What Europe Thinks of Us

The Men of the Supreme Court

“Drumming” Revolutionary China
HOW MANY AUTOMOBILES CAN AMERICA BUY?

WHAT MANUFACTURERS THINK OF THE FUTURE OF THE PRODIGIOUS MOTOR CAR INDUSTRY IN A COUNTRY THAT NOW OWNS ONE CAR FOR EVERY 100 MEN, WOMEN, AND CHILDREN — THE FETISH OF "THE NEW MODEL" — CHANGES THAT ARE COMING IN UNECONOMICAL METHODS OF DISTRIBUTION — WHAT THE CYCLE-CAR MEANS TO THE INDUSTRY AND TO THE PEOPLE

BY REGINALD McINTOSH CLEVELAND

ONE of the most searching questions which the far-seeing men of the automobile industry are asking themselves is, How near is the phrase, "And they lived happily ever after," in the wonderful fairy story of that industry's growth? Let me hasten to explain that in asking themselves this question they do not mean even to hint that the industry is less strong and stable than at any time in its remarkable history; they are merely wondering if the change from geometrical progression to arithmetical progression, from modern magic to modern established business, is not at hand. It is a meet subject for consideration.

More than 1,000,000 motor cars are at present in operation in the United States. The population of the United States, speaking in round numbers, is 100,000,000. That is to say, there is one car for every one hundred people. When it is remembered that $500 has been, until this year, the minimum price of an automobile and that in "population" men, women, and children are included, it is evident that in no other field of industry has the American genius for distribution and merchandizing been more signally displayed than in that of the automobile. The question now is: How much farther can it go? Production schedules for 1914 have been estimated at 375,000 cars. The production during 1913 was 300,000 cars. The value of the automobiles that are to be built in this country this year will be approximately $400,000,000. If all are sold, therefore, it will mean an automobile investment of $5 for every person in the United States. Will it be possible to keep up motor car merchandizing on such a scale much longer? It does not require an especially sensitive finger on the pulse of things to inform you that it will not. The market is pretty well saturated. The era of wand-waving has passed for the automobile industry. The era of sound and conservative business progress has come.

All through the progress of its growth the automobile has been a sort of prodigy. Look at the figures for a moment and see how it has grown — it is a growth that would be remarkable in an inexpensive article, but is almost incredible when the price of automobiles is kept in mind. In 1900, a few hundred cars were manufactured in this country; in 1903, 10,000 were built; in 1904, 18,000; in 1905, 24,000; in 1908, 56,000; in 1909, 120,000; last year, 300,000. It has been like compounding both interest and principal.

According to figures compiled by the Office of the Secretary of State of New York, after consultation with the proper authorities in the various states, nearly twice as many machines were registered in 1913 as in 1911. The total registrations for those years, so far as they could be accurately ascertained, were 1,146,969 and 623,436, respectively. In the count for 1913 California was not included, as its registration is on the perpetual basis instead of the annual basis. In that state there have been 105,000 registrations since 1905. With California added, it is, therefore,
entirely conservative, even allowing for
the probable number of duplicate registra-
tions, to put the total of cars that are ac-
tually in use at more than a million. This,
of course, includes vehicles of all kinds
other than motorcycles, for commercial
use as well as for pleasure.

In passing it may be well to note the
astonishing rate of increase in the use of
motor trucks. As well as increasing vastly
in numbers, the commercial vehicle has
entered a surprising number of fields of
activity. It is found as a means of trans-
portation in all the ordinary lines of mer-
chandise and, in addition, as a post hole
digger, in lumbering, in saw mills, as a
source of power to cut ensilage and wood, in
fire, police, and ambulance service, as a
vehicle for mine rescues, to transport high
explosives, as a dog-catcher’s wagon, a
traveling chapel, and a hearse. Its spread
in many of the larger cities is exemplified
by Chicago. The Commercial Vehicle
Committee of the Automobile Chamber of
Commerce has recently received figures
from that city which show the increase of
motor trucks and delivery wagons as com-
pared with passenger automobiles and with
horse-drawn vehicles:

From May 1, 1910, to December 24,
1913, passenger automobiles increased in
Chicago from 9,963 to 21,373, or more than
114 per cent. In the same period, com-
mmercial motor vehicles increased from 799
to 3,964, or nearly 400 per cent. Horse-
drawn vehicles decreased 4.5 per cent. in
two years and 2.6 per cent. in eight months
of 1913 as compared with the previous
twelve months.

So much for basic facts of development
and growth. But the automobile has
reached its present position as a vital
element in civilization not by reason of its
intrinsic merit only. The methods of its
merchandizing — its distribution — have
been almost as astonishing as its force of
numbers. The last decade, and espe-
cially the last five years, has seen a sort of
automobile madness, not unlike the spirit
of a gold “rush,” but country-wide in its
extent. Demand has more than met
supply. People of every degree and every
calling have clamored to buy and the men
of the automobile industry have shown
their greatest acumen not by merely supply-
ing the demand but by stimulating the al-
ready eager appetite. Some of the means
by which this has been accomplished would
never have been so successful had not the
longing to own a motor car already been
aroused spontaneously.

Of all these means, the “annual model”
propaganda has been undoubtedly the
most remarkable. Something which origi-
nated in the mechanical necessities of a
new art was elevated almost into a creed
and has been kept in that exalted position
long after its necessary elements had
passed away.

The process has been something like
this: Early in the business, when motor
cars were crudities whose performance
under conditions of practical use was still
in doubt, improvements were many, rapid
in succession, and radical. It became the
custom to gather the accretions of progress
during twelve months and then embody
them in a new model, which at first was
put on the market with the beginning of
the new calendar year and bore that date
as its title. But the custom of announcing
a new model every year did not stop when
the motor car had been practically stand-
ardized. It went right on — with this
change: that the time of bringing it out
was pushed farther and farther back into
the year which preceded its date. Im-
provements undoubtedly were made every
year — interesting modifications, more
and more concerned with ease of operation
and comfort of occupant, but not vital
in the sense that the improvements of
the early years had been vital.

The changes in every succeeding type
continued to grow less and the period of
the year continued to grow earlier until,
with the coming of the 1914 models, prac-
tically no mechanical novelties were to be
seen (with a few individual exceptions)
and many of the cars labeled “1914” were
announced in the early summer of 1913
and some of them were on the market by
mid-summer of last year.

But the result of these yearly changes in
model has been that the public has ac-
quired a state of mind toward automobiles
that is similar to the state of mind of
women toward changes of fashion in dress.
EVIDENCES OF A MIGHTY INDUSTRY

PART OF ONE DAY'S OUTPUT OF ONE COMPANY (1,000 CARS) AND PART OF THE DAY SHIFT OF THE FACTORY. LAST YEAR MORE THAN A FOURTH OF A MILLION AUTOMOBILES OF ALL MAKES WERE SOLD IN THE UNITED STATES. AT AN AVERAGE PRICE OF $900, THE VALUE OF THESE CARS WAS APPROXIMATELY ONE FOURTH OF A BILLION DOLLARS
"Last year's car" has come to be as much a phrase of reproach as "last year's hat." A machine that cost $1,000 or $5,000, after not more than a year of service—and often after much less—is "antiquated" because the "new model" is out, and is depreciated in sale value by about 50 per cent. for that reason. Of course, the car is not antiquated for practical purposes, as is proved by the record of the many machines that have run satisfactorily for five or more seasons and show from 50,000 to 100,000 miles of travel on their logs.

Of course, too, this custom of discarding a car for any reason less important than mechanical breakdown or hopeless shabbiness is economically unsound. Though the custom has contributed largely to the enormous sales of automobiles, far-seeing manufacturers realize that it cannot continue forever to be the basis of expansion except, perhaps, of the sale of those cars that are designed to meet the caprice and the luxurious tastes of the rich.

Another economic anomaly of the automobile business is engaging the attention of manufacturers and salesmen alike. This is the extraordinary cost of marketing—another example of the almost universal modern problem of distribution. This condition is partly to be explained by the scale and method on which the motor car business has been conducted by the retail dealers in large cities. It is almost a truism to say that the profit in the retail automobile business increases in direct proportion to the smallness of the community in which it is carried on. In several of the large cities, of which New York is the most conspicuous example, the profits to dealers in automobiles come almost entirely from their sales as wholesalers—as distributors to subdealers and agents—rather than from sales at retail. In many
WHERE MOTOR CARS ARE MADE

MANY HUGE MACHINE SHOPS LIKE THESE WORK DAY AND NIGHT TO TURN OUT THE PARTS OF AUTOMOBILES. THEY REPRESENT AN INVESTMENT OF MANY MILLIONS OF DOLLARS
cases the retail end of the trade is carried on at a substantial loss. This is due, among other things, to the extremely expensive method of doing business and to the practice of taking cars of one's own or another brand in trade.

The "overhead" cost of retailing automobiles is perhaps the most uneconomical aspect of the business. I have heard that it costs one of the leading companies

$78,000 a month to do business at its retail branch in New York City. It maintains a large building on Broadway with an enormous and magnificently appointed salesroom and a big force of salesmen. Motor car salesmen, most of whom work on the commission basis, are expensive. They make from $6,000 to $9,000 a year on the average in the more popular makes of cars. Most companies along New York's "Automobile Row" on upper Broadway employ about five of these salesmen apiece.

The commissions of five salesmen at $7,000 apiece amount to $35,000. When to this sum is added such yearly rental as $24,000, $18,000, or $10,000, one begins to see how the overhead adds up. The rents I have cited are a few that I know about on Automobile Row. One of its buildings, with an elaborate salesroom, rents for about $4,000 a month. Many of the larger agencies, those which pay the higher rents, are not content with the average of five salesmen. One agency, which pays $24,000 a year for quarters anything but extensive and not at all pretentious, has nine salesmen who average, it is safe to say, $7,000 a year apiece. Here, then, is a fixed charge, without going into any other items of expenditure, of $87,000 a year. This agent gets as commission 25 per cent. of the list price. This is the usual allowance, although in one or two cases the discount runs as high as 40 per
HOW MANY AUTOMOBILES CAN AMERICA BUY?

CARS THAT HAVE TRAVELED A THIRD OF A MILLION MILES
AUTOMOBILES NOWADAYS ARE MADE TO LAST MORE THAN ONE YEAR

cent. plus 5 per cent. The car that he sells is listed at about $2,000. Thus about one hundred cars must be sold in order to offset the two items of rent and salesmen. see why the retail end of the business is more attractive in a small town than it is in a big city.

But rent and salesmen are not all the

FIFTEEN TRUCKS THAT REPLACED SEVENTY TEAMS
ABOUT 50,000 COMMERCIAL AUTOMOBILES ARE NOW IN USE IN THE UNITED STATES

Now the dealer in a small town, who sells the same car, gets the same commission. When one considers the comparatively low overhead he has to meet it is not hard to overhead cost. Service must not be forgotten. The so-called “factor” or overhead for service to the purchaser is high. There must be a building with adequate

ONE DAY’S SHIPMENT FOR THE USE OF ONE HARDWARE COMPANY’S SALESAGENTS
facilities for repairing, etc. A charge for labor of 65 to 70 cents an hour is said to be not enough to pay a profit—in New York, at any rate. The service manager, meantime, gets about $4,000 a year and his assistant gets about $3,000. By many companies, concessions in service far beyond the period of guarantee are allowed. By a few, the service item is allowed to reach astonishing proportions. For example, service cost one large company, which went out of business last year, much to the surprise of all except those “in the know,” 7½ per cent. of its gross business. Its advertising cost only 4 per cent. and its selling only 7 per cent.

Last, but by no means least, comes the question of trading. Dealers differ more, perhaps, in their attitude toward the trading problem than on any other point. Many of them count on a loss of 5 per cent. for trading. With some, the loss is so great that it eats up nearly all profit. A few have taken a brave stand in the matter and refused to take any car in
If you have a car of their own or another make which you wish to be rid of on buying a new one, they will take it and sell it for you for the highest price they can get, but they will not guarantee either sale or price and they charge you the full price for a new car. This is far from the general custom, however. It has been said in irony that the automobile dealer is more frequently the buyer than the seller when he disposes of a new car, which is to say that the man who trades in his old car gets the best of the bargain. Instances of astonishing allowances are on record. For example, a man was allowed $4,000 on a car that was six months old which had cost, when new, $4,500.

Many a dealer has his basement or his storage place full of "used" cars, taken in trade, which are veritable white elephants. The depreciation in market value of cars of this type is enormous and they are in every sense undesirable to him. But the bugbear of the annual model has its influence here, especially toward the end of
the season. It leads the dealer into making trades at allowances out of all proportion to the value of the car. Suppose, for example, he has five cars on hand two weeks before the new model is to come out. His contract with the factory has forced him to take delivery of them. He must move them at almost any cost in the two remaining weeks, for if he does not their value will drop like a plummet. Consequently he trades with an abandon that is costly.

With all the obstacles that I have enumerated to combat, it would seem that it could only be a losing game to be an automobile dealer in a big city. That it has not been so in many instances has been due to the dealer's profits in his other function of wholesaler. In this field he has practically no overhead. He takes his profit quickly and can reckon it without deductions. But at best his business has not been of the bonanza kind.

On the other hand, the manufacturer has very generally made a large financial success. His problems are less complicated. It is a problem primarily of simple multiplication. It is not here implied, of course, that the physical side of manufacturing a motor car is simple; I refer to the business side for the manufacturer. The list price of most cars is just double the cost of manufacture plus factory overhead. If the list price of a car is $2,000 it is reasonably safe to estimate that $1,000 represents the total cost of making and the factory overhead, and that out of the other $1,000 is paid the profit after the advertising, selling, and administrative overhead charges have been deducted. And the profit remainder has been large in a great many cases.

And there is every indication that it will continue to be so for many years to come, even if the era in which production increases yearly by 25 to 100 per cent. is at an end. It is no longer necessary to argue with the public that the motor car is a good and necessary machine; its status as an immensely important—almost indispensable—part of modern life is established. The industry may be expected to adjust itself to this change of attitude, just as it will adjust itself to more moderate growth. Many of the odd and unwise practices of the past may be expected to lapse in the process of adjustment, and the automobile industry will gain and not lose caste thereby.

Interesting modifications of the type of car to suit the market, rather than the education of the market to suit the type of car, will be part of this process of adjust-
The introduction of the small car and cyclecar is full of promise. Economy is the chief purpose of these vehicles: economy of original outlay and hence lower depreciation; but still more important, economy of up-keep.

Undoubtedly there will always be a considerable number of people who will desire the type of motoring that is synonymous with the large, powerful, and expensive car and who will be willing to pay the piper; but, in the nature of the case, there will always be a larger number of people who cannot afford motoring of that type but are not the less desirous of motoring. People of very limited income can realize their dreams now and will be able to realize them even more fully and easily as the types of small automobiles multiply. Transportation by automobile at the rate of 3½ cents a mile is now possible. The cost of a year’s travel in one of the new small cars, taking a mileage of 15,000 for the year, has recently been worked out. This car, which costs just under $400, is in no sense freakish although it is small, and it is a miniature automobile rather than a cyclecar. The figures include all the proper up-keep charges:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost per mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasolene, 25 miles to the gallon at 20c a gallon</td>
<td>$0.008</td>
</tr>
<tr>
<td>Oil, 800 miles to the gallon at 60c a gallon</td>
<td>0.0075</td>
</tr>
<tr>
<td>Tires, one set at $12 apiece</td>
<td>0.0032</td>
</tr>
<tr>
<td>Repairs, $50 a year</td>
<td>0.0033</td>
</tr>
<tr>
<td>Insurance, covering fire and theft</td>
<td>0.0066</td>
</tr>
<tr>
<td>Depreciation, 25 per cent. a year</td>
<td>0.0066</td>
</tr>
<tr>
<td>Interest on investment at 6 per cent. a year</td>
<td>0.0016</td>
</tr>
<tr>
<td><strong>Total cost per mile</strong></td>
<td><strong>0.02417</strong></td>
</tr>
</tbody>
</table>

There is no indication that the maker of or the dealer in the larger and more expensive cars feels that his sphere of usefulness is to be abolished, but if the ratio of one car to every one hundred of population is to be increased very largely it must be by automobiles of a type which makes possible operation on a scale something like that of the little newcomer.