

Sales and Distribution
Problems of Ponderosa Pine
by
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Introduction

The problems encountered in the Sales and Distribution of Ponderosa Pine are numerous and the purpose of this thesis is to bring together some of the most important ones, giving the reader a clearer picture of the problems which must be understood and solved before there can be a purity in the flow of the product.

The Sales Organization used in many cases to sell the product of the individual mills will be explained along with the problems of Shipments, Transportation, Pool Car, Mixed Car, Low Grade, Claims, and Disputes.

Chapter I

The Sales Organization

The entire Sales Organization that this thesis has been written about is very complete and will be described to give the channels through which the lumber travels to reach the consumer.

Heading the organization is an Executive Office that serves as a clearing house for the orders taken by the different sales agents. It sets the price level at which the lumber will be sold according to the law of supply and demand and the cost of production. Because there are so many competitive influences at work and so many different species produced in many scattered manufacturing centers the price of lumber tends to rise and fall rapidly, even abruptly at times, which must be supervised by the Executive Office. Another function of the Executive Office is to set the sales policy for the sales organization. This must be regulated in order to have something definite in mind when a decision must be made in regards to the sales situation.

The sales reports must be sent to the Executive Office to make it possible to determine exactly the kind, grade, and amount of lumber that is being sold. These reports are then correlated with the stock-sheets sent in by the respective manufacturers. The stock-sheets are obtained regularly, usually every week, and in case of a sudden flux of the market or stock changes a special report is sent in. The stock-sheet itself is a list of complete stock-on-hand at the mill in shipping condition, and gives the Executive Office a very accurate account of what each mill has in

abundance and what items are at a scarcity. Through these stock-sheets they are able to direct the sales agents in which items to push the hardest.

Under the Executive Office are district sales offices that are located in the larger lumber consuming centers throughout the United States, such as New York City, Pittsburgh, Chicago, Cleveland, Denver, and San Francisco. These offices serve as a central point for the very important contact with the consumer through the various channels of their sales representatives which sell on a salary, or commission basis, or both. District Sales offices act as a media or agencies for direct movement of lumber from the mills to the retail yards and other purchasers. In a sense, they are acting as wholesalers and distributors of their own lumber and have been able to accomplish the desired results with marked success.

The commission man sells from the district sales office purely on a commission basis and has no responsibility in the matter of shipment, delivery, or carrying of accounts. His commission varies from about fifty cents per thousand board feet on the cheap and highly competitive lumber, such as roofers, small dimension, timbers and common grades, up to one dollar to two dollars per thousand board feet on the high grades. His commission is usually paid upon the delivery of the order and the closing of the account, although some firms pay half on the acceptance of the order and the balance on its final delivery and payment. ¹

¹ Nelson Courtlandt Brown, The American Lumber Industry, John Wiley & Sons, Inc., New York, 1923, p.115.

Next in the Sales Organization comes the Mill or Plant Sales Manager who plays a very important part in the distribution system. It is his duty to inform the Executive Office of the stock conditions in his respective plant. This information is contained in the stock-sheets and the use of the teletype system in case of any sudden changes that may be valuable to the Executive Office.

He, also in the line of duty, watches the cut in the sawmill by issuing sawing orders to the head sawyers, edgermen, and trimmermen, who direct the flow of lumber for future orders, or balance the stock-on-hand, which ever is seen fit. In many sawmills there are many sawyers that tend to slip one way or another in favoring a large production. A method of control for this is to issue instructions for which they are expected to follow. From an instruction sheet to sawyers one might find such things as: "Naturally, we wish to produce all the lumber possible, but we do not want quantity if we sacrifice quality. Quality must always be the goal which every sawyer must strive for. Quantity is secondary. The sawyer who can get both quality and quantity is the ideal sawyer." ² This illustrates very well the work of the Plant Sales Manager in the control of production.

The Plant Sales Manager must also be informed constantly upon the stock conditions at his plant. The volume and grade of stock-on-hand are determined either by periodic or perpetual inventories, and the sawing orders or instructions are changed from time to time to secure the stock necessary to

2. Ralph Clement Bryant, Lumber, John Wiley & Sons, Inc., 1938 p. 191-3.

bring the supply-on-hand to the balance desired. An inspector may be employed at some mills whose duty it is to see that an excessive surplus or deficit in the various sizes and items does not occur. Inventory is taken by checking the contents of yard piles, and also computing the volume of stock stored in sheds and other places.³ This information is sent to the Executive Office where it is sent out to the District Sales Offices finally getting into the hands of the individual Salesmen who are then able to determine the grades and sizes to sell most heavily.

It is the job of the Plant Sales Manager to act as a salesman for the territory surrounding the mill which is not reached by the District Salesman. In this capacity he contacts the consumer and secures his part of the orders.

The Plant Sales Manager must figure the footage per order and order the size car needed to meet all the requirements in shipping. These cars as a rule are ordered from the railroad one day in advance. Along with this job he must line up the shipping schedules and advise the Sales Office or customers when orders will be loaded and shipped. In case there is any delay in shipment he must advise the Sales Office or customer the cause from delay. In lining up the schedules he must check the specification and price on all orders received; samples or sketches on special items; sufficient weight to protect rate. If additional weight is needed, he promptly advises the Sales Offices or customer.

The normal routine in handling orders in a manufacturing office is approximately as follows:

³. P.E. Gilbert, Gilbert Inventory System? 1930, p.45-6.

When orders are received from salesmen, they go first to the credit department which records the credit limit that may be extended to each customer, examines the terms of payment, and the amount of outstanding indebtedness. If the order is acceptable from a credit standpoint, it next goes to the sales manager who examines it for price, time of shipment, and other practical considerations. If he accepts the order it is then given an order number by the order clerk who acknowledges it to the customer and salesman. Each order is identified by both number and name of the customer and copies of all correspondence, telegrams, telephone messages, acknowledgments, freight ladings, invoices, specifications, etc., and are filed together. The sales manager next places the order in the hands of the mill which is to make the shipment, and then arranges to fill the order from their stocks.

Chapter II

Shipments and Transportation

WILHELM
BORND
MADE IN U.S.A.

Congress has granted to the Interstate Commerce Commission the right to fix and change from time to time interstate freight rates on common carriers. These vary with the different commodities, and for lumber there is a group commodity rate which is determined for each originating point to destination. There is no correlation between distance and rate. Generally speaking, long hauls are cheaper per ton mile than are short hauls.

"Statistics show that the average length of haul for carloads of lumber was one hundred seventy-five miles in the year 1911. The length of haul adds directly to the cost of lumber delivered at any given point at which it has been produced. But even with this in mind, there is a rapidly increasing average length of haul from the producing sawmills to the great centers of consumption." ⁴

These statements are quoted from a lumber book that was written in the year of 1923 and we know that the average length of haul has increased until mills on the Pacific Coast ship their lumber throughout the United States by rail.

The problem of car selection is one that must be solved by the Sales Manager when getting ready for shipment. The regulations of common carrier railroads specify a minimum loading weight for cars of a given length, for which freight will be charged on carload lots, that is the minimum charge will be on the basis of this weight, unless the actual weight

4. Nelson Courtlandt Brown, The American Lumber Industry, John Wiley & Sons, Inc., New York, 1923, p.141.

exceeds the minimum, when the charges will be based on the actual weight.

The general rule regarding lumber shipments is that cars may be loaded ten percent in excess of the stated capacity stenciled on the car. The height above the rail on open cars must not exceed thirteen feet. When loads exceed the maximum weight, the carrier may unload the excess at the shipper's expense, so there must be care taken in loading the orders.

The determination of the weights of the lumber shipments, in carload lots, is made by weighing the load on railroad scales, either at the mill or at some terminal point. When railroad scales do not exist between the points of origin and destination, the weights on local shipments are determined on the basis of arbitrary estimated weights per thousand board feet, which are specified in the tariffs issued by carriers.

An advantage in weighing lumber at the point of origin is that open-car shipments, rained or snowed upon, accumulate an appreciable weight of water on which freight must be paid and for which the consignor cannot collect from the consignee. The disadvantage of this added weight to the shipper is that lumber often is sold at a delivered price, based on estimated weights, which, naturally do not take into consideration this extra water. Therefore, the shipper is reimbursed only for the estimated weight and must pay for the excess.

The method of payment for the transportation of lumber by rail is on the basis of weight, rates being quoted by units of one hundred pounds. Though rates are "blanketed", that is all

lumber originating in a competing unit or sometimes along a given line of railroad takes the same through rate to markets, even though the most widely separated mills in a "blanket area" may be several hundred miles apart. Each mill in a given area, therefore, is able to compete, on equal transportation terms, with every other mill in the area, without regard to location. Local rates, however, are not blanketed and are relatively higher than the through rates, because the through rates are competitive and the railroads in order to secure lumber tonnage must place them low enough to enable shippers to compete with lumber from other producing regions.

Blanket rates to market from a producing region are a benefit to the consumer, because they offer buyers a considerable range in the choice of products, create competition between producers over a relatively wide territory, and thus prevent the establishment of excessive prices.

Going back to 1916 we find an examiner by the name of Esch, of the Interstate Commerce Commission who suggested a scheme of classification for lumber products in which the basis of lumber rate making would be weight, whenever the product would load to a prescribed minimum, which he suggested might be fifty thousand pounds. The latter figure was determined by taking the average weight of about seventeen thousand carloads of lumber shipped from all producing regions. He proposed to apply a base rate to the fifty

thousand pound minimum, and to lower the rate per hundred pounds for weights in excess of this amount, and to increase it for those below the minimum, thus rewarding shippers who loaded to capacity and penalizing those who did not do so. Changes in rates were to be made only on ten thousand pound differences, all shipments between fifty thousand and sixty thousand pounds taking the same rate, and those between forty thousand and fifty thousand pounds taking a higher rate.⁵

This plan did not appeal to the lumber industry, because even though a car were loaded to visible capacity it would not be possible to attain the minimum weight when the light woods were shipped.

Favorable action on the matter was not taken, and the present lumber classification is substantially the same as that which has been in use for many years.

Demurrage is the penalty imposed by the railroads for cars held by or for the consignor or consignee for the purpose of loading, unloading, or reconsigning, or for any other purpose. It is intended to discourage unnecessarily long delays in loading, or unloading, or in holding the cars for any purpose.

Demurrage charges vary somewhat but generally speaking, the free time allowed for loading and unloading is two days. If for any reason cars are detained beyond this period, a charge per day is made for each of the first four days and an

5. U.S. Department of Commerce, The Marketing of Lumber, Report on Wood Utilization, Washington, 1932, p.156.

additional charge for each day thereafter. In computing the time, free time commences from the first 7 A.M. after placement on delivery tracks or after the day on which arrival notice is sent or given to the consignee.

If, after, a given time, which varies with the different railroads, the goods are not claimed or unloaded, the railroad unloads the car and stores the goods at the expense of the consignee. If the goods are not claimed in one year they are auctioned off at a public sale to pay for cost of unloading and storage.

There has been permitted an increase in storage charges in order to discourage the practice of demurrage and storage. Railroad storage facilities are generally very limited, which results in only a limited number of such cases.

Demurrage is usually unpreventable, but on occasions may be deliberate. In times of car shortage the consignee may sometimes delay the unloading of a car until he is able to load it with his own goods.

Reconsignment is a service extended by the carriers to the shippers, under which goods may be forwarded to a point other than the original-billed destination without removal of contents from the car. A through rate or combination of rates is charged when the bulk is not broken and no advance arrangements have been made as in the case of transit cars. The charges vary slightly with the different railroads but generally are about the same.

Under reconsignment or diversion regulations, the through rate is charged from the point of origin to final destination

With the following provision. If reconsignment is not made promptly, demurrage charges, as described above, are in effect. Cars for reconsignment are placed in storage, or "hold" tracks.

The primary economic effect of reconsignment occurs in the increase of flow and regularity in the movement of goods. There is an important elimination of waste in the handling of commodities between producer and consumer. Celerity of movement is increased, the direction of commodities to the point of the most active demand is facilitated and over-supplies at congested centers are avoided.

Chapter III

Pool-Car Problem

The pool car is a type of shipment that makes it possible for several buyers to order small quantities and pool their orders into one shipment reducing the freight for everyone concerned. These orders may be unloaded at any station along the line of travel and the freight rates are usually accounted for by the agent or the salesman doing the business.

The loading of the pool-car involves a great deal of extra work and care. In getting the car loaded each lot must be in correct position for unloading so there will be no extra work in getting the orders out of the car. There must also be a great deal of pains taken in the placing of the select lumber where it will receive the least damage. Usually the finished lumber and selects are placed in the center of the car to reduce the damage.

The invoicing of a pool-car must be done differently than in the case of the other car-load lots. Each lot going to a different customer must be billed and figured out separately and does require a great deal of extra work.

The cost item in connection with the pool-car is very great and must be considered above everything else before the manufacturer would consider taking the pool-car orders. In getting ready for loading a pool-car there is more labor needed because the lots are smaller in size and come from many places through out the plant. It requires more time to load such a car since there are more parts to it, and the loaders must wait for the different items to be accumulated. More room is necessary to accumulate each lot separately.

This is important since they must be kept entirely together according to loading schedule. The orders themselves are more difficult to handle because they are generally of a smaller nature than the regular straight car order. The more people that the manufacturer tries to satisfy the more trouble he is going to have. He is more apt to have claims for shortages when there are so many orders divided into so many lots. The men will become careless in their loading and leave some small lot out which has been shoved off into some corner unless a very accurate check is made by the tally-man.

The Pool-car is one form of making the competition a little stronger for the small mills. It is considered a means to an end or in other words it is contended with for the sole purpose of keeping the customer's goodwill. It has been experienced by the lumber industry that the average customer if he is not able to obtain lumber in this pool-car manner will purchase in some way, substitutes for the lumber. This type of policy has made it necessary for some of the larger mills to continue the pool-car practice.

We come to a great problem when we get ready to route these pool-cars. Routing is an exceedingly important part of every shipment, because proper routing may save both time in reaching the destination and freight charges. If the shipper knows by what railroad delivery is to be made to the consignee he may direct the shipment accordingly and secure proper delivery without additional cost. The shipper always has the right to specify the route by which he wants shipment made, and carriers are made responsible for the routing as shown in

bill of lading. When a carrier fails to make delivery in accordance with routing instructions it remains the duty of the carrier to effect delivery at the terminal designated in the original routing instructions. If any additional expense for switching or trucking is necessary, the additional expense must be borne by the carrier responsible for the misrouting.

In case the shipper has not given specific routing instructions or there are not any through routes to the destination, it becomes the duty of the carrier to forward the shipment by the cheapest, reasonable route with the lowest combination of rates.

It is, of course, to the advantage of the carrier to keep the car on the line as long as possible, and many cars are routed in a round-about way in order that the initial railroad may secure as large a share of the freight returns as possible.

When a car has been unduly delayed or has been lost as sometimes happens, especially in the pool-car problem, a tracer is sent out to locate it. Tracing is always initiated from the point where the cars were last identified. Some lumber companies begin to trace the cars as soon as they are shipped, principally in times of transportation difficulties.

Many wholesale dealer commonly trace all their shipments to keep both shipper and customers advised of the location of every car. This is done principally in the case of pool-cars so that a change in destination may be made without incurring unnecessary reconsignment charges. Some wholesalers have self

addressed post cards sent to junction points, with the request the carriers keep them advised of the time each car in which they are interested is dispatched through certain junction points.

Stops in transit is a very common problem in connection with pool-cars. In case the shipment is to stop in transit, as a pool car is very likely to do, it is necessary to make transit arrangements in advance, otherwise reconsignment charges are in effect. If the car arrives at the destination given in the bill of lading and is rebilled to some other point of loading to final destination is put into effect, plus the transit charges. This is only true, however, in case reconsignment instructions have been filed prior to arrival of car at originally billed destination.

Chapter IV

Mixed Car Problem

A mixed car is one that has many different grades, sizes and kinds of lumber. Sometimes there is material needed for a complete structure. It may include material from rough sheathing to moulding for the interior finish.

There is a great tendency towards mixed car shipments because of the small orders which are in demand. The small retailers order this way to get small amounts for complete assortment.

There are several disadvantages in mixed car shipments since more labor is required in loading the small amounts in such a short period of time. It is very difficult to assemble the material because there are so many places from which it comes. Some may come from the crane shed, some from the moulding plant, other from the dry kiln by way of the planing mill, and all of different grades and sizes. It takes a larger loading capacity to hold the different loads that will be scattered all over the loading dock waiting for their entry into the car. This may be taken care of by the installation of a mono-rail system where the over head carriage is able to lift the loads up and set them down at any required spot. The planing mill must have a larger capacity because, in order to take care of the mixed orders there will be additional short set-ups, the pattern stock is harder to work, and slower to feed, and generally will increase your planing mill costs from 25% to 30%.

Mixed cars as a general rule contain a higher class of lumber and such cars are usually lined with paper before any

loading is done, and much care is taken in loading so as not to damage the stock.

Steel straps are the newest method used in keeping the load level, and limits the shifting of the lumber in case it is not filled up to capacity. Some lumber is wrapped in paper, if desired by the customer. In many cases the two and three inch material may be bundled, and corrugated paper is very often used under the string, in tying moulding to protect the product.

End trimming is necessary in many cases in getting the lumber ready for the consumer although many times a small amount is left for trimming after delivering to the customer. This end trimming is now so perfect that it can be rated equally with the other accomplishments such as four-square lumber etc. The different manufacturers must keep up with the "Joneses" since it is the only way they have of keeping up and ahead in their sales.

There are of course advantages also in the filling of mixed car orders. In keeping business with the retailer these orders must be taken. The competition is very strong therefore there are only a few mills that are able to take this trade at all, and it takes a mill of fairly large size to handle mixed car trade because of the assortment necessary in loading.

Chapter V

Low Grade Lumber Problem

AMERICAN
BOND
MILITARY

Displacement of wooden containers for those uses in which wooden boxes are in fact superior, is a matter of concern to the lumber industry. Boxes are made from low grades of lumber. The disposal of low grade lumber is one of the industry's largest problems. Low grade lumber pays the same freight rates as high grade lumber notwithstanding that much low grade material cannot be moved at all on those rates. At the same time substitutes for lumber which are able, from a single point of origin, to absorb uniformly the freight costs to every market in the United States, are moving on rates originally established to move traffic which at higher rates would not move at all.

Not only is a large percentage of lumber manufactured of low grades, but as more and more second growth timber is cut, the proportion of low grade lumber is increasing. For example in a group of western manufacturers nearly one-third of their timber is low-grade, which is made into box shooks. The big problem confronting the industry is to find markets for this material. Unless markets are found, the manufacture of the high grades must be curtailed. Their marketing difficulty has been greatly increased due to the increasing use of fibre containers. The increased manufacture of low grade lumber and the narrowing markets can be generally applied to the whole industry, which, of course, means fewer cars of forest products will be transported.

This particular displacement of lumber is not new, and

with each passing year the problem is growing greater. As early as 1909 lumber manufacturers realized the fact that their markets for low-grade lumber were being destroyed, owing to the substitution of paper and fibre in the manufacture of shipping containers. Unfortunately for both the railroads and the lumber industry, the increased use of these substitute containers was greatly and artificially encouraged by the carriers in generally adopting at that time the rule which originated with the Western Classification Committee, which in substance said, "all commodities packed in paper or substitute shipping containers shall take the same rate of freight as like commodities packed in wooden boxes", and from that day to this, the lumber industry has seen vast amounts of its low-grade lumber go unsold and the railroads have experienced increased handling charges and increased loss in damage claims.

There has been a great deal done by the different Lumber Associations in promoting the low-grade lumber, and making it easier to move this low-grade lumber through creating a demand for it, and making the consuming public aware of its existence and value.

Chapter VI

Claims and Disputes

Disputes have been common and of long standing in the lumber industry. Lumber is a commodity with many variable factors, such as condition, texture, appearance, growth, species, weight, and defects. There are several sources of claims and disputes, which might be:

1. Incomplete orders. A surprisingly large number of orders are lacking some of the essentials, such as question of time of shipment, grade, terms of payment, specification, etc. In many cases these details are left to interpretation and oftentimes they are either improperly understood or interpreted according to the advantages which accrue to the buyer or seller.

2. Improperly executed orders. Among the principal sources of dispute are failure to ship on time or failure to ship stock of the grade, size, condition, dressing, or kind, as ordered or understood by the buyer.

3. Failure to meet specifications. In many cases the grade and tally at destination do not agree with the specification at loading point.

4. Cancellation of orders. During the depressions buyers sometimes cancel orders because they can purchase elsewhere at a lower price. On the other hand, mills or wholesalers will sometimes cancel orders because they can sell elsewhere on a rising market to a better advantage. Cancellations may be handled in the following ways:

- a. When a buyer cancels he may be forced to accept the lumber in spite of the cancellation. This procedure, however,

has proved to be difficult to enforce, and, furthermore, business relations are generally severed in this instance.

b. The mill may resell for buyer's account upon due notification.

c. The mill may accept cancellation in the hope of retaining the buyer's favor for future business, and make other disposition of the lumber.

There are different methods of settling the claims and disputes in the lumber industry. Some of the most common methods are:

1. By re-inspection by associations

Re-inspection by the different Lumber Associations seems to be at present the method most widely used in settling disputes and claims. This is done by arranging with the Association for an ⁱⁿpector to regrade the shipment or decide the difficulty.

2. By compromise.

Compromise has usually proved to be ineffective and unsatisfactory. Generally speaking, the fault or breach of contract lies with one party or the other, and if it is settled by compromise one party feels that he has been injured. This is not conducive to the best business relations, which is very important in the industry.

3. By arbitration.

Compulsory arbitration has no doubt proved to be more satisfactory, and such organizations as the United States Chamber of Commerce and the International Chamber of Commerce

have made provisions for arbitration of business disputes in many of the more important industries. This method is, however, very inconvenient.

4. By litigation.

Litigation is exceedingly expensive to both parties involved. Long delays are inevitable; both parties generally feel that they are being penalized, irrespective of the outcome; and future relationships are generally abandoned.

A case will be cited illustrating the results from a cancellation of an order. Fictitious names and dates have been supplemented.

THE FACTS

On April 30, 1937, the buyer, a wholesaler, purchased from the seller, a manufacturer, one car 1-inch Ponderosa Pine Rough with the understanding that shipment would be made at once upon receipt by seller of buyer's shipping directions and that the latter would be furnished as soon as the then existing embargoes on Eastern points were raised.

Nothing further transpired until July 29, 1937, on which date seller wrote buyer demanding that shipping directions be given immediately. Similar requests without favorable response were made on August 4, October 4, November 18, and 26, and on December 24. On the latter date seller advised buyer that unless shipping directions were supplied immediately, seller would proceed to dispose of the stock to best advantage for buyer's account. On December 31, 1937

buyer wrote seller cancelling the order. Seller replied on January 3, 1938, refusing to accept cancellation and demanding that the buyer reimburse seller for difference between the contract price and the then market value of the stock, enclosing bill therefor. Payment was promptly refused by the buyer.

THE DISPUTE

The seller contends that after having waited eight months for shipping directions and the embargo having been raised for several months during all of which time they were prepared to make shipment, and having urged that buyer give them shipping instructions in order that they might do so, and having at no time done anything that would give buyer just or legal cause for cancellation, they were, therefore, clearly entitled to damage for breach of contract on part of buyer.

Buyer contends that they were unable to furnish shipping instructions due to embargoes for some time after purchase was made, and finally were obliged to repurchase from another shipper from whose territory shipments were not at the time embargoed. Buyer points out that the price of the stock continued to advance, and having been unable to supply shipping instructions to seller, naturally assumed that the latter had made other and more favorable disposition, and was not depending upon buyer to complete the contract. Buyer furthermore contends that seller should have retained the order until

the price had declined without declaring his intention of making other disposition, thus leading buyer, as stated, to believe that such action had been taken.

THE DECISION

It is found (1) that seller was at all times prepared to carry out his part of the contract, but was not permitted to do so by buyer, through buyer's failure to supply shipping instructions, and that embargoes were raised several months prior to cancellation, thus removing that condition in the contract. (2) That the order remained in full force and effect until January 3, 1938, on which date seller received buyers cancellation. (3) That buyer breached the contract of sale, and is, therefore, liable to seller for damages resulting therefrom, such damage being the difference between the true market value as of January 3, 1938 and the original contract price.

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