1928

Cost of Handling Small Orders and Accounts

Howard C. Greer

Institute of American Meat Packers

The Cost of Handling Small Orders and Accounts

by

Howard C. Greer

Issued by
Institute of American Meat Packers
Department of Organization and Accounting
506 South Wabash Avenue
Chicago, Illinois

This booklet is the second of a series presenting the results of studies of the costs of distribution in the meat packing industry. The first of these bulletins, under the title "What Does It Cost You to Sell and Deliver Your Product?" was issued in August, 1928. A third bulletin, relating to the scattering of retailers' purchases, is now on the press, and a fourth, dealing with the costs of distribution for car routes and less-than-carload freight shipments, is in preparation.

These booklets were printed for circulation among our members and were not given any general distribution. As a courtesy, however, we have sent copies of "The Cost of Handling Small Orders and Accounts" to inquirers for their personal information, but in each case we have requested that the material not be quoted or republished in any form except after further reference to this organization. On that condition we are glad to send you a copy herewith, and will ask that if you place it in your library you restrict its use in the manner indicated.

Printed in U. S A.

The Cost of Handling Small Orders and Accounts

One of the difficult problems met in recent years by manufacturers and wholesalers in all lines of business is the increasingly large number of small orders and small accounts found on their books. The supposed practice of hand to mouth buying has been blamed by many business men for the shrinking size of the average sale and, by implication, of the smaller aggregate purchases of the individual customer. Evidence is beginning to accumulate, however, to show that competition among the manufacturers for the retailer's business, resulting in a scattering of purchases over a larger number of supply houses, is at least partly responsible for this condition. Studies are now being made in many lines to determine the exact extent of small order and small account buying, its causes, and its cost

It has been the impression among many people in the packing industry that there are too many small orders handled and too many small accounts on the books. The correctness of this impression has been strikingly demonstrated by the first portion of a study on the subject now being conducted by the Institute of American Meat Packers. The findings—presented in detail in this booklet—bring out such startling facts as the following:

> The meat and produce purchases of a single consumer family of normal size probably amount to more than the purchases of one out of every three or four retailer customers of a packinghouse branch or wholesale market.
>
> While the average order received by a packinghouse distributing agency may be $30 or more, about one-fourth of all orders are for less than $5, and one-half or more are for less than $15.
>
> In a typical branch, 5 per cent of the accounts produced one-third of the total volume, and 20 per cent of the accounts produced two-thirds of the total volume. Half of the accounts were so small that they produced altogether only 4 per cent of the total volume.
>
> The cost of distributing to small customers runs

in some cases as high as $35 per hundred dollars of sales, or nearly twenty times the proportionate cost for the largest accounts. Nearly half of all the accounts handled show costs of over $10 per hundred dollars of sales.

These facts were developed by the intensive examination of the records of two branch houses for a brief period during the summer of 1928. The number of cases studied is so small and the period of time covered so brief that the results cannot be presented as *proving* the widespread existence of conditions such as those quoted. It is the opinion of all packinghouse men consulted on the subject, however, that the instances are typical, and such collateral information as is available supports this conclusion. It seems probable, if not certain, that a corresponding study in other companies and for other recent periods, would produce similar results.

The situation existing is one of sufficient importance to command the thought and attention of every packinghouse executive interested in the distribution of his product, and to suggest the study by each concern of its own small order and account problem if one exists. A remedy for the bad features of the situation may not be easy to find, and an intelligent attack on the problem must be based on a thorough knowledge of the facts in each individual case.

The purpose of this booklet is to describe what was done in the study in question, as a suggestion of the methods which may profitably be followed in similar analyses by other companies; also to present the more significant features of the information obtained from the study, as an illustration of the type of data which may be secured through such methods, for utilization in determining sales policies.

Scope and Purpose of the Study

In line with the policy of the industry to place the production and merchandising of meat products on the most efficient possible basis, there was set up in the Institute a Commission on the Elimination of Waste, under the Chairmanship of Mr. F. Edson White. This Commission is composed of a number of groups, one of which deals particularly with distribution problems, and another with problems of accounting and finance. At a meeting of the Section on Wastes in Distributing and Selling considerable attention was given to the losses resulting from small order buying, and as a result the co-operation of the Section on Accounting and Finance was sought. To determine the probable extent of costs and expenses from this source, it was decided to undertake an illustrative study of the experiences of several different packing companies in respect to small orders and small accounts.

Two large packing companies were asked to open the records of one of their branch houses to a representative of the Institute and to furnish him with such clerical assistance as might be necessary for the study. These two companies complied and to their co-operation is due the collection and presentation of the information contained in this bulletin.

Other companies were asked to furnish similar assistance in a study of costs of distribution by car routes, in less than carload deliveries, and in local distribution direct from plants. This latter portion of the study is still going forward and will be reported on separately at a later date.

The study in the branch houses had two distinct objectives, as follows:

(1) To determine the relative number of small orders and small accounts and the relative volume produced by such orders and accounts;

(2) To determine the cost of handling each type of business, for comparison, if possible, with the margin secured on that business.

The first of the two objectives mentioned above was gained with little difficulty. The orders of each branch for a given period were classified by size, and the total number and volume in each group were computed. The open accounts with customers for the same period were then similarly classified and corresponding number and volume figures were compiled.

The determination of the cost of handling was a considerably more complex matter. It was necessary to classify and distinguish the functions performed by the branch house, to calculate the cost of each function in terms of some satisfactory unit of measure, and then to allocate the costs according to the individual orders and accounts. It developed that the cost by orders was an unsatisfactory measure and attention was, therefore, concentrated on the cost of handling each account. Details of the method of allocation, as well as the results and findings, are given in subsequent sections of this book.

The results for the two branches are shown separately in each of the tables which follow, the two organizations being referred to as Company A and Company B. All figures presented cover a single four weeks' period which coincides roughly with the calendar month of July, 1928.

In order that the outstanding characteristics of the two branches may be readily apparent, there is presented in Figure 1

Summary of Operating Results
Two Branch Houses—Month of July, 1928

(Data in Round Numbers)

	Company A	Company B
Sales—Weight	665,000 lbs.	435,000 lbs
Sales—Value	$150,000	$100,000
Gross Margin	$ 5,635	$ 3,930
Expenses (exclusive of interest on investment)	5,475	4,210
Profit or Loss	$ 160	$ 280*
No. of Full Time Employes	21½	15
No. of Customers' Accounts	375	200
No. of Orders	4,280	3,080
Size of Average Account	$ 400	$ 500
Size of Average Order	$ 35	$ 32.50

*Loss.

Figure 1

an abbreviated summary in round figures of the results for the period in question. It will be noted that the Company A branch is approximately half again as large as the Company

B branch studied; that both branches have the same general characteristics as to the relationship of volume, prices, expenses, number of employees, etc.; and that both are representative in size and other characteristics of what may be considered as fairly typical distributing agencies handling meats and other packinghouse products.

Small Orders—Number and Sales Volume

The average order placed with the branch house by its retailer customers was, as will be observed from Figure 1, between $30 and $35. This average is obtained by dividing the total volume of sales in dollars by the number of orders handled by the branch. It does not follow from this, of course, that all or any large portion of the orders fall into this particular class. It was found, in point of fact, that the size of the individual orders extended over a wide range. Some orders were for less than $1; some were for more than $200. There were a substantial number of orders of almost all sizes in between these extremes.

When the orders were grouped according to size, the immediately outstanding fact was the number of small orders handled. This is shown graphically in the first and third columns in the table given as Figure 2. The orders of less

Relative Number of Small Orders with Sales Volume Produced by Them

	Company A		Company B	
Size of Order	Per Cent of Total Orders	Per Cent of Total Volume	Per Cent of Total Orders	Per Cent of Total Volume
Less than $ 5	22.4	1.9	25.2	2.3
Less than 10	39.1	5.5	43.7	6.6
Less than 15	50.5	9.6	54.7	10.9
Less than 50	80.7	34.8	82.9	35.6

Figure 2

than $5 constituted almost one-fourth of all the orders handled; the orders for less than $10, about two-fifths; the orders of less than $15 over half. In other words, despite the fact that the average order was between $30 and $35, the median or middle order in the list, when all orders were arranged according to size, was less than $15. The predominating number of small orders handled is at once apparent.

In spite of the great number of these orders, the volume which they produce is relatively small. The second and fourth columns of Figure 2 show this. Orders of $5 and less make up only about 2 per cent of the total business; the orders of $15 and less make up possibly 10 per cent of the total volume. Even when all the orders of less than $50 are taken—and this includes 80 per cent of all orders, or four out of five—still there is only about one-third of the total volume accounted for. The last fifth of the orders, in other words, accounts for practically two-thirds of all the business done.

Small Accounts—Number and Sales Volume

It may well be questioned whether the fact that there are many small orders handled is in itself of the greatest significance. Good customers, admittedly, may sometimes buy in small quantities. Additional and fill-in orders might possibly account in part for many of those falling into the lower brackets.

When the customers' accounts of the branch were similarly classified, however, the same sort of volume tendencies were at once unmistakably evident. The tabulation given

Relative Number of Small Accounts With Sales Volume Produced by Them

	Company A		Company B	
Size of Account (Monthly Volume)	Per Cent of Total Accounts	Per Cent of Total Volume	Per Cent of Total Accounts	Per Cent of Total Volume
Less than $ 25	19.9	.6	19.9	.5
Less than 50	32.7	1.7	30.8	1.3
Less than 100	49.2	4.7	42.3	3.0
Less than 200	63.8	9.7	53.7	6.3

Figure 3

as Figure 3 shows the relatively number and volume of the small accounts. Those amounting to less than $25 in a month represented practically one-fifth of all the accounts; those of less than $50, one-third; and those of less than $100 almost one-half. It is apparent that not only the individual orders are small but the total purchases of most of the accounts are also small.

An account of $50 a month means purchases of about $2 a day. Many single consumer-families spend as much as that daily for meat and other packinghouse products. The wholesaler of meat could, in other words, sell direct to the consumer and (if he obtained the entire trade of the household) secure practically as large a volume of business as he now gets from one-third of his accounts. It is not to be inferred, of course, that such practice is recommended; quite the contrary. The fact is a noteworthy one, however, as illustrating the meager size of the accounts furnished by most packinghouse customers.

The volume produced by these small accounts is almost negligible. The accounts of less than $25 made up about one-half of one per cent of the total sales of the branches, though such accounts constituted one-fifth of all accounts sold. The accounts of less than $50 made up less than 2 per cent of the total volume, though such accounts were one-third of the number of all those on the books. Even if all the accounts up to $200 a month in size were grouped together—and this is half, in one case almost two-thirds, of all the accounts—still the volume secured is under 10 per cent of the total volume.

It is clear that the situation which has developed is one in which the packing company branch house organization, operated as a wholesale unit, is conducting a business which has the price and service characteristics of a wholesale enterprise but is obtaining from many of its customers a volume which is comparable to that of a retail store. The costs of handling such trade are, as will be seen later, also comparable with retail selling costs, yet the branch house is obtaining nothing like a retailer's margin to compensate for the incurrence of these costs.

The fact is made more striking by the clear evidence that the many small customers cultivated by the branch house produce in the aggregate a negligible volume of business. This is illustrated by the double bar chart given as Figure 4. In this chart, the accounts of each branch were divided into 20 groups according to size (providing 10 accounts to the group in one case, and 19 in the other). The height of the bars indicates the volume of sales obtained from each group of accounts. Comparison of the bar heights with the horizontal scale divisions will show the percentage of the total volume coming from each group. (It may be observed than the total

Sales Volume by Groups of Accounts Ranged According to Size of Account

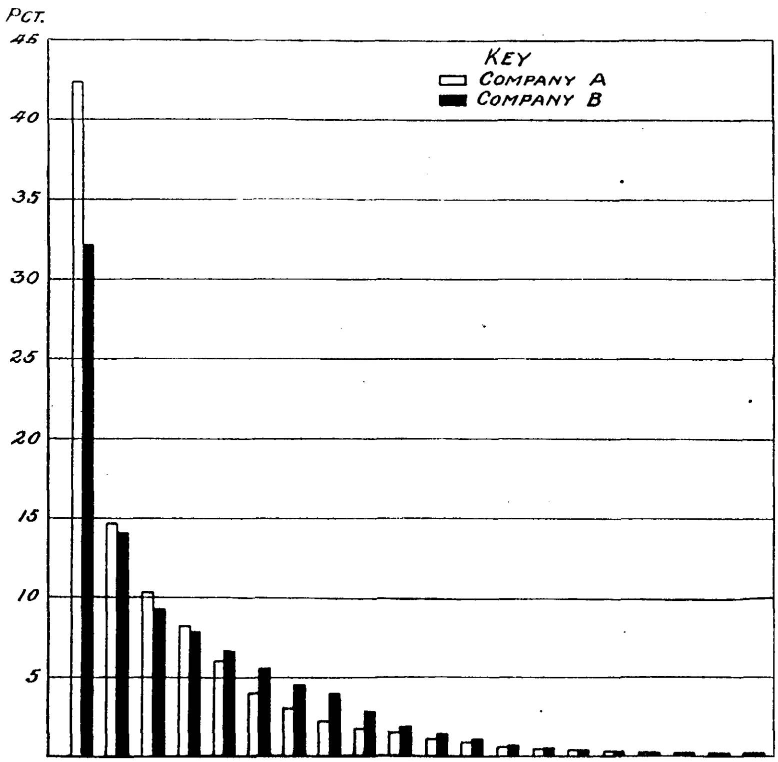

Figure 4

of these percentages does not add up to 100 per cent, the difference of 5 per cent in one case and about 2 per cent in the other case being accounted for by cash sales to retailers at the branch, sales to employees, etc.)

Branch House Expenses—Division by Functions

The second objective of this study was, as previously noted, the determination of the cost of handling orders and accounts of various sizes. It is readily apparent that certain costs incurred are as high in the case of a small order as in the case of a large one. It takes practically as much time, for example, to deliver a dollar's worth of goods as to deliver a hundred dollars' worth of goods; the salesman's call is no more expensive when he secures a large order than when he receives a small order, or even no order at all. The cost of handling an account must, then, be computed on the basis of the various elements of service rendered.

The first step in calculating costs in these terms was to establish what functions are performed by the branch house in selling and distributing goods to customers. It is evident that if the various functions can be satisfactorily distinguished, and the cost of each function accurately determined, it remains only to discover what amount of functional service is required by each account to calculate the cost of handling that account.

For the purpose of this study, it was decided after some examination that the following functions should be recognized: (a) order taking (b) packing and loading (c) delivery (d) sales bookkeeping (e) credits and collections (f) receiving, storage, and intra-branch handling and branch supervision (g) general overhead. It may be noted that the above divisions do not include interest on investment, which was set up separately and not treated as an actual expense, its bearing on the problem at hand being negligible.

With these functions established, an analysis of the expense of the branch was made to determine the cost of performing each function. The normal accounting classifications employed by the company were disregarded, and each item of labor or other expense was divided by functions in accordance with the actual purpose of the expenditure. Outside salesmen's salaries, for example, were recognized as chiefly a selling expense, but with certain fractions charged as collection costs, product-receiving costs, or otherwise, in accordance with the actual employment of the salesmen's time. Where necessary, rough time studies were made to find out how a given individual spent his day. Many of the branch employees were found to perform several different functions at various times and the expense represented by their salaries was divided among the functions accordingly.

The total cost of each function in cents per cwt. of product handled is shown in the first and third columns of the table given as Figure 5. The percentage which each functional cost is of the total costs is also shown in this table, in the second and fourth columns.

Analysis of Branch House Expenses by Functions

	Company A		Company B	
Function	Per Cwt.	Pct. of Total	Per Cwt.	Pct. of Total
Order Taking	$0.24	29.1	$0.25½	26.3
Packing and Loading	.06	7.4	.07	6.9
Delivery	.14½	17.6	.17½	18.1
Sales Bookkeeping	.08	9.3	.08	8.0
Credit and Collection	.05	6.0	.05	5.4
Handling and Storage	.20	24.8	.24	24.9
General Overhead	.05	5.8	.10	10.4
Total Expense	$0.82½	100.00	$0.97	100.0
Interest on Investment	.04		.11	
Total All Charges	$0.86½		$1.08	

Figure 5

It will be observed that the experience of both branch houses was similar in respect to most items. As an approximation of what appears to be the typical distribution, it might be said that order-taking constitutes one-fourth of the total branch expense; packing, loading, and delivery another fourth; sales bookkeeping, credits and collections, and general overhead, another fourth; and branch house handling and storage of product, including branch local management, another fourth.

Costs in Functional Units

The next step in allocating distribution costs to the various accounts and orders consisted of identifying the factors which appeared to govern each class of expense and of determining the unit cost for each factor. When this was attempted in the case of individual orders, the cost allocation was found to be so arbitrary as to make it practically valueless. When the customer's accounts were similarly studied, however, it was found that a large portion of the branch house expenses could be applied directly to the individual accounts on the basis of some readily determined service factor.

The cost of order taking, for example, was found to consist of the cost of a certain number of personal calls by salesmen, plus a certain number of phone calls by salesmen, plus a certain number of visits to the branch house by the customer. The total expense of such of these services was calculated and the cost per call or visit was then computed. In a similar way the cost per item for packing and loading, the cost per delivery for delivered product, the cost per order and per item for sales bookkeeping, and the cost per account for collection expenses were accurately calculated.

The unit costs for these various factors in the two branch houses examined were set forth in the table given as Figure 6. It will be observed that on most items the experience of both branches was approximately the same. The similarity is particularly marked in the case of salesmen's calls, packing and loading, deliveries, and bookkeeping expenses. The differences in the case of phone calls, house visits, and credit and collection expenses, were not accounted for fully in the examination, but are presumably due to differences in operating conditions and selling policies of the two branches.

It will be noted that the expense of receiving and storing product in the branch house has been applied merely on the basis of the volume of sales, and that a portion of the general overhead expenses have been similarly allocated. Such an apportionment is, of course, purely arbitrary and signifies very little. If a major portion of the expenses had to be distributed in this arbitrary manner, the value of the analysis would be very doubtful. One of the things which lends strength to

Branch House Expenses in Functional Units

Function	Unit in Measure	Costs in Cents per Unit Co. A	Co. B
Order Taking			
Personal Calls	No. pers. calls	41.3	41.4
Phone Calls	No. phone calls	17.7	10.7
House Trade	No. visits	39.1	21.4
Packing & Loading	No. items	4.3	3.8
Delivery	No. deliveries	40.1	38.2
Sales Bookkeeping			
Orders	No. tickets	2.6	2.3
Items	No. items	4.2	3.4
Credit & Collection			
Expenses	No. accounts	38.8	50.2
Bad Debt Losses	Variable (note)	—	—
Handling & Storage	$100 of sales	91	105
General Overhead			
Selling	$100 of sales	19	37
Accounting	No. accounts	11.7	37.5

Note—Bad debt losses were found to vary with the size of the account, a rough grouping showing the following experience for three classes of accounts:

	Percentage Loss	
Accounts less than $25 per month	1 %	3 %
Accounts between $25 and $200 per month	0.6%	0.5%
Accounts over $200 per month	0.06%	0.1%

Figure 6

the conclusions reached in this study is the fact that over two-thirds of the branch house expenses were applied to the accounts on the basis of some directly measurable service factor, as indicated in the following tabulation:

28 per cent of branch house expenses were for order taking;

14 per cent of branch house expenses were for packing, loading, and recording items sold;

18 per cent of branch house expenses were for delivery;

3 per cent of branch house expenses were for recording orders handled;

7 per cent of branch house expenses were for handling customers' charge accounts;

30 per cent of branch house expenses had no apparent connection with accounts, orders, items, deliveries, or salesmen's calls.

From the above the influence on expenses of the number of salesmen's calls, deliveries, items, orders, and accounts will be readily apparent.

Expense of Handling Accounts of Various Sizes

When the unit costs referred to in the preceding section and set forth in Figure 6 had been determined, the actual cost of handling for each account was computed. This cost was then compared with the total sales volume produced by the account. As might be expected, the handling costs are almost uniformly higher in proportion for the smaller accounts than for the larger accounts.

The tremendous disproportion in the number, volume, and handling costs which exists as between the large and small accounts is brought out strikingly in Figure 7, where two groups of accounts—the smallest and the largest in each branch—are compared as to the factors mentioned. This table shows that the accounts of less than $50 per month in size make up one-third of the total number of accounts, produce less than 2 per cent of the total volume of business, and cost between $22 and $25 per $100 of sales to handle. On the other hand, the accounts of more than $2,000 per month in size represent only a small fraction of the total number, but produce almost one-third of the total volume and are handled at a cost of from $2.00 to $2.50 per $100 of sales. If the actual dollar sales and dollar costs be examined, it will be clear that, in the two branches combined, almost $80,000 of volume was secured from the larger accounts at an aggregate cost not quite twice the cost of obtaining about $4,000 in volume from the smaller accounts.

Another significant feature of the results is the way in which handling costs start out at high figures for the smallest accounts, decrease very rapidly with small increases in volume until the accounts of from $300 to $400 in size are reached, then continue to decrease but much more slowly as the larger accounts are brought into the picture. This is shown by the unit expense figures in the first and third columns of the table given as Figure 8, and, more strikingly, by the curved lines given in the chart appearing as Figure 9.

Number, Sales Volume, and Cost to Handle For Selected Groups of Customers' Accounts

Accounts of less than $50	Company A	Company B
Number	123	62
Per Cent of Total	32.7%	30.8%
Sales Volume	$2,614	$1,269
Per Cent of Total	1.7%	1.3%
Cost to Handle	$ 598	$ 314
Cost in Per Cent of Sales	22.5%	24.8%
Accounts of more than $2,000		
Number	11	10
Per Cent of Total	2.9%	5.0%
Sales Volume	$48,592	$30,747
Per Cent of Total	32.6%	30.8%
Cost to Handle	$ 942	$ 794
Cost in Per Cent of Sales	1.9%	2.6%

Figure 7

An account of $25 costs these branches proportionately twice as much to handle as an account of $50, three times as much as an account of $100, and five times as much as an account of $200. Since the average cost of handling is somewhere in the neighborhood of $4 per $100 of sales, it is evident that, where margins are closely adjusted to the handling expense ratio, many of these smaller accounts are being handled on an unprofitable basis.

It is, of course, not only possible but probable that there are differences in the margins secured on different classes of business. Many branch house managers regularly quote their larger customers at a discount from the list price which they expect to obtain from the small or average buyer. It is accordingly of interest to note how much these differentials would have had to be to bring about a substantial uniformity of net profit on all classes of business handled.

When the handling expenses were converted into average costs per pound and set up on a differential scale, it was found that the costs for the account groups of less than $25 and between $25 and $50 were so far out of line as to be prohibitive. If the branch attempted to charge such customers a price which would compensate for the cost of handling their business, the price would be practically on a parity with the retail price of the commodity sold. This, of course, merely demonstrates that the customers in question are, from the service standpoint, properly retailer customers rather than branch house customers. No attempt was made, therefore, to in-

Expenses and Requisite Price Differentials for Accounts of Various Size Classes

	Company A		Company B	
Size of Account	Expense per $100 of Sales	Price Differential* (Cts. per lb.)	Expense per $100 of Sales	Price Differential* (Cts. per lb.)
Less than $25	$36.15	....	$37.95	....
$ 25 to $ 50	15.88	....	16.58	....
50 to 100	10.57	0	10.72	0
100 to 200	7.65	— ½	8.18	— ½
200 to 300	5.17	—1	6.19	—1
300 to 400	4.62	—1¼	5.19	—1¼
400 to 500	3.30	—1⅜	4.67	—1⅜
500 to 1,000	3.24	—1½	4.10	—1½
1,000 to 2,000	2.51	—1¾	3.14	—1⅝
More than $2,000	1.94	—2	2.58	—1¾
Cash Sales, etc.	7.85	....	7.31	....
Average	$ 3.67	....	$ 4.20	....

*It should be noted that the differential is based not on the present *average* price per pound, but on a hypothetical maximum or list price which would be charged to customers of minimum size and which could be discounted for larger buyers at approximately the rate indicated. It should also be noted that these differentials are not necessarily typical or standard, but are introduced here merely by way of illustration of what prices these particular branches would have had to charge to compensate for cost of service rendered and to make all classes of business equally profitable to handle.

Figure 8

Graph of Account Costs in Per Cent of Sales Averaged for Sales Volume Groups

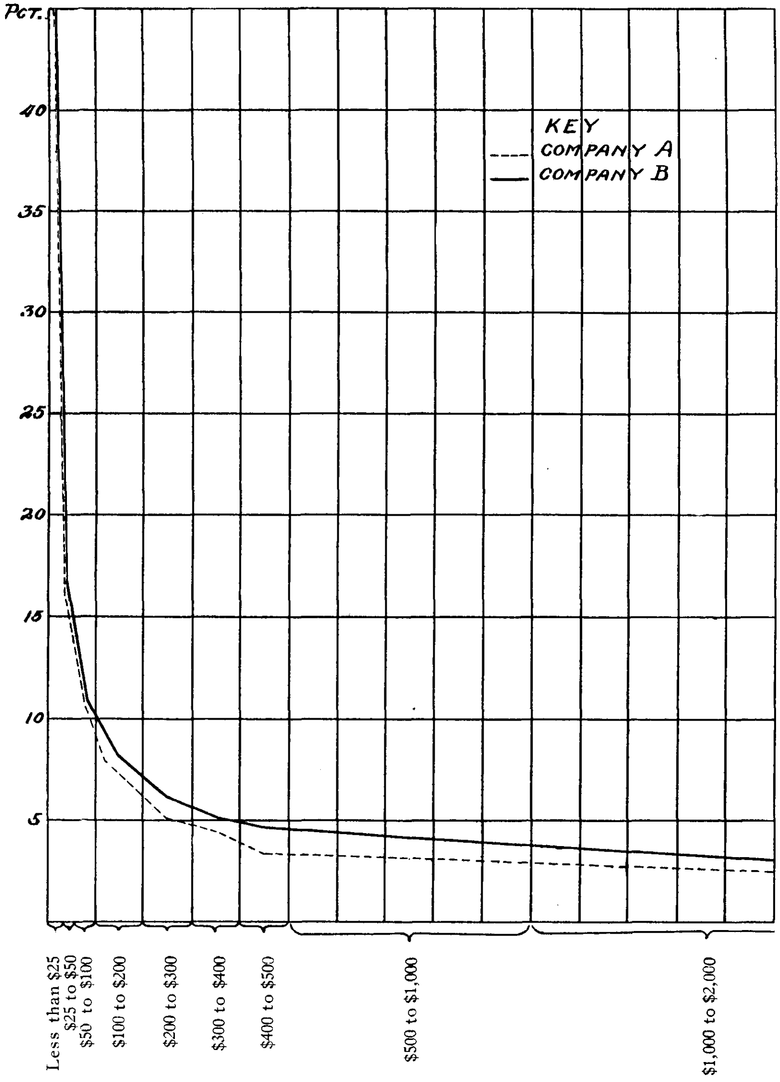

Figure 9

clude these account groups in the differential scale given as columns 2 and 4 of Figure 8.

It was concluded, however, that an account of between $50 and $100 per month could probably be served at a satisfactory profit if the list prices were properly set and rigidly adhered to, and that account group was accordingly established as a base. It will be understood, of course, that the margin to be expected from accounts in this class is not the *average* margin realized by the branch as a whole, but rather the margin resulting from sales at the hypothetical maximum price charged by the branch. This price would presumably be the "list" price as given to the branch by the head office for each period.

In the two branches studied, for the period under review, the average price realized on all commodities was approximately 22¼c per pound for one branch and 23c for the other. The base or list price, from which the differential scale of Figure 8 is developed, would have had to be on the average about 24c for one branch and 24½c for the other.

It will be seen from the table that, if accounts of from $50 to $100 had been sold at this base price, it would have been profitable to sell accounts of between $100 and $200 at an average price of approximately one-half cent per pound less. The normal account of between $200 and $300 would represent a saving of another one-half cent per pound. Accounts between $300 and $400 show a saving of one-quarter cent per pound more, and those between $400 and $500 one-eighth cent additional.

As the accounts grow larger, the differential—representing the expense saving—becomes steadily smaller. Accounts between $500 and $1,000 could have been sold at about 1½c per pound cheaper than the accounts of from $50 to $100, but even the few large accounts of over $2,000 do not represent further expense savings of anything like a proportionate amount.

Conclusions and Recommendations

The facts obtained from this study suggest certain conclusions as to the number of small orders and accounts, the volume produced by them, and the relative expense of handling the business. It is clear, however, that, in view of the small number of cases examined, and the short period of time covered, any such conclusions should be regarded as purely tentative. It is not intended to stress them unduly in this bulletin, but rather to suggest that each operator check them with the results of his own experience, as determined from similar studies in the distributing agencies of his company.

The more important conclusions tentatively suggested by the results of this study are as follows:

(a) While the average order secured by the branch houses of large meat packing companies is of moderate size, a very large number of orders received are too small for economical handling by a manufacturing or wholesaling organization;

(b) While many of the customers served by a branch house—those producing all but a negligible portion of the total volume—buy in reasonably satisfactory quantities, there are a very large number of customers who buy in exceedingly small quantities, and produce an insignificant portion of the total business.

(c) That the cost of handling a given account can be determined with a high degree of accuracy by reference to the cost of the various service functions required by that account;

(d) That when costs are thus allocated, it will be found that the small accounts are proportionately much more expensive to handle than large ones, and

(e) That while the proportionate cost of handling accounts decreases very rapidly with the increases in volume up to $300 or $400 per month, the saving in expense becomes proportionately less as the larger accounts—particularly those over $1,000—are reached.

Many packinghouse sales executives realize the difficulties and losses incident to the handling of large numbers of small orders and accounts, but are doubtful as to what can be done to correct or avoid these difficulties. As a further tentative observation on the situation, the following recommendations are put forward as probably offering some relief from the conditions found objectionable:

(1) Salesmen should not be urged or permitted to

Formula for Calculating Profitability of Prospective Account

(Unit expenses are furnished for illustration only; each company should study its own results and develop the corresponding costs for its own use.)

Expense of Handling Account

Order taking:

.... salesman's personal calls @ 40c each..$....................

.... salesman's phone calls @ 12c each........ ....

.... house calls by customer @ 30c each.... ....

Delivery:

.... deliveries @ 40c each.............................. ....

Packing, loading, and sales bookkeeping:

.... sales tickets @ 2½c each........................ ....

Plus............items @ 8c each.................................. ....

Credits and collections:

Flat charge for each account (60c).................... ....

Plus allowance for bad debts based on estimated sales volume (less than $25, 2%; $25 to $200, ½%; more than $200, 1/10%) ....

Subtotal of direct costs... ....

General overhead:

$................................of sales @ $1.25 per $100.... ....

Total of all expense applicable to account........$ ....

Profit Computation

Estimated Sales Volume per Month: Lb..................$....................

Per Cwt. Margin....................Expense................Profit....................

Figure 10

solicit trade of such character as is known to promise an unsatisfactory total volume of business, or unduly small individual orders.

(2) Emphasis should be removed from the mere addition of new accounts to the salesman's list and placed instead on the development of *profitable* accounts.

(3) When solicitation of a new customer is contemplated, a rough computation should be made of the prospective sales volume and margin expected to be secured, and the anticipated expense of serving the account. (A formula for such calculations is outlined roughly in Figure 10, the unit costs naturally being subject to alteration in the light of the experience of individual concerns.) If the relation of the expected margin and handling cost is unsatisfactory, the account should not be solicited.

(4) When a prospective customer has been solicited actively for a reasonable period of time and the account shows no signs of developing into one which will provide a reasonable volume, solicitation should be discontinued and the salesman's efforts directed into some other channel.

(5) A differential scale of prices should be adopted by each company individually, the basis being the relative size and handling cost found to apply to the account in question in that particular company or branch.

(6) Serious attention should be given to developing means of handling such small orders and accounts as are unavoidable by some means which will hold the costs of this business at a minimum.

The tables given in this booklet have been condensed and abbreviated for easy reading. More complete and detailed tabulations of the material collected in the study are being prepared in mimeographed form and will be furnished on request to those interested. Similar material on the experience of other companies in respect to car route and less than car load freight shipments is now in the process of collection and will be presented later in another bulletin.