

IX. SELLING & DISTRIBUTION COSTS

1. Introduction

1.1. Even though half of the consumer's Rupee goes towards marketing (selling and distributing costs), in most of the industries, especially in pharmaceutical industries, far too little attention is paid to marketing research and cost control.

1.2. In planning for better profits, far too often the marketing segments are ignored or neglected. In most businesses, the production problems are of first importance, and receive nearly all attention and concern. Large sums of money are spent to improve production methods. Through product research and by means of time and motion studies, the efficiency of production, in most fields, is being achieved, but when it comes to marketing, we find that very little is done. No money, at least not enough, is budgeted for marketing research. The problem of reducing marketing costs is not receiving enough attention from business executives who, by temperament, are more inclined towards improvement in their production methods. They are on the alert for the latest equipment, the best material, they study their labour productivity, and set ways to increase efficiency. The three factors, machines, material and men, are much easier analysed, because with them management is dealing. With facts and figures. When it comes to marketing, the elements are of an intangible nature. If there are facts and figures, they are not as numerous. In the marketing field, we have to work on attitudes of customers, attitudes that are most uncertain, and customers who are at a distance from the factories. That could be one reason why so little time, effort, and money are given to marketing problems.

1.3. The overall function of moving merchandise, i.e., marketing, is normally the

task of a team composed of sales manager, advertising manager, promotion manager, and research manager. How much does it cost to run the team? That is the first problem. Does the enterprise know the cost of its marketing? Furthermore, does it know the elements of that cost? How much does a particular item cost for order handling, packing, dispatching, warehousing, advertising, promotion, and selling? Once we know what the various costs are, what effort and how much money do we spend to find the ways of reducing them, and of increasing marketing efficiency? That is another problem. To aim at better; profits, the two objectives of cost reduction and increased efficiency must be attained. Let us now consider the selling and distribution costs in more detail.

1.4. Selling costs are a cause, but distribution costs are a consequence of sales.

Accordingly, the two types of costs should get separate consideration, greater attention usually being required for selling costs. The amount to be spent on selling costs should be varied to try to maximise profits. Budgets and cost ratios are the main accounting controls over selling costs.

2. Definitions

2.1. The term 'distribution' is widely used in relation to the whole operation of getting goods into the hands of the consumer, and thus covers the two functions of sales promotion and delivery. The expression 'distribution costs', however, may be considered as relating only to delivery.

2.1.1. Distribution Costs: The cost of the process which begins with making the packed product available for dispatch and ends with making the reconditioned returned empty package available for re-uses.

2.1.2. Selling Costs: The cost incurred in promoting sales and retaining customers.

2. 2. It will usually be possible to consider' the various forms of selling or distribution expenditure as falling solely in one or the other of the two broad categories. This, however, is not always so. For instance, let us take the case of the door to door salesman who finds the customer, persuades him or her to buy, and at once hands over the goods carried by him to that spot. The costs have been incurred for the joint and inseparable purposes of promoting a sale and distributing the goods if sold, and there would, as a general rule, seem to be little point in attempting to apportion the total between selling and distribution costs.

3. Nature of Selling and Distribution Costs

3.1. If full and stable employment for men and machines is to be attained, with corresponding prospect of optimum profitability, it is essential to secure a steady and

adequate volume of orders. In some industries goods are normally produced against specific orders; in others, they are manufactured in the expectation that they can and will be sold subsequently. In both cases, it is essential that, within the businesses, there should be detailed knowledge of the ultimate uses to which the products will be put by the final consumers, so that design and manufacture may be of fully satisfactory standard, and so that potential developments and changes of use may be foreseen and provided for. Somebody in the business must also know who these users are, what other potential users there may be, and, if they are a large class of people, he, must know through what intermediaries, either retail; wholesale, or both, their custom can best be obtained.

3.2. From this basic knowledge arises the need to assess the quantities of its goods likely to be required by consumers, an estimate of the prices which these consumers can, be expected to pay, a comparison with own costs of manufacture and sale to determine approximate selling price" and a co-related estimate of the share (the market which it should be possible to secure in the exacting stage of competition.

3.3. Associated with this study of market, there must be an organization for sales problems and order getting. The potential customers must not only be found, they must be adequately informed as to the products and their performance , their prices and delivery times, and they must be persuaded to buy what is suitable for their needs. To attain this end; it will be necessary to incur the costs of (a) wages, salaries; commission and traveling expenses of salesmen who will call on consumers or on the retailers, or wholesalers, who act as intermediaries; (b) catalogues, circulars, ,prices and advertising "through press, hoardings, radio, etc.; (c) a central administrative set up, which must know which can be manufactured, and when it can be delivered, must be able to answer queries and complaints; make quotations, pass information to salesmen and dealers and place orders on the finished stock, godowns or on the factory; (d) an organisation for delivery of the right goods, at the right time, to the right place and in good condition (Where goods are manufactured in anticipation of orders, this Will mean that there must be adequate stocks in suitably located ware-houses); and (e) lastly an organisation for invoicing and collecting the money.

4. Selling Costs and Optimum Profits.

4.1. The major objectives of management are threefold. Management must __ (a) produce and sell goods and services which, are satisfactory to their customers; (b) try to earn optimum profits; and (c) try to ensure the company's long-term prosperity by building a strong management team, and by establishing the best possible relationships with customers.

4.2. This long-term strength can spring in part from extensive advertising, and is as vital to the security of employees as it is to shareholders.

4.3. In considering how best to meet these objectives, management will usually have to pay greater attention to selling costs than to distribution costs. The relationship of distribution costs to levels of turnover is less complex. An established business can tell within close limits what distribution costs will be incurred in selling the usual -goods in the usual markets. A large part of the delivery charges they incur are variable costs, the totals of these costs closely following movements up or down in volume of deliveries. It is far less easy to predict what effect an increase or decrease in the amount spent on selling costs will have on turnover. Nevertheless, the assessment should be made, and one possible approach to the problem can be considered by way of an example:

| | | |
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| Sales of 1,000 units at Rs. 10 each | | Rs. 10,000 |
| <i>Deduct</i> | | |
| Manufacturing Variable costs at Rs. 4/- each | Rs. 4,000 | |
| Distribution Variable costs at Re. 1/- each | Rs. 1,000 | |
| | | Rs. 5,000 |
| Contribution at Rs. 5 each | | Rs. 5,000 |
| <i>Deduct</i> | | |
| Manufacturing Fixed Costs | Rs. 2,000 | |
| Distribution Fixed Costs | Rs. 200 | |
| | | Rs. 2,200 |
| Balance | | Rs. 2,800 |
| <i>Deduct</i> | | |
| Selling Costs | | 1,000 |
| Profit | | Rs. 1,800 |

4.3.1. The fundamental aim is to maximise profit. The amount spent on selling costs, and the effectiveness with which it is spent, will have an impact on the number of units that can be sold, and on the price per unit obtainable, and through both upon the total sales takings. The total variable cost per unit of Rs. 5/- can be looked upon as a constant, but since selling price per unit can be affected by the amount spent on selling costs, the contribution per unit cannot be assessed until a figure for selling price is determined in the light, partly, of the amount to be spent on selling costs. The figure of Rs. 2,200 for fixed costs can be regarded as unlikely to change to more than a negligible degree unless volume alters by more than about 5 to 10 per cent up or down. The figure of Rs. 2,200 is based upon operating at close up to full normal load on the factory.

4.3.2. If no selling costs whatever were incurred, no sales would be made, and, ignoring any small difference on fixed costs possible in the short-term the business would lose Rs.2, 200. If Rs.100 were spent on selling costs it might be possible to sell 200 units at Rs. 9/- each, giving a contribution figure of Rs. 800/-, and a loss of Rs. 1,500. If the expenditure on selling costs was increased to Rs. 600, it might be possible to sell 800 units at Rs. 9.50 giving contribution of Rs. 3,600, and profit of Rs. 800.

4.3.3. The aim, however, would be to increase the amount sold, provided that still higher final profit could be achieved, and in normal circumstances of elasticity of demand optimum profit would coincide with full load. In the example, 1,000 units represents output at full load, and increase of Rs. 400 in selling expenses incurred, i.e. from Rs. 600 to Rs. 1,000, would have generated extra sales of 200 units. Allowing for the effect of higher selling price, this would give an increased contribution of $(1000 \times Rs. 5) - (800 \times Rs. 4.50)$, i.e., Rs. 1,400 from which deduct Rs. 400 for extra selling costs, giving Rs. 1,000/- additional profit, and bringing total profit up to Rs. 1,800/-. Based on the then conditions of the markets, if the management had correctly decided to spend Rs. 1,000/- on selling costs, they would have maximised profits. If they had spent less than Rs. 1,000/-, profits would have been lower, and if they had spent more than Rs. 1,000/- they would have been faced with the possibility of turning down orders, quoting later delivery or higher prices, all detrimental to the long-term standing of the company. Profits, too, would be reduced below Rs. 1,800/- by the excess selling expenditure.

4.3.4. It should, of course, be recognised that there is a point beyond which further expenditure on selling costs will bring insufficient return. If at some stage in a calculation, such as the above, an extra Rs. 100 on selling cost would add only to 20 units to sales, at say Rs. 4.50 contribution per unit, then the final profit would go down by Rs. 10/- and irrespective of load it would be better not to spend Rs. 100/-. This would involve a recalculation 'of fixed overheads if the point of change was' appreciably below full load.

4.3.5. Another major point is that a set of calculations such as the above maybe worked out, and a correct decision made to spend Rs. 1,000 on selling costs, but within a very brief period conditions of competition may change and it may be necessary to revise the calculation and the policy derived from it as to the amount to be spent on selling costs. The action to be taken would be to maximize profit in the new circumstances, irrespective of whether that new maximum was as good as the old maximum. The important consequence of this point is that the policy on selling costs must be flexible. Management must have the feel of the market, and must take quick action to increase or decrease expenditure on selling effort, so that new optimum loads and new optimum profit are achieved. Statistics as to flow of inquiries, flow of orders, and unexecuted orders on hand will all help in assessing how much

should be spent, but are no more than, an aid, and are probably much less important than the instinctive reaction that comes from long business experience and wide contacts .

4.4. In the type of calculation which has been illustrated, it will be recognised that recent figures as to experience of the market should be studied. Those will indicate the rate of expenditure on selling effort necessary to generate a particular level of turnover in the conditions then existing. There may also be reliable evidence as to what has happened to sales where expenditure on selling costs has recently been decreased or increased. Conclusions drawn from that evidence will have to be modified for assessments of probable effect if reaching beyond the ranges of known quantitative change. They are also likely to require some modification to allow for different market conditions in the future as compared with the past, and the whole operation of assessing the effect on ultimate profit caused by increments or decrements in selling costs is necessarily, an approximation. An informed 'guessimate' is, however, preferable to relying upon "hunch decision".

5. Types of Selling Costs Appropriate to Varying Circumstances

5.1. Sales costs have so far been considered in purely quantitative terms, but of course to maximise profits, it is necessary to choose the types of selling cost best suited to the circumstances. This choice will be governed by: (a) the nature of the product and its uses, (b) the special characteristics of the market in which it is being sold, and (c) the characteristics of the business itself.

5.1.1. As regards (a), products may be capital goods, consumer goods, or intermediate products for further manufacture: they may be simple or complex, perishable or durable, novel or long-established. They may consist of a few main types of standard products, or there may be a large number of variants springing from a single original design. The products may be bulky or compact, they may or may not be capable of pre-packing, they may be capable of sale by description or by sample, or may require to be demonstrated under working conditions.

5.1.2. As regards (b), the market may be local, national or international; it may be highly or only slightly competitive; there may be a few or a large number of ultimate users or potential users; and there may or may not be an established system of wholesalers and/or retailers. The market may be one liable to wide fluctuations or steady in its nature.

5.1.3. As regards (c), the company itself may be small or large; it may or may not be short of liquid resources; it may or may not have a strong team of confident and capable managers and staff to deal with its selling and distribution functions.

A major point in connexion with the manufacture of consumer goods is whether it has the financial strength to spend largely on advertising from which the return will be appreciably delayed, and whether by branding it can reach out beyond the whacked sealers and retainers to the ultimate consumers. The location and size of the manufacturing establishment, and labour availability are of course also vital.

5.1.4. The foregoing may be illustrated by two simple examples.

5.1.4.1. A group of highly technical products, springing from a common basic design, required only by a comparatively small number of users in specialized industries) and with a variety of applications in these industries, would probably be sold, direct to users by highly skilled salesmen who themselves had experience of the design and manufacture of the products, and a good knowledge of the user industries. The main costs would be salaries, traveling and entertaining, expenses, and explanatory brochures, and there would probably be appreciable installation and after sales service. Press and other advertising, apart perhaps from trade papers circulating in the user industries, would be negligible.

5.1.4.2. Consumer goods suited to widespread purchase by most households would usually be sold to the public by retailers. A manufacturer with large resources would probably brand and prepackage his products, and advertise widely through press, radio, etc. He might employ salesmen to sell to selected or to virtually all retailers in the trade, or he might sell mainly to wholesalers and to large retailers such as the multiples who in many cases can place orders as big as or larger than wholesalers. Because of his advertising, the selling effort required would be much less than if he were a small manufacturer unable to advertise widely. The small manufacturer of consumer goods would normally have to sell mainly to wholesalers and would have to persuade them to buy by offering satisfactory quality, price, and delivery. The large manufacturer would spend substantially on advertising, the small one little or nothing. Both would spend substantially on packaging, and the amount in each case to be spent on salesmen's salaries and traveling expenses would be related to the number of customers to be called on. The large manufacturer selling branded goods would also spend appreciable sums on advertising materials for exhibition in the retail shops. He might also carry stocks in local depots throughout the country.

6. Long-term Forecasts and Budgets

6.1. For the most successful and efficient conduct of a business it is, essential that the activities it undertakes, including those involved in selling and distribution, should be planned in advance. A forecast of what is likely to happen under future conciliations can serve as an essential framework of reference for considering what action management can take to alter in its favor the underlying situation which has been assumed

for the purpose of the forecast. Detailed and definite plans for the future normally expressed in the form of budgets can then be formulated.

9.2. The preparation of a long-term forecast of probable sales volume, selling prices, selling and distribution costs, and of expected profit in relation to expected capital employed affords an opportunity for a critical appraisal of the broad lines on which a business is being conducted, and consideration should at that time be given as to whether the methods of selling and distribution employed are those most suited to attaining maximum long-term profitability. In particular, it is necessary to review the position regarding channels of distribution, margins allowed to wholesalers and or retailers, and the effect of final selling price on the volume of demand. Stock-holding policy, methods of delivery, frequency of calls on stockholders, the extent of publicity, and the adequacy of the central organisation for dealing with complaints and inquiries, all have a bearing on the share of the total market obtainable. The effects in money in terms of possible changes in policy should be worked out in a series of alternative forecasts, and it should never be forgotten that a change in a manufacturer's cost in respect of selling and distribution may merely lead to a transfer of function to from the wholesaler or retailer, and that the margins allowed at these later stages affect manufacturing costs, and that a forecast balance sheet is necessary as well as a forecast of profit and loss. No suggested change in selling and distribution costs should be considered merely, in addition to sales volume. The ultimate tests are profit in relation to the capital employed, and whether the Company has, or will have, sufficient finance to cope with the suggested plans. The figure produced will necessarily be approximate, but they will serve a valuable purpose if they give sufficient indication of the way along which the company should go.

6.3. This long-term forecast and the ensuing hard thinking are a most vital responsibility of top management. Having thought intensively about alternative courses of action, they are better equipped to notice quickly any trend requiring a change of policy, and they will be more able to alter the course and adopt new, but already considered, measures to take advantage or reduce disadvantage from changed co-ordination. In any long-term forecast; consideration of broad; spaced economic trends is of major significance and the accountant engaged on these duties must be prepared to study wider fields of knowledge than for this everyday work.

7. Annual and Short-term Forecasts and Budgets

7.1. Here the picture will be one of greater precision. What has recently happened is likely to provide a fairly reliable basis from which to assess what is likely to happen in the near future. The general level of demand can probably be more clearly seen. A closer estimate can be made of the effect of probable inflation or

deflation. The changes made in amending forecasts into budgets should be less fundamental than those sometimes required when long-term budgets are prepared. The broad organisation and sub-division of the business by product groups or by areas is more likely to remain unchanged, and comparative data from the recent past as to sales and costs will be available.

7.2. The main attention will be focused on those costs involving the largest expenditure. For many businesses the biggest single cost of selling and distribution is that on salaries and wages. This will include warehousemen, transport drivers, I salesmen and administrative and clerical staff. Here the primary task will be to assess the proper number of employees required for each function, to determine their remuneration, making allowance particularly in seasonal trades for temporary staff and overtime. Where advertising forms a significant part of the total expenditure to be incurred, it will require special consideration at a high level, particular attention being given to the latest political and economic factors which affect the markets concerned. All figures will be assembled in the usual way in relation to the responsibility of the individuals in charge of the separate functions, and will be co-related to the relevant sales figures which should be summarised both in money and, wherever possible, in quantitative terms. The selling and distribution costs would also be subdivided between those which were considered to be variable, and those which, in the short-term, would be fixed. Up-to-date figures of orders on hand will be helpful in assessing the prospects for the near future. Particularly where seasonal influences are important, the total budget for a year or six-monthly period should be analysed into each of the shorter periods off which it is intended to produce regular accounting reports.

7.3. The total of items of selling and distribution costs directly identifiable to specific products or product groups *plus* an apportionment of those not directly identifiable would be added to the relevant production costs in order to ascertain the total variable costs and the total all-in costs for specific products or product groups. Comparison of profitability between products or product groups both as contribution and as net profit could then be made.

7.4. The budgeted balance-sheets should have been prepared on double-entry principles in respect of the total period. Analysis of the balance-sheets partly by apportionment to products or product groups, would then provide a basis from which to compare contribution and net profit in relation to capital employed for each product or product group, and would be of major importance in determining the adequacy of the selling prices fixed for each product or within product groups.

8. Authorisation of Expenditure

8.1. Day-to-day authorisation of expenditure on selling and distribution costs

comprised in and consistent with the budget would be a routine departmental responsibility. Any significant change of plan subsequently decided upon in the light of unexpected circumstances would require authorisation at all: higher level, and would represent a budget revision. Types of expenditure requiring care in supervision and authorisation include such items as traveling and entertaining expenses. Foreign travel advances would be authorised by the head of the department concerned, and should be at a daily rate appropriate to the. Status of the employee concerned and the purpose of the journey. On return, a prompt accounting for these advances would be necessary and scrutiny of the claims would be made by the departmental head concerned. Motor car expenses reclaimed by employees also require scrutiny. Sometimes a fixed rate per kilometer is allowed, but the number of kilometers stated in the claim should normally be checked against the list of calls made by the claimant. A part of the advertising appropriation would probably be held back for expenditure if and when especially favorable market conditions temporarily developed.

9. Recording Of Selling And Distribution Costs

9.1. The accounting system must provide for the following

9.1.1. Analysis according to the nature of expenditure, e.g. remuneration, direct materials, freight;

9.1.2 Analysis according to function, e.g. selling in the field, transportation, warehousing, advertising;

9.1.3. Analysis according to application of expenditure, e.g. by products or product groups, by territories, or types of customer.

9.2. The accounts coding system will follow from the structure of the actual organisation of the selling and distribution side of the business concerned. Wherever direct identification of in item of cost to function and to application is possible, without excessive clerical cost, this should be done, and the accountant must make clear to each department the information for analysis purposes that should be shown on basic accounting documents. A three-part coding will normally be required. The analysis of sales should be parallel with the analysis of costs, so that costs and relevant sales may be properly co-related.

9.3. The accountant must try to obtain adequate staff, space and equipment with which to produce promptly the information required by management. He must keep in close touch with the heads of departments to know about changes likely to affect his work in the future, and must seek their cooperation' in ensuring that all documents are properly checked, and that they come to his department without delay. Where delay is inevitable, he must arrange for the supply to him of full information on outstanding matters at the end of each short-term accounting period, so

that he may provide reliable accounts. Costs which are regarded, as fixed will not be merged in the same ledger accounts as those which are variable. Separate ledgers and suitable control totals will be maintained where appropriate for major sections of the costs.

9.4. In addition to the money figures entering into the book-keeping system, it will be necessary to keep, or to be supplied with, much statistical information for the purpose of establishing and maintaining suitable cost ratios. These statistics would include, inter alia, totals of sales by units, weight or volume, numbers of invoices, mileage run by delivery vans, numbers of calls made by travelers, etc. These cost ratios are an essential element in control.

10. Cost Analysis and Cost Ratios

10.1. The primary analysis according to the nature of expenditure is straightforward. The analysis of costs by functions will consist of two parts: (a) those items directly identifiable as representing field selling, advertising, transportation, etc.; and (b) those items which must be apportioned in the light of the best information available, e.g. by number of employees, floor area, etc. The aggregate expenses for any function subdivided into variable and fixed can then be divided by the appropriate quantity to obtain a broad average cost ratio. In arriving at an analysis of costs by territories or products, a similar position will apply in which part of the aggregate expenditure can be obtained by direct identification, and part must come from apportionment. Once again the sub-division between fixed and variable costs would be observed. The apportionment must be as objective as possible. It should not be based upon what can be borne by particular products or territories.

11. Standard Costs

11.1. So far as distribution expenses are concerned, it would seem that if large numbers of similar transactions take place, standard cost accounting is practicable. For selling costs, some businesses will find standard costing satisfactory. Others, for the following reasons, may not. Sales are the cause of distribution costs, but the effect of selling costs. No matter how efficiently the selling effort is planned, there is no certainty that the resulting sales will closely correspond to the cost of that effort. In the cases of factory costs and distribution costs, there is far greater possibility of ensuring that the outlays incurred bring their due and measurable return in output achieved or quantity of goods delivered. Where selling costs are concerned, there are many external influences which may affect the level of turnover resulting from specific outlay on selling effort. Changes in purchase tax and hire purchase restrictions are major examples. In addition, for reasons outside the seller's control, customers vary widely in their response to selling effort.

11.2. A further major factor which limits the effective use of cost ratios or standard cost, in relation to selling expenses, is the time lag which takes place in many cases between the actual expenditure and the resultant sales. To co-relate selling expenses with the value of orders-received will, in some types of industry, be far more satisfactory than to co-relate with the value of sales invoiced. For financial accounting purposes, it is customary to write off all normal selling expenses at the time they are incurred. It is doubtful whether this should be followed for costing purposes. For such purposes a truer matching of revenue against expenditure is desirable, and the proportion of expenditure on fruitful selling effort should, where there is a time lag, be carried forward to the subsequent accounting period in which the goods ordered in the earlier period are invoiced.

11.3. A contrary position might apply in certain consumer goods industries where heavy advertising by the manufacturer was designed to aid retailers' sales of goods now in the shops delivered by the manufacturer in an earlier accounting period. In this case, a provision should be charged in the earlier period designed to effect a true matching of revenue and expenditure. Where practicable, inquiries received should be bayed to the appropriated advertising expenditure as a guide to its effectiveness.

12. Presentation of Information To Management

12.1. The main information regularly and promptly required by management will be:

- (a) the detailed analysis of costs aggregated on a functional basis subdivided between fixed and variable, showing the comparison with the budgeted fissures for the period concerned;
- (b) cost ratios actually achieved as compared with normal expectation;
- (c) statement incorporating factory cost' of goods sold, subdividing that' factory cost between fixed and variable, adding selling and distribution Costs similarly subdivided and analysed to products or territories, and then making comparison with relevant sales by products or territories to give net profit and contribution figures, the waddle of these figures' being compared with budget;
- (d) statement of total capital employed, incorporating finished stocks and trade debtors again in comparison with budget and analysed by territories or products, showing for stocks the ratio to budgeted future requirements, and for debtors the ratio to normal expected collection period, and;
- (e) statement showing figures for contribution and net profit as a percentage of the capital employed.

Detailed subsidiary statements will be presented 'as is appropriate to the lower levels of management. Graphs will often be helpful.

12.2. While the most usual analyses of sales are by products and by territories, it will sometimes be necessary to analyse according to classes of customer, e.g. wholesalers as' against retailers, or: by; the size of the accepts. Variations from the

normal selling prices for the class of customers concerned should be shown separately on the sales analyses submitted to management. These variations would normally be classified according to the reasons for which they arise.

12.3. After the presentation of information to management, a discussion should follow. This discussion should help both the accountant and the manager, and should lead to further improvements and better cooperation. Unfavorable trends must be identified quickly, and reported promptly.

13. Cost Reduction

13.1. This should be continuously in mind. It should readily spring from the comparison of actual expenditure with budget, and from the comparison of cost ratios between one period and another and by comparison of these ratios between different territories and different products. It will be of value to make special studies from time to time of the relationships riot usually avail, able from the regular accounting processes. Sample surveys, if thoroughly discussed beforehand with the persons most knowledgeable about the problem concerned, can provide valuable information, and can lead to a revision of the assumptions formerly true, but now out of date.

13.2. One major field for, cost reduction in many businesses is in the cost of financing the trading assets involved in selling and distribution. The investment in debtors is usually better controlled than that in finished stocks. Prompt discount terms can be very helpful, in ensuring quick collection of an appreciable part of the debtors total. The determination and maintenance of proper stock ratios is of major importance. This is particularly vital for seasonal businesses where the ratios should alter from month to month. Where goods are subject to quick perish ability, or changes in fashion, careful planning of stock ratios can be the means of avoiding major losses.

13.3. Close scrutiny of the reasons for customers' returns will often yield valuable results. Where reductions in selling price have been made to particular customers, because of expected large volume of business, it is worth while to verify from time to time that the volume is in fact being maintained. Mechanisation and method study can help to reduce office costs, and comparison of own transport cost with that of outside carriers is a continuing requirement. Delivery costs and charges to customers for very small orders should also be studied.

14. Effective Ways to Reduce Selling Costs

14.1. Concentrate on prospects having the kind of sales potential that can return a profit. Pinpoint prospects and route men with extreme care. Make more use of

direct mail and other advertising material to pave the way for salesmen to reach prospects where their potential does not warrant expense of salesmen's calls. Make more sales under better supervision. Provide incentives for greater volume. Periodic reviews of systems and procedures may also be made.

14.2. Induce salesmen to take personal pride in reducing selling costs. Get salesmen to become cost-conscious. Offer incentives to those who practise thrift

14.3. Develop best cost accounting practices as regards all items of selling expense, as related to productivity of such operating costs, cut travel expenses by concentrating on heavily populated areas, and by handling sales by mail in sparsely populated and far-flung areas. Reduce cost of movement through selective selling, and eliminate wasted time, spend more time training worthwhile people, who will eventually be paid more than the current salaries, who, in turn, will be able to accomplish more. Hire good men in the first place, even though they may cost more.

14.4. Avoid profitless prosperity. Increase the sales of profitable products, controlling variable costs, and keep adequate sales control records.

14.5. Better organisation of the sales department and field sales territories, better research and planning, development of more direct sales and salesman's routes for certain products are the prerequisites for a successful cost reduction programme.

14.6. Hold out your successful trained salesmen at all costs. They can bring in a maximum sale for the lowest expense.

14.7. Increase individual salesman's selling time in areas where prospects are bright. Time management is of vital importance, and telephones should be used more to lower sales costs. The most effective way to reduce selling costs is to sit down with your salesmen either individually or in groups, and tell them why you want to reduce your selling costs. Ask them for suggestions on how they can be reduced, and thus create the interest on their part to carry out this need. This approach will definitely be successful