TEN LESSONS IN MARKETING—Lesson VII

Financing, Risk Bearing, Insurance, and Speculation

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1. **Time and expense in production and marketing.** In previous lessons, as we have traced the principal steps in the marketing process, we have noticed three outstanding facts. First, it has been clear to us that one dominant purpose lies back of production and governs all the marketing activities thus far studied. That purpose is to get the goods to the consumer and have him pay for and use them.

The second fact which has been borne in upon us is that the processes of both producing and marketing goods take time. Time is required for two reasons: first, because production and marketing are from their very nature more or less long-drawn-out processes; and second, because the satisfaction of the wants of consumers is prolonged over the entire twelve months of the year. In the case of many agricultural products, for example, the process of production continues throughout the growing season and culminates at harvest time. In a comparatively short period the crops are harvested and thrown on the market. But the products must be supplied to consumers in quantities to meet their needs throughout the year.

A third fact which we have observed is that all of the work of producing and marketing goods is expensive. Land is needed which must be rented or paid for; large amounts of labor are required to do the work; and costly buildings, machinery, livestock, and other equipment are necessary. All of this means heavy investments and

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large outlays for operating expenses. All the heavy costs of these processes must finally be included in the prices which the consumer pays for the goods. But from our previous discussion, it is clear that a great many people must be paid and a great deal of expense must be met before the consumer buys the goods.

The question we naturally ask is, "Where has all the money come from which had to be spent before the consumer can receive his loaf of bread from the baker?" There is only one answer possible to this question; namely, the money came from previous savings. Either the different individuals and establishments engaged in producing and marketing wheat had accumulated enough wealth to carry on their business until they were paid for their products, or they had to borrow from some one else who had an accumulation. This providing of funds to carry on all industry and business is known as financing.

2. **The functions of the bank.** It would probably be impossible to carry on a very large proportion of the activities of production and marketing as they exist today on the accumulated savings of those who own and manage our industrial and business establishments. In fact, modern industry and business are conducted on such a large scale and at such great costs that it comes pretty nearly taking the combined savings of all the thrifty to finance these processes. The bank is the institution through which the combined savings of society are made available.

Every boy or girl should start early with a savings account and should form the habit of adding to it regularly. Each of you probably already has a savings account in one of our Oregon banks. The amount of each savings deposit may be small but when all these small deposits are taken together they make large funds. It is from accumulations of savings such as these that the banks are able to make loans to help farmers produce their crops, dealers to purchase them, manufacturers to change their form, and merchants to advertise and sell them. Without these accumulations of savings, modern society could scarcely go on at all.

3. **The importance of safety in banking.** On account of the great importance of the banks in modern industry and business, it is necessary that they be made as nearly safe as is humanly possible. Carefully worked out state and national laws control our banking institutions. They are regularly examined by state and federal officials in order to be sure of the soundness of their business methods. In spite of all these precautions, banks occasionally fail; and the failure of a bank always brings widespread loss and hardship.

A sound system of banking gathers up the savings of those who are not in a position to invest them productively, and makes these accumulated savings available as loans to those who are engaged in useful industry and business. In order that a bank may remain sound, it is absolutely necessary that every loan it makes be backed by adequate security. Unwise loans lead to losses; and if the bank's losses are greater than its own investment in the banking business, then it will fail, and you and I will lose our savings.

4. **Risk bearing.** In spite of all possible precautions, no industry, no business can be absolutely safe. When the farmer sows he assumes the risk of crop failure. When the merchant buys his stock of goods, he runs the risk of falling prices, and of not being able to sell out his stock. In contracting for raw materials and for the sale of his finished products, the manufacturer is risking loss from price changes. Then we have the risks of loss and damage by fire, storms, and flood to which all are exposed.

In brief, all man's efforts are subject to the risk of failure. This risk is ever-present and must be borne. But hard work, knowledge, skill, and experience are important elements in reducing risks. This explains to a large extent why some farmers are so much more successful than others; why some merchants and manufacturers become millionaires, while others go bankrupt. It furnishes the principal reason why we study and work and save while we are young. We want to keep out of the big army of failures as we grow old. Statisticians tell us that about 85 per cent of all Americans sixty-five years old or over are dependents.

On account of the ever-present element of risk in production and marketing, it is important that those in charge of lending the funds of our banks be men of good judgment and of broad business training and experience. In general, loans should be made for productive purposes. That is, the man who borrows money should have an investment in mind which is reasonably certain to repay the loan and return a profit. The wise banker helps his customers to avoid unprofitable and risky investments, and thus performs a valuable service for his community.

5. **Insurance.** But certain kinds of risks, which are difficult or impossible to foresee and avoid, cause a great deal of distress and hardship to those who suffer loss. The general desire to be protected against such losses has given rise to insurance. Insurance provides a means of bearing such losses cooperatively. That is, all those who take out insurance of any kind, are willing to pay a certain amount regularly in order to guard against losses which may occur. Fire or hail may never visit you personally, but you have your risk taken care of by your policy, and your premiums help to pay the losses of others who would be ruined were it not for insurance.

Insurance, like banking, must be made as nearly safe as possible. Whatever the kind of risk covered, the premiums charged must be large enough to meet operating expenses and all losses as they occur. As statistics are accumulated on all sorts of losses, the average number that occur is becoming more accurately known year by year. This makes it possible for insurance companies to cover more kinds of losses, thus increasing the safety of business, and reducing suffering and hardship in general.

6. **Speculation.** The fact that some are more skillful than others in avoiding the losses due to risk bearing has given rise to speculation. Speculation means either buying and holding products in the expectation of selling later at a higher price, or selling in the expectation of being able to buy at a lower price in the future.

Most of those engaged in the production and marketing of goods may occasionally do some speculating in the products they handle. But in addition, there has grown up in our large central markets a class of professional speculators who operate in exchanges or boards of trade. The exchanges deal principally in grains and cotton. The speculators study everything which is likely to affect the market, and if in their judgment the price of wheat will rise, they buy wheat for future delivery. If they believe the price will be lower they sell in the expectation of being able to buy at a lower figure when the time comes to deliver the wheat.

For years, the operations of the professional speculators have been the subject of controversy. Some claim that they work an injury to both producers and consumers. Others maintain that they help to steady the market and make it more constant, thus benefiting both. We cannot attempt a discussion of such a difficult question in this series of lessons.

QUESTIONS AND EXERCISES

1. How do the farmers in your community finance themselves while waiting for the maturity and sale of their crops?
2. What is meant by store credit? Who pays the storekeeper's bad accounts?
3. Secure a copy of the printed statement of your local bank and get the banker or some one else to explain the various items to you.
4. What kinds of insurance do the farmers in your community carry?
5. Is the farmer a speculator when he holds his grain for a higher price?

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