

DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

Readers are invited to submit comments, criticisms and suggestions regarding the material which appears in this department. The Editor also will undertake to answer questions regarding general problems of business management. Letters of general interest will be published, but the writer's name will not be revealed without his permission.

SEASONABLE DISPLAYS FOR JUNE AND JULY.

Graduation and wedding gifts	Cameras and photographic supplies
Perfumes, toilet waters, sachets	Film developing, printing, enlarging
Perfume atomizers	Vacuum bottles
Stationery	Talcum powder
Fountain pens and pencils	Mosquito and ivy poison remedies
Hair brushes and combs	Sunburn remedies
Clothes brushes	First aid kits
Manicure and toilet sets	Sponges and chamois
	Bath supplies

FURTHER RESULTS OF THE CENSUS OF BUSINESS COSTS.¹

In this department of the May JOURNAL, figures of a census of business costs were published relating to typical operating expenses in 1925 in stores in and around Philadelphia. These figures, while typical, are not by any means the best results reported. On the other hand many stores reported results which were not as good as the typical figures published.

The results of these unusually successful stores have been grouped together to bring out just which expenses they have cut most. The typical figures for these stores are set down in the following table alongside those for stores with results not as good as the average.

	Stores with "above average" profit, per cent.	Stores with "below average" profit, per cent.
Sales	100.0	100.0
Cost of merchandise sold	61.0	67.0
Total operating expenses (divided as below)	24.8	29.3
Salaries (including owner's salary)	16.5	19.5
Owner's salary	9.5	9.5
Rent	4.0	5.5
Light	0.6	0.6
Heat	0.5	0.5
Insurance	0.2	0.2

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¹ This article presents the first results of the Druco Census of Business Costs and is reprinted from Druco News, March 1926, published by the Philadelphia Wholesale Drug Company. This census is being made for the Philadelphia Wholesale Drug Company by Paul C. Olsen.

Taxes	0.2	0.2
Interest	Negligible	Negligible
Losses from bad debts	Negligible	Negligible
Repairs	0.2	0.2
Depreciation	1.4	1.2
Delivery	0.1	0.1
Advertising	0.6	0.6
Miscellaneous	0.5	0.7
Profit	14.2	3.7
Turnover of merchandise stock (times per year)	2.6	2.8

What This Table Shows:

The stores above the average earned almost 4 times as much net profit as those below the average. How did they do it?

1. The cost of their merchandise was less. This suggests the following causes, all of which probably were taken advantage of to make these stores more profitable.

- a. Skilful buying.
- b. Purchase of minimum of dead and unsalable items.
- c. Minimum waste and loss of stock purchased.
- d. Taking advantage of discounts.
- e. Selling their merchandise at higher prices.

The justification for selling merchandise at cut prices is that increased turnover and greater volume result, so that in the end the total net profit is at least as much. That is to say, the man who earns a net profit of 4 cents on every dollar of sales and gets eight turnovers a year is making just as much on his merchandise investment as the man who makes a net profit of 8 cents and has four turnovers a year.

From the results reported by drug stores in and around Philadelphia, it is very evident that cut prices do not bring a turnover to justify the lowered margin of profit. To earn a profit on their merchandise investment comparable to that of the unusually successful stores, these stores with a lower margin of profit should have a turnover of at least 10, instead of the 2.8 which they report.

The relation between volume of business and cut prices is discussed in connection with the next table.

2. The expense for salaries in the most successful stores was one-sixth less, although the proprietor paid himself just as much. This suggests that the proprietor was able to conduct his business with less assistance, and this no doubt helped to increase the profits of the business, because success in the retail drug business depends to such a large extent on personal service. It suggests also that the proprietor of the unusually successful store was able to obtain better results and larger sales from the help he had.

3. Rent is one-fourth less, proportionately, in the most successful stores. This indicates that better advantage has been taken of the location, or, in the case of the less successful stores, that a location has been chosen which is too expensive for the amount of business possible to be done.

Do Profits Increase as Sales Increase?

An analysis of the results reported by stores of different sizes was made to learn if large stores are more profitable proportionately than small stores. This

analysis is especially important to the man who is working to try to increase the size of his business.

	Typical results of stores with sales under \$20,000, per cent.	Typical results of stores with sales \$20,000 to \$40,000, per cent.	Typical results of stores with sales over \$40,000, per cent.
Sales	100.0	100.0	100.0
Cost of merchandise sold	61.0	64.0	64.5
Total operating expenses (divided as below)	32.0	27.8	24.2
Salaries (including owner's salary)	22.5	19.5	16.5
Owner's salary	15.0	9.5	5.0
Rent	5.5	4.0	3.5
Light	0.7	0.5	0.6
Heat	0.6	0.5	0.3
Insurance	0.2	0.3	0.2
Taxes	0.2	0.2	0.1
Interest	Negligible	Negligible	Negligible
Losses on bad debts	Negligible	Negligible	Negligible
Repairs	0.2	0.2	0.2
Depreciation	1.2	1.4	1.4
Delivery	0.1	0.1	0.1
Advertising	0.3	0.6	0.8
Miscellaneous	0.5	0.5	0.5
Profit	7.0	8.2	11.3
Turnover of merchandise stock (times a year)	2.6	2.5	2.8

What This Table Shows:

1. The rate of profit is over 60 per cent greater in the largest stores than it is in the smallest stores. That is to say, as a store's volume of business increases, profits increase not only as a result of this increased volume but, in addition, because of the greater rate of profit in larger stores.

2. There is very little difference in the merchandise turnover of large and small stores. This means that as the volume of business increases the investment in merchandise increases proportionately, probably the combined result of a wider variety of goods sold and a somewhat larger stock of each item. This also indicates that the typical largest stores do not build their volume to any extent on quick turnover and low margins.

3. Cost of goods is lowest in the smallest stores, a fact undoubtedly caused to a considerable extent by the proprietor buying merchandise as raw materials and in his spare time manufacturing it into finished products. As the size of the business increases the time available to do this becomes less and, as a result, he buys many preparations which, formerly, he manufactured.

4. Salaries decrease proportionately as the size of the store increases. As a proprietor increases the size of his business he is able to employ his assistants more efficiently. Every druggist is familiar with examples of this. For instance, in a small store the proprietor himself takes care of the soda fountain, while in larger stores a boy or girl does the work for \$15 or \$20 a week. The cost of soda-fountain labor is thus greatly reduced.

5. The typical largest stores pay one-third less for rent than the corresponding smallest stores. Rent is usually a fixed expense; these figures indicate that some proprietors have been able to do more business than others in a given location.

On the other hand, it is apparent also that the lowest rent is not always the cheapest. A store may do three times the business in a \$200 a month location than it would in a \$100 a month location.

6. The largest stores evidently seek business the most energetically because they spend almost three times as much proportionately for advertising. The force of this comparison is seen when it is realized that the typical smallest store doing, say, \$15,000 a year, spends \$45 a year, while the typical largest store, doing, say, \$50,000 a year, spends \$400 a year, almost nine times as much.

NEIGHBORHOOD, SUBURBAN, OUT OF TOWN AND TRANSIENT STORES COMPARED.

The table below is of interest to the man who is considering buying a store or opening a new store.

	Neighborhood stores, per cent.	Suburban stores, per cent.	Out of town stores, per cent.	Transient stores, per cent.
Sales	100.0	100.0	100.0	100.0
Cost of merchandise sold	61.0	65.0	63.0	66.0
Total operating expenses (divided as below)	31.9	26.9	28.8	23.0
Salaries (including owner's salary)	22.5	19.5	19.5	16.5
Owner's salary	13.5	9.5	12.0	5.5
Rent	5.5	3.0	5.0	2.5
Light	0.7	0.6	0.5	0.6
Heat	0.4	0.5	0.4	0.3
Insurance	0.2	0.3	0.3	0.2
Taxes	0.2	0.2	0.2	0.1
Interest	Negligible	Negligible	Negligible	Negligible
Losses from bad debts	Negligible	Negligible	Negligible	Negligible
Repairs	0.2	0.2	0.2	0.1
Depreciation	1.1	1.2	1.4	1.4
Delivery	0.3	0.3	0.2	0.1
Advertising	0.3	0.6	0.7	0.6
Miscellaneous	0.5	0.5	0.4	0.6
Profit	7.1	8.1	8.2	11.0
Annual turnover of merchandise stock (times)	2.6	3.0	2.0	3.0

The most important variations are in cost of merchandise, salaries, rent, profit and turnover. To the druggist already established, these variations are only of academic interest; they give him an idea of the advantages and limitations of various classes of his competitors.

CHARGE BUSINESS.

One store in five reported that they did 5 per cent or more charge business. The losses from bad debts of these stores averaged one-tenth of one per cent of total sales or about 1 per cent of charge sales. This loss is lower than that generally reported for other lines of retail business.

HOW LARGE CAN A DRUG STORE GROW?

Oliver Parker was ready to buy an automobile. Years of unending effort had brought the profits of his business to the point at which he felt he could afford

an automobile. Mr. Parker's drug store had stood for many years in the growing Pine Street section of down-town Seattle. Where once it had been on the edge of the best shopping district it was now in the very heart of it. Accordingly, the store had prospered.

Mr. Parker's success was deserved. He had worked unceasingly to earn the confidence of physicians and to-day he believed that he did a larger business in prescriptions and sick-room supplies than any other store in the State of Washington. The growing demands of his business had necessitated his putting back into it every cent he could spare. Until now he had never felt that he could take enough from the business to buy an automobile.

He had often wished for one, especially as he waited at Third Avenue for the Capitol Hill car which took him up Pine Street to his home. As the little car bounced up Pine Street he had gazed admiringly at the shiny new machines in the display windows he passed. He thought he liked the Buick, but then there was a certain sturdiness about the Studebaker. He wondered if the Jordan could be as good as its advertising. Now the happy time had come for the transition of hopeful wishes to the reality of purchase. He would investigate the claims of Jordan and Chrysler and Nash and Reo and a dozen other names which were vaguely familiar to him. Not since he had driven his father's high perched Rambler had he had his hands on an automobile steering wheel.

Eager salesmen soon beset him. Some took him for rides. Others loaned him cars and urged him to test their power on the East Madison hill or along the straightaways of the Valley road. Years of buying experience in his own business had taught him to appraise values with care and exactness. Buying an automobile was a new experience and, therefore, required much time and study.

Fully four weeks passed before he made a decision. Many cars had qualities that he liked, but not one seemed to have everything that all the others had. That seemed as impossible as to see both sides of a penny at the same time. He laughed at his own indecision. It reminded him of the countless times he had fidgeted from one foot to the other while waiting for a fussy customer to make her selection from three kinds of cologne.

He mentioned his little joke to Jack Rogers—salesman for the car he bought.

"You know," said Rogers, "there are mighty few things that people shop for in a drug store. Once in a while—perfumes, but with most of the things you handle the article is sold before the customer comes in the store. Either that or they are bought on the spur of the moment, as a result of some display or suggestion of yours.

"With us, it's different. Every customer is a shopper. At least 9 out of 10 people who enter your store buy something, while with us, not one person in a dozen who comes in here buys anything."

"How can you afford such an expensive location if that is so?"

"We sold over 400 cars last year. That's a gross business of over \$600,000."

Mr. Parker was startled. He thought of all the effort and skill it had taken to build his own business from \$12,000 a year to nearly \$90,000. This had been the work of 15 years. Here was a business, which in three years had grown from nothing to a volume almost seven times the size of his.

If an automobile agency could build such a volume in so short a time, why

couldn't a drug store do it—especially a drug store with the reputation of his, and located in the heart of Seattle's smartest shopping district.

Jack Rogers must have divined Mr. Parker's thoughts. He said slowly, "Aren't you wondering why you don't do a volume as large as ours?"

"I would like to know."

"Look at it this way, Mr. Parker. Suppose you do a business of \$300 a day and your register shows you that you have waited on about 600 customers. That means the average sale was 50 cents. Of course some people spent more, but you know also that others spent less, so the average figures about 50 cents.

"How much thought does a person give to making a 50-cent purchase? Not much. Don't misunderstand me. Your store is so attractive and so well located that people will even go out of their way to buy from you. They know that the merchandise you sell them will be right and that your service will be letter perfect.

"But there's a limit to how far people will go out of their way to buy from you. They may make a special trip to have a prescription filled or to buy an air cushion, but the staples—peroxide, razor blades, soap—they will buy at the most convenient place. And, as Seattle is a city scattered over a great many square miles, that convenient place isn't always your store. People may prefer to buy their staples from you, but the size of the purchase—averaging, as we said, about 50 cents—doesn't warrant them in exerting a great deal of thought or effort in deciding where to buy.

"That's the thing that limits the amount of business one drug store can do. That's the thing that makes your business different from the automobile business. You have spent four weeks and have done a lot of shopping around before you spent \$1600 for an automobile. Women do the same thing when they are buying fur coats or oriental rugs, but their every-day small purchases are made at the most convenient place. That's why these every-day staples are called convenience goods."

Even the lure of cut prices cannot build a volume of business in a single drug store sufficient to counterbalance the loss of profits which cut prices entail. The possibility of saving even 10 or 11 cents on a 50-cent purchase does not bulk sufficiently large in the minds of many people to make them go far out of their way to make the saving.

It is thus apparent that even for drug stores located in the busiest sections of the largest cities there is a limit to the amount of business that can be done in an individual store. This is the result of a cause beyond the control of the proprietor; the cause is the character of the merchandise sold in retail drug stores.

GOVERNMENT IN BUSINESS.

Governor Ritchie, of Maryland, in an address at the recent meeting of the U. S. Chamber of Commerce, arguing for more business in government and less government in business, emphasized the point that if this desirable consummation is to be brought about it must come through recognition by business that it

has duties and responsibilities as well as rights and privileges. If business would be free of many of the restrictions which are placed upon it by legislation and rid of many of the annoyances with which it is harassed by administrative bureaus, it must be prepared to eliminate the necessity for them by its own fair dealing.

THE SEVENTH REMINGTON HONOR MEDAL AWARD.

The presentations of the Remington Honor Medal have been prompted by different estimates, and each one of those honored has to his credit outstanding achievements in behalf of pharmacy, and this was pointed out in the analysis very interestingly made by President Clyde L. Eddy of the New York Branch, A. PH. A. The brief references by the latter will serve as concise records for future awards; in paying tribute to all, Mr. Eddy also indicated the varying services which had qualified them for the award. Dr. H. A. B. Dunning has contributed to the science of pharmacy as a pharmacist, but the outstanding qualification is preëminent as an endeavor for the advancement of pharmacy. Few had dared to hope for that which was made possible by the medalist of 1926.

The interesting ceremonies, preceded by a banquet at Hotel Pennsylvania on May 12, were directed by the founders of Remington Honor Medal—the New



The Remington Honor Medal and the Medalist—H. A. B. Dunning.

York Branch A. PH. A. About one hundred guests came to honor Dr. Dunning and the happy event was attended by Mrs. Dunning, a son, and other members of the family. Telegrams and letters of congratulation from prominent pharmacists, who were unable to attend, were read, and among them were messages from all pharmaceutical organizations of Baltimore and Maryland. While these were expected they evidenced the esteem and fraternal regard of those with whom the honored guest has been associated, and the tributes of associates and employees testified of their affection and esteem.

President L. L. Walton, of the A. PH. A., spoke of Dr. Dunning's work in and for Associations, stressing his faith in the mission of pharmacy, which was largely responsible for the services he had rendered to pharmacy.

Dr. E. L. Newcomb, who has supported the efforts of Chairman Dunning in publicity work and promoting the campaign for funds, dwelt on the latter's ability as an organizer which made the success of the campaign an accomplishment.

Dr. A. R. L. Dohme related experiences from the life of his fellow townsman and attributed his success to persistence—always sticking to a worth-while problem until he had solved it. In connection with some of these he spoke of the work at Johns Hopkins University and in his own laboratories for and with research workers of note.

Nathaniel Nicolai speaking of "Dunning the Man" brought out the charac-

teristics which were responsible for his development—"nothing he liked so well as tackling difficulties," he said. Mr. Nicolai closed his remarks by saying: "The qualities of Dunning are courage, energy, vision, initiative, tenacity of purpose, executive ability and generosity. We judge a tree by its fruits. We know a man by his works."

Dr. Jacob Diner presented the medal and in well-chosen happy words congratulated the recipient and the Committee for making the selection. He stressed the altruistic side of pharmacy, of which Dr. Dunning is a representative exponent.

Dr. Hugo H. Schaefer, whose suggestion prompted the founding of the Remington Medal, was present at the well-arranged and successful occasion. He has recently completed his studies at the University of Berne.

The Medalist in responding and accepting the Remington Honor Medal said in part:

"I know that you will realize it is only natural for me to be pleased and gratified because of the nice things said about me this evening, however undeserved the commendations may be.

"I can assure the Remington Honor Medal Committee and my fellow pharmacists, whom they represent, that I fully understand and appreciate the high honor which they have conferred upon me, through my selection as the recipient of the Remington Medal. There is no greater honor, in my judgment, within the gift of pharmacy and I am correspondingly grateful.

"The New York Branch of the AMERICAN PHARMACEUTICAL ASSOCIATION is to be commended for its initiative and enterprise in establishing this splendid memorial to a great leader in pharmacy and, consequently, a great leader in the world's work. If we are kept reminded of the great work of others, we are stimulated to attempt greater things and it is only through ambition that progress results; without progress, we become decadent.

"It seems to me that there never has been a time in the history of pharmacy when leadership was more needed, for the problems to be met are perhaps more difficult and intricate than ever before. It is, therefore, fitting that in honoring one of our great leaders, who gave so much of himself to pharmacy, we recognize our own obligation to give something of ourselves to the service of our calling, so that it will fulfill its proper mission and obtain the recognition which it so richly deserves. It sometimes seems to me that we pharmacists are not so self-respecting as we should be; it is only in proportion to our respect for ourselves that we impress upon others respect for us. We give, I believe, a service to humanity which is not excelled by the representatives of any other calling. I speak not only of the evident service so continuously available to the public through retail stores, corner or otherwise, distributed throughout the country, which offer shelter from rain and sun, resting places, free services, cleanly and wholesome surroundings, courteous attention and helpful advice, but also of the services of highly trained and technically educated, intelligent men and women who dispense potent drugs and chemicals and powerful remedial agents with the knowledge and intelligent care required to safeguard their patrons. Until the drugless era arrives, and that does not seem to be in immediate prospect, the lives of the people of the country can be said to be in the hands of the druggists to a far greater degree than in those of any other class, profession or trade. If the public but realized that in every

drug store there are constantly at hand, literally, hundreds of dangerous drugs, concerning which the druggist must have a full knowledge, not only of their individual properties, but when they are mixed together, and that the druggist must be and is constantly on guard to insure the dispensing of the proper drugs, in the proper doses and under the proper conditions so that the life and health of his patron are safeguarded, greater recognition and appreciation would be accorded pharmacy.

“When I think of the great services of such men as Remington, Procter, Maisch, Caspari, Rice and other great leaders and the service of each individual, self-respecting pharmacist, and the small recognition accorded him, I can reach but one conviction—we are poor advertisers. Let us, then, honor our great men as other professions do. Let us advertise ourselves and our service. This brings to mind the Pharmacy Headquarters Building project and its great purpose. I have talked and written so much about this great enterprise for the benefit and service of pharmacy and humanity that I hesitate to impose upon you at this time. You know that the Pharmacy Headquarters Building is being promoted by the AMERICAN PHARMACEUTICAL ASSOCIATION and will be conducted under its auspices for the benefit and service of all pharmaceutical interests. It has no intention of assuming any prerogatives of the National associations, but to serve and cooperate with them, through the development of a great National Bureau, the establishment of a museum, library and research department. The Publicity Bureau intends not only to disseminate knowledge to druggists throughout the country, develop propaganda to the public of an educational character, which will result in a better understanding of the great service which is offered and given by the druggists to their patrons, but to extend other services to all phases of drug interests, such as have been so frequently discussed that it is unnecessary to repeat them.

AN ANNOUNCEMENT.

“All of these statements which I have just offered to you represent an old story, I am quite sure, but I have some new information for your attention. It might be called an announcement. The Pharmacy Headquarters Building is an assured fact, for the Pharmacy Headquarters Building Campaign Committee has in hand sufficient funds to begin the building, enough pledged to complete it, and we are convinced that so soon as a site is selected and the building is begun, not only will the wealthier interests in pharmacy, or associated with it, come forward with sufficient additional contributions to endow its operations, but the retail druggists of smaller means, who have not subscribed, will do so. Our Campaign Committee has brought to the attention of the Executive Committee of the Council of the AMERICAN PHARMACEUTICAL ASSOCIATION our conclusion that the Council should recommend to the ASSOCIATION at the September meeting in Philadelphia, plans for voting on the location of the building, and we hope that they will take this action.

“The Headquarters Building Committee, the Campaign Committee and the Building Plans Committee are all in cooperation and in accord and all of our plans are in good shape and we are ready for action. We need more funds to represent complete success, but we have enough to justify, in our judgment, a forward movement towards our goal.”