

Jan 24 1946

Dear Uncle Henry,

If we did not have a buttonhole machine, we would have to rent or buy one, because our garments cannot be made without that essential piece of equipment.

Just as essential a piece of equipment as a buttonhole machine is adequate working capital (this, you know better than we do).

The term "adequate working capital" has changed considerably in meaning during the last 60 days.

60 days ago we could get by on \$1000 working capital -- just enough to meet current obligations and payroll, because all finished goods flowed immediately out of the shop to fill orders. Now, we face an entirely different set of conditions. The first symptom of this change came when buyers requested postponement of delivery date ~~xxxx~~ so that they could clear their stocks of substandard merchandise before annual inventory. We were fortunate in receiving only ~~xxxxxxxxxxxx~~ -- many manufacturers received outright cancellations. ↖ postponements

This meant that approximately 50% of what we manufactured went to build up a bank of finished goods against deferred shipping dates -- and the operating deficit went merrily on at the rate of about \$660/wk; That is \$630 payroll plus \$360 purchases plus \$420 overhead minus \$750 shipping (half of total produced).

With insufficient resources to meet this situation, only 2 things could be done: 1) we had to miss meeting our matured Accounts Payable; 2) we had to postpone writing credit memoranda to cover returns of goods we had hopefully shipped before the specified shipping dates. As a result, 2 related things happened: 1) our creditors began pressing us uncomfortably; 2) the bank refused to release Bank Deposits Receivable in the amount of \$1000, until the credit memos were issued (naturally).

Well, we are wiggling out of that spot since shipping is now moving out -- but we can't help but think: "that's a hell of a way to run a railroad!"

The handwriting is on the wall: "we cannot operate on our creditors' capital during periodic ordering slumps", a situation we have to face in the future. shipping

It seems a shame to us that this little business should face a possibility of failing, in consideration of the following accomplishments:

A. GOOD RECEPTION OF OUR PRODUCT BY THE BUYING PUBLIC

I hope you read the batch of correspondence I sent Aunt Eva, on this subject. We have been lately re-assured of this fact since, without exception, every buyer now coming into the market, who has seen our line, has purchased -- this in face of the fact that other manufacturers report little buying activity.

B. FOREIGN PROJECTS

1. Australia

The production manager of this project, Col Paul Northey, just returned to Australia after an 8-weeks mission to this country to procure fabrics and facilities for their 1947 operation of the 4 lines now being manufactured there. Our Australian production is to be stepped up to 2000 units/wk. We have already procured for them the machinery and tooling necessary; it is our further job during this year to combine their requirements with our purchases. This will greatly improve our buying position quality- and quantity-wise (since better materials will be made available as our higher quantity purchasing power will open up resources we could not otherwise crack through), and credit-wise (since credit references will be made to Jane Taylor International, the agency set up in this country to clear purchases and disbursements). Of course, we will still have to pay for our portion.

2. New Zealand

The production manager of this project, Mr John Keyworth, is returning to New Zealand next week after a 12-week mission in this country to procure facilities to set up their plant, which is now under construction in Rotarua, North Island, New Zealand. This is the "Yosemite" of New Zealand. Since it is a show spot in itself, they are leaning over backwards to erect a model factory. By July '47, they expect to be well on their way toward their goal of 500 units/wk of our garments.

3. South Africa

We have been given the go-ahead on the tool procurement program for this project. It is to equal the New Zealand project in quantity.

4. Great Britain, Norway, Sweden, Denmark

Patent applications have been made and trademarks have been registered in these countries. Arrangements have already been made for plant facilities and distribution channels. The Great Britain operation will quite likely be the largest in units per week of all the Marler operations (incidentally, the Marler organization owned and operated 57 plants in different parts of the world before they ever started the operations of California Productions, of which we are a part).

5. Argentina, Mexico, India

Arrangements are now being made to make patent applications and trademark registrations as the first step in promoting these projects.

Revenue is scheduled to start from Australia as of July 1 '47, but most of it will go toward paying off monies advanced for patents and trademarks (according to the contracts, we retain possession of these in all affected countries). It will be a year or more before New Zealand pays off. The others will be set-back accordingly.

C. OUR DOMESTIC OPERATION

A careful study of our Profit & Loss Summaries and Financial Statements for the years 1944, 1945, 1946, reveals these things:

1. Total Sales

	Total	Cumulative Total
1944	\$ 1 998.00	\$ 1 998.00
1945	25 130.16	27 128.16
1946	57 644.73	84 772.89

2. Total Disbursements

	Total	Cumulative Total	% of Sales	
			T	CT
1944	5 673.74	5 673.74	284.2	284.2
1945	27 387.90	33 061.64	109.0	122.0
1946	59 653.07	92 714.71	103.5	109.2

These figures indicate 2 things: 1) our cumulative total disbursements exceed our cumulative total revenue by 9.2%; 2) that, in the face of rising material costs (we just received notice of one coming of 44.5%) and rising labor costs, we are slowly winning our battle to reduce unit costs without increasing our selling price, despite the under-privileged manner in which we have had to operate -- that is: buying through local 'converters' instead of directly from the mills, thereby losing 12% on our purchases costs; insufficient working capital to take advantage of the 2% discount on the 2/10 EOM buying terms; inadequate space for facile handling; insufficient material for economical-length runs; necessity of using rental equipment (4.1% of our total sales).

Breaking down the total disbursements, we have:

3. Machinery, Furniture & Fixtures, Tooling

1944	927.00	927.00	46.5	46.5
1945	761.02	1 688.92	3.0	6.2
1946	2 586.69	4 275.61	4.5	5.0

The CT 5.0% expenditure for capital equipment is a large hunk of the 9.2% excess of disbursements over sales, as indicated. But this 5.0% investment yielded revenue in 2 ways: a) it reduced equipment rental to 2.3% of total sales for '46, as compared with 7.1% CT as of 12/31/45 -- this was only accomplished in the latter half of '46; b) it accounts for a considerable hunk of the reduction of direct labor costs to 35.3% for the year '46 from a CT of 49.0% as of 12/31/45 -- a 13.7% reduction (if correction is made to include embodied labor in inventory, the corrected value is 31.6% -- a 17.4% reduction. The reduced labor cost resulting from these purchases is attributable to the use of more suitable machinery and specially designed tooling in order to: combine operations, transfer skill to tools, use multi-needle operations.

4. Purchases (fabric, trimmings, findings, fastenings)

Year	Total	Cumulative Total	% of Sales	
			T	CT
1944	\$ 1 501.87	\$ 1 501.87	75.3	75.3
1945	6 422.77	7 424.64	25.6	29.2
1946	13 706.02	21 630.66	23.8	25.5

I am very proud of Tedi for these ratios. Any textile purchases/sales ratios below 30.0% are good to start with. The 23.8% achievement for 1946 is remarkable in the light of higher yardage costs. Our low purchases/sales ratios are attributable to 2 kinds of planning: a) a group of basic patterns, interchangeable in such a way that nearly every scrap of goods in the marker is utilized -- for instance, we have 1-, 2-, 3-, and 4-panel pinafore basics that can be selected to fit into the chinks of a dress marker, enabling us to get one pinafore for every two dresses in a cutting from what would otherwise be waste material; b) careful selection of trimmings as to style, quality, price, and quantity used per garment (the discriminating use of trimmings helps to avoid the "pieced" look otherwise resulting from such marker practices.

5. Labor-Direct

1944	\$ 2 320.07	2 320.07	116.1	116.1
1945	10 969.56	13 289.63	43.7	49.0
1946	20 273.72	33 563.35	35.3	39.6

These ratios are already discussed in Section C-3.

6. Labor-Indirect

1944	0.00	0.00	0.0	0.0
1945	1 084.27	1 084.00	4.3	4.0
1946	6 659.53	7 743.80	11.6	9.1

All ~~direct~~ indirect labor was performed by ourselves in 1944 and the first half of 1945 for which we received nothing. Sometime in the latter part of 1945 we treated ourselves to a stenographer-clerk and began paying ourselves a salary. All of '46 we paid ourselves, a steno-clerk, and a girl who helped with sorting, shipping, and minor clerical work for 30 hrs/wk. It is believed that 11.6% for '46 is not out of line (32.8% of the direct-labor payroll).

7. Selling Commissions

1944	0.00	0.00	0.0	0.0
1945	0.00	0.00	0.0	0.0
1946	45.93	45.93	0.0	0.0

This is an expense item which will quite likely go upward from here on in, since there will be a reduced number of buyers coming directly to the Los Angeles market, and individual store purchases will be smaller in the soft goods lines as hard goods becomes available.

There is a manufacturers' representative located in Seattle handling our line in the Northwest (Washington, Oregon, Idaho, Montana, Northern Utah) on a commission basis. She just took

our line on in Dec '46. She has done quite well so far with the very limited number of models we have had to offer her.

8. General Expenses

1944	923.90	923.90	46.3	46.3
1945	8 150.28	9 074.18	32.4	33.2
1946	16 381.18	25 455.36	28.2	30.0

The principal ~~XX~~ CT expense items included in this category are:

Rental of equipment (already mentioned)	4.1%	
Sales discounts	8.0	
Bank handling charges	3.0	
Taxes & licenses	1.6	
Rental of space	1.2	
Patents & trademarks	0.7	
Advertising	1.2	
Depreciation	0.7	
Others	9.5	30.0

TO SUMMARIZE:

We feel we have proved that we have a good product. We feel that the continuance of orders placed on our product in the present buyers' market is an assurance that we have a good place in the present and future domestic market. We have been told by those who are risking their own capital on our product that we have a good foreign market, too. We feel we have a progressively improving plant that is now economically manufacturing our product. We know we have learned many things about design for selling and manufacturing, procurement, manufacturing, management.

We feel that -- with our product, plant, what we have learned, what we will continue to learn -- we can make a worthwhile contribution to the present world economy in the form of good clothing, priced right, manufactured under fair labor conditions with modern methods -- with a good profit to its owners.

If these things are true, there must be some way of providing adequate financial conditions to enable us to: 1) build stockpiles against orders during times in which we would otherwise have to shut down plant operation -- a hazardous and wasteful manufacturing and social practice; 2) establish sound eastern credit so that we can buy directly from the mills, eliminating the 12% 'converters' charge; 3) take advantage of trade discounts; 4) completely replace rental equipment. ~~In~~ this we are ignorant.

Of the means of providing →

We are much impressed by your many years of successful business operation. So, we are asking your advice: just how do people go about providing that "essential piece of equipment"-- WORKING CAPITAL?

Jim & Ted