

# NET PROFITS PURPOSE OF BUSINESS

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The purpose of a merchant engaging in business is to make profits. The reason he keeps a set of books is to show whether or not he is making profits. Frequently, however, what show as profits on his books are, in reality, not net profits and; therefore, the merchant is fooling himself. Strange as it may seem, there are many merchants in this country today who are guessing as to whether or not they are making net profits. If their guess is good, they continue in business, but if it happens that they are mistaken and that the so-called profits are not net profits, they are headed towards disaster. The Federal Trade Commission has made the statement that it has found that "the majority of retail mer-

chants do not know accurately the cost of conducting their business, and for this reason they are not able to price their goods intelligently."

profits are, but be able to show the basis on which they are figured. Through the Federal Reserve system the merchant is placed in a better position than ever before to increase his net profits. Since his local member bank can rediscount the commercial paper of the merchant, he should find it easy to borrow the money from the bank to take advantage of the cash discount on his purchases. The merchant should also not be under the necessity of doing so much of his business on open book accounts. He should either be able to get cash for his product or, when he desires to extend time, should find it much more economical to do so through the means of the trade acceptance, which is payable at a fixed time and which he can collect through the medium of his bank, feeling sure that it is much more likely to be met at maturity than if he had sold on open account. If the merchant takes a trade acceptance, he has something that he can easily rediscount with his local bank, thus turning his capital over and in this way increasing net profits.

## TRADE ACCEPTANCE SYSTEM Of Importance to Dealers, Says David C. Will, Chairman of the Board, Federal Reserve Bank of Cleveland

How many net profits are never entered on our books because they have been swallowed up by the expense of carrying accounts receivable, both good and bad? How many gross profits become losses because of the volume of working capital that has to be used in carrying such accounts?

Every business man with a wholesome respect for net profits should at once inform himself on the advantages of the trade acceptance system. The net profits of business would inevitably increase, and the risks of doing business would decrease, if for every consignment of goods we should all receive, at the time of delivery, actual tangible value in the shape of the trade acceptance of the consignee.

Any reader of THE IMPLEMENT AGE who has not fully informed himself on the trade acceptance system owes it to his business to do so at once.

I shall be glad to answer any inquiries on this subject.

## KNOW YOUR GOODS If Net Profit is Desired, Says M. B. Wellborn, Chairman of the Board, Federal Reserve Bank of Atlanta

This age is fastly developing the use of agricultural implements; and, as time rolls on, it will, in my opinion, continue to grow even more rapidly.

The retail merchants, if they propose to handle this line of merchandise, must have their salesmen study the needs of their respective communities, and especially a study of the implements he offers for sale, for many a sale is lost by reason of not satisfactorily explaining the detail mechanism of the implement and the labor-saving proposition.

With the growing scarcity of labor time is an important factor on the farm, and the merchant should always keep on hand sufficient stock to replace any broken parts, or be in close touch with the manufacturer so that necessary parts can be ordered and delivered instantaneously. Many merchants make the error of keeping new farm implements out in the open yard, subject to damage from the weather. Arrangements should be made to keep such

implements and machinery under cover in order to avoid rust-damage, etc.

As to profits, the merchant must be in position to handle a large quantity in order to increase net profits, which after all is the very essence of good business. A thing that doesn't pay isn't worth while.

## NET PROFITS

Written for the Net Profit Special by George R. James, President James & Graham Wagon Co., Memphis, Tenn.

Certainly net profits is the ultimate object of all business, and the ways and means of obtaining a satisfactory net profit constitute the essential elements of making business a success.

As the element first in importance, I should put the word "service," and remembering that "a servant is worthy of his hire," I should have no hesitancy in demanding payment for the character and quality of the service rendered.

In the matter of service to be rendered the customer, consideration must be given to the possibilities of the merchant's helping the customer increase his earning capacity, and, therefore, it becomes the duty of the merchant to study thoroughly the needs or requirements of his customer, his means of producing his "purchasing power," and acquainting himself with the governmental and other forces that are offering facilities for increasing the production of wealth.

In the case of the implement dealer, whose customers must necessarily be engaged in agricultural pursuits, he should give special attention to the study of such things as the work of the agricultural colleges and extension forces, the county agents, the boys' corn, pig and cattle clubs, the girls' canning clubs, and the business organizations that are all doing much to promote safe and profitable farming.

Then, too, he should make himself familiar with the facilities for increasing the farmer's capital, through the functions of the federal farm loan board, and use his best efforts to have farm loan associations established in his community, with the local bank as headquarters and the cashier as secretary of the organizations.

The dealer should at all times keep in mind the basic fact that these net profits are dependent upon and governed by the net profits of his customers, and remember that "no community can be more prosperous than its wealth producers, i. e., the farmers."

In order to increase his own cash resources and thereby avail himself of the net profit securable through cash discounts, less interest, and less clerical expense, the dealer should study the facilities offered him through the federal reserve banks. This is a source of net revenue or profit than no live merchant can afford to overlook.

The merchant who depends upon always buying his goods at a low price, or a price under the market, or who depends upon "price" selling his merchandise, is planting a bomb that will eventually blow his business out of existence.

Equally foolish is the merchant who has one price for one customer and another price for some one else. And in the same class is the man who sells his goods without getting cash or its equivalent (notes) at the time of sale; and the man who, because of improper accounting, does not KNOW his cost of doing business.

"The foolish man 'darns' his luck—the wise man 'mends' it."

"A man must use his head if he would get there with both feet."



Wm. McC. Martin

chants do not know accurately the cost of conducting their business, and for this reason they are not able to price their goods intelligently."

It is perfectly true that a merchant may do a great volume of business and still not end the year with net profits. Such being the case, his establishment has the air of prosperity without being really prosperous.

In a financial statement for merchants, approved at a recent conference of the Federal Reserve agents of the twelve Federal Reserve banks, there is included for the merchant to fill out a profit and loss account for his fiscal year, as follows:

DR.	
Actual expense of conducting business .....	\$
Bad debts charged off.....	\$
Withdrawals of dividends paid.....	\$
Net profits.....	\$
<hr/>	
Total .....	\$
CR.	
Gross Profits	
From merchandise.....	\$
From investments.....	\$
From other sources.....	\$
<hr/>	
Total .....	\$

From the above, it is seen that a knowledge in regard to net profits is desired in order to arrive at the proper credit rating. In this same statement, there are other questions asked so as to find out the "turn-over" in the merchandise during the year. The time is already here when a merchant with a growing business must not only know what his net