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ALTEC LANSING
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"PROFITABLE BUSINESS MANAGEMENT"

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Altec Lansing
(Address given at the 1964 Altec Lansing Seminar)

It is a pleasure to have been invited to became a part of this seminar program and to speak to you this morning. I am happy to be a part of what has become an Altec institution. These meetings are an important link in our mutual business relationship. They provide an opportunity to meet one another, exchange ideas, and sometimes to let our hair down.

These meetings provide you not only with a preview of coming products and developements, but also with an opportunity to obtain a better understanding of our related business problems. With this latter objective in mind, Bill Johnson asked that I speak on the subject, "Profitable Business Management".

While this seems to call for a rather long-winded dissertation, I noted with some relief that I have exactly one-half hour in which to cover this subject. With the scope of the subject in mind, and the time element, I spoke to Bill, and he said, "Tell them all you know about business management". You know, at first this seemed like a rather good answer, but on second thought I'm not so sure how Bill meant that remark.

Then there was Jim Noble, who said this management business was a simple problem of elementary mathematics, as proven by the story of a guy named Joe. It seems that Joe was an especially poor student, and just barely managed to graduate from grade school. The story goes that some years later the old crowd who had graduated together decided to have a reunion, and gathered at the home of one of the rather successful members. While enjoying refreshments on the front lawn, they saw a big Cadillac drive up, with a footman and a chauffeur. When the limousine stopped, the footman and chauffeur got out. The footman opened the door, the chauffeur threw out a red carpet, and Joe stepped out — bedecked in the finest clothing, including diamond stick pin and rings. As you can imagine, the old gang was amazed, and many gathered around Joe, congratulating him on having made good, and asking him how he did it.

Joe replied: "Well, somebody once told me that if I made 10% on my business, I could become wealthy very quickly. And it really works."

"Oh, Joe", they responded, "you can't do that on 10%! Come on — just how did you do it?"

Joe said, "Well, I buy something for $1.00, and sell it for $10.00, and you'd be surprised how fast that 10% builds up."

Well, it appears that I have already used up about 15% of my time, during which the management of the business has gone to hell. At least, I have demonstrated the inefficient use of time as it relates to business management! But it hasn't been in vain since Joe's 10% has established a basic formula for success. Perhaps I ought to quit now, while I'm ahead.

I suppose we ought to get into the area of mutual concern by quickly dividing business into three categories... Big Business, Small Business, and Monkey Business. The first we can eliminate as inapplicable in our present discussions. The latter, of course, is a subject better discussed over a few martinis, and we'll take it up later.

Speaking in a more serious vein, we are concerned at this time with Small Business Administration. A broad overall knowledge of all areas of management are demanded of us today, which goes far beyond that required of any preceding generation. The demands of advanced technology and government regulations, alone, require constant study and acquisition of new fields of experience.

It would be presumptuous for me to speak of the technical or direct operational functions of your management, and because we can only deal in generalities here, we will confine our examinations of the subject to the specific area of accounting and financial analysis, which I feel most qualified to discuss, and then only to the limited extent our time will permit.

Taking these subjects in order, record keeping - or accounting- is one of those nuisances which all business finds itself saddled with, but nevertheless finds necessary.

All of you are well aware of its necessity and value, and do keep such books and records as are not only necessary for yourself and the operation of your business, but also for the many government agencies at Federal, State, and local levels, whose requirements are a constant burden on all business today.

Your books may either be kept by your own staff or by outside accountants, and I presume are well arranged and maintained to give you the necessary reports and records.

I feel I must, however, emphasize that a reasonably comprehensive set of records should be kept, including cost records.

While there are certain basic ground rules in accounting and required or recommended procedures which must be observed, there is no such thing as a standard system or set of books. An accounting system must be tailored to the particular business.

In some instances, a simple analytical cash book is adequate, but since your business requires inventories and fixed assets, a somewhat more detailed system is to be recommended. At a minimum, the following books and records would be essential:

1. Cash Book
2. General Journal
3. General Ledger
4. Subsidiary Ledger (Where there are many detail accounts)
5. A record of Inventory (quantity on hand and cost)
6. A fixed asset register (cost, date of purchase and description)

It is recommended that the accounts contain not only a name, such as Accounts Receivable, Cash, etc., but also a number for more certain identification. The account should be numbered in a sequence and in blocks to identify the major catagories of accounts.

Generally, the accounts are divided between Assets, Liabilities, Income Accounts, and Cost or Expense Accounts.

As you can see, I have glossed over general accounting pretty rapidly. However, this has been done in view of the time element.

Good and reasonably sufficient records are useful, not only in management control, but in cost estimating and preparing bids and proposals, which are the essence of your continuing operation and growth. For the latter purpose, some kind of cost records should be maintained.

I believe many a job thought to be profitable at a certain figure, arrived at on a rule of thumb basis, turns out to be a contributing factor to a loss sustained on a job or over a period of time, all because the cost estimating was not based on facts and past experience revealed by the records. Furthermore, it is likely that the figures did not take into consideration the proper overhead expenses, or these items were completely ignored.

In order to pinpoint the result of jobs done, a cost system of kind should be installed. Cost systems vary with different kinds of business, and even within a given kind. As we have already indicated, the system - like the entire accounting set-up - should be tailored to the particular business by which it will be used.

At a very minimum, your cost system should provide information of each area of your operation, with an answer as to whether or not a profit has been realized on each job attempted, or each type of business you conduct. For example, some of you are carrying not only "C" products, but also "A" products, in which case definite segregation ought to be made between the two markets which you are now serving. In the case of the "A" products, you know the cost of an item, to which must be added overhead and a profit margin, to arrive at a selling price.

Overhead can probably be handled most easily as a percentage of cost of each item. The composition of overhead should be all expenses of running the store, including rent, light, heat, power, insurance, clerks' salaries, local retail licenses, taxes, etc., all of which are necessary in order to conduct the retail part of your business, plus a portion of your general overhead. With this base, we all know we must gear to the market, but when we do so we at least know we will make out on the deal.

In the case of the "C" line, a job order cost system is recommended. This consists in general of assigning a job order number for each of the jobs you get, and in segregating costs to these jobs on the basis of labor, sound components and material, and operating overhead.

A separate ledger called a Cost Ledger, or Cost Record, should be maintained with a sheet for each job. The total of all of these Job Sheets must agree in total with the General Ledger Account, "Work in Process".

Chart "A" is a sample of what a Job Sheet might look like.

Labor and Material are comparatively easy to obtain, since they specifically apply to the job involved. The operating overhead factor is one which can only be arrived at in total and used as a percentage factor for application to the jobs.

The base for application should be one which will most logically distribute the overhead to each job in proportion to the benefit

CHART "A"

COST LEDGER SHEET

DATE	JOURNAL NO.	EXPLANATION	DIRECT LABOR	OPERATING OVERHEAD	EQUIPMENT & MATERIAL	OTHER EXPENSE	TOTAL
2-14	3	Payroll Distribution, W/E 2-14	$ 600.00	$ 300.00	$	$	$ 900.00
2-14	5	Altec Invoice #456			3,500.00		3,500.00
2-17	6	Supplies from Stock			600.00		600.00
2-21	3	Payroll Distribution, W/E 2-21	1,000.00	500.00			1,500.00
2-24	5	Altec Invoice #492			900.00		900.00
3-15	3	Payroll Distribution, W/E 2-28	400.00	200.00			600.00
3-16	7	Travel Expense				300.00	300.00
		TOTAL	$2,000.00	$1,000.00	$5,000.00	$300.00	$8,300.00

received, and at a fixed percentage rate. The formula for it, as well as its application, must be consistently followed in order to provide a uniform measuring stick.

I suggest labor as a base for the application of operating overhead, since it is probably most closely allied to operating costs.

Now, just what goes into this loading rate, and how does it work? Let's look at Chart "B".

Note that the $22,500 is predicated on anticipated or forecasted expenses weighted by past experience and actual results.

The same is true of the amount of anticipated direct labor of $15,000, which becomes the denominator of the fraction for liquidation of the remainder of the expense — $22,500 minus $15,000, or $7,500.

It is thus evident that the anticipated direct labor plus the 50% overhead rate will approximate the total operating expense.

This type of computation should be made periodically, to determine that we are still on target with the rate established (in this case, 50%), since any marked changes in projected business will affect the rate.

The rate will also be affected by increased wage rates, an increase or decrease in anticipated expense, a new tax or license on sound contractors, etc.

Do not, however, change the rate constantly during the year, as these changes will distort comparisions of jobs done that year. Try to arrive at a realistic rate and change it only when necessary and when you are certain that the changed conditions will continue.

The accounts illustrated on Chart "B" making up the total expense would also appear in the sub-ledger accounts, "Direct Labor Charged to Jobs" and "Operating Overhead Charged to Jobs". A monthly expense report of operating expense would look something like Chart "C".

The General Ledger Account would show a balance of $95.00, which is the amount that our 50% rate failed to liquidate. In this illustration we are on target, and I am quite proud of the excellent job of forecasting I did in this case. I can just hear Mr. Ward saying, "Why can't he do as well on our rates?" But we do come very close.

Now to carry on with our use of this information, let's assume we wish to make a bid on a job. We would first, of course, decide what equipment and material we need. How many Altec horns and speakers, amplifiers, microphones, etc., and how much wire, hardware, etc. This would be costed up, labor dollars estimated, etc., and we would make up an estimate sheet such as Chart "D".

We have now introduced two additional overhead or expense items, "Selling Expense" and "General Expense". For these items we also compute overhead rates in the same detail as we did for Operating Expense, and come up with the 10% rates used on Chart "D".

Chart "E" shows the result of these computations.

Barring Government requirements, how much detail and how many classifications of expense would depend entirely on how much detail you want; and, above all, how much you can afford to provide.

A commercially oriented manufacturing business such as Altec treats Engineering Expense as a separate expense item, and

CHART "B"

COMPUTATION OF OPERATING OVERHEAD
(Expenses of installation operations only)

Anticipated or Forecast of Expense

Salary of installation personnel	$19,000	(Total operating payroll)
Fringe Benefits	1,200	(Social Security Taxes, Group Insurance, Workman's Comp. Ins., etc.)
Insurance	300	(Liability, Fire on tools, etc., Insurance on truck)
Depreciation	700	
Auto or truck expense	300	
Other	1,000	
Total for the year	$22,500	

Anticipated or Forecasted Labor (to be expended on jobs during the year)

(Direct Labor) $15,000

Operating Expense
Less Direct Labor ..... 7,500 ($22,500 less $15,000)

Therefore, overhead percentage applied to Direct Labor is:

Expense to be liquidated / Direct Labor = $7,500 / $15,000 or 50%

CHART "C"

OPERATING EXPENSE
Month of March, 1964

	Current Month	Year to Date
Salary	$ 1,500	$ 4,600
Fringe Benefits	100	305
Insurance	25	75
Depreciation	58	180
Auto Expense	25	75
Other	90	260
Total Expense	1,798	5,495
Direct Labor	1,200	3,600
Overhead Charged to Work in Process	600	1,800
Total Liquidated	1,800	5,400
Net Surplus or Deficit	$ 2	$ (95)

CHART "D"

BID FOR JONES SPORTS ARENA

Direct Labor	$2,000	(Dollars based on actual salary of men on the job, and the actual hours on the job.)
Direct Expense	300	(Travel to and from the job by the workers, plus any other expense, such as hotel.)
Equipment & Supplies	5,000	(Equipment used on the job, plus wire, conduit, hardware, etc.)
Total Direct Cost	7,300	(Charges direct to Work in Process as incurred.)
Operating Overhead	1,000	(50% of Direct Labor - Chart "B")
Gross Cost	8,300	
Selling Expense	830	(10% of Gross Cost - Chart "E")
General Expense	830	(10% of Gross Cost - Chart "E")
Total Cost	9,960	
Profit	1,000	
Price to Customer	$10,960	

CHART "E"

Computation of Selling Expense and General Expense

Anticipated Gross Cost for the year	$85,000
Anticipated Selling Expense for the year	8,500
Anticipated General Expense for the year	8,500

Therefore, both Selling and G & A are $\frac{8,500}{85,000}$ or 10%

(Text continued)
charges it against income, as it is incurred; whereas a manufacturer doing government business would, in all probability, charge Engineering to Operating Expense (also may be called Manufacturing Expense), and liquidate it as a shelf cost of the product. One of the principal reasons for this difference in treatment is the regulation on government contracts (ASPR), but for commercial business the tax consequence is a major consideration.

Every dollar added to cost of manufacture and operating expense, as we have here called it, adds to inventory value. As a result, from the standpoint of income tax — Federal, State, and local, if any — every dollar of deductible expense added to inventory defers that expense as a Federal Income Tax deduction, and increases the current tax dollars paid out. The property tax effect is obvious, since such tax is based on inventory value. This latter is recurring loss which can never be recovered.

Profit, of course, is not a ledger account, and would not appear as such in your books, except in the sense that it is the difference between the price you receive and the costs and expenses incurred. It would appear on your Profit and Loss or Earnings Statement.

This profit margin, while we all realize is to some extent governed by competition, should be sufficient to supply a reasonable income to the owners of the business, and in addition, an amount which can be retained by the business for use in further expansion. This latter factor should be seriously considered in any basic pricing policy, since no business — whether large or small — can hope to continue to expand without making provision for the necessary increased capital needed for the new business expected or desired.

As we all know, the trend of the sound business has been upward for a number of years, and seems to be accelerating, therefore, making it obvious that this provision for additional operating funds or capital is essential. I am sure each of you is experiencing this need, but in many cases it appears that adequate provision is not being made to provide such additional funds.

Profit is a difficult and sometimes elusive animal, and I find it almost impossible to define in definite percentage or dollar terms what your profit should be. As an illustration, 2% might be very good for a supermarket where inventory turnover is 20 to 25 times per year, and it's all cash on the barrelhead, but highly unsatisfactory, in fact impossible, for a manufacturer whose inventory turnover is 4 and who, in addition, has a tremendous investment in plant, machinery, tools and dies.

It would seem however, that your annual profit before Federal Income Tax, should be at least 10% of investment, since if we consider about 50% goes out in Federal Income Tax, using average corporate tax rates, we are left with only 5%. On even the most conservative investments we can realize 4 or more per cent without any personal effort or risk, and our California savings and loan institutions are now paying 4.85%, or thereabouts.

Now that we have these records, let's examine the use of them. Obviously, it would be extremely difficult to get any concise picture of our business by the records alone. In order to present an easy reading picture, we must resort to reports. The following reports, prepared monthly or quarterly, should be available to you:

Trial Balance (sometimes only used by your accountant) This is a listing of all of the accounts in the General Ledger, both debits and credits, and must balance out to zero to prove accuracy of the postings.

Balance Sheet — shows Assets, Liabilities, and Net Worth. The last section shows your investment, prior year's earnings retained in the business, and current year profit.

Profit and Loss, or Earnings Statement - shows income, cost, expense and profit. (Should show current month and year to date.)

Expense Analysis - As for example, our illustration on Chart "C".

Analysis of Jobs in Process - A listing of the jobs by number, showing cost factors and total.

Such reports diagnose the health of your business, and if made on a comparative basis, show the progress in the current year vs last year, or several past years.

Most of them are essential not only to you but are requested and scrutinized in different ways by your banker, credit agencies, and your suppliers. Not only should your own reports be read, but those of similar types of business, when available, for relative comparision as to how you are doing. Your competitors reports should be especially valuable, if available. Sometimes we can be badly shaken by the figures of others, and as a result, discover the weak spot in our own decisions.

Although not a true financial statement, but recommended and found desirable by banks when a loan is sought, is a Cash Forecast. This report is a prediction of cash position at a future date. It starts with present cash and projects it into the future by adding our estimate of cash receipts and deducting estimated expenditures, and thus predicts cash at the end of each period.

It should be made up periodically, and preferably should show the figures by month for the next 3, 6, or 12 months.

If based on fact and projected on reasonable probability, it will enable us to plan our cash requirements and know that we will or will not have sufficient to operate during the period forecasted.

Reports reflect the condition of our business and the results of management decisions and control. Further usefulness and meaningful information is obtainable and available as a management tool if we begin to explore and compare the relationship of certain report figures with others. For example, if receivables increase perceptibly, is the increase in keeping with our increased business or the result of other influences, such as slow collection or doubtful accounts that need special attention?

Broadly speaking, there are three kinds of relationship tools, generally termed ratios: 1. Balance Sheet Ratios; 2. Those which relate Balance Sheet and P & L items, and; 3. Operating Ratios, sometimes called Profit and Loss Ratios, which show the relationship of expense to income.

The number of ratios used will vary, depending on individual need or choice, and the size of the business, as well as the detail in which accounting records are kept. Obviously, a manufacturing business needs more of this statistical information than the local merchant, and General Motors needs more and different kinds than a small manufacturer. In the area of small business there are nine ratios generally used to a greater or lesser extent, depending on the business. See Chart "F".

Let's look at a hypothetical case, admittedly exaggerated, but used here to bring out some examples of their use and value.

CHART "F"

RATIO ANALYSIS

Balance Sheet Ratios:

1 Current Assets to Current Liabilities, or $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

2 Current Liabilities to Net Worth (Also termed capital, or owner's equity)

3 Net Fixed Assets to Net Worth

4 Total Debt to Net Worth

Balance Sheet vs Profit and Loss Ratios:

5 Turnover of Net Worth, or $\frac{\text{Sales}}{\text{Net Worth}}$

6 Turnover of Working Capital, or $\frac{\text{Sales}}{\text{Working Capital}}$

7 Net Profit to Net Worth

8 Net Sales to Inventory

9 Average Collection Period of Receivables

Profit and Loss Ratios (Expressed on the Profit and Loss Statement as a percentage of Sales.)

Direct Cost of Sales

Other Costs of Sales

Gross Profit

Expense (Selling, G & A, Engineering)

Other

Net Profit before Federal Income Tax

Federal Income Tax

Net Profit after Taxes

CHART "G"

BALANCE SHEET OF JOHN DOE SOUND ASSOCIATES
As of April 30, 1964

ASSETS		LIABILITIES	
Cash	$ 1,000	Notes Payable to Band - Due 5/15/64	$ 8,000
Notes Receivable - Customers	5,000	Accounts Payable	20,000
Accounts Receivable - Trade	25,000	Payroll	1,000
Inventory	15,000	Accruals	4,000
Total Current Assets	$ 46,000	Total Current Liabilities	$ 33,000
Building	25,000	Mortgage on Building	15,000
Truck	3,000		
Test Equipment & Tools	10,000		
Furniture & Fixtures	3,000	Net Worth	
Fixed Assets at Cost	41,000	Invested Capital	15,000
Depreciation Reserve	12,000	Prior Years' Earnings	5,000
Net Fixed Assets	29,000	Current Year Earnings	7,000
		Total	27,000
Total Assets	75,000	Total Liabilities	75,000

Current Assets consist of Cash, Accounts Receivable, and Inventory. These are the types of assets which will or could flow into cash in the normal business cycle.

Current liabilities are short term liabilities due within one year and consist of Accounts Payable; Payroll, and associated costs, usually referred to as Fringe Benefits; and Accrued Expenses, which in general are expenses incurred or items which have been consumed up to the date of the Balance Sheet, but are not yet paid or due for payment. Also included in current liabilities are the portion of long term indebtedness and notes due within one year or overdue as of the date of the Balance Sheet.

Chart "H" is a Profit and Loss Statement for the 12 months ending April 30, 1964, which — it is assumed — is the fiscal year of the John Doe Sound Associates.

The Profit and Loss Statement shows a total of $88,000 of items which could result in Accounts Payable. These items are operating overhead, equipment and supplies, other, and expenses. Thus, our average monthly payable is 1/12 of this total, or roughly, $7,500.

Now to go back to Chart "G", the Balance Sheet. Accounts Payable of $20,000 indicates that debts are equal to almost three months expense, with a large proportion overdue. Cash is just enough to meet the payroll, with nothing left over for the accounts payable and the note coming due, to say nothing of the accruals which may be due or overdue. Any other payments must come out of collections of receivables which also are overdue. Bank payment cannot be met unless almost a third of the receivables are collected. In fact, to meet the current and overdue payables, some inventory would have to be liquidated. In an emergency, the current assets would not meet the debts. Bank or supplier could create havoc. Fixed assets are too high indicating overexpansion.

Now, let's examine Chart "I".

Beware of top heavy liabilities. Consciously, or unconsciously, they are a worry and undermine business judgement, cause decisions to be made which are bad and interfere with an objective approach to a decision.

There are three ways to improve a picture such as we have here:

1. Invest more capital.
2. Liquidate Assets.
3. Build up capital from earnings, but this is a long term means.

Obviously, our friend John Doe is in trouble, and needs some help. While there may be many ways to help, for illustration let's make some decisions which would improve the picture.

First, the building seems to be far too large for the business done, and while it is mortgaged, still has a good piece of his cash tied up in it. On a most conservative view, I am assuming we could sell it for its depreciated cost of $20,000 (there being $5,000 of depreciation on the books); after paying off the mortgage it would produce $5,000 in cash. Actually, it should sell for at least its cost in today's real estate market and would then produce $10,000 or more in cash.

With a three month average collection period on receivables, we would have to put on the pressure. Assume this effort produced $10,000. Based on the three month figure, I have assumed for sake of illustration that there has been little or no collection effort previously made, and we are trying to obtain a 2 month balance.

I am assuming that our inventory is mostly materials, with only one or two jobs in process. It should be reduced, and I am assuming that $5,000 of it is excess. Sale or immediate use of this amount would produce another $5,000.

CHART "H"

PROFIT AND LOSS STATEMENT OF JOHN DOE SOUND ASSOCIATES
For the year ended April 30, 1964

		Amount	Percent
Sales		$ 120,000	100.0
Cost of Sales:			
Labor	$ 20,000		
Overhead	10,000		
Equipment & Supplies	60,000		
Other	5,000	95,000	79.2
Gross Profit		25,000	20.8
Expenses	13,000		10.8
Interest on Mortgage	900		.8
Interest on Notes Payable	900		.8
Other Charges	200		.1
		15,000	12.5
Net Profit Before Federal Income Tax		10,000	8.3
Federal Income Tax		3,000	2.5
Net Profit		$7,000	5.8

CHART "I"

1.	Current Assets / Current Liabilities	46,000 / 33,000	=	1.4 to 1	Working Capital Ratio. Liabilities too high. Should not be more than $16,000.
2.	Current Liabilities / Net Worth	33,000 / 27,000	=	120%	Also proves Liabilities too high if we use 50% as a maximum, which is reasonable for this business. They should be no more than $14,000.
3.	Fixed Assets / Net Worth	29,000 / 27,000	=	107%	Over 100% of investment in business tied up in fixed assets - restricts working capital.
4.	Debt / Net Worth	33,000 +15,000 / 27,000	=	180%	Ratio #2 already showed liabilities too high, and the mortgage due adds to the trouble. Far too high. Owe almost twice our net worth. If accounts go bad or inventory value drops, we are bankrupt.
5.	Sales / Net Worth	120,000 / 18,500 (av. for year)	=	6.5 to 1	Excellent by itself. No comment , except it was due to incurring excessive debt. Indicates lack of ability to expand.
6.	Sales / Working Capital	120,000 / 13,000	=	9.2 to 1	Fine, but again brings out lack of working capital.
7.	Net Profit / Net Worth	7,000 / 27,000	=	26%	This combined with the P & L rate of 5.8% profit margin is good.
8.	Net Sales / Inventory				Not overly significant in this case.
9.	Average collection period of Receivables — Notes plus accounts.	30,000 / 10,000	=	3	The 10,000 represents average monthly sales for the year. The 3 indicates 3 months collection period.

With this $20,000, John would pay off the $8,000 bank note which is coming due and pay overdue payables amounting to $12,000, leaving a balance of $8,000, or approximately current month payables.

After these transactions, his Balance Sheet would look like Chart "J".

We now have a much improved looking financial statement which even the hard-shelled banker would look upon with some interest, and John would again begin to buildup a D & B rating for credit purposes.

Current Assets to Current Liabilities are 2.4 to 1 from 1.4 to 1.

Current Liabilities to Net Worth is 48% from 120%.

Fixed Assets to Net Worth is 33% from 107%.

Debt ratio 48% from 180%, indicating less than half of our Net Worth is tied up in debt.

Receivables is 2 months from 3 months.

This latter ratio should never be more than two months, assuming of course, we are not in the loan business or making installment sales.

CHART "J"

BALANCE SHEET OF JOHN DOE SOUND ASSOCIATES
As of April 30, 1964

Assets		Liabilities	
Cash	$ 1,000	Notes Payable	$ -0-
Notes Receivable	5,000	Accounts Payable	8,000
Accounts Receivable	15,000	Payroll	1,000
Inventory	10,000	Accruals	4,000
	$ 31,000		$ 13,000
Fixed Assets	16,000	Net Worth	
Depreciation	7,000	Invested Capital	15,000
Net Fixed Assets	9,000	Prior Years' Earnings	5,000
		Current Year Earnings	7,000
		Total	27,000
Total Assets	$ 40,000	Total Liabilities	$ 40,000

I realize that the time limitation of 2 months is probably creating quite a stir in the minds of you gentlemen and you are saying: "He's nuts. We're lucky to get our dough in 3, 4, or even 6 months.

I still say the 2 ratio is the limit on which we can reasonably operate with an adequate profit margin, meet competition, be ready for that new job just received, and to expand our business. It is also necessary if you are to avoid putting much more capital into the business, thus reducing the return on your investment to a point where return is less than reasonable, considering the risk of doing business.

Advance payments, or progress payments, are one of the ways of reducing the collection period. Advance or progress payments are generally provided in the case of government contracts, and it is reasonable to expect in the case of any large contracts which you may have to handle.

Advance payments are common in many industries, especially in the building field. For example, The Austin Company requires the customer for whom the property is being constructed to provide advance funds sufficient to meet all payrolls and pay all obligations to be incurred during the next thirty day period, and such advance funds are requested each month as construction progresses. Thus, at all times, The Austin Company is operating on the owners money, rather than its own.

Since in most cases your contracts are actually sub-contracts under a builder or a sub-contractor, it is more than likely that the general contractor and the sub-contractor, if any, are receiving such advances, or at least progress payments, and can well afford to provide you with your proportionate share.

Seizing on this subject in a personal vein, Altec too, is vitally concerned with this average collection period ratio, and watches it very closely, since our entire price structure is founded on a short collection period. Our mark-ups depend on reasonably prompt collection of receivables.

Obviously, it cost money to carry receivables, and you can be sure that any supplier who offers apparently better or longer terms is including the cost of financing in his prices, or in the reduced quality of his product.

All of you are aware of financing cost, and all we have to do to bring it forcibly to mind is to look around us at the multitude of financing companies almost begging us to borrow their money. Nothing down, months to pay off in, and no questions asked. But just look at the cost. That $100 for 12 months costs only $10 per month, which in my book is twenty bucks over what we had to start with, or $20.00 for the use of an average of fifty bucks for 12 months, or 40%.

Shakespeare didn't say it, but somebody did: "You get nothing for nothing." But the finance companies do very handsomely by giving you these low, low easy terms.

Altec doesn't engage in these practices, and I am sure you will all agree our products are good, our prices not cheap, but reasonable, and our relations with you mutually advantageous; so let's keep it that way, and help our credit man to help Altec to keep our prices down.

We like it that way, and above all we like to be able to feel that there is a community of interest between us to make available to the sound field the best product consistent with the lowest possible price.

We need you and we like to feel you need us, just as you feel your customers need you to get the best in sound at a fair price.

Gentlemen, it's been a privilege to have had this opportunity to take part in this seminar, which has by now become an institution in our common interests. I trust that my efforts have given you something of value.

I can only say I have enjoyed it, and feel a sense of satisfaction in not being the last speaker at this seminar, as I am always reminded of the minister, who, on being transferred to a new church, had the following startling experience: On his last Sunday, he preached the usual sermon, and then expressed to the congregation his pleasure at having served, his appreciation of the cooperation he had received, and the rest of the nice things that a minister would say. When he had finished, he proceeded to the door of the church and greeted each of the members of the congregation as they left. As usual, each of them had nice things to say to him, until one little old lady came up and said:

"Oh, Pastor, we're really going to miss you."

The minister tried to reassure her by saying that another man would be there the next Sunday, and that without a doubt the new man would be better than he had been. She replied:

"Oh, no, Pastor. We're really going to miss you. And I'm sure that he won't be as good as you."

The Pastor replied: "How can you be so sure?"

The little old lady replied: "You know, in the last ten years we've had five different ministers here, and each has been worse than the one before him!"