aware of this central purpose. All members of the organization must understand it so that they may govern their conduct and their relationships accordingly.

The purpose of an enterprise should never be regarded as static. This must change, however minimally, whenever circumstances within the market place or the community change. The continuing revolution in technological processes predetermines that the purpose of the business will become obsolete if not updated periodically. What is needed

is a periodic review by the manager with his people of the validity of the purpose which guided the original organization.

Once the purpose has been defined the manager can proceed to describe the tasks required. He must remember that his starting point is the understanding of the required tasks and not what can be done with the people he already has. In short, he must establish on paper or in his own mind the ideal organization, and having done this, make whatever temporary concessions or amendments that are needed in light of people skills available to him. Without the ideal organization in mind, he cannot guide the selection of new people or the development of present persons into the relationship desired.

Definition of the individual tasks will not, in itself, suffice. Many responsibilities of a company are shared by two or more people. Whenever there is any overlappping it must be predetermined who has initiative to take action, who must be consulted before a decision is made, and who has authority to make a decision on behalf of the company. With this interrelationship clearly defined, persons responsible for the separate tasks can begin to work more effectively together. To rely on their goodwill alone is wishful thinking.

Having spelled out purpose, a second governing principle of organization is the need for making each task as significant as possible in terms of its impact on the fortunes of the company. Unless the employee can perceive the relevance of his function to the company's benefit, there can be little sense of commitment to company purposes. Thus, compatible responsibilities should be grouped as much as possible and centered in one individual, tempered, of course, by his capacity to cope with the job requirements and pressures. The wise manager will give increasing scope and rein as he gains confidence in the ability of the individual to handle an increasing responsibility.

The individual employee is increasingly a decision maker. Once given adequate direction he would prefer to select his own behavior and his own method of accomplishing a job to the degree that managerial discretion permits. Thus, it becomes important for the manager to give decision-making authority as far down in the organization as possible. As a rule of thumb, the right to make a decision ought to be fixed where the action takes place, provided knowledge and perspective are adequate.

In building the organization the manager should be constantly cautious of the temptation to build symetrically. There is no particular virtue in the aesthetic appearance of an organization. What matters is its effectiveness, comprised of two dimensions--the lowest possible cost or maximum possible contribution to earnings (whichever criterion may apply), and the opportunity for personal fulfillment of the persons involved. If these two criteria are satisfied the organization is likely to be effective, even though it may appear unbalanced in terms of numbers of people who are reporting to individual managers.

Throughout the development of the organization, it is essential that the manager keep constantly in mind that each department, each function, each individual job should have clearly defined for it a central point of emphasis, a central purpose--the major contribution which it is expected to make to the overall benefit of the organization--and that each person know what is expected of the others with whom he is to work.

Delegation

While delegation of work is generally acknowledged to be one of the manager's primary responsibilities, all parties to the process resist it on occasion. The manager may be fearful of losing his personal control over work whose completion in a particular manner is extremely important to him; the subordinate may be unenthusiastic about accepting responsibility for an assignment in which he is sure the manager will continue to involve himself actively. The manager may be cautious about entrusting to a subordinate the success

of work on which the company's fortunes depend to a considerable extent; the subordinate may be reluctant to shoulder the responsibility when it is evident to him that so much depends on his success. The manager may feel some anxiety about making evident the ability of a subordinate to perform an important job for fear of rendering the manager himself superfluous; the subordinate may have reason to suspect that the manager's willingness to reward him for his performance will not be equal to his willingness to let the subordinate assume the risk and in large degree the consequences of failure. In short, both the manager and the subordinate consistently display equivocal feelings about delegation even while they are protesting their unqualified endorsement.

Perhaps this is nowhere more apparent than in a small business where the manager has been responsible for creating the entire organization. Having had heavy personal involvement in every aspect of the company, he finds it difficult to withdraw his active concern. He may even be reluctant to ask a subordinate to invest the same kind of energy and purpose which he himself had earlier committed to the various tasks. This combination of need for personal involvement and paternalism is difficult to shake loose.

Yet, as a rule of thumb, the economic performance of an organization is enhanced by insuring that work is done by the least expensive employee capable of doing it to the company's satisfaction. Obviously, it must also be to the employee's own satisfaction if the arrangement is to be permanent. Recognition of this economic truth will cause the manager to seek constantly all opportunities of giving increasing discretion to each of his people. In short, he should be constantly seeking to enlarge the task and responsibility of each of those reporting to him. He is expected to use discretionary judgment in determining how much rein to give--and how quickly.

To assure the manager's satisfaction with the performance of a delegated task it is necessary that he specify precisely what he wants done. Both manager and subordinate

must understand exactly what is to be done. It is not enough for only one of the parties to the bargain to have defined his expectations.

Before the assignment is delegated, however, it is imperative that the manager share with his subordinate the frame of reference in which the job is to be undertaken. It is his primary task to provide a vision of what is to be accomplished, by himself and the company, as well as by the subordinate. Against such a backdrop he is then in a position to expect the subordinate to commit himself to the task.

With vision shared and assignment clearly and comprehensively conveyed, the manager may then consider granting authority. On this point, mutual understanding is vital. Authority can be presumed absent unless the subordinate has the clearly specified right to make a commitment on behalf of the manager or the company. He must also have the right to select his own behavior or method of attaining the objective or end result which the manager has prescribed. To the degree that the subordinate is restricted in being able to make a commitment or to select his own behavior, so is his authority to act restricted. Since the ultimate accountability is the manager's, the degree of authority which he invests in the subordinate is essentially his own risk. It is, therefore, understandable that he will make sure of both his own and his subordinate's understanding of what authority is to be exercised.

Only after authority has been agreed upon can the manager then deal with the question of responsibility. To be seen in proper perspective, it must be conceded that responsibility is something that is taken--not given. A sense of responsibility is in effect a sense of obligation to achieve. This obligation cannot be commanded; it must be volunteered. Of course, the degree of responsibility to be exercised by the subordinate must be understood and acknowledged by the manager, but an obligation to achieve must be pledged voluntarily by the subordinate.

One tends to sense an obligation only when the reason for accepting it is understood and when the desired accomplishment is compatible with the satisfaction of one's own needs. A powerful incentive is the necessity of gaining the approval of one's associates. Thus, the skillful manager will make sure that the subordinate understands the degree to which the progress of the group and the company depends upon his successful performance. For example, if he knows that an associate cannot commence a job on time unless his own task is completed by a particular date there is considerable compulsion to deliver on time without further reminder from the manager.

In this whole process of delegation the manager has yet one further responsibility--to be on hand to receive the completed assignment at the time which was specified. There are few things more disillusioning to the subordinate than to find that the task on which he has labored cannot be turned in on the specified date because the manager is absent on some other mission without explanation. There is possibly no other act so well calculated to preclude future effective delegation as failure to be on hand to accept delivery of the assignment as called for.

Control

Basically, "control" can be exercised by the manager only after reaching agreement with each of his subordinates as to what is expected of them in sufficiently precise terms as to enable either of the parties to the task to know when a good job is being done. Par for the course must be determined in advance--not retroactively. The manager must also have a schedule showing not only the final completion date but intermediate checkpoint dates. As in the provision of the railway schedule, it is not enough to know final arrival time. Knowledge of intermediate completion points will enable the manager to determine whether the job is in fact on time while there is still opportunity to make amendments.

Control, as James Harrison has pointed out, rests on the manager's ability to "keep his hand in." [1] Without giving any impression of lack of confidence in the subordinate's ability to deliver on time, but rather by emphasizing to the subordinate the importance of the job he has to do and the manager's confidence in his ability to do it, the alert manager will constantly reinforce the subordinate's impression that it is imperative that he deliver according to the agreed schedule.

In addition to the schedule of dates there should be benchmarks of satisfactory performance so that the manager and the subordinate may review and assess attainment at periodic intervals. It should be clearly understood by the subordinate that he has an obligation to report variances from planned performance or default. Depending upon the style of supervision the manager adopts he may initiate review or this may be left to the subordinate. The healthiest relationship, in which both parties acknowledge responsibility to each other, exists when either can initiate a review of performance.

In essence, an atmosphere conducive to control is achieved when each subordinate knows that the manager is on the job, is contributing to the success of the operation, and has a personal interest and appreciation of the importance of the work the subordinate is doing which he expresses at frequent intervals.

Decision Making

The quality of the manager's decisions is influenced by three considerations: (1) his knowledge of the circumstances surrounding the question he has to resolve, (2) the self-discipline he is able to maintain while he is weighing the risk and advantages of various alternative solutions, and (3) his facility for anticipating the likely future results of the

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[1] James Harrison. "How To Stay on Top of the Job," Harvard Business Review, Vol. 39, No. 6, Nov.-Dec. 1961, pp. 100-108.

decisions he makes today. The interesting point is that he can improve his skill in each of these three areas if he wishes to invest the time and effort necessary. The ability to make sound decisions without excessive input of energy is a priceless attribute of the manager who wants to manage professionally.

It is not simply a matter of a manager's total knowledge that will help him to make decisions. More important than breadth of knowledge is to understand what knowledge is relevant to the problem at hand. The notion that more knowledge will insure greater wisdom in decision making is just as untenable as the idea that longer experience will give greater skill in handling a situation. It is the relevance of the knowledge, just as it is the quality of experience, that is significant. And it is at least equally important to be aware of what one does not know as to be aware of what one does know in making a decision.

The manager will frequently find it necessary to fill in gaps in knowledge with assumptions. Since these assumptions will be made out of the bias of his past experience, or by reason of his hopes for the future, it is essential that he recognize when he is using fact and when assumption in making his decision. Peter Drucker suggests that since assumptions are inevitably part of any decision, the manager should always ask a subordinate what are the assumptions underlying any proposal.[1/] If he has confidence in his subordinate, and if he knows what evidence is fact and what is assumption, he is then in a position to make a decision responsibly.

A general observation may be made about what information the manager will need in making any decisions. Certainly he will want to be clear about the objectives he

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1/ Peter Drucker. "Managing for Results," Harper and Row, New York, New York, 1964, pp. 16 and 220.

seeks to attain. It helps to set these down in writing, however informally. He will want to know what company policies are affected by or are relevant to the decision he is asked to make; he must know what resources are available to him in terms of money, people, capacity, and skills. He must also know--realistically, rather than optimistically--how much time he has available to make his decision and to implement it.

For many of the decisions required of him, the manager already possesses sufficient knowledge for the task. It then becomes a matter of organizing the knowledge. But occasionally he is confronted with unprecedented circumstances; he is faced with the necessity of relying upon the knowledge of another person in making his judgment, or alternatively, if time permits, he can immerse himself in the new circumstances and absorb sufficient firsthand knowledge upon which to base his decision. The professional manager, incidentally, recognizes that when he relies upon another's advice he does not escape responsibility for the quality of the advice offered him. He still has accountability for the ultimate decision; all he has done is select his knowledge source.

As availability of information on almost any conceivable business topic grows, the importance of self-discipline in analysis becomes critical. The laziness or irresponsibility of the manager who leaps for a conclusion on impulse and rationalizes the decision retroactively cannot long be tolerated by his company. This is not at all an argument for delay in decisions. It is rather a plea for an orderly examination of one's knowledge of a particular situation before any conclusion is attempted--and just as speedily as the existing circumstances require. If there is to be a delay in making the decision the same disciplined approach requires that the delay be made by decision--not by default. In other words--what is the delay to accomplish? What is to be done during the extra time requested and what is the new proposed time limit upon the end decision?

To achieve this discipline is essentially a matter of gaining greater self-awareness. The manager must know his own values and allow for the fact that his expectations and hopes as well as his fears have direct influence on the way in which he perceives the facts presented to him. He must also learn to question constantly whether the facts available are consistent with each other, whether they are reliable, whether their sources are authentic.

The manager will never have all the data relevant to a particular decision. But he must take time to secure enough and to resist making a commitment until he is certain his decision is based on the evidence available within the time at his disposal.

Probably the major reason for delay in most decision making is uncertainty about future consequences. These must not be ignored because, in fact, they are the only criteria of the correctness of a decision. The manager will gain confidence by weighing the risk in which he believes he is being involved, against the gain he expects to receive. As it is unlikely that he can be precise in defining future risks or future gains, it is useful to estimate what he thinks is the maximum and minimum in each case. Confidence can be enhanced by realistically appraising the worst thing that could happen to him if his decision provides wrong. Similarly, it is useful to define what might be the best results he has any right to anticipate. This exercise must be undertaken for each of the alternative solutions open to him in reaching his decision, for without a choice of solutions he cannot be truly confident of picking the best. Their definition of future consequences should not be left hazy. This, too, should be as precise as possible.

One other observation needs to be made about the process of making a decision. Once a manager has committed himself to action after gathering knowledge, analyzing it, and anticipating consequences he must take the position that it is the best decision he could make under the circumstances prevailing. There must be no room for subsequent

doubt. The decision should be reviewed from time to time--not to see if it was right in the first place but rather for improvements which can inevitably be made as circumstances change. The manager must maintain his flexibility to make these changes. His decision today must never preclude his capacity to react to future circumstances and needs in a different way. But he has neither time nor energy to waste in useless recrimination respecting the original decision.

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2. MANAGER - BOARD RELATIONSHIPS

Commentary

Our farm supply industry study raised questions about the effectiveness of the relationship between executives and their boards of directors. On the one hand, it is questionable whether managers have the techniques necessary to make effective presentations to the boards. On the other hand, there is evidence that directors have not been educated to discharge their responsibility to give appropriate support and direction to their managers. While this evidence may be observed in industry generally, it assumes particular importance among cooperatives where the manager is under greater pressure to recognize the wishes of his board since they are the elected delegates of the patron-shareholders.

Reasons for Existence of a Board of Directors

In addition to the legal requirements of protecting stockholder interests, there are many reasons for a business, proprietary or cooperative, to have a board of directors.

Perhaps first in importance, a board's existence conveys a sense of increased confidence to the investing public and/or the membership who are reassured by the knowledge that a number of diverse brains and abilities are guiding the destiny of their company.

A board reminds a manager both overtly and by the fact of its existence, of the responsibility which goes with power. Historically, power is left with one who possesses it only so long as it is exercised in the interest of the people who are influenced by it. And we are frequently cautioned that responsibility goes with every power granted by society. The board can provide a social conscience for the manager to keep his power service-oriented. This may be particularly true of a cooperative whose patrons tend to be more conscious of the business's original purpose than do shareholders of proprietary organizations generally.

A board represents a constant source of additional ideas and judgment for the manager who can turn more freely to his directors for such assistance than he can to subordinate members

of his own staff who expect him to be informed and infallible--or sometimes too eager for proof that this is not so. They are a better source of support than outside advisors generally because the manager can or should be free to discuss intimate details of the business with them which he would hesitate to expose to less sympathetic or committed persons.

The board can also be a source of counsel and assistance to a manager who is anxious about the wisdom or fairness of a decision he proposes to make. It represents a forum for review of questions which could not be aired with any other group.

The venturesomeness of the manager can be increased by reassurance from members of the board as to the wisdom of a proposal having future implications for the business. The long-term effects of a decision can be emphasized by a board whenever the manager tends to be overly concerned with immediate impact on his own career or his own survival. While it is difficult for the manager to look beyond his own term of office, the board of directors can supply a longer cycle of interest.

For a manager, the board can represent a major source of praise and encouragement during a period in which he may fail to get this support from his subordinates.

The board can be a reflection of management, a check upon its actions, or a source of advice to it--and sometimes combine all three. The wise manager sees the board as a source of a variety of aid and support and wishes, therefore, to make it an active ally in the management of the business.

What Might be Looked for in a Director

In terms of attributes, the director may be selected for a variety of reasons. Perhaps chief of these would be his general competence and sound personal judgment, if he is to be able to bring wise advice to the aid of the manager in perpetuating the business. He may be chosen by reason of specialized knowledge or skill which can compensate for or balance a deficiency in the manager's talents and background.

Aside from personal qualifications, the director may be selected to represent a particular constituency of patrons, shareholders, or trade relationships. He may be a sound choice because of the prestige his name or influence might carry whenever a lobby may be needed. He might make possible a commercial opportunity or alliance for the business in becoming identified with it and thus implying his endorsement.

In considering his reasons for accepting election or appointment the director might well have financial or personal interest either through investment or as a major contributor to its sales volume and may welcome the opportunity the appointment offers him in terms of protecting this interest. Alternatively he may see the healthy survival of the business as a challenge to his personal skill. He may accept simply because of his friendship with the manager or with other members of the board. Or he may accept appointment because of the honor involved, perceiving it to be somewhat like gaining "academic distinction" within the business field. Insofar as all he sees is the honor, his acceptance may be most unfortunate.

A healthy exercise for any member of a board is to consider the reasons for his election or appointment and whether he is justifying these reasons in terms of his contribution to the success of the business. He might also ask himself whether he is contributing positively to a relationship with the manager which will let him make the utmost contributions to the business of which he is capable.

In proprietary business, as distinct from cooperatives, boards of directors frequently include senior managers selected from within the firm because of their judgment and experience along with persons chosen from outside the company. Sometimes a board may be comprised exclusively of "inside" or "outside" directors. Those preferring inside directors cite the advantages of familiarity with the business, urgent concern for the profitable management of the enterprise, and easy availability of appointments. However, it must be recognized that an inside director who is also a manager may be less disposed to challenge the opinions or decisions

of the general manager or chief executive. Furthermore, the inside director may be over-anxious for the approval of his associates and permit this attitude to influence his judgment during board meetings.

Those preferring outside directors observe that they bring to the company a fresh viewpoint of its operations uninfluenced by existing procedures to which the manager may be committed. They bring also a sense of independence and, likely, a more objective attitude toward the recommendations of the general manager. It is argued too that an outside director counterbalances his lack of involvement in the business's day-to-day affairs with a longer cycle of interest and less biased judgment upon its operations.

For most cooperatives the question is, in a sense, academic. Directors are "outside" persons elected by the patrons. But whether the director is selected by reason of close familiarity with the business or the objective judgment he can bring to it, he can only be as useful as his willingness to become involved and committed to the company's survival.

The Benefits Accruing from a Board

Perhaps the most important contribution a board can make to a business is to provide a sense of detachment from immediate operating anxieties. A current crisis should not influence the board's judgment to the same degree as it may influence the manager's. A board provides a longer term look ahead at the business and its future.

By remaining informed about its goals and its performance a board can keep a company stable during a period of recession or even of crisis. There are many examples of such service rendered to a smaller business at a time of sudden critical illness or death of the manager, or a major error by the management which threatens the survival of the enterprise.

In favorable times the board can help to keep the company in tune with public sentiment, reminding the manager of the necessity of continuing to earn community favor when his very success may tempt him to become more authoritative and perhaps less sensitive.

Again here, benefit will accrue to a company from the existence of the board only if its members are willing to be involved, and are kept sufficiently informed by an alert manager to remain involved in the company's affairs.

Customary Duties

A board of directors will, typically, be assigned certain official duties by the members or stockholders. These duties include overseeing amendments to the company's charter, formation or change of bylaws, election of officers, and other responsibilities of a quasi-legal nature.

But many duties, though not always assigned, should be assumed by directors serious about their contribution to the business. Included are the following:

1. Declare dividends or patronage refunds.
2. Effect mergers.
3. Sell or purchase assets--at least of a magnitude which affects the survival of the company.
4. Protect the invested capital of the business by insistence upon wise stewardship.
5. Seek to perpetuate the company's life economically and politically.
6. Ensure an adequate return to the owners or patrons of the business, not only in the immediate fiscal year but over a period of time.
7. Provide adequate management for the business by insistence upon competence of the manager.
8. Interpret the business favorably to the public, having in mind the necessity of providing for the manager the reassurance of public and legislative support.
9. Convey assurance to members and shareholders through adequate reporting upon the company's progress.
10. Judge the adequacy of the company's objectives at frequent intervals, and offer counsel to the manager regarding changes or amplification.

11. Ensure adequate executive compensation plans, including senior management incentives and fringe benefits.

12. Advise as to the diversification and expansion of the business.

In reviewing these various contributions a board can make, it is evident that they can do so only to the degree that they are informed about the business itself and the environment in which it must operate.

How the Board Operates

One of the first requirements for effective use of a board is that it should have complete freedom to criticize any part of the business without fear. Members must be encouraged to exercise their judgment independently, both of each other and of the manager, in order to contribute their best advice.

It is essential that a board should understand the key elements which add up to the success of the enterprise and to be closely and continuously acquainted with the current and forecast progress of the business in respect to each one of these elements. They should be familiar with the company's purpose, its history, the market in which it is entered and the share of this market it enjoys, the degree of challenge of competition, the degree of obsolescence of physical assets, the sales volume enjoyed by each of the products or services, the current value of financial assets, and the long-run objectives of the business. The board also should have an opportunity to review periodically an analysis of the company's earnings, the soundness of its organization, and the adequacy of the people comprising the business to meet current and future challenges.

It is axiomatic that the board can give no better advice than the quality of the information provided its members. This is a major responsibility for the manager, but at the same time, it is incumbent upon the board's members to know how to elicit information and to be consistently interested in doing so. The board must be, in effect, able to gauge the effectiveness of the management of the business even though they may not know how to manage it themselves.

The attitude of the directors depends considerably upon the degree of their involvement which can be induced by an alert manager. They might be persuaded, for example, to serve as a constant performance review panel so long as they do not trespass upon the functions of management. Other examples of board activities include that of acting as a committee adjudicating manager compensation, or developing more favorable relationships with government, or studying the possibility of new products or services, or periodically auditing the effectiveness of the organization--and other specific tasks which can be developed with the manager. Thus, the function of the director is raised to a level of greater operational activity than is implied by simple attendance of board meetings, with resulting keener personal interest and involvement. Throughout the relationship, however, board members and the manager alike should recognize where director advice leaves off and managerial accountability begins.

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3. CREATIVITY

Commentary

While we have gained an overall impression that managers of farm supply businesses are intuitively familiar with their operations, we seldom encountered genuine curiosity about the enterprise. We seldom came across evidence of probing for new ways of doing business at the local level, although this was encountered in contacts with corporate or regional cooperative management level. Greater innovative activity at the local level would result in healthier competitive activity than that which depends exclusively on price considerations. In all fairness, it must be recognized that top business executives throughout America acknowledge creative imagination to be the lifeblood of business, but it is also true that creative talent is not abundant. In this respect, the farm supply industry is no different than others.

Pressures for Creative Thinking

There are several reasons for the growing recognition of need for creative thinking. This recognition is evidenced in bigger budgets and more management time allocated to research and development in businesses of every size. Perhaps of even greater significance is the growing consensus of top management that the professional manager must himself be a creative and innovative person; that he must, by definition, have a healthy dissatisfaction with whatever the existing circumstances might be as well as an insatiable curiosity about how everything can be done better.

Perhaps the most compelling reason is the existence of dual economic pressures between which a manager finds himself increasingly squeezed. The size of the capital investment he must make to get into or support almost any kind of business is increasing steadily. On the other hand, the time available to him for recovering his investment

before some new invention renders the process, the plant, or the product obsolete, is shrinking rapidly. The life expectancy of services or products is significantly shorter than it was a few years ago and the proliferation of new offerings to customers in all industries is proof that the pace is not at all slowing down. In effect, the manager must be constantly alert to render his own business processes obsolete before his competitor can do so, and he has the added urgency of a sizeable investment at stake.

The second reason is the growing exposure to competition from any point on earth, and from sources which are quite unpredictable. The growth of trade agreements between the United States and other countries for an ever-wider range of goods and services puts even the small businessman in world competition. At home, companies seeking competitive survival are turning away from their traditional business areas to seek out profit opportunities in other businesses where they believe they have technical skills or unique strength. Lacking any certain knowledge of where the next competitor may be coming from, the manager must develop flexible receptivity and probing for new opportunities if his business is to flourish.

A third reason is the growing complexity of the managerial job. Vastly more information is now needed to support a decision, but only the manager who knows how to use new sources and processes of information can cope with this pressure. Increasingly, he must learn the language of mathematics; he must learn to anticipate the shape of future events; he must concern himself constantly with new sources of information. Thus, as the job becomes more complex he must inevitably become more creative.

The fourth reason derives from changes in our society. Work has been traditionally a source of prime satisfaction to most Americans. But as technological progress steadily shortens the work week, it is highly likely that each individual worker will seek alternative work satisfaction by participating more fully in the affairs of the business which

employs him. What he fails to gain in quantity he will seek to compensate for in quality. And the manager will have to create new methods of organization and of dealing with his people to contain this pressure to participate, or better, to utilize it to the advantage of the company he leads.

These are but four reasons which support the contention that the manager must increasingly think in terms of creating rather than reacting, in terms of innovating rather than protecting.

The Creative Environment

A wise manager will seek to stimulate and reinforce attributes that generate creativity in his organization. Some may develop spontaneously within the company, but they will survive only if the manager creates the climate in which they will be encouraged. Essentially, the organization will take its cue for creativity from the manager. In turn the attitude of the manager toward creativity is influenced by his board of directors, if he has one. Much of what is said below, therefore, applies to the board as well.

The most important creative attribute is a "spirit of inquiry," a restless curiosity about one's environment, a willingness to probe for other ways of doing whatever may now be taking place, an inclination to regard problems as opportunities for change and progress. The manager should ask himself whether he is, in fact, encouraging such attitudes by his subordinates. It is a normal inclination to regard the person who brings a problem to light as having had something to do with creating it in the first place. Such suspicion voiced by a manager is hardly likely to encourage the subordinate to identify problems as opportunities. It is also a frequent habit to regard suggestions for changing existing procedures as detours from proper attention to those things which must

be dealt with today. Many managers deliberately avoid subordinates who challenge them with such "detours;" some subordinates soon learn to temper their behavior and restrain their aggressive curiosity about improvements.

To create a climate conducive to innovativeness some managers have adopted the practice of calling their key people together periodically for the sole purpose of examining and suggesting new ideas. Nothing else is permitted on the agenda. Such initiative encourages creativity in the employees.

The second characteristic which needs encouragement is an ability to redefine business aims and objectives periodically. There is absolutely no room for "immutable policies" or any other sacred cows in a company determined not to become obsolete. Unquestionably, a clearly written definition of standard practices which should be followed in recurring situations will save much time, particularly where consistency of action is desired. But it can also freeze discretion. Any standard practice should be reviewed and criticized at periodic intervals with the announced objectives of improving it. Even the company's purposes require reexamination periodically if they are to remain in tune with changing circumstances. Here again the manager can set an example for the whole organization by encouraging such reviews, by refraining from leaning on the unsupported rationalization "it's company policy" when he really doubts the validity of the policy, and by insisting upon regular updating of all guidelines by which the company operates. Everyone in the organization should be encouraged to understand this attitude and to participate in the constant search for improvement.

The third characteristic is the ability to think in terms of postulates. In addition to the ability to ask the time-honored questions how, why, and when, the manager must develop an inclination to ask "what if?".

It appears that the capacity of a person to innovate is enhanced by encouraging him to consider periodically what course of action he would pursue if existing circumstances were to be changed to something else. This exercise demands creative thinking. It develops ability to imagine which must be a major component of any successful plan for the future. Rather than be impatient with such "postulate" thinking, a manager should encourage it among his people.

Unfortunately, one characteristic of a successful manager--the ability to make a sound judgment quickly--can also be a major influence in killing off creativity. Many managers take pride in the speed with which they dispose of "obvious" matters. But it affords some pause for thought to consider that only decades ago it was "obvious" to everyone that the world was flat and much more recently that the heart was the center of the emotions. To the degree that the manager is inclined to believe that things are "obvious" and that only a fool would take time to consider any course of action other than the one "obviously" prescribed by the circumstances, he will quite effectively discourage probing curiosity by his subordinates. What he must do is to develop a stronger will to withhold judgment while he gathers evidence, and encourage his people to do the same thing. While he cannot command them to be creative he can prescribe that they will describe their problems in greater detail before judgment is passed. In so doing, he will be indirectly encouraging a creative climate.

One may observe lack of success registered by many companies in their experience with suggestion plans to be an indication of lack of interest by employees in voicing ideas. If employees perceive that a suggestion plan--or any other mechanism for collecting their ideas--is designed to "let off steam," or simply an appropriate thing

to do in the name of communications and good employee relations, they are likely to support it with minimum conviction. By contrast, the manager who periodically advises his organization of the problems to be solved and encourages them to use the suggestion plan as well as any other means of access to him to submit their ideas to attack identified targets, finds a tremendous increase in enthusiasm and participation. In essence, the capacity of an organization to create new ideas is a direct reflection of the manager's expressed encouragement for such conduct.

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4. MAKING THE MOST EFFECTIVE USE OF TIME

Commentary

We gained an overall impression that managers of farm supply retail outlets were under constant time pressure as they respond to demands from employees, customers--some of whom have come from a distance--supplier representatives, specialists from central management headquarters, and in the case of some cooperatives, members of the local board of directors. While some of this pressure would be true of any smaller business, the strong personal service orientation of the farm supply outlet tends to emphasize it. Generally, it appears that the manager copes with this pressure by working harder or faster. We believe that it would be useful to him to consider some of the methods by which he could make more effective use of the time available to him.

Rules for Planning the Effective Use of Time

First, in necessity as well as reward, one must determine, in advance, what is to be accomplished within a given period of time. This is true in developing long-range plans for the business; it is equally true in determining the use of one's time on a daily basis. At the beginning of each day, the manager should take stock of the demands on his time which he can anticipate. The exercise is more meaningful if he asks his secretary or assistant to share in the "inventory." Having listed the several activities which he must complete by the end of the day to meet his own personal satisfaction, or the requirements of the business, or both, he should then make a realistic appraisal of how much time each of the activities will require. If the sum total of the time needed exceeds what is

available there can be only two recourses. Less time may be afforded to each activity than was originally thought necessary or alternatively some activity must be dropped from the list. A conscience-easing bonus of the exercise is the decision not to do some things--aside from the determination of what is to be done.

Failure to make such an agenda for oneself contributes substantially to the accumulation of wasted hours. The manager is acutely conscious of this waste. His reluctance to leave his desk or shop increases in direct proportion to the conscience pangs induced by the number of hours in which he knows he has accomplished less than he hoped to do. Hence the first rule--to set up at the beginning of each day a list of the things which the manager wishes to make happen--and a schedule for doing so.

Of course, it is seldom that a manager's own wishes will be the sole determinant of how he spends his time. There will be unpredicted demands by customers or organization seniors who are not to be turned away. Hence, it is useful after the manager's own daily list of activities has been prepared to rank these in priority order of importance. If he discovers, for reasons beyond his control, that the time he thought available has now shrunk, he adjusts his agenda by lopping off a sufficient number of lower priority activities to compensate for the time taken away from him. If the importance of the activities on his schedule is sufficient, he will, of course, elect to extend his working hours. This will not be done in a desperate burst of energy to recoup lost time, but rather by a decision to extend his work day by the amount of time he had earlier believed necessary to accomplish the priority activities.

The fact that a manager can anticipate interruptions in his plans raises the need for a second rule. This is to make dates with himself. Typically, he will decline to be interrupted by a telephone call or by a visitor, if he already has someone with him in the office. But if a similar call for attention comes to him at a time when he has no visitors,

he will usually acknowledge that he is free to talk regardless of personal preference. The implication is that a visitor's time is sacred but his own time is expendable. While this a courteous attitude, it is not calculated to make the most effective use of the manager's time.

The manager should determine in advance the circumstances under which he will accept interruption, advise his assistants accordingly, and block out on his calendar each day those segments of time he needs to accomplish his priority tasks--during which he will be just as "busy" as though he had someone with him. If he permits his secretary or assistant to be party to this planning they will help to protect his schedule for accomplishment.

A third rule for significant improvement in the use of time is to reach a clear understanding with one's subordinates concerning their freedom to take action without further consultation. Such an understanding tends to cut down significantly the number of annoyingly unproductive running interruptions to which a manager is subjected during a day. An original investment of time is needed to reach agreement but the pay-off is perpetual. And there is also the bonus of the increased confidence and sense of responsibility which the subordinate gains in the process.

A fourth rule calls for the exercise of a prime attribute of effectiveness--economy. The manager should determine that he will reserve for his own action only those duties which cannot be done acceptably by someone else at a lower rate of pay or involving the use of less expensive resources than he would find necessary to use. Thus, he will constantly seek to delegate to others an ever-increasing share of his responsibilities, guided by the premise that the person whose time is most expensive for the company should be preoccupied with those activities from which the return is greatest, or in which the risk most formidable. To follow this rule, an ongoing review of what one does as a manager is essential. The discovery of what can be delegated is a continuing process.

A helpful exercise in determining what may be delegated is to analyze a manager's job content under three headings. For a period of a few days, he can classify each major activity undertaken under one of three headings--"must do," "should do," and "like to do."

If the manager has absolutely no alternative but to perform an activity then it belongs to the "must do" column. If it is a matter of some indifference whether the activity should have been performed at the time chosen, then the activity belongs in the "like to do" column. If the majority of a manager's time is in the "like to do" column, it is most probable that he is not making as objective a choice as he should of his activities--and some of them can probably be delegated. Alternatively, if the major part of his activities fall in the "must do" column, there is serious doubt about his effectiveness in allocating his resources. He must delegate some of these activities if the business is to survive. If the majority of his work falls in the "should do" column, free from any constant sense of emergency, but genuinely needed at the time performed, the manager may rightly feel he is in control of his time.

A fifth rule is to concentrate upon one project to conclusion. The more dedicated the manager, the more likely he is to undertake more activities than he has either time or competence to bring off successfully. In juggling too many demands for his attention, he frustrates the assistants awaiting his direction, and his personal effectiveness diminishes. The ability to select from among all of the demands for one's attention that which is of paramount importance and complete the chosen task while resisting the temptation to explore other interesting byways, is of cardinal importance to the manager who wants to be effective.

The sixth rule is related to the discipline of concentration. To make most effective use of time a manager must learn to suspect, and wherever possible avoid, action by impulse. This is not to say that he should deny those moments of quick recognition of a

prime opportunity, or a sudden spontaneous insight which breaks the back of a problem; but he must learn to resist reacting automatically to the multitude of impulses which arise during a day, to move off in a new direction not previously intended. He may have to be excessively suspicious of his impulses for a time, until a balance between spontaneity and planning can be reached. Impulsive action with no prior recognition of its effect on all the other duties which a manager must perform is one of the most significant wastes of a manager's time. If he faces a multitude of demands for service, he is all the more likely to lose effectiveness in this manner.

The seventh rule is to develop standards for one's own performance as well as for subordinates covering as many aspects of the work to be done as possible. No recovery can be made of the investment of time in pursuing an activity beyond its point of usefulness, of building quality into a product or service in excess of consumer's willingness to buy. Yet the conscientious manager will frequently insist upon performance for himself and for his subordinates at a level frequently beyond what is needed simply because no prior satisfactory standards of performance have been determined. This is a waste of time the company cannot afford.

Akin to the lack of standards is the lack of a plan for guiding one's work. The eighth rule is that a plan is essential. A few minutes spent in developing a model--even if only in one's mind--of what a job should look like when it is completed will save hours of subsequent amendments. There is little lasting satisfaction in plunging into activity only to discover later that it is for the wrong cause. Most truly effective managers will concede that it is more important to do the right thing, even if sloppily, than to do the wrong thing expertly. In those companies whose organizations are sufficient to permit more sophisticated approaches, operations' researchers can help the manager build a model of the proposed activity and help him to forecast the result of what he proposes to

do. But even a one-man shop will invest time with greater wisdom if the desired end result is clearly in mind.

The ninth rule is to confirm in writing decisions which one has taken. This discipline will not only serve to articulate more clearly in one's own mind what is to be done, but it helps to insure that the organization will meet the manager's expectations. Paradoxically, it takes time to confirm a decision in writing, but it will also save many hours of rehashing the circumstances and the decision, as both the manager and subordinate become a little hazy concerning the terms of reference which applied to the original decision. Putting the decision in writing does not preclude misunderstanding, but it does tend to cut down time spent in recurring discussions of the same situation.

A drain on a manager's time which leaves him continuously unhappy is the tendency, which seems to be growing in business, to call meetings for lengthy discussion on almost any provocation. The larger the company, the more prone management people seem to be to indulge in this behavior. Meetings can be extremely useful in bringing fresh evidence to bear on a decision that has to be made, but unless the purpose of the meeting is clearly understood by those participating it can frequently be a multiplication of wasted time.

The tenth rule is that a manager should insist upon an agenda and a definition of the desired end result to be achieved, as a precondition of his attendance at a meeting. It is helpful also to have those attending agree upon the time which will be spent, subject to amendment by decision--not by default--if it seems useful to extend the meeting further than originally intended.

The eleventh rule is to resist the temptation to accept and accumulate information that is not actually useful. The manager may protect himself from this temptation by determining that the only information he will accept or seek is that upon which he must make a decision. If this rule alone could be adopted across a company an astonishing

amount of time and energy would be saved. Brief cases would go home less often and considerable filing space would be freed.

The twelfth rule applies to personal behavior and might well be considered in social situations as well as in business. If the manager wants to multiply his effective use of time he should invest somewhat more time than he is normally inclined to do in listening to the advice, counsel, and ideas of his organization. His people can give him information quickly, once they are convinced that he values it, and developments and opportunities within the business which would take him endless time to acquire otherwise. The gentle art of asking questions, as recommended by Socrates, is still applicable in the management world today, but it is insufficiently practiced by the average manager.

To these general rules may be added at least an equal number of personal methods which the individual manager may develop for himself. Overall, the reward of more time will accrue to the manager who improves his ability to manage the hours that are available to him, determined to extract from his time investment the greatest possible return.

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5. PLANNING FOR THE FARM SUPPLY BUSINESS

Commentary

Throughout our study of the farm supply industry we saw distressingly little evidence of planning beyond the activities in which the manager was immediately involved, particularly at the retail level. Larger regional companies involved in manufacturing and distribution tended to plan for the results expected from capital expenditures, although even here the process of the planning is not firmly resolved in most cases. This is considered by observers and teachers close to the industry to be number one in priority order of management need.

Most major companies in America today acknowledge long-range planning to be a current concern of the chief executive or someone reporting to him. The managers of smaller businesses too have become increasingly aware over the last few years of the necessity of anticipating the results of today's activities and determining what future will satisfy them before proceeding towards it. The day of reliance upon speed of reaction and the cult of management by reflex is passing into discard. Competence in planning is coming to be a managerial prerequisite.

The Case for Planning

The unique responsibility of the senior manager is to make decisions involving the company's future. Obviously, some forecast is necessary, regardless of the skill with which it may be made, for the manager cannot assume present circumstances to continue. The smaller the enterprise, the more serious the danger may be. Too often management in small and medium sized companies are so concerned with decisions of the moment that they do not take time to think about what the company will be doing 5 years from now. But these short-run decisions have long-term implications--and in many cases are more critical for

smaller firms than for larger ones because the impacts of a costly error fall more heavily on the former.

Interest in planning is much in evidence. Few issues of influential business papers fail to stress it. Contemporary surveys of the preöccupations of chief executives underscore that planning is one of their prime functions. Leading management educators are insisting that the executive must take unto himself an even larger responsibility of innovating, planning, and other "creative" functions than he has done to date. The number of seminars in long-range planning and forecasting offered by the American Management Association and major schools of business administration reflect the widespread concern for acquiring understanding and skill to assume this responsibility. Even in the slogans adopted by many of the companies one can see evidence of the trend. For example, "Progress is our most important product;" "Watch Pillsbury pioneer;"--these and others are intended to lend an impression of a company's forward-looking posture.

There are several reasons for this management preoccupation. We can recognize an astonishing acceleration of changes in products and services offered and in methods of producing and distributing them. We see steadily larger capital investments needed to initiate and maintain businesses, coupled with the pressure of diminishing time to recover these investments before new inventions render them obsolete. Tightening competition in the marketplace induces an urgent search for better internal performance. And there is the sometimes frustrating realization that the manager lives increasingly in a goldfish bowl, subject to the scrutiny--and criticism--of the government, his employees, and the public generally. How each of these pressures help to create the necessity for planning is examined below.

Rapidity of Change

It may be observed frequently that the percentage of revenues derived from products introduced by a company within the last 5 or 10 years frequently exceeds the contribution made by

products offered by the same company for many years previously. A company's ability to compete appears to rest increasingly upon its new products and services, and as a result, research people are being brought increasingly into senior management ranks. With an increasing component of the management team predisposed to innovate and challenge existing methods and processes, the trend towards having new offerings capture an increasing proportion of a company's attention appears to be accelerating.

But the pressure is not only product oriented. The consumer with steadily more money to spend is more interested in trying the "new improved model" or the interesting substitute for a familiar purchase. And his demand for ever-speedier service is causing managers to devise distribution methods, and processing and packaging techniques which retain customer loyalty. It is as if the manager were responsible for making his own existing methods of serving his customer obsolete.

Every manager, regardless of his particular function recognizes this pressure for change. Personnel executives acknowledge a switch in their preoccupation with skillful selection of "good" people to the development of the total organization within which they must work--development of an organization capable of attaining what the company has set as its targets. Purchasing executives are stepping up their search for new materials to substitute for those now bought. Engineers are devising ever faster processing methods which are made more feasible by the evolution of the computer.

The rapidity of the changes taking place in management styles, in organization theories, and in marketing methods, in addition to the technological and engineering changes announced regularly in every new business periodical are combining to require changes in management behavior. Facts, not hunches, will feature decision making; mathematical analysis--not intuition--will govern problem solving; the growth and progress of a company will be secured increasingly by the soundness of its organization and its plans rather than by personal genius.

The race will go to organizations able to anticipate and cope with changes which challenge them to revise their methods constantly. In short, there is inescapable necessity for the manager to plan ahead. Changes are occurring too rapidly for him to rely exclusively upon his reflexes any longer, however sharp they may be.

A retailer supplying farmer customers can be sure that their acceptance of his present offerings of product and service will be increasingly fickle. If he is to survive he must constantly seek out new methods of satisfying his customers' needs. He must not allow present success to relax his curiosity about how he might improve what he has to sell and how he sells it. Constant, restless, healthy dissatisfaction must be characteristic of the farm supply retailer. And, precisely because he knows that his product or service will have a short competitive life, he plans his next offering while his present sales promotion is in effect. He decides now what it is he wants to make happen as a result of today's efforts.

Bigger Investment—Shorter Paybacks

In the development and introduction of new products there is a dramatic switch to emphasis on planning. While personal salesmanship may still play a part in winning trade acceptance, most companies now allocate time and money in testing the demand for a new product or service long before the decision is made to commit the company to its distribution. In test markets carefully selected to be representative of the company's total distribution, the reactions of trade and consumer are evaluated, and the impact upon the company's funds, production capacity, and human resources is carefully documented before the go-no go decision is made. And while the degree of anticipatory caution is generally in proportion to the size of the company, small organizations, too, are looking long before they leap.

This is not a matter of fearfulness. Good business ideas travel quickly. The wise manager recognizes that his product or service must be truly unique in satisfying consumer needs if it is to survive the challenge of a competitor who will immediately follow him into the marketplace.

Uniqueness can develop by happy chance, but unless its protection is most carefully planned it is unlikely that it will be maintained for long.

This is particularly true among farm supply retailers. Price concessions alone do not guarantee customer loyalty, for this may be the strategy most easily copied by a competitor. But careful planning of the superior difference between one's own offering and that of the competitor is harder to counteract.

Adding to the pressure is the amount of capital required to get into or stay in almost any business. The farm itself is a prime example of this trend.

Henry Ford's $50,000 investment in his Model-T engine was unchallenged seriously for many years. What a contrast with the short competitive life of a jet engine whose introduction requires an investment of several million! While the hammer and saw may still be the trademark of the housebuilder, the financial investment he must make today in order to compete bears no relationship to the dollar risk he incurred just a few years ago. New methods and new materials coupled with the growing size of investment needed to enter or stay in most businesses combine to press the manager in a vise from which forward planning offers the only escape.

Faced with a growing investment in each product and the likelihood of diminishing time to recover it, every manager must be increasingly--and prudently--a planner.

Tighter Competition

The comparative luxury of knowing with some assurance who the competition was probably made life a little easier for the business manager a few years ago. He knew roughly what to expect by way of challenge for his customer's favor. Most companies tended to operate locally or regionally and they knew the capacities, even the intent, of their competitors. But improved communications, distribution, and travel facilities have combined to open the markets of the nation and of the world to any company with the resourcefulness and energy to

explore them. No longer is there any sure way of anticipating competition. Tomorrow's competitors may be today's customers or suppliers. Even more challenging may be the decision of a giant company previously uninterested in a particular industry to enter with a brand new competing product that it either developed or acquired.

The manager cannot preclude the likelihood of the unexpected competitive threat. But he can identify and strengthen constantly the uniqueness of his own offering, analyze and trim all superfluous expense, and generally maintain his ability to compete at a high a level as possible. He can update constantly his assessment of the likely result of the activities he undertakes today, tempered by an appreciation of his vulnerability. This requires planning. There is no alternative.

Scrutiny of Management Function

The concept of a manager as a command figure is rapidly losing credence. Increasingly, the chief executive is seen as the number one assistant to his subordinate staff. Better trained personnel and improved communications have tended to remove the facade of authority behind which a manager could formerly hide. Increasingly, he is judged on his ability to identify, support, and direct what his people can do for the organization.

Pressure for such increased sensitivity is not confined to the employee group. The community generally expects the manager, because of his business knowledge, to be the administrative expert in all kinds of community service ventures. A watchful government at both state and federal levels gives him guidelines and asks him for an accounting of an increasing range of his activities.

Thus, instead of being a law unto himself, the manager is forced to anticipate the impact of much of his work upon a growing number of people and what their reactions will be. Anticipation is the essence of planning. It is a faculty the manager is forced to develop.

Reasons for Resistance to Planning

In face of the evidence that a business manager must plan, why do so many resist the concept? Why is it that so many think of planning as something to be done, if at all, in spare time as a kind of intermission in the normal conduct of the business? There are a number of likely reasons, some deeply rooted in our individual behavior. Three are particularly worth recognition.

First, there is a fear of restricting one's freedom by "making plans." One of the main reasons managers do not like to put policies into writing is the danger that they may be held to them. One hestitates to become committed to a long-range plan because of fear of it becoming inflexible--a kind of mortgage upon the future. The existing circumstances under which the plan is conceived may change--and likely will. Indeed, the argument is heard that a manager uncommitted to a plan will be better able to take advantage of opportunities which may come along unexpectedly. But which opportunities? All of them? Does he have unlimited resources with which he can seize the opportunities presented? Or, faced with a series of choices for which he has no consistent measuring device, is he not in danger of an even graver paralysis--missing most of his opportunities because he can't decide among them?

Even if a case could be made for the intuitive skill with which an effective manager may sometimes seize an opportunity, what of suddenly appearing problems? Should a business change course each time it is challenged or invited to do so? Lacking a plan which anticipates such challenges, this is precisely what happens in many organizations. The business bounces from one crisis decision or last chance opportunity to another.

The desire to remain flexible, and not too firmly committed, is understandable. Thus, one can take full advantage of a sudden bonanza. When this flexibility is defined as ability to adjust to changing circumstances it is probably a desirable management trait. But this is not in any sense negated by sound planning. The wise manager assumes that conditions will

change and thus his plans must be continuously reviewed and updated. If objectives are clearly understood there should be no hesitation in changing the means of attaining them or even redefining them as new opportunities and new challenges present themselves. Rather than freezing discretion, a plan lets the manager change his mind confidently, for he knows what course he is changing *from*.

A second, more subtle, reason for resistance to planning may be found in the traditional image of the business executive. This is the man of crisp decision, a command figure "who gets things done," who knifes through irrelevant evidence to put his finger quickly on the nub of a problem and springs into action with a solution. Such a picture is hardly compatible with thoughtful, methodical contemplation of the risks involved. Faced with a choice, the average business manager would far rather be considered a "doer" than a "planner." While he concedes the necessity of doing some planning, he views it as an intermission in his real task, almost a conflict of interest with normal duties. Faced with a choice, the farm supply manager, for example, would likely prefer to talk with a customer rather than spend the same time planning how he should best talk with customers generally.

Some managers think of planning as "blue sky," or "brainstorming" activity which concerns itself with what *else* the business might be--developing a kind of daydream of what might be wished for. But planning must not be restricted to postulate thinking. Indeed, this is not where it begins. The prudent planner starts not with what the business might be, but rather, where it is now. He includes, too, in his planning, a program for moving the business from its present circumstances to the desired future, stated in operational terms.

Planning is not an intermission. Nor is it for someone *else* to do. It is part of the normal responsibility of every manager.

When an executive is promoted or otherwise rewarded exclusively for what he "gets done," without assessment of the quality of his concepts and plans, or when the responsibility of planning

is assigned as the exclusive function of a staff or service manager--such company behavior confirms the executive's perception of a dichotomy of interest between doing and planning. What must be recognized is that the company's business--or even a single task--will be accomplished more speedily and decisively with less waste motion, and more favorable results if it is conducted within the frame of reference of a guiding plan. The man who knows where he is going arrives there much faster.

It will take further time and demonstration to overcome executive reluctance to be seen as "planners." But an increasing number of managers are concerning themselves with the quality and resourcefulness of their plans as well as their skill in discharging them. Realization that planning and effective activity are two sides of the same coin is growing.

A third reason for resistance is that planning is hard work. To think in terms of concepts and programs demands intense concentration and the difficult discipline of withholding judgment while evidence is gathered. It may be true that some managers go on gathering evidence past the point when a decision should be made, but it is equally true that some managers make assumptions early in an analysis and make an unsupported decision because it "feels right."

Under the necessity of taking action by a given time, the executive normally feels better if he plunges into action. It requires considerable self-discipline to spend time appraising a situation and making a plan to guide whatever action is needed before taking it. This self-discipline is not comfortable. But the reward to the manager who endures it is considerable. He will discover fresh confidence in the intimate understanding of his business which can be updated only when he withdraws long enough from operating pressures to think about the enterprise in total. Having identified what needs to be done through such an appraisal, he will find himself able to reject irrelevant demands on his time and able to discharge his operating duties much more speedily and satisfyingly.

These arguments are not new to prudent persons in all walks of life. The farmer's activities today are predicated on the assumption of a desired result tomorrow. Preparation, seeding, and cultivation must precede the harvest. Crop rotation is based upon concern for shepherding one's resources for maximum long-term benefit--precisely what is advocated for management. Teachers have their eye on the end product--a graduating student, as they plan the content and sequence of their lectures. Doctors plead the advantages of preventive medicine, of protecting future health by our actions today. And the manager of the smallest successful business knows that his success is related to his ability to anticipate and be ready for opportunities as well as to correct what may go wrong.

The function of planning should not be regarded as the prerogative of big business. There will be more sophistication in the design and the supporting research of plans made by a major organization. Its size makes possible the allocation of especially trained personnel to analyze experience and gather information. But size of business has no bearing on the matter of a planning attitude. What is needed, and what is possible for a manager in even the smallest company, is an understanding that what is done today determines in considerable degree what is likely to happen tomorrow. To be more precise in one's definition of what is wanted tomorrow will upgrade the usefulness of what is done today. This is the essence of planning. Skill in its exercise comes instinctively to some managers of both large and small businesses. But it must be practiced to be effective, and there are some basic routines which may be followed to insure a return for the effort.

The Process of Planning

In distilled form, planning for a business progresses through three appraisals: where the business is now, where the manager wants it to be, and how to get there. The action-oriented manager will want to add an amendment to the third appraisal--how soon to get there.

No useful end is served in imagining what the business might become without an objective evaluation of its present circumstances. Optimism will not compensate for an unrealistic or irresponsible appraisal of where the business is now. When planning starts with the crystal ball, the temptation is severe to find support for our wishes in a happy self-deluding assessment of the present state of affairs retroactively.

Planning for the future must be built on the premise that the end results to be desired are already shaped by today's actions. What we are concerned with, then, is a careful determination of the direction in which our business is presently moving before we decide what we want to make happen in the future.

Company Purpose

The starting point is a definition or restatement of the company's purpose. Characteristically, for example, the founders of a cooperative have a fairly clear purpose in mind which they share initially with those invited to join. But as the business grows larger or older, the vision of what it was intended to be grows obscure. A steadily decreasing percentage of employees and/or members understand it or have ever heard it discussed. Even the founders may lose sight of its purpose as will the manager as he becomes increasingly preoccupied with activity and method.

If planning is intended to beget results, it is essential that all the people responsible for achievement share a common perspective of the purpose of the enterprise. Yet one needs only to ask, first the manager, then, at random, any two or three persons reporting to him or others in the organization to gain an impression of a wide range of understanding of what the company is really seeking to do. Even when clarified, the vision must have the dust of procedure cleaned away for fresh appreciation periodically. What was considered possible yesterday may no longer be reasonable. And a purpose which would not have been appropriate yesterday may now be desirable.

It is not enough for the manager alone to review and update the purpose. The board of directors and other key persons of the company must be invited periodically--and at least annually--to consider with the senior manager why the company exists. If there is no common understanding of this fundamental question among those most influential in the company's affairs, then joint progress will be made only by command or by happy coincidence.

These questions may help:

(1) What do we understand the purpose of the company to be?

(2) At this time, should there be any different emphasis than when we last defined it? (e.g., more or less emphasis on quality vs. price; on marketing vs. buying; on specialization vs. diversification of services.)

(3) Does any activity in which we are now engaged appear incompatible with the statement of purpose? Why should it be continued?

Other queries will suggest themselves.

Once the purpose has been clearly specified and understanding of it acknowledged to the manager's satisfaction by his key people, the next step in current assessment may be taken.

Major Strengths

It is a reasonable assumption that maximum future rewards will accrue to a business that fully exploits its opportunities and concentrates its resources to do so. But which opportunities? The company's strengths are not the only source to be investigated, but their exploitation provides a logical starting point. First they must be identifed. Some useful questions for a senior manager and his staff to consider are:

(1) What strengths does the company possess to which its success to date is largely attributable?

(2) Which of these strengths is unique in that no other company possesses it to the same degree?

(3) Are we using each of the strengths listed to maximum advantage, giving special attention to those considered unique?

(4) What can we do to exploit each strength more fully?

(5) Is any activity in which we are engaged diluting or prejudicing any strength? If so, should we stop it?

While careful consideration of the strengths of the business and what is being done about them will likely result in fresh ideas, weaknesses too may represent profit gains to be made.

Major Weaknesses

Correction of a weakness which may have been on the manager's conscience for a considerable time but postponed for innumerable reasons, may unlock fresh opportunities for the business. Sometimes weaknesses are recognized by employees long before the manager is prepared to admit them. Not only the manager should be involved in their examination.

These questions may be helpful for the manager and his staff to consider:

(1) What are the major weaknesses of the business which provide advantage to competitors?

(2) What major problems would we like to make disappear if we had unrestricted power to choose and act?

(3) Which of these weaknesses could be corrected--this year? By when? How?

(4) At what date and under what circumstances can correction of the others be achieved?

As the group considers strengths and weaknesses, the manager's predictable tendency to sweep some under the rug of his consciousness is counterbalanced by involving others--and certainly his key subordinates--in the assessment. Out of the list of strengths and weaknesses should come several opportunities for action.

But for added insurance against complacent rationalization, yet another perspective of the business should be developed. In respect of each of several criteria of effectiveness of a business enterprise, is the company tending towards improvement or to deterioration--is it winning or losing? Here is the next step in the sequence of analysis of where the business is now.

Trends

Each company may select somewhat different criteria to measure, but at least seven deserve universal consideration, regardless of the size or nature of the firm:

(1) Is the size of the market open to each of our products or services expanding or shrinking? Compared with indices of the general economy and with other categories of customer demand, is this market growing or becoming smaller? Obviously, here are clues to the appropriateness of any substantial expansion of our productive facilities. Is the location of a farm supply retailer, for example, such that his best customers are slowly shifting to another source?

It is not enough to anticipate the demand for what we are now selling. Competitors will obviously have something to say about any company's ability to exploit the demand. Is our share of market for each product or service offered growing or diminishing compared with our competitors?

At this point, we are in a position to identify with some accuracy which of the products or services we are offering hold most promise for further development and which are most seriously in danger.

(2) Comparing the company's offerings with those of competitors, do our own possess any edge of superiority? Is the edge more pronounced or less so than it appeared to be 2 or 3 years ago? Are the competitors overtaking us or have we widened our lead? Is the superiority we think we have also recognized by customers? If we're losing ground what needs to be done?

(3) The company's use of funds is a reliable indicator of management's stewardship. Is the return on funds employed improving or deteriorating over the past few years? Does the line of credit open to us reflect growing confidence in the company by investment or lending sources--or is this diminishing? Is the return on our invested capital improving? Which activities or assets are influencing this variable favorably? Which negatively? Which areas need our attention?

(4) There are various methods of measuring a company's productivity. In sales, for example, average cost per sale--relationship of selling expense to gross sales revenue--and various other indices suggest themselves. In production, direct labor, maintenance and service expense, factory cost per unit of product or service--all are useful in determining the trend in productivity. Each department or unit of the business should be examined to discover whether it is improving or deteriorating in terms of the expense it represents to the business compared with the contribution it makes to the business earnings. Which one needs attention most?

(5) Regardless of size, most companies recognize that favorable public opinion is necessary for its continued profitable existence. Is the attitude of trade, of municipal government, of regulatory government bodies, and of trade associations toward the company and its products more or less favorable than 2 or 3 years ago? Where is improvement most urgently needed?

(6) The degree of dedication and enthusiasm with which employees address themselves to attainment of the company's objectives reveals something of its health. Is this spirit increasing or diminishing? Is the vitality of the organization greater than 2 or 3 years ago--or less? Should an effort be made to improve it in any one part of the company?

(7) Giving direction to the organization and its multiple activities is obviously the primary task of management. In terms of competence and vision, is the quality of the company's

leadership improving or deteriorating? What of the backstop strength? Is the company's ability to replace any or all key managers stronger or weaker than has been the case over the past 2 or 3 years? What positions are uncovered?

There will undoubtedly be some criteria unique to a company's own experience and preoccupations that it can substitute for the above areas, but these seven are applicable to most business.

It is dangerously easy to become excited about a particular opportunity for improvement as this assessment proceeds, without thinking of its effect on the total business. It may be desirable to effect improvement in production costs--but might this be at the expense of the company's reputation for quality? Or perhaps an increase in sales volume appears necessary--but would the effort to gain it be detrimental to the company's margin of earnings, or availability of cash? No improvement in the condition of any activity should be considered without appraising the effect upon the total well-being of the company.

The examination of purpose, strengths, weaknesses, and momentum is of itself a rewarding exercise for the manager, for he gains fresh understanding of what needs to be done. It is an essential responsibility of the chief executive of any enterprise--large or small--to pass judgment upon its health and issue the call for its renewal, but the appraisal is an exercise which should be shared with his immediate senior staff and/or the board of directors. Out of it comes common perspective of the needs and opportunities of the business. Out of it comes impetus for determination of individual objectives which will be based upon common purpose.

This is the first step in the planning process. Only when the assessment is made of where the business is now can we consider with confidence what we want it to be.

Needs and Opportunities

With this first appraisal made, the inventory of strengths, weaknesses, and momentum can now be expressed as a series of needs and opportunities for action by the company. Not

only is an agenda of what is required to be done about the business starting today developed, but excellent insurance against the possibility of dreaming future plans that could be unrealistic in light of the company's present circumstances is provided as well.

For each strength, each weakness, and each assessment of momentum, whether favorable or unfavorable, the manager should declare what action he would like to see taken by his organization--this year and as far ahead as he can prudently predict. Here is the point in the development of objectives for a business where the exercise of anticipatory imagination is called for: dreaming boldly but sifting out that which is not feasibly attainable.

Questions like those suggested above, which the manager will have discussed with his immediate subordinates and advisers will generate answers which can be grouped together to form a "document of needs and opportunities" for the company. The manager should indicate the priority order of importance to the company in which each need or opportunity should be considered. And each subordinate should then be required to answer a basic question: "What activities can I undertake, using the resources and skills at my disposal to help the company satisfy the needs and opportunities I helped to define?"

This is not an easy exercise. Soul searching never is. The manager will find it necessary to put an outside time limit on having delivered back to him a definition of the activities each of his subordinates believes he can undertake. It must be done in writing, for the manager will undoubtedly wish to study each list of suggested activities in considerable depth before determining whether the sum total of all proposals will indeed take the company as far in progress as he wishes or seems feasible, for the future period being considered. Amendments and additions may be expected, as the manager and each subordinate come to a meeting of minds regarding each function's proposed contribution.

One may question whether such a "permissive" approach is effective. The operations-oriented executive is sorely tempted to <u>assign</u> objectives to his people; to <u>tell</u> them what he

wants from them by way of commitment. But it is axiomatic that one person is never dedicated to the achievement of another's objectives. He must participate in their development. In actual practice, the manager will find himself more frequently advising the subordinate to make a less ambitious commitment rather than urging greater effort.

Writing Objectives

As each staff member describes the activities he intends to undertake he should be as specific and precise as possible. Each activity, in effect should be stated as an objective, with intent, method, and schedule all included. He will ask himself and his people, depending on their interests and responsibilities, questions like these:

(1) What else could we provide for our customers in goods or services beyond present offerings?

(2) What additional use could we make of our productive, technological, distributive, or service skills and capacities?

(3) In what sales areas are we not active where we could probably compete?

(4) Are we utilizing money available to us to best advantage? Are we using all that is available?

(5) Is the company in total growing or holding its own to the satisfaction of management, board, and stockholders? If not, what would be satisfactory as a rate of growth?

Each "objective" should embody a statement of intent, that is, a description of action to be taken with a reason therefore, related directly to the total company's needs and opportunities. Indeed the sum total of all objectives should be satisfaction of the company's requirements.

Each "objective" should include a schedule of attainment. The completion date is essential in order to allow the senior manager opportunity to build company plans with

confidence. Equally important is a series of intermediate dates marking completion of component parts of the total "objective." Serving a purpose similar to the railroad schedule, these dates enable the manager to retain control of progress of interrelated objectives and to offer direction as needed.

Each "objective" should include the names of persons to be held responsible for its completion and the money and/or equipment required. Ideally, the company's expense and capital budgets and a summary of its operating objectives should closely support each other.

What is envisaged here is, then, an exchange between subordinate and senior manager culminating in agreement between them upon the contribution to be made by each person to the company's desired progress for the period of time under consideration. When each member of the manager's team has reported in, in similar fashion, he must synthesize all objectives into a total work document for the company. This provides an admirable occasion for bringing together the whole management team to hear the personal commitment, endorsed by the executive, of each member.

This process is a powerful stimulus to the vitality and forward progress of any company. The steps of: (a) overall direction by the senior manager based on recurring analysis in which the organization participates; (b) commitment by each staff member to attainment of objectives he has major responsibility for specifying; (c) review by the total management team of what they propose to make happen, as a group, combine to give the company a sense of refreshed purpose and urgency.

Feasibility of Objectives

As immediately recognizable problems are accounted for in the definition of objectives, more attention will likely be given to exploring new fields. Here the prudent manager will arm himself with economic and social criteria descriptive of the markets in which he has interest. Such information is available to the small retailer and to the multimillion dollar

operation for the asking. Population figures, spending patterns, household formation indices, competitive activities, trade activities are all described in ever-increasing detail in government and trade association data. Local branch offices of state and federal government departments are frequently gold mines of useful industry information for the business of any size. Accurate knowledge of pertinent economic information will frequently save the company from addressing itself to overly-modest or unattainable objectives. Periodically such a test should be made of a company's plans to ensure that they are based on more than the firm's optimism.

Increasingly, no manager will survive, nor can his business do so, without painstaking anticipation of the results likely to accrue from today's activities. To an ever-greater degree competitive survival will be the prize of the company which purposeful plans for its own future. There are no short-cuts. But the reward is many times worth the investment of effort and imagination.

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6. THE CASE FOR CAPITAL BUDGETING

Commentary

In an industry facing rapid and continuing changes in both its economic opportunities and its social pressures, skill in budgeting takes on added significance. Farm supply businesses are confronted with a dilemma: a recognizable trend to bigness demands greater capital investments if they are to remain competitive; rapidity of changes in the nature of the customer's expectations of farm supply services means a possible short life for these investments. The manager cannot afford to guess about his investments because the risk involved in being wrong is increasing steadily. The discipline of capital budgeting is acknowledged by respondents in our study to be in the top ten areas for closer examination because the survival of a company, whether cooperative or noncooperative, is determined in large measure by the results of the use of money entrusted by shareholders or patrons to that company's management.

The Rationale

The capital expenditure as distinct from day-to-day expense commitments, has direct influence on the company's survival. What is presented here is not a discussion of the relative merits of methods of measuring return on investment. This is left for conversation between the manager and his financial advisor. What is argued for here is recognition that capital expenditures must be planned ahead in orderly fashion--not determined on impulse.

The smaller the business organization, the greater the variety of demands upon the manager's time. It is inevitable, therefore, that the small business manager frequently yields to the temptation to do that which is most immediately urgent and can be most easily disposed of. It is predictable that capital budgeting, which by definition concerns

itself with determining the wisdom of expenditures to be made in the future would get scant attention as a management preoccupation.

The smaller the business the more frequently decisions affecting capital investments are made on the basis of a sudden recognition of need or a sudden appreciation of an opportunity. It is seldom that other alternatives for using the same amount of money are investigated, for the time that would be needed to pursue such an investigation would be at the expense of other immediate operating decisions. Seldom is there anyone to whom such a study can be assigned by the manager, since an understanding of the total business is required such as the manager himself possesses.

The smaller the business the more the tendency to make only a top of the head analysis of the assumptions underlying a decision to go ahead with an investment. Seldom is a pro and con analysis made. Seldom is there a deliberate attempt to define the risk involved and assess the impact of the expenditure upon the company's future total ability to earn. Yet few decisions that a manager ever makes are more important than those relating to capital expenditures.

While a rule of thumb analysis might indicate that a particular investment will result in a profitable return to the company, there remain unanswered the larger questions:[1]

1. How much return <u>should</u> be forthcoming?
2. What <u>could</u> the company realize from an investment of this size in some other opportunity?
3. Will the particular investment result in lowering the average return on the company's use of money?

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[1] C. G. Edge. The Appraisal of Capital Expenditure, Society of Industrial and Cost Accountants of Canada, Toronto, Canada, 1963.

So long as money is readily available to the business the temptation to overlook some of the implications of tying up capital continues strong. It is sometimes only when the line of credit becomes strained, or when the company occasionally comes to realize that the expansion of facilities it wishes to make is simply not possible because it has already tied up its funds in other less rewarding directions, that the manager makes a firm resolution that his use of capital will be budgeted in the future.

For the larger company there is increasing incentive to develop skill and to invest management time in the process of capital budgeting. Indeed, the analyses of best managed companies which appear from time to time in *Fortune*, *Dun's Review*, and other management periodicals are usually cited for having outstanding records of return on investments. The willingness of investors to make their money available for further development increasingly takes into account the effectiveness of the manager. How good a manager one is considered to be depends in considerable degree upon the wisdom with which he commits company funds to the development of physical facilities.

If skill in selecting from among the various choices open for the use of the company's money is to be enhanced, the manager will have to set aside a certain portion of his available time to identify not one, but several courses of action. The broader the range of choices open to him, the better the decision he is likely to make. When no alternative is considered a question arises as to whether the investment selected represents the best use of the available money. As in selecting from among candidates for a given job, one's batting average in selection is usually improved by having a greater number from which to choose.

The Process

To guide the development of these alternatives the manager should constantly update his appraisal of what is needed most in the way of equipment, processes and plant, store,

or warehouse extensions to improve the effectiveness of his operation. Rather than waiting until something is needed immediately, he should at least make an annual prediction of the likely calls on the company's funds. This can be done through constant review with his own people, continuing discussion with his customers, attendance at trade shows where new equipment and processes or methods may be displayed, participation in the affairs of the trade association representing his industry, examination of technical literature which frequently announces new developments, and an alert and aggressive interest in what the competitors may be doing. From any and all of these sources the manager can obtain ideas and stimulus for changes in his own business which require the investment of capital funds. In short, he should constantly look for opportunities to improve upon the facilities he manages--rather than wait until one of his competitors makes it painfully apparent that he is out of date. This then is the first step: to make a careful and continuing analysis of the opportunities for improvement in the physical assets owned by his own business--improvement which will favorably affect the company's earnings. Capital budgeting does not start with the accountant. It starts with an alert manager.

Once he begins to look aggressively, many and varied opportunities will become apparent. They should be catalogued in some type of formal record to be considered at regular intervals. For example, a machine may be replaced by a faster or more effective model; production or selling space could be remodeled for better utilization. Perhaps additional warehousing and storage space should be created; perhaps certain purchases should be switched from the present basis to a larger scale bulk buying purchase; perhaps a new piece of equipment would result in a faster flow of cash to the company. All of these are opportunities for capital expenditure, and they compete with each other for the money available to the manager. They should be recorded on his inventory of opportunities as they are identified.

The capital budget program for a company of any size will include specific programs for marketing, engineering development, manufacturing, and customer service. In any of these areas increases in investment in fixed assets may become desirable because of their favorable influence on the earnings of the business. How can the manager choose when he cannot undertake all of them? The factors he should consider in evaluating the worth of proposed capital expenditures and in determining which of the several alternatives is most desirable should be carefully set out in writing. In the small business playing a hunch--selecting what feels right--is frequently the extent of the support given to the decision. If it is apparent that additional costs resulting from enlarging the space given to hardware sales or putting additional equipment into use will be less than the income derived from extra sales expected as a result, it is frequently assumed that no further analysis is needed. The capital expenditure is approved.

Such a superficial analysis, however, yields no base for comparison with other possibilities, nor does it take into account the time over which the investment will yield a return. What is needed, therefore, is a measure for relating the earnings which the capital investment will produce during its expected life to the dollars involved in the investment, and a minimum standard of such return on investment which will satisfy the company.

Thus, the prudent manager who wishes to manage his capital wisely will have an inventory of opportunities for investing in the business, and a uniform method to guide his choice among the alternatives open to him. All of the demands for capital funds which can be anticipated over a future period of time should be determined at least 1 year ahead of making the expenditure, if possible. The list of likely projects can then be ranked in terms of desirability, first by cancelling out those which do not meet the minimum earnings standard, and then arranging the balance in descending order of magnitude

of return. The manager at this point is able to determine the total demand for capital investment and whether this is within the limits of availability of funds. He is then able to recommend to his board a capital expenditure program including any predictions he feels he should make concerning the need of expanding the funds available to him. It must be emphasized that return on investment standards are as necessary for cooperative organizations as they are for proprietary ones. Traditionally, cooperatives have not made use of such measures. But there is increasing pressure from the various cooperative and proprietary credit sources which serve them for analysis based on just such standards.

Capital expenditure projects which should be budgeted are found typically in four categories. First, there are projects which will increase the sales volume of the company. For these, a decision is based largely on evidence of the additional earnings they will generate. There are also projects that are needed to maintain a company's competitive position when new merchandise must be introduced or a change in packaging is needed to draw consumer attention. Here the deciding factor may be the urgency of protecting the earnings which the company now enjoys. There are also projects which are essentially designed to reduce costs. Without sacrificing quality or customer confidence, the decision here will be made on the basis of effect on company earnings. There are projects which do not have a tangible relationship with earnings, but are assumed to have bearing on the company's ability to survive. Thus, an investment in equipment to enhance the safety of employees or the provision of a lunch room for employee comfort, or new office equipment to avoid frayed nerves. These are capital projects for which it is difficult to identify a direct dollar return, but may be needed in the manager's judgment to protect the company as a productive organization.

As the manager develops return on investment standards which will satisfy his board of directors, it is likely that he will come up with slightly different yardsticks for the

various categories of expenditures.[1] Whatever standards he selects should recognize the following general principles:

1. Whatever additional capital is put into a business should produce earnings which will improve the earning power of the owners' equity. At very least it should equal the present return for to do otherwise would be a misuse of the money entrusted to the management.
2. Wherever possible a capital investment should show an anticipated rate of return higher than the present average rate of return which the company is experiencing with similar expenditures. Only in this manner can a steady improvement in performance be effected.
3. A constant attempt should be made to gain a higher rate of return on one's capital expenditures than the competitor is enjoying. This is the true test of competitiveness over the long-term. Investor or patron confidence will be reflected accordingly.
4. The expenditure proposed should always take into account its influence on the sales, the costs, the assets, and the performance of the business in total.

Regardless of the method a manager adopts for measuring the rate of return on his alternative investments, he will need the following information in order to make an informed choice:

1. The size of the proposed investment in dollars including incidental costs. For example, the investment in new equipment also creates new costs in shipping and installation, and perhaps in training a new operator.

1/ Ezra Solomon. The Management of Corporate Capital (a book of readings), the Graduate School of Business, University of Chicago, Free Press of Glencoe, Illinois, 1959, pp. 21-34, 282-291.

2. Annual earnings expected from the investment, including due acknowledgement of the likely increase in tax.

3. The earning life of the investment with due recognition of the likelihood of early obsolescence, and the likelihood of diminishing market demand as the product or service matures.

4. The rate of earnings on new expenditures that is required to maintain the company's average position.

5. Understanding that an increase in fixed assets investment is frequently accompanied by an increase in working capital requirements, for inventory, accounts receivables, or new cash needs.

The essential requirement in capital budgeting is that a plan for guiding the investment must exist. Regardless of size, every company must constantly balance the use of its funds between acquiring new assets and maintaining sufficient liquid working capital. Thus, the impact of any capital investment proposed must be measured and anticipated for some period ahead.

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7. PRICING IN THE FARM SUPPLY BUSINESS

Commentary

Pricing is a major function of the chief executive whether the business is small or large. From the price charged for the product comes the company's ability to pay for its entire activities. The influence upon the company's survival of competitive pressures, government interest, and public confidence are directly affected by the quality of the pricing decision. Even the security of one's employees is fundamentally involved with prices. There are, of course, limits to how much discretion the manager has in pricing the products his firm sells. In some cases competition may impose an extremely narrow discretionary range. But unlike many agriculturally related firms, farm supply businesses can differentiate some of the products they handle from those sold by others. The degree to which this is possible establishes the range of discretion.

Few of the retail outlet managers encountered in the farm supply industry had enjoyed any training designed with this pricing responsibility in mind. Nor did we meet more than a small handful who thought of pricing as an organized structured management function whose exercise could be improved by discipline and education.

The Pricing Problem

The manager must be certain that the price he asks will adequately cover the costs of functions performed by the company. Whether he is managing a cooperative or proprietary firm, he is constantly confronted with the question of choosing the appropriate level within his discretion. His concern for retention of customer or patron confidence, the law, and the desire not to make the market so richly attractive that many competitors will be lured into it are all at work to temper his interest in exploring how much he might be able to get. On the other hand, he recognizes that for reasons of self-esteem, social

responsibility, and personal survival he must set a price that will insure a flow of income sufficient to maintain his company in a state of economic health.

The manager knows that when he sets a price he accepts the risk that his judgment might be faulty. The price might be so high that it discourages sales; or it might be low enough to encourage customers but result in lack of confidence by investors and patrons because it does not generate a sufficient margin to maintain the organization in a financially healthy condition. Thus, it becomes a complex dilemma affecting the very heart of the business. It is understandably a matter of critical concern to the manager.

When one considers that the price for a product or service represents a combination of company policy, costs, consumer acceptance, and competitive survival it is easy to recognize that pricing is a dynamic and challenging management function. As each of these variables change continuously, price must be examined to insure that it reflects changing pressures. Even the product or service itself will be seen in a changing light as it matures. Generally, the older the product the lower the price it can command, unless it has unique and unchallenged properties which no competitor can match and for which the consumer demand does not change--an unlikely static combination.

The manager will typically want to review prices when costs of his business begin to rise, or when his retention of a particular market is challenged by a new competitor, or when he introduces a new product into his own line which has a family connection with his existing offerings. Thus, there is a need for almost constant review of the validity of any price. The fact that it is sufficient to yield a profit at the moment of review is not a reason for the manager "letting well enough alone." Perhaps the margin is not as much as it should be, or perhaps if it were less, considerably greater profitable volume could be created.

Pricing Philosophy

The manager will typically wish to secure the maximum earnings possible over a long-term period from his product or service commensurate with overall company objectives, a sense of social responsibility, and the competitive environment. It is not simply a matter of considering the revenues that will derive from the price he sets. The costs of the product or service are an equally compulsive consideration. Indeed, a manager frequently finds he must accept a prevailing price established by competitors and the costs of his business are the only things that can be manipulated. There are also circumstances of competitive timing which may justify the establishment of a price the manager knows he cannot hold for long. Generally, however, pricing is equated with the long-term survival of the business and subject to the overall philosophy by which the manager guides his affairs.

Pricing Policies

Because of the lasting effect upon the business of a pricing policy, it is essential that the manager be very clear about the end results he wishes to achieve in this area. A study of pricing by Kaplan, Dirlam, and Lanzillotti in 1958 identified several differing policies which they found to control the pricing activities of a series of companies.[1] They argue that it is essential for a firm's pricing policy to be understood not only by the senior executive but by all persons having any contribution to make to the company's revenues. Without such understanding, there can be considerable confusion caused within the company and in its external relationships. It is a subject which is all too frequently considered to be the business only of the manager and the financial officer whereas pricing

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[1] Kaplan, Dirlam and Lanzillotti. Pricing in Big Business: A Case Approach, the Brookings, Institution, Washington, D. C., 1958.

policy is actually a pervasive consideration which should be clearly understood and discussed with all members of the management team and the board of directors.

A review of several example pricing policy objectives might be helpful.

1. To achieve a desired financial return. A company may seek to base all its operations on an earnings figure which will satisfy its investors or patrons. Knowing the costs that must be recovered and the magnitude of the sales anticipated, the price of the product is then forecast to achieve the desired net revenues, measured in terms of returns on investment or sales. Frequently, this kind of a pricing policy takes into account the likelihood of competitors' activity only to the extent of its influence on the sales forecast. Insofar as this is true, such a policy is not likely to be valid for long unless the product or service is unique or protected by patent.

2. To stabilize prices. The manager may establish a price at a level that recovers costs and tends to stabilize the market while still guaranteeing a workable margin. Cooperatives frequently state this as an aim of their pricing policies. Over the years they have tended to price at the "market" and to refund any surplus over cost to the member-patron in the form of cash or equities in the business. In those cases where the surplus exceeds the requirements of a "workable margin" an immediate return can be made in the form of lower prices. Any downward change in price, of course, must be tempered by the likely reaction of other firms in the market. A price reduction that touches off a price war can be as disastrous to a cooperative as to any other business. Further, a policy of low and stable prices anticipates that the customer or patron demand for the product will continue for an indefinite period or at least long enough and in sufficient volume to recover the company's investment.

3. To secure market share. The manager may set a price at a level calculated to maintain his market share against competition, or perhaps to improve his share when competitor prices are high enough to give him an opportunity to come in at a lower level. This is a policy frequently followed by a mature business which seeks to strengthen its market position. By pricing under those companies who presently dominate a market, a new company may be able to gain a foothold share, but in doing so it must recognize the unlikelihood of any early opportunity to increase its price. It must, therefore, have provided adequately for the financial survival of the business over the period of time intended.

4. To maximize earnings. Occasionally the manager's purpose is to secure the maximum earnings possible. Such a policy might induce him to use a loss leader within a line of products in order to gain entry into a market which he can then exploit through offerings of other products at adequate margins. He will be inclined to adopt this policy when he feels confident that the product or service he uses as a leader has unique qualities unlikely to be duplicated by any competitor and that his hold on the loyalty of his customers is such that there will be no serious challenge.

5. To create a particular image. A price can convey an impression of the kind and quality of merchandise and/or service a firm is likely to render. It must be in keeping with the value which the customer has been conditioned to expect from his purchase and cannot be incompatible with the impression the customer has of the business itself, or of the industry.

Whatever the pricing policy may be, one cannot escape the influences of the company's own costs, the confidence of the customers or patrons, and the reactions of the competitors. Boiled down to its essence, a price policy is usually one of three: It may be

a determination to recover costs plus some predetermined margin of profit; it may be a determination to develop as much net sales revenue as possible in excess of costs; or it may be simply a determination to survive at the healthiest level possible in light of competitive pressures.

Joel Dean's book, Managerial Economics, identifies two basic pricing attitudes the manager might take. He may be determined to "skim the cream" from the market, or alternatively, to "penetrate the market." [1] These represent polar choices and bear close examination by the manager before prices are established. The "skimming" point of view calls for the highest price that can be feasibly established. It provides a form of financing for a company seeking to recover its investment as quickly as possible, particularly in the case of products where the probability of early obsolescence is high. In fact, "skimming" may be the only sensible policy to follow under high risk situations if demand conditions permit it. Or it may be justified because the company believes it can achieve a substantial reduction in the costs of manufacturing or distribution in the near future; the firm may wish, therefore, to establish a high initial price from which it can retreat at a later date when justified by the anticipated cost savings with resulting customer appreciation.

Occasionally this point of view is justified when there is only a small market demand for the product and/or it is doubtful that it will be particularly attractive to competition. Probably the most compelling reason for adopting the "skimming" approach is that a company's product or service has significant uniqueness or is so exclusive in design or in patent protection that the demand is predictably inelastic. With the passage of time, of course, the probabilities of retaining uniqueness diminish and elasticities may be expected to change.

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[1] Joel Dean. Managerial Economics, Prentice-Hall, New York, 1951, pp. 419-424.

In making such a determination the manager's judgment should be most carefully exercised. He should have competent advice in assessing the elasticity of demand for his offering. Is it truly a necessity or is it a luxury? Is it possible that substitutes are already available or can be made so shortly after the introduction of his own product? What is likely to happen to the demand for his product if there is a sharp change in buying power in his market or community? What is the customer's perception of the product's price-quality relationship likely to be? Each of these questions demands an informed answer before the manager can embark on a "skimming" price policy with confidence.

While only larger companies can probably afford the type of market and consumer research from which any reassuring evidence could be drawn--and even these can be agonizingly misinterpreted--even the very small company can make some investigation on its own behalf. For example, potential buyers can be interviewed before the initial price levels are established, and customer or patron panels can give advice prior to the decision.

The manager may be sure that unless the superior qualities of the product or service he believes he is offering are recognizable by the consumer, whatever price he sets will be immediately subject to competitive pressure. Further, there is a limit to what the customer will pay for the uniqueness. It can be capitalized upon for a period of time, with discretion, but only as long as value is perceived--by the customer, not by the manager.

It must be remembered that the longer a "skimming policy" is followed, the more vigorous will be the effort of competitors to claim a share of the rewards. More than one manager has "skimmed" too long and consequently faced a new cooperative or proprietary competitor.

The diametrically opposite point of view which Joel Dean describes is that of "penetration."[1] The sales manager concerned with increasing sales volume typically argues for a lower price as a means of achieving it. It is only when he sees his job as that of buying revenue for the company rather than simply increasing sales volume that he can consider the question of a lower price unemotionally.

In determining a "penetration" policy, and deciding to get as much volume as possible through an appeal to the widest possible market, the manager must be acutely conscious of the costs his price level must recover. For example, set-up costs are sometimes overlooked, as are those incurred during a "test" period of assessing what a product should return. Usually, material and processing costs are adequately considered. Additionally, the markup from which the company will secure its energizing margin for future growth must be sufficient not only to provide the funds necessary but to anticipate occasional disappointments in total sales demand. A "penetration" policy must be entered into with utmost caution.

Nevertheless, this sometimes may be the only choice open to the manager. Where the demand for his product is sensitive to reductions in price and thus has high price elasticity, it would be a precarious venture to claim for it a particularly high margin. Disappointment would be assured. Also, where a strong competitive threat already exists or may be anticipated for the favor of the same customers, a low price policy may be the manager's only choice.

Sometimes a manager may be unduly influenced by his enthusiasm for the advantages he believes his product carries for the customer. From the customer's point of view the

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[1] Ibid.

"unique product" may be seen as nothing more than another form of a familiar commodity, not at all justifying the price difference the manager may wish to ask. If there is any danger of the customer perceiving the product to be simply a commodity, the only alternative left to the manager is "penetration." Some writers call it "protective pricing."

It is unwise to underestimate at any time the intelligence or aggressiveness of one's competitors. Unless the barriers against anyone else getting into the business are formidable, it may be assumed that the high margin cannot be protected for long. This would be particularly so if the profitability in the product or service happens to be fairly widely known. A related restraining influence would be the existence of particularly large or demanding buyers in a position to require detailed justification of the margin built into the price.

From the point of view of a proprietary organization perhaps the most compulsive reason for "protective pricing" would be discouragement of competition which might otherwise be attracted. Unless the company has patent barriers or an exclusive corner on technological processes or is in a unique position of having more investment muscle than any predictable competitors, the only discouragement that can be offered the competitor for a prolonged period of time is a low margin. Support which could be given by a unique merchandising or advertising program might be of temporary assistance but this is normally short-lived--the time it takes a competitor to devise an equally persuasive selling program.

From the point of view of a cooperative a low price policy may derive from its perception of itself as a "measuring stick" by which the performance of proprietary firms can be judged. Not all cooperatives see themselves in this role nor is there any compelling reason why they should. Insofar as they are organized specifically to benefit their own member-patrons they are under no obligation to nonmembers to create a low-price umbrella for the market generally. They can, as was suggested earlier, simply charge at the market level and return the surplus to their patrons.

Another reason why a cooperative may choose a low-price policy is that the membership demands it. Since they are the owners as well as the patrons, members do have a voice in establishing policy. There is some danger, of course, that the patron's preoccupation with a low price may cause him to overlook the firm's need for a margin large enough to maintain itself in a healthy financial condition. A number of cooperatives are not replenishing their capital for this very reason.

Whatever the manager's attitude towards pricing, it will be seen that he must be clear about the policies by which his price-setting should be guided.

Pricing Practices

After due consideration of the policy which should govern, the manager should begin the process of setting a particular price by estimating the demand for the product to be offered. How many potential customers? How many can he win? It would be folly to assume, except in a monopoly situation, that every one of these customers would prefer his offering to existing or future products offered by competitors. Since members of cooperatives are usually under no legal obligation to buy from their organization these considerations are as relevant to the cooperative manager as to the proprietary one. Members can and do buy elsewhere. To count on attracting all of them could spell disaster for the organization. It is obviously necessary, therefore, to estimate what percentage of this total demand his product could feasibly secure.

His next step is to determine the range of prices of comparable products now offered in the market. This should be carefully appraised, preferably through interviews at the point of sale of both those offering the products and those buying it. There is no quick and easy answer to the determination of the price elasticity of most products, and some depth analysis is usually needed. This information will help the manager to decide on a range of competitive prices.

Next, he should make a careful assessment of the effect on his earnings if he adopted a price at the top, middle, and low points of the range open to him. Naturally, at this point he will have an assessment of his costs available. Thus, he should now be able to determine, based on anticipated demand at each price he might select, what impact on the company's fortunes each price will have.

Finally, he must anticipate retaliation by any of his present competitors. It is wise at the outset to select a price best calculated to win the desired revenue tempered by recognition of its likely competitive effects.

At each of these several steps in the process of setting a price the manager is well-advised not to depend exclusively upon his own judgment. If there is a committee of managers or board of directors or other advisors who are informed about the conditions of the business, they should be consulted to insure the quality of his decision. The manager needs advice at this time for several reasons.

1. In anticipating the demand for the product and the share which his own offering might win, it is easy to be overly optimistic. The objective judgment of others will be a tempering influence. This is particularly so if they have not been involved with the conception and development of the product.

2. Since competition can come from unpredictable sources, it is seldom sufficient for the manager to make his own assessment of its impact. External advice should be sought in making this determination. Banks, trade association contacts, public and private information agencies are examples of a few who might be contacted.

3. A price carries to the customer a message not only about the product which carries it, but also about the company and about the associated products in the

line. Thus, relevant company policies of profit and market strategy, and of public relations, must be considered before decision is made as to a particular price.

4. It is not sufficient to establish a price without also determining profit responsibility. Each person in the company who has any direct responsibility for earnings should be consulted before the final price is determined. They should be able to reassure the manager that there is sufficient margin in the price to guarantee the company's survival.

5. It is particularly easy to forget some of the costs which must be recovered--and can only be recovered by the margin inherent in the price. Thus, the accountant should provide full information about the costs which must be charged against the product; he should be in a position to caution the manager about the new related costs which might be encountered because of the introduction of the product. In order to insure the best possible decision, the manager should have accounting advice to determine what impact there will be upon the company's fortunes at each of a range of hypothetical prices from high to low. This requires estimating the quantities demanded at each price level. Obviously, different results should flow from different prices; the price to be selected is that which offers optimum results.

6. Once the hypothetical price has been set for optimum results, it is necessary once again to check the customer's or patron's concept of value--whether he will indeed perceive the tentative price to be sufficiently attractive to win his favor. Some access to outside counsel is desirable at this stage, also.

7. Finally, and of increasing importance, the manager must be sure that the price he intends to establish and his methods of offering the product are not in conflict

with any government regulation. He may already be sufficiently informed to make this determination with assurance, but if not, legal advice is worthwhile at this stage to protect against any subsequent embarrassment.

Price Differentials

Over the past 20 years, government interest in price conduct has steadily increased. There are general regulations to which a manager should have access. The Robinson-Patman Act sets out the general constraints upon a supply manager's behavior, as well as the individual customers. If he decides to offer prices at different levels for the same product to various customers he is well-advised to have legal advice. For example, he may wish to offer a quantity discount, depending upon the trade status of the buyer or upon the amount to be purchased. He may elect a different price depending upon the geographic location of the buyer. He may determine that he will allow discounts for particular terms of payment to encourage either quick returns or volume purchases. Or he may elect a variance in his pricing of a seasonal nature in order to manage his inventory according to predetermined levels.

As he embarks on any policy of price flexibility, he faces three overriding considerations. First, of course, is the question of whether or not the differentials he intends are legal. Second, what impact will it have on customer or patron attitudes toward the firm? Third, and this is a consideration which is remembered too infrequently, what effect will the differentials have upon the company's earnings? It is easy to predict, in some cases, that greater volume of purchases will result from reduced prices, but the test lies not in the impact upon volume but in the impact upon earnings. Differential pricing plans which are not understood by customers or patrons can alienate them, particularly those who do not directly benefit from lower prices. It must be emphasized that not all small volume sales are unprofitable; nor are large volume sales necessarily profitable.

To ignore this is to invite disaster. Thus, to determine its impact on earnings is the moment of truth in differential pricing.

Essentially then pricing is a dynamic management tool used to secure the future of the business. Within the constraints provided by an increasingly interested government and informed public opinion, the manager must use his best judgment to secure a sufficient earnings margin from the sale of his product to perpetuate his business, to pay his expenses, to reward his employees and his shareholders or patrons, and to do so with minimal encouragement to his competitors. The degree to which he achieves this is indeed a measure of the quality of his management leadership.

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8. MARKETING

Commentary

During our study we encountered frequent evidence that the local farm supply manager may be a successful personal salesman. Seldom, however, did we observe that he was versed in sales promotion, merchandising, advertising, market research, and other managerial skills which, added together, make for competent marketing. As businesses grow larger and serve broader markets, greater sophistication in marketing is needed. Managerial understanding of marketing becomes imperative.

The Conceptual Framework

Three major concepts underlie the contention offered here that personal salesmanship is no longer sufficient to guarantee a continuing demand for the products offered by the business.

First, there is growing recognition that the day of building the better mousetrap with assurance that the world will demand delivery is no longer valid. Instead of being pre-occupied with one's own standards of quality for product or service offered, the manager must now focus upon understanding his customers' or patrons' needs and wants and so addressing his business effort as to satisfy these wants. The business must, as Peter Drucker phrases it, exist in contemplation of the customer, there being no product or service until a sale is made--nothing but raw material.[1/] This suggests that all activities of any business enterprise--cooperative or proprietary--must see themselves as integral parts of the marketing effort. This is a growing trend; the survival of a business will depend increasingly upon its astuteness in identifying customer or patron desires and upon its flexibility

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1/ In a foreword to: Lazo and Corbin, Management in Marketing: McGraw-Hill, New York, 1961.

in adjusting to satisfy them. The manager must recognize that competition can arise unexpectedly from geographically remote locations to invite the customer's attention, that the buyer has increasing purchasing power and hence more "choosing" power, that productive overcapacity makes fierce competition for the customer's favor inevitable. All of these influences make his ability to identify with the customer critically important.

The second concept is that marketing management is sound only if it results in increased earnings--not simply increased volume. Thus, the sales or marketing manager must see his function to be that of buying revenue for his business--acquiring energy for his enterprise in the shape of earnings which can derive only from profitable sales of product and service. If he manages a cooperative his patrons will ultimately judge his sales performance in terms of the prices they pay, the services rendered, the patronage refunds which result as well as in terms of the overall financial health of the business. If he manages a proprietary business, his stockholders will look beyond increasing sales dollar volume to see if earnings are growing commensurately. He must learn to be discriminating in his selection of new customers to serve and services or products to provide which will protect the earning ability of the organization he is responsible for. Increased sales are good only in terms of their economic benefit to those for whom the firm is organized to serve. This calls for knowledge of the contribution to earnings of all the sales he makes by product, by sales area, by customer--and a constantly updated awareness of alternative buying choices which may be open to his customer.

The third concept is that marketing is essentially a process of persuasion in the true sense of the word. It is not a matter of wrestling or seducing the buyer into submission; it is a matter of understanding the range of his needs and developing a matching spectrum of the company's abilities to meet these needs. It is a matter of matching these two with precise skill. This concept of persuasion calls for understanding that one can

win acceptance of his message only when he has earned the respect and confidence of whomever he is trying to serve. Seen in this light, the entire business must dedicate itself to winning the buyer's confidence, and continuing to earn it through judicious anticipation of services he wants and needs.

The Functions of Marketing

Analysis of Opportunities

Far too few companies are aware of the opportunities available to them for the expanding sale of their products and services. Continuing analysis of what is now being sold by individual buyer and by area, will frequently identify weak spots in the marketing effort and offer clues for the manager to concentrate his effort for maximum reward. It is not enough to probe sales experience on a one-shot basis. It is essential rather to develop some understanding of trends in sales patterns over a period of time before attempting to change existing behavior.

It is not enough to determine what is now being sold. The manager should also have an answer to the question, "what else are my customers or patrons buying--from other sources--that _I_ can provide for them?" There may be other products and other services which should be added to an existing line which the manager will not recognize unless he _asks_ those he is attempting to serve.

The analysis of a market should include an assessment of external influences upon the company's fortunes. For example, trends in customer buying habits, requests for delivery service, and requests for packaging, to name a few, should be studied constantly in terms of changes needed in existing selling practices. These may be observed by the astute manager and his staff. Additionally, there is much useful information available through agricultural extension services, trade associations, state government agencies and chambers of commerce showing trends in customer spending power, shopping habits,

and other statistics that should be studied for clues as to how one's own customers or patrons are likely to act in the future. What is needed is a continuing analysis of the various influences, internal and external, that are likely to affect their acceptance of existing products, and the company's ability to expand or change the line offered to meet their changing interests. Analysis takes time, but it represents the difference between understanding what sales are possible and simply hoping that the company is getting its share.

Distribution

For effective marketing, methods or channels of distribution that will return to the company the greatest margin of earnings coupled with sales volume should be identified. The effectiveness of these methods must be studied from the final user back to the distributor to insure that the product is moving through the appropriate channels in the most effective manner possible. Arrangements may be made occasionally with noncompeting companies to pool small order shipments to customers with significantly reduced costs of distribution. Products now picked up at the distributors' premises may enjoy increased volume of sales and earnings if delivered on a routine basis. Alternatively, products now delivered may be incurring distribution costs which negate any advantage increased sales volume bestows.

Professional assistance in determining the best methods of distribution, including the location and size of warehouse inventories, whether to deliver merchandise or have the customer come to the shop, and other related questions should be sought by the manager. Business faculty members at state colleges and universities, executive secretaries of trade associations, the retail merchants association, chamber of commerce specialists, agriculture extension specialists--all may be helpful. It is safe to conclude that a company which has never considered any methods of distribution differing from those presently followed is overlooking the possibility of more profitable marketing.

For a local organization which is considering expanding its sales territory, as well as those who have achieved regional distribution, a number of choices which are open should be studied for economic advantage. In addition to operating with its own sales staff, local wholesalers, brokers, agents, route deliveries, franchised or corporately owned dealerships and mail order shipping represent distribution alternatives which should be scrutinized periodically to ensure that a company is employing the best methods of distribution feasible at any one time.

Pricing

The marketing oriented manager will be constantly conscious of the effect of his pricing upon the movement of goods or services to the customer. He may adopt the strategy of gaining his share of a market with an irresistibly low price or he may elect to "skim the cream" by confining his offerings to that segment of the market which is the least sensitive to price. He may provide a basic commodity or service or may wish to add convenience or extra services for which he charges a premium price. The point is: he does have a choice. His discretionary range is, of course, limited by the competitive environment in which he operates. He will be conscious of the necessity of avoiding setting such a high price that he provides an umbrella under which any competitor can find shelter, while at the same time he will want to avoid the risk of having such a low price that insufficient earnings are generated to perpetuate the business. His pricing must be in keeping with the impression of the company he wants the consumer to have. Should this be an impression of quality? Then a low price on a product or service can be confusing. Alternatively if it should be an impression of a bargain house, he may find it difficult to attract buyer attention to a high-priced product, regardless of value of the more expensive product he offers. Since the price of any one product or service has

effect upon the total fortunes of the company, the manager will want to make his accountant and his sales representatives his close advisors as he makes pricing decisions.

Field Sales

In the direction of his selling force, the skillful marketing manager calls on his utmost leadership know-how. He will involve his sales representatives in defining opportunities to sell products in their respective territories or departments by giving him a vision of what the company expects to achieve in total sales volume as well as earnings. He will seek to reinforce the salesman behavior he believes necessary by the selection of compensation and incentive plans directly encouraging attainment of his sales performance goals. He will maintain sufficiently close contact with his sales representatives so that they are able to represent him accurately in their contacts with customers or patrons and coach them in the art of closing the sale. He will meet customers personally in company with his salesmen to gain firsthand knowledge of their problems of representation and of the trade's expectations. He will consciously seek to give those representatives in whom he has confidence as much freedom of action as possible.

Advertising

Even the smallest company should recognize the difference between preparing the potential buyer to think favorably about what a company has to sell--and encouraging him to buy now. Advertising performs both functions but not simultaneously. If it were economically feasible to reach every customer, one at a time, it would quite possibly be safe to rely upon personal salesmanship to convey the company's message. If not, advertising can support and reach large groups of customers with the appeal the salesman would like to make personally. Alternatively, it helps to build potential customer awareness of what the company has to offer in advance of the actual invitation to buy.

When the company's activities are genuinely newsworthy, useful free publicity can sometimes be arranged. Otherwise, the sponsor must pay the medium of his choice to carry his message.

The small farm supply business will normally confine such investment to the task of reaching customers in his own local market. But it must not be forgotten that national manufacturers and distributors are interested in the same customers. When the appeals are not in conflict they can be coupled together or timed to reach the customer simultaneously with substantially increased impact. Some national and regional firms seek such arrangements with locally based businesses as a procedure, affording selling opportunities for the smaller firm which should not be overlooked.

Many media are available to carry the company's message, each one of which should be assessed and selected for maximum appeal to the particular segment of the market the manager wants to reach. He will normally require professional assistance in the selection of the appropriate medium--and can get it from an advertising agency or from the staff of a large firm with which he may enjoy corporate, supplier, or representative relationship. Newspapers, television, direct mail, magazines (including national farm publications), radio, business papers, outdoor billboards, weekly newspapers, transportation advertising (such as car cards and taxi boards) are available as choices. Considerations of cost of carrying the advertising and the likelihood of reaching the attention of the particular customers desired will govern selection.

Professional assistance is usually needed also in the design of the message itself, for buyers seldom view the product or service offered in the same light as the distributor, or perceive the values the proud manager believes to be obvious.

Occasionally, depending upon the product and upon customer expectations, it is more rewarding to invest the advertising expense in attention-getting displays at the

actual point of sale, than in any of the "preparatory" media. Usually a combination of the two is desirable. Occasionally a direct inducement to the customer to buy may be made in a special price offered temporarily or in special packaging commemorating a significant event for the customer. These are all part of the company's advertising budget.

Whatever the method or combination of methods he chooses, he should be aware of the value of concentrating what must inevitably be a limited advertising budget for maximum impact. This may be done through the selection of some one media or campaign or territory for major attention. It may be done through the concentration upon one particular theme describing his product or service. Whatever his choice, the theory of using a rifle rather than a shotgun seems appropriate. The manager's investment in advertising will be more effective if he decides beforehand whom he wants to reach with it--and with what results.

While various professional services exist to measure the degree of customer attention any advertising appeal may enjoy, there has not yet evolved any method of determining what purchases result from any particular advertisement. The complex reasons for a customer's choice--and purpose--are not objectively recognized even by himself. It is safe to say, nevertheless, that a company's ability to sell is related directly to the buyer's confidence in the company and in its understanding of his needs. Advertising can offer reassurance for the confidence, awaken interest, and sharpen an existing desire to buy.

Measurement of Marketing

In many large companies a market research manager not only assesses what might be sold but also assesses the effectiveness of the marketing procedures themselves. Regardless of the sophistication with which such an appraisal is made, the exercise itself is useful for even the smallest company which has to sell products or services. The manager

should have answers for a number of questions, whether his business be a local farm supply cooperative or a nationally distributing manufacturer. For example:

1. Does he have an authoritative appraisal of the size and nature of his market?
2. How frequently is this appraisal revised and when was the last date of change in the prediction of market size?
3. How much is known about the strengths and weaknesses of competitors which might affect the company's ability to sell?
4. Have all employees within the business been made aware of the importance of marketing what the company has to offer and do they understand the relationship between their jobs and the company's ability to sell?
5. Which part of the market, which of the services, which of the sales representatives are contributing most to the earnings of the business? Alternatively, which contributes least?
6. Is there a sales forecast for each product and sales area, and a marketing plan that spells out how to get there? And does each sales representative understand his own personal responsibility for contributing to the desired end results?

In essence, the manager who intends to continue to sell his products for optimum return to the business must see the marketing duties as dynamically changing. This is an area of his responsibility in which he may never rest, for his customer's or patron's needs and expectations are changing constantly under the pressure of their own affluence or lack of it and the blandishments of competitors. He faces a constantly changing and challenging task of identifying these needs, of addressing his entire business to satisfy them, and of reminding them continuously and effectively to satisfy these needs through what he has to offer them. Marketing is not simply talking potential buyers into buying one's product or

services. It is a complex discipline, involving analysis of what he is likely to buy, gearing the business to supply it, and delivering it in a manner and at a price that will cause him to forget what the competitor has to offer.

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9. RECORDS – CHECKPOINTS FOR DECISIONS

Commentary

In most of the local contacts made during our study, we found that records for the businesses were not devised in such fashion as to be of immediate use to the local manager or understood by him. When they were produced for us, they were offered more as history rather than to substantiate trends concerning which the manager should be taking a position. What follows is directed primarily to the manager.[1]

Why Records

It is vital that a manager should know where his business is at any one time. Only in this way is he able to make a choice of behavior and have a hand in shaping the future of his company rather than simply letting it happen. Yet many managers, ranging from those in the small companies to those in some of the larger ones, tend to hope for the best, apparently believing that hard work and virtuous living will add up to favorable business results.

Without records describing how the business is performing, the manager flies blind. He can proceed only by intuition. Without benchmarks against which the business can be measured and which are established in advance the manager is placed in the position of trying to catch up continuously--expending his energy upon correcting mistakes after he recognizes them.

Advance determination of the performance desired by the company and records which indicate progress toward the goals permit the manager to select appropriate action at his own best time. He is in command of his business when he has a predetermined way of measuring it.

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[1] For an excellent treatment on interpreting records see Stuart Chase, "How to Read an Annual Report," Standard Oil Company, New Jersey, 20 pp.

Of course, records do not of themselves guarantee sound management. Many managers in sophisticated and larger companies do not act upon the information provided them by expert staff. Other managers become so preoccupied with information that they forget, almost completely, its purpose--to guide action. What is needed is determination by the manager to measure the performance of the entire business at regular intervals and to make decisions for action based upon this measurement.

Leaders in industry--regardless of business size--have begun to recognize this need. In smaller companies they are spurred by recognition that one of the major causes for small business failure is lack of management records. In far too many instances the manager suddenly finds himself in a position that has deteriorated beyond remedy. The Office of Small Business Administration, through its various field offices, has been teaching the necessity of records for some time, as have the host of accounting firms which service smaller businesses. There is a heartening trend toward recognition of the need to invest some time regularly in charting and reviewing the business' performance.

Among larger companies, the function of "Director of Information Processing" is no longer uncommon, reflecting the larger company's ability to process data electronically and to capitalize upon the utility and versatility of the computer. In some board rooms, a permanent constantly updated battery of information charts enables senior management and boards of directors to be constantly in touch with each of the key aspects of the enterprise.

What Needs to be Known

An elaborate system of recording is unnecessary, although in complex institutions this is frequently encountered. The manager should establish, with advice of his immediate staff, his board, and his advisors the activities in which the business

is engaged that best predict its healthy survival. This takes considerable thought, but the investment is well repaid in increased managerial and board knowledge and confidence.

Once the activities are selected for examination it is necessary to determine what behavior will satisfy: thus, how much net earnings, for what periods, how much sales expense can be tolerated, how long can credit be extended, and so on. Essentially, the selection of activities and a determination of the acceptable behavior in each area is similar to building a thermostat for controlling heating within a home. Here the range of temperature that will be tolerated is predetermined; the point at which energy is to be increased or decreased is decided by setting the thermostat. Once this decision is made no more attention is required except when the behavior called for falls outside the control ranges--too hot or too cold.

In deciding to set up records the manager should first determine what he wants to make happen with the resources entrusted to him. Profit is not what is left over, it is what he would believe appropriate, and feasible, in light of the investment of energy, resources, and skill he intends to make. Thus, return on a capital investment is not simply what happens but is the return he believes necessary to ensure the survival and growth of the business. In addition to deciding what earnings margin will satisfy the company's needs--in advance, he will want to spend considerable time thinking through all of the aspects of performance of the business which will be acceptable.

This sequence must be stressed. The argument here is not for the establishment of historical records, valuable though they may be in future years as reference for planning and verification. Rather, it is for the establishment of performance targets against which progress can be measured by adequate records, and at intervals sufficiently frequent for the manager to change behavior whenever it is needed.

He will want to discuss his vision for the company with his board, with those reporting to him, and with those whom he will share responsibility, and with the accountant or with his accounting advisors who should know what is intended by way of accomplishment before they can set up useful records upon which the manager can make decisions. What is appropriate for one company's measurement may not apply to another. When a board is intent upon rapid sales growth and overall expansion, there will frequently be less interest in return on investment. If returns to investors or patrons are the prime concern, then evidence of sales growth in itself is not a measurement of the activity desired.

Yet for any business a number of vital control points must be kept under careful scrutiny. For each of these, the manager needs information to measure results against planned performance, to justify procurement of funds from lending institutions that will not be convinced in absence of adequate records, as a base for making future plans, and for control of his operations.

Broadly speaking, the manager will want to have regular information about the following:

1. His cash requirements, so that he can be sure of having sufficient money to purchase raw materials in economic quantities, to cover tardy accounts receivables, to meet his accounts payable including income tax liabilities, and to meet day-to-day needs as well as predicted capital requirements.
2. The sources of fresh funds available to him if the need should arise.
3. His production or service performance including both the results and the costs of getting results.
4. His sales performance and the costs of getting it.

5. His costs of manufacturing.

6. His overhead costs, importantly including the investment he makes in administrative salaries and general office expense.

7. His profit position, showing not only his net earnings as a percentage of sales, but also net earnings measured against the investment made in the business.

8. His wage and salary expenses.

9. His position of indebtedness and the pace at which he is retiring his debt.

10. A timetable for new capital expenditures planned.

Without such information available on a current and periodic basis, the manager is unable to control the forces which may either expand or destroy his business.

But he will need other information as well, showing trends within the company's experience as well as its present status. For example, if he has any new ventures underway such as introduction of a new product or service or facility, and has a deadline to meet for completing these, then he will need regular information about his performance against the predetermined schedule. He will want recurring information concerning his position in the market place--the degree to which his product and services are holding up against competitive threats, the degree to which the price of his product may be meeting competition at the point of sale, the pace at which new orders and new business are being received, and the speed with which backlogs of orders are being shipped. These measurements, and many others which will suggest themselves to the astute manager, must be studied at regular intervals so that instruction can be given to change unfavorable trends before they result in harm to the business, or to expand the investment of time and effort to support trends which appear to be favorable to the business.

Lest a manager deciding to institute a program of regular information review make the mistake of generating data for its own sake, take caution at this point: Information upon which no decision ever needs to be made is redundant to the business; records should be prepared for and reviewed by that manager or management group who require them to give guidance to their activities. If no direction is secured from review of information it should be dispensed with.

Records should not be confined to assessment of performance of an internal nature. And the manager should know where his company stands in the industry in which it is entered through a regular comparison with competitors and with relevant growth indices of the industry and the total economy. While larger companies may have the resources to gather their own information, there are many opportunities for even the smallest business to secure relevant data. This is available through banks, trade associations, municipal and state government departments, and a number of federal government departments with regional offices. A visit to each of these sources with a list in hand detailing the information that manager would like to have about his industry is rewarding. Frequently, suppliers and customers will be happy to cooperate in the development of relevant information if the manager will discuss his questions with key representatives.

While it is important to know where the company stands within the industry, it is absolutely vital that the manager know what his company is doing with the resources available to it. Of all of the data which can be assembled for his attention, this is probably most valuable. Several categories of internal activity should be examined at regular intervals and certainly not less often than once monthly. Where possible, he should bring his immediate staff together to share in the review so that his concern and the action he intends can be developed in joint action with his subordinates. The following categories should be included:

1. <u>The ratio of current assets to current liabilities.</u> It is essential that the manager know what the accountants term his "current ratio"--assets to liabilities--for each normal merchandising cycle of the business. This reveals the status of the enterprise at the time measured. It is frequently a useful danger signal if the ratio is too narrow, calling for careful examination by the manager. Perhaps the business is expanding too quickly and incurring debt faster than can be judiciously handled. Contrariwise, it may be failing to take advantage of a strong cash position which enables expansion.

2. <u>The ratio of current liabilities to net worth.</u> When current liabilities, representing what is owed by the business, tend to exceed what is owned, the business may be in serious trouble. Trends in this direction should be spotted early in time for corrective action.

3. <u>Turnover of working capital.</u> The degree to which the manager is utilizing financial resources available to him may be indicated by the number of times he turns over his working capital, calculated as a percentage of net sales, during given periods of time.

4. <u>Accounts receivables.</u> The average collection period of accounts receivables is sometimes a good indicator of the degree of prudence or aggressiveness exercised by the manager in extending credit. Trends here should be watched carefully, for the management of accounts receivables has tended to be a major problem for small business.

5. <u>Inventory levels.</u> The frequency with which inventory of finished goods is turned over by a business within a given period significantly affects its

earnings. And the level at which it is maintained--sufficient to meet customer demands and yet small enough to minimize the investment risk--requires constant checking. For many small businesses careless inventory management is a major profit leak.

6. Accounts payable. Regular review should indicate whether or not the business is taking advantage of all possible cash discounts, yet retaining possession of the business' money as long as possible. There should be a periodic forecast of the cash demands upon the business represented in future accounts payable.

7. Sales records. It is not enough to record sales volume, even with comparisons for prior periods. The profit generated by sales must also be reviewed and broken out where possible by sales area or representative, by customer, and by product or service line. Sales expense, showing compensation as a separate item when possible, should be examined in relationship to the profit on sales generated for each segment of the business. Only in this way can the effect of investment of sales expense, including compensation, be understood in terms of the results they are producing.

8. Production. In addition to a running record of the production of services or goods, there should be opportunity to review regularly: raw material cost, the cost of direct and indirect wages, the cost of maintenance programs, and the degree of idle time of the equipment which the company uses--all measured against predetermined standards.

9. Payroll. Not only should past experience with payroll costs be reviewed periodically, but forecasts should be made of this anticipated indebtedness.

10. Profits. Net profit or earnings as a percentage of sales must be checked regularly, but it is essential also to know the ratio of net earnings to investment. Only thus can be recognized the effectiveness with which a company's capital is being put to use.

11. Indebtedness. A regular review is essential of all obligations owed by the company, together with a continuing assessment of the firm's ability to meet future obligations, when due.

To the degree that the manager is determined to direct the business, as distinct from being a passenger who steers occasionally, he will set aside time for regular, recurring reviews of the performance of the entire business. No one index or ratio will suffice to give him clues for fresh or amended direction. What he needs is a constantly fresh picture of the total business--an opportunity to examine progress towards each of the goals he and his board have agreed are satisfactory achievements.

Seen in this light, the maintenance of records is not a passive documentation of history. It is provision of material for managerial decisions to do with the survival of the business. It is not a task to be delegated exclusively to the accountant, for not only financial performance must be studied. It is a task to which all members of the business should be required to contribute. The responsibility of using to utmost effectiveness all of the resources of money, materials, manpower, and time which may be available to an enterprise is a responsibility to be shared by all members. They should also share the responsibility of reporting upon performance in every respect that will help the manager to make sound decisions.

10. ACCOUNTS RECEIVABLE MANAGEMENT

Commentary

In our conferences with headquarters management of various companies in the farm supply industry, including cooperatives, we frequently encountered concern about the handling of accounts receivables at the local retail outlet level. In turn, interviews with local managers revealed frequent anxiety about tardy debtors among their customers, some of whom had been clients for years. Concern about trade credit is growing. As might be predicted, anxiety is greatest in the small town where the farm supply manager seeks to protect his business while still assisting the survival of the long-time customer whom he knows personally.

The Problem

Concern about the management of accounts receivables is by no means confined to the farm supply industry. Federal Reserve bulletins indicate that accounts receivables across the United States rose by 240 percent between 1946 and 1960. At the end of 1960 there was over $100 billion of trade credit outstanding among corporations other than the traditional banking and finance companies. This was more than double the face value of loans to industry by the industrial and commercial banks. In effect, many big manufacturing companies who have strong cash positions based on equity or borrowed capital are acting as bankers for smaller businesses--particularly the wholesale and retail trade. A number of farm supply retail outlets appear to be acting as bankers for their customers, too, supplementing other lines of credit.

There are a number of reasons for the growing volume of trade credit. Not the least of these is an attitude, with social overtones, that credit is something the customer takes. It is not given. He assumes he has a right to it as part of the purchase arrangement. He

has, in fact, been encouraged to take this attitude by the tremendous proliferation and promotion of commercial credit companies and the increasing availability of bank loans--all designed to give him immediate possession of whatever utility he seeks.

The trend to other credit sources is accelerated when banks tighten up their money supply.. At such a time trade credit appears to expand. Indeed, accounts receivables have been growing faster in total than sales, according to Federal Reserve sources.

Greater relaxation in attitudes toward credit is indicated by the fact that average holding days for accounts receivables nationally were 35 in 1956 and have increased to 45 in 1962 according to the National Association of Credit Management.[1]

During this period retail dollar sales have increased sharply but receivables have increased at a sharper pace because of lagging collections. Industry desired to utilize its capacity to produce, which has exceeded demand by an increasing margin during the past 10 years. Thus, the extension of greater time and more generous credit terms have been sales-getting devices designed to act in somewhat the same manner as price reductions. When the business needs sales it tends to relax its position on credit.

Traditionally, the manager responsible for granting credit has been watchful to guard against a rise in his percentage of bad debts to sales. He has also been concerned about holding to a minimum the percentage of his total orders for which payment might be over a particular number of days past due. In short, the manager has tended to review his accounts receivables in a negative way. He would be concerned, for example, if the risk in holding some one account open was great or if the age of a particular account was excessive or his experience with it over time was poor. He would be concerned if the existence of a large amount of accounts receivables tended to prejudice the availability of his cash. He might, with varying degrees of anxiety, decide to shut his eyes

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[1] See the "Great Credit Pump" by Carl Reeser, Fortune, February, 1963.

to an occasional credit risk, because he considered the necessity of gaining a particular sale to be over-riding. All of these considerations are traditionally the concern of the manager looking at accounts receivables and at the granting of credit in a defensive manner.

But this defensive thinking is not in tune with the economic fact of life that credit is here to stay. It has become a medium of exchange enabling the freer passage of goods or services. It involves the prospect of future performance. Its acceptability rests, therefore, on the confidence between the participants to the transaction. In this light, credit is seen as a factor which enables the retailer to sell more and enables him to purchase more from which he can resell.

Some Approaches

Beckman and Bartels, in a book entitled Credit and Collections in Theory and Practice, suggest that we are coming to see credit as an economic utility in that it gives the would-be customer earlier "possession."[1] They see the management of credit to be making an active contribution to the earnings goals of the business. They believe that in very large measure a credit policy reflects favorably or unfavorably on the public image of a business. The fact that a credit policy directly affects the ability of a company to meet competition is already established. They argue that wise extension of trade credit might prove to be one of the most effective ways of utilizing the funds available to a company.

According to them the accounts receivables portion of a company's assets requires a totally new perspective. When one grants credit one is not financing an asset, one is financing a market. If through credit he believes customer desires can be converted into demand, accounts receivables should be seen as an investment, the payoff for which

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1/ Theodore Beckman and Robert Bartels, "Credit Collections in Theory and Practice," McGraw-Hill, New York, 1955, pp. 3-13, 35-49, 419-439, 576-587.

must be actively directed by the alert manager. That such direction will require an active effort is evident for buyers have been encouraged for a number of years to believe that credit is there for the taking and do not place adequate commercial value on it.

If credit is here to stay, and if accounts receivables are unavoidably growing, the farm supply manager should view his growing commitment in credit in terms of the implicit growth opportunities it presents. He might ask such questions as the following:

1. Is the amount of credit which I am granting to my customers contributing positively to the creation of more sales? If not, is there any way in which I can cause this credit extension to do so?

2. Have I talked over with my slow-pay customers the circumstances in which they may find themselves and which may lead to their tardiness in paying me? Could I help them with advice to solve some of their financial problems rather than assuming that I am giving them all necessary assistance by my patience with their accounts?

3. Have I made an objective examination of the effect of the terms I offer my customers on my sales and on my cash availability? Could they be altered to improve my cash position without endangering my sales? Do I know what I really need to offer by way of terms to protect my sales? Do I know what my competitors are offering? Am I granting terms to my customers more favorable than those which I am securing from my suppliers and if so, should anything be done to bring mine, or theirs, into balance? Am I receiving proper customer appreciation of more generous credit terms than available elsewhere?

4. What is it costing me to have as much cash tied up as is represented by my accounts receivables? How does this cost balance off against the alternative

of holding bigger inventories on my own premises and shipping out smaller orders to the slow-pay customers?

There is a growing tendency to perceive the prime duty of the sales function to be that of buying revenue for the company. Similarly the prime duty of the credit manager, or whatever function may be concerned with accounts receivables is increasingly thought of as assisting the maximization of sales dollars at as high an earnings margin as possible. Seen in this light the manager is in somewhat the same position as the banker who wants to loan his money in order to get a return for it, but is also most careful not to lend it where the risk outweighs the reward. Credit is granted as a calculated risk with the objective of gaining a benefit in return for services rendered.

Of course, the local manager must not overlook the need of defending against losses. In his procedure of managing accounts receivables, he will want to have credit information on each customer from the sales representatives servicing the account. He will likely have access to a commercial agency's rating of the customer, and he may wish to secure a report from either a mercantile agency or a credit interchange agency. Perhaps a local trade bureau will be able to advise him as to the credit references of the customer. On occasion, he will use a direct inquiry or use a direct mail questionnaire to discover credit reliability. And, he will likely have developed a relationship with his local banker or local attorney through whom he can make indirect checks to satisfy his concern.

The NACM Credit Managers Handbook lists 10 considerations which the alert manager will take into account as he determines the risk involved in his accounts receivables. These considerations include:

1. The size of the order.
2. The possibility of further business developing out of the initial order.
3. Past credit policies which color the attitude toward this and other customers.

4. The importance of the account to the business.

5. The risk which the customer himself faces in undertaking the purchase and the liability for payment it represents.

6. The relationship between the reward to the manager and the risk he is incurring by selling the particular account.

7. The total exposure and risk for the business as the amount of accounts receivables accumulate.

A farm supply manager can become wedded to a particular account in somewhat the same manner as an investor becomes wedded to a particular stock. Rather than contempt, one can breed paralysis through familarity.

If the manager is actively directing his accounts receivables he will also be aware that they can be used as a source of working capital. Against their value he can usually borrow up to 80 percent, less the amount of any discounts he has offered the customers represented, from most banks. Such a loan at one time was considered to be an evidence of weakness by the borrower--an inability to secure finances in any other way. It is no longer so regarded, but rather as an intelligent way to secure money on short notice and for short periods of time at a favorable rate. For example, the alert manager will borrow against his accounts receivables to be able to take discounts in his accounts payables which he would otherwise miss. This type of borrowing is characteristic of companies growing at a rate faster than contemplated when they assumed their longer term indebtedness.

Accounts receivables are being sold to "factors" in increasing degree as an alternative to using them as security for bank loans. In contrast to the typical bank relationship, a factor company will buy the accounts receivables at a discount from the manager, and will then assume the responsibility for collections. Because of the risk which the factor

assumes, and because of the service implications of managing the accounts, it is normally more costly to do business on a factoring basis than through the use of the more traditional bank loans.

Nevertheless, factoring of accounts receivables is attracting attention as a means of transferring to a financially sophisticated company the responsibility of managing credit--particularly where the local manager has no taste or skill for this job. The company which purchases accounts receivables will typically ask for complete financial statements over a number of years from the principal company. Current operating statements and balance sheets, a complete accounting of old accounts receivables and accounts payables, an inventory of machinery and equipment lists showing original costs and current values, a cash budget projection, details of all real estate transactions--in effect, a complete financial reporting of the business will usually be required.

In some cases, and particularly for farm supply managers, the necessity of preparing such a financial review is of great advantage. There might not otherwise be reason to make an exhaustive assessment of the company's financial position, though a manager should be encouraged to do this at intervals.

Another alternative is to cooperate with commercial banks, PCA's, credit unions, and other local credit sources in developing appropriate production and cost of living credit programs for their customers or patrons. PCA's have offered "over the counter" loans for production items for some time and commercial banks are increasingly interested in financing total credit needs rather than just those parts on which they can claim a chattel.

Whether the manager prefers to use his accounts receivables as temporary equity or whether he prefers to factor them, the significant point is that this is an asset which he can use when needed. It is a challenge to him to maintain his receivables in as healthy a state as possible in order that they can be converted to working capital when needed.

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PROBLEMS FOR DISCUSSION

Processes of Management

George Ferguson is the respected and able manager of the J. & F. Enterprises, Inc., an independent cooperative which operates a service station, hardware store, and feed and seed outlet in a rural town of about 7,500 population, serving a market area of about 30,000 persons. He has been given approval by his board of directors for a bulk propane installation on the company's premises, plus two tank trucks to make propane deliverties to rural customers.

He has decided he must have help with the new venture, and has just appointed a new assistant manager with responsibility for developing the propane business, and for assisting him generally as time permits.

The area served by J. & F. is enjoying rising economic prosperity, but the company's sales have not increased proportionally over the past 5 years. With extra assistance, Ferguson believes that sales can be increased, adding new products and services if need be, but primarily by working more vigorously with present products.

The board has advised him that they would rather see new blood added than make an appointment from within. So Ferguson has hired a young man named Dale Reynolds, who has been trained for management by J. & F.'s largest supplier, an enterprising and profitable manufacturing firm, which recommends him highly. Reynolds has had prior experience with a manufacturer and wholesale distributor of propane gas and has shown good understanding of this business. The board is pleased with the appointment, salary terms have been agreed upon, and Reynolds is to start work tomorrow morning.

What are the points Ferguson should cover with Reynolds to gain most benefit for J. & F. from this appointment?

Marketing

Dale Reynolds, assistant manager of J. & F. Enterprises, Inc., is much impressed by the compact size, simplicity, sturdiness, and comparatively low price of a line of power tools designed, manufactured, and sold for hobbyists by an old classmate of his in a major city in the next state. The tools enjoy a brisk and growing sale direct to dealers in the city and nearby towns. None have appeared as yet in J. & F.'s home state.

Reynolds has already pointed out to his manager that sales of products and services directly related to recreation are growing substantially across the nation. U. S. Department of Commerce statistics show that hobbies account for a large share of the growth. Reynolds feels that there could be an opportunity here for J. & F.'s expansion. He suggests that he could get an exclusive distributorship arrangement with his old friend's firm for the market area J. & F. now serves or beyond, if desired.

He argues that the hobby tools would broaden J. & F.'s sales appeal to town residents whose purchases now represent only about 10 percent of the company's total revenues. Rural customers account for 90 percent and Reynolds believes that some of the larger farmers would be interested in the hobby tools.

In talking over the idea informally with J. & F.'s hardware supervisor and a member of the board, with whom Reynolds has become friendly, he finds enthusiastic interest.

What are the considerations which must be weighed to determine whether or not J. & F. should begin to sell hobby tools as an exclusive distributor?

Pricing

J. & F. Enterprises, Inc., has gained exclusive selling rights in its market area for a new chemical fertilizer developed by a research-minded manufacturer who has limited marketing strength. It combines a surprisingly wide range of applications with certain disease-inhibiting properties. To the best of manager George Ferguson's knowledge, no other product available on the market is as versatile. Thus, it offers the possibility of reducing the frequency of applications--and the expense involved.

Advice given him by independent informed sources is that the product should have at least a year's lead time before any competitor can effectively reproduce it. Patents have been applied for covering certain aspects of the process of its manufacture.

Several of J. & F.'s directors believe that a premium price should be charged for the product, arguing that its versatility represents more value than that offered by competitors. The cost to J. & F. is actually less on a per unit basis than the company has to pay for similar products and this increased margin would give additional dollars for marketing. Other directors argue that this cost saving should be passed on to J. & F.'s customers. In fact, the announcement of a <u>lower</u> price for a new product, which offers more than its competitors, might give J. & F. the lion's share of the market, according to their reasoning.

George Ferguson has pointed out to his board that there is no assurance of patent protection and no guarantee that a competing manufacturer might not come up with a similar product soon. In any event, to explain the virtues of J. & F.'s new offering will entail increased sales expense, and possibly some initial advertising investment.

In the past, J. & F. has followed a policy of marking up their products by a fixed percentage for each of several categories, considered sufficient to recover their costs

and show a modest but consistent earnings margin. At the present time a number of new ventures have placed some strain on the company's working capital so that the board is interested in finding increased earnings.

A decision is to be made regarding the pricing for the new product. Alternatives open are to (a) ask a premium price; (b) meet the price of products considered competitive; or (c) announce a lower price than is generally the trade's pattern.

Can an argument be developed in support of each alternative? Under the circumstances, which of the three choices would the board be advised to make?

AN "IN-BASKET" EXERCISE

Notes for Instructors

1. Instruction in decision making and effective use of time is a logical precursor of class participation in the in-basket experiment.

2. The situation should be distributed first to class members, permitting them sufficient time to gain some feeling of the urgency we have sought to create. The instructor can emphasize this feeling by announcing the strict time limits which will be observed.

3. The contents of the in-basket can then be distributed, one set in an envelope to each participant, but not opened until the instructor signals the class to begin.

4. A minimum of 20 minutes should be allowed for reading the contents and deciding upon appropriate action to be taken. Greater or less time may be predetermined by the instructor depending upon his knowledge of his class--but all participants should start and finish together on the instructor's signal.

5. Each participant should write on each item in his basket, as precisely as possible, the disposition he wishes to make of it.

6. Immediately upon the finish signal from the instructor each participant should replace his papers in the envelope, mark the envelope with his name to permit him to recover it later--and pass it at least two or three places to his right.

7. Each participant should then open the new envelope and appraise the decisions made according to the scale below. His comments supporting the appraisal should be written on a separate sheet and enclosed with the papers in the same envelope when completed.

8. The appraised envelopes should then be passed a second time two or three places to the right for a second appraisal, repeating step 7.

9. Having been appraised twice, the envelopes should be returned to their original owners. The instructor should allow 10 to 15 minutes for each participant to study the comments made by his associates before opening general discussion.

10. Questions which the instructor may find useful include:

- which participants allocated a priority order for handling the contents? Examples?
- what reasoning supported the priorities?
- what consequences may be predicted to arise from some of the decisions made?
- did any participants recognize alternatives--and reject them? Why?
- did the participants delegate to the degree possible?
- did they retain their discretion and initiative as "Dale Reynolds" or surrender to the pressures inherent in the correspondence?

In general, the discussion will likely revolve around differences in handling the situation described. When each participant has had an opportunity to study the two appraisals made of his decisions, he may wish to challenge them or defend his actions. The instructor can guide such discussion for the benefit of the total group. However, the participants should be allowed to draw their own conclusions.

The instructor will want to emphasize that the question of whether or not there is "enough time" is purely relative. In confronting any decision, the manager has all the time there is. How he employs it is revealing of the effectiveness of his management. For many, there is never "enough" time.

Suggested Scale for Appraisal for Use by Participants

In considering the disposition made of the total items in the basket, what degree of evidence do you find, on a scale of 1 to 10 points, of each of the following criteria?

		First Rating	Second Rating
1. Determining priorities for attention--giving first attention to those items involving the greatest risk or reward, last to those involving least.	1.....to.....10	______	______
2. Concentration upon those items requiring managerial attention, disregarding those which could properly be neglected.	1.....to.....10	______	______
3. Willingness to delegate those items which could properly be delegated.	1.....to.....10	______	______
4. Adequate recognition of the consequences of the decisions made.	1.....to.....10	______	______
5. Speed and decisiveness in identifying what needs doing--spending minimum time in re-reading, re-sorting, re-phrasing.	1.....to.....10	______	______
TOTAL POINTS ASSIGNED	5.....to.....50	______	______

NOTE: Be prepared to discuss in class, if the participant whose decisions you are appraising requests it, your reasons for the high or low rating you have made.

Name of First Appraiser ____________________

Name of Second Appraiser ____________________

The Exercise

The Situation

You are Dale Reynolds, assistant manager of the J. & F. Enterprises, Inc., reporting to George Ferguson, whom you have assisted generally with the management of the company for the past 6 months. Last week the board approved your personal recommendation that J. & F. should become the franchised distributor of Peerless power hobby tools, and you traveled to Madison, Wisconsin, to conclude arrangements with Peerless management last Wednesday. Having a hardware merchandising background, you have high hopes that this new line will be a winner for J. & F., and you want to prove this to the board and to your boss.

Ferguson had asked you to go on to Chicago Thursday night to talk with the Amherst Chemical Company about speeding up deliveries of the new multipurpose fertilizer which J. & F. has just started to distribute. He is concerned that some competitor will introduce a similar line soon, and wants to take full advantage of J. & F.'s lead time.

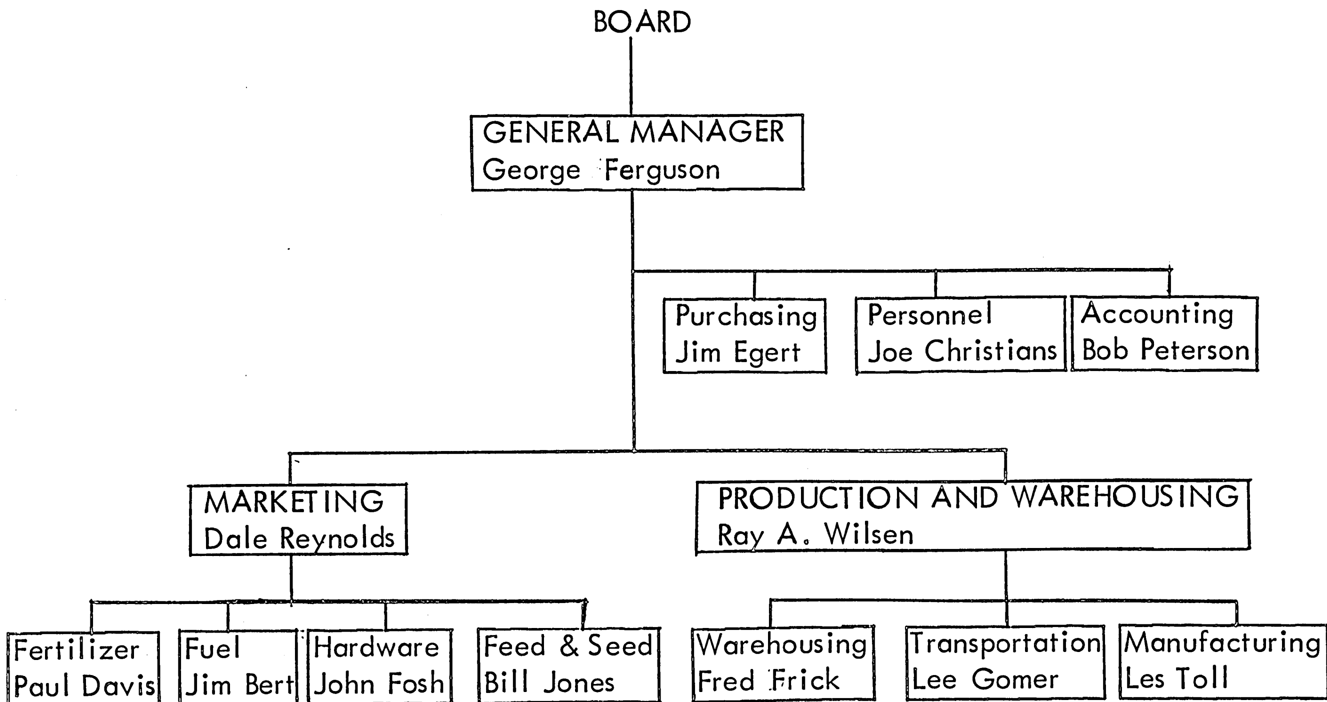
You have completed both assignments and returned home late Friday night.

It is now Saturday morning, September 11, and you must leave again for the airport no later than 11:30 a.m. to board a plane for San Francisco. You have agreed to speak to a U. S. Department of Agriculture management conference there Sunday. Following your address, you have planned to take advantage of the expense-paid trip to spend Monday and Tuesday discussing hobby tool promotion and distribution methods with some successful distributors in San Francisco. Your return flight leaves San Francisco Wednesday morning, bringing you home about 6:00 p.m.

At 10:30 a.m., one hour before departure deadline, you have come in to the office to take a look at the mail and dictate reports on tape concerning your Madison trip for your secretary to transcribe Monday and pass to Mr. Ferguson.

J. & F. ENTERPRISES, INC.

Present Organization



The "in-basket" contains the items that follow. For classroom use each item should be on a separate piece of paper.

Dear Boss:

Bad news from home. Dad is very ill and I've had to go to St. Louis until my sister gets there Monday. Will be back on the job Tuesday morning. Helen can come in Saturday if you want her. Her number is 232-4486. And you can get me at GE 7-4211 in St. Louis, if you can't find things.

I'm sure everything is in good shape. Nothing to worry about till Thursday.

Mr. Ferguson wanted to know what time you'd be back Wednesday since our two out-of-town directors will be here and he'd like you to join the three of them for dinner at 7:30 if you get back from the airport in time. You can tell Helen. Don't think it was anything really urgent, but he didn't say.

The mail is in the basket. There are two memos from Mr. Ferguson and a grievance from Fertilizer. You should sign the pension card because Joe wants to send all applications to the insurance company by next Friday--and you won't have much time Thursday!

Dorothy (Secretary)

Telephone Message:

Call from: Bud Winter, Rotary

Date: 9/7/65

Message: Will you introduce speaker at the meeting on Sept. 17?

Telephone Message:

Call from: Subscription Agency

Date: 9/7/65

Message: Do you want to renew your subscription to Fortune?

Telephone Message:

Call from: Insurance Agent

Date: 9/7/65

Message: When can he see you to review your insurance program. Call him at office (647-3655) or home (484-3613).

Telephone Message:

Call from: Purchasing

Date: 9/8/65

Message: Want to talk with you about installation of intercom system.

Telephone Message:

Call from: G. Ferguson

Date: 9/9/65

Message: He'll be at office at noon Saturday and would like to see you if time permits.

J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Dale Reynolds, Assistant Manager — Sept. 1/65

FROM: Personnel

SUBJECT: Pension Plan

The Insurance Company has now approved the new J. & F. Pension Plan, and enrollment is open commencing September 6.

We believe all details have been covered in the meetings during August with each J. & F. employee. If you have any questions we will be happy to supply further information. Otherwise, please fill in the attached application card and return it to Personnel.

Sincerely,

Joe

- -

ABC MARKET RESEARCH, INC.

St. Paul
Sept. 6/65

Mr. Dale Reynolds

Dear Mr. Reynolds

Under separate cover we are pleased to send our report on the market potential in the upper midwest for multipurpose fertilizer. Due care has been exercised to ensure that no one could identify the sponsor of the study.

Despite the need for haste, we are satisfied that our findings are fully supported, and we look forward to discussing these with you.

We understand that the first meeting is to be with you, and that you will then schedule a presentation to Mr. Ferguson and the board. What date will be convenient for you?

Sincerely yours,

Dick Gardner

GRIEVANCE

Tuesday, 9/7/65

I charge that foreman Adamson has violated section 3 of Article 4 of the agreement by refusing to permit me to transfer to the mixing job at a higher rate of pay when I have the most seniority and I previously did the work during vacation.

Frank Smith

DISPOSITION: Friday, 9/10/65

Referred to Mr. Reynolds. This man makes too many mistakes to put on this important job.

Bill Jones
Feed & Seed

- -

INTERSTATE HARDWARE MANUFACTURERS' ASSOCIATION

Des Moines, Iowa

Tuesday, 9/7/65

Mr. Dale Reynolds

Dear Mr. Reynolds:

The 1965 Conference Committee of the Association would be honored if you could speak to the General Meeting here in Des Moines on October 15. Several of our members have enjoyed hearing you speak in the past and we know of the good work you and your company are doing in hardware distribution.

Please let us know if you can consider this invitation. Our program chairman will then arrange to visit you, if the answer is affirmative.

Sincerely yours,

Edward Teller
Executive Secretary

J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Dale Reynolds — Wednesday, 9/8/65

FROM: George Ferguson

SUBJECT: Propane Truck Bids

The two bids we have already received for the new propane tank trucks look encouraging. But I still think they're a little high. Please arrange for bids from two other suppliers, and let's see if we can't knock the price down another 5 percent.

George

- -

J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Mr. Dale Reynolds — Wednesday, 9/8/65

FROM: Purchasing

SUBJECT: Bulk Tank Installations

After looking over the four locations you suggested, we have pretty well agreed on the two at the south end of the state as our first priorities. Our best chance of increased sales seems to be there. If you'll give us the go-ahead, I think we can have the tanks into operation by October 15.

Jim

J. & F. INTEROFFICE MEMORANDUM

CONFIDENTIAL

MEMO TO: Dale Reynolds Thursday, 9/8/65

FROM: George Ferguson

SUBJECT: Organization Chart

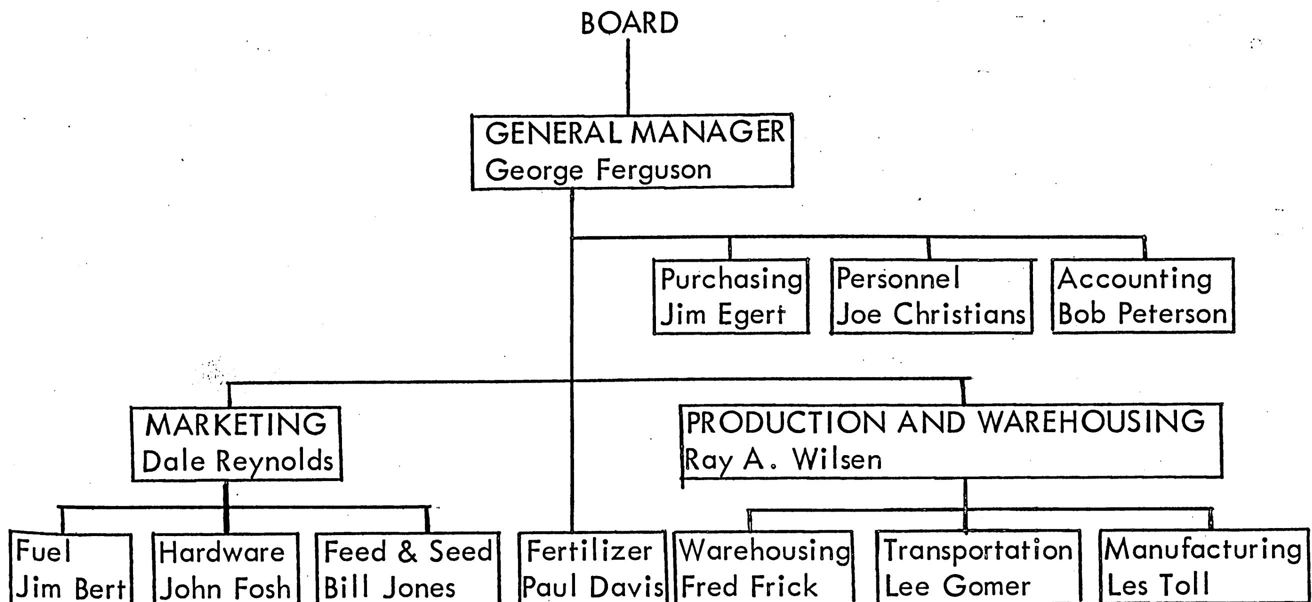
Please take a look at this rough draft of the organization chart Personnel has submitted and let me have your comments.

As you know, I'm depending on you to put our hardware and propane business on the map, and I'm inclined to think we may be asking too much to have Fertilizer report to you also. If Davis reported directly to me, this might be the answer. He shows a lot of promise and might do a great job if we gave him full responsibility.

Please let me have your comments.

J. & F. ENTERPRISES, INC.

Proposed Organization



J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Dale Reynolds, Assistant Manager — Thursday, 9/9/65

FROM: Jim Bert, Fuel Division

SUBJECT: Propane Sales

We have an interesting situation in Territory 4. Our new propane truck went into service on July 26 as scheduled and I've been busy signing up new accounts. It looks quite promising, because we're ahead of budget.

However, the Excelsior boys are really upset about our muscling into their territory. I bumped into their sales manager and the local rep at dinner the other night, and they're fighting mad. The brass claims that our policy of round-the-clock service is cockeyed, and he says they're going to cut their prices right away to show their customers that they're paying extra for the 24-hour service we're telling them is J. & F.'s way of doing business.

Should we take another look at our prices? This could be a real wrestling match.

FRIDAY SEPT 10 1965 5:30 PM — WASHINGTON — PHONED

DALE REYNOLDS
J. & F. ENTERPRISE, INC.
MINNEAPOLIS, MINN.

BIOGRAPHICAL SKETCH TO INTRODUCE YOU SUNDAY MORNING NOT YET

RECEIVED STOP PLEASE INSTRUCT US

SAUL DOAN
DEPT. OF AGRICULTURE

J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Dale Reynolds — Friday, 9/10/65

FROM: George Ferguson

SUBJECT: Power Tools

The President tells me he has some second thoughts about our franchise arrangements with Peerless. Only two directors voted against it at the board meeting last week, as you know, but I guess they have been talking to him in the meantime.

I know you believe that Peerless has more to lose than we do. Please confirm my understanding that we would not be required to make any deposit. You have all the papers with you, but I believe you proposed that our only expense during the trial period would be sales time equivalent to one additional salesman for the three months.

Bill has called a board meeting for next Friday, and I'd like to have your report on the Madison discussion in time to get our ducks in a row for the meeting. I know this means a lot to you, and I think we still do have the majority of the board in favor. We certainly want them all with us, if possible.

George

- -

9/8/65

Mr. Dale Reynolds, Assistant Manager
J. & F. Enterprises, Inc.

Dear Mr. Reynolds

I will begin a special course for farmers next month. One of the subjects which I hope to cover is in the area of farm supply businesses. Would you send me all of the pertinent information which you feel I should cover in such a course to farmers. Thank you very much.

Homer Sueter
Vo-Ag Teacher
Randolph High School

J. & F. INTEROFFICE MEMORANDUM

MEMO TO: Dale Reynolds 9/8/65

FROM: John Fosh

I have been giving some additional thought to the hobby tool distribution problems which you and I have discussed from time to time. While I can fully appreciate the need to put on someone in sales to give the necessary emphasis to this product line, I still feel that the product could be handled satisfactorily in my division. If sales were in my division we could coordinate all of our sales efforts in the hardware department more efficiently.

I understand that you are leaving Saturday morning and I would like for you to call me at home (722-6017) before you leave so that I might discuss a sales plan that I have developed for hobby tools. Also, perhaps it would be useful for me to join you in San Francisco on Monday and Tuesday when you will be discussing the distribution of hobby tools with leading distributors.

John