

DEPARTMENT OF BUSINESS MANAGEMENT

Conducted By Paul C. Olsen.*

COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

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IS THE INDIVIDUALLY OWNED DRUG STORE DOOMED?

BY A WELL AND FAVORABLY KNOWN RETAIL DRUGGIST.

I hear the future of the individually owned drug store debated every day. Some people say it will go the way of the individually owned grocery store and the individually owned cigar store. Of course the individually owned grocery store is by no means extinct, but in Philadelphia, for example, the great bulk of the grocery business to-day is, undoubtedly, done by the chains. It is estimated that with perhaps one-third as many stores as those which are individually owned, they do 60 to 75 per cent of the total business.

Of course, the chain grocery stores have had one of their earliest and largest expansions in and around Philadelphia, but I see no reason why this expansion and development cannot take place in other sections of the United States. It may take time but, as far as I can determine, there is no reason why they will not develop similarly elsewhere.

As everyone knows, the individually owned cigar store, particularly in the larger cities, has become even less of a factor in the total tobacco business than has the individually owned grocery store in its field.

On behalf of the individually owned drug store, it is argued that the druggist is in a somewhat more fortunate position, because his is basically a professional service. The claim is that it would be almost as difficult to eliminate the individual druggist as it would be to dispose of the individual physician or the individual dentist.

Then, too, in Pennsylvania we have a law that the lower courts, so far, have upheld, which limits to registered pharmacists the *ownership* of any drug stores which may be established in the future in this state. New York has a similar law, but less drastic, and I understand that similar legislation is being considered in other states.

There is, however, and can be in such laws, no prohibition placed upon the operations of stores which handle practically every item of merchandise ordinarily carried in a drug store, except prescriptions and a few drug and household remedies which can be dispensed safely and legally only by a qualified pharmacist. In all the welter of complaints which we constantly hear about the competition of

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chain drug stores I have never heard it said that their competition with individually owned stores is in prescriptions or in those drugs and medicines which the law requires shall be sold only by a registered pharmacist.

The competition always has been, is now and, according to my judgment, always will be in the so-called side-lines and merchandise now commonly carried in practically every drug store.

People outside of the drug trade suggest, frequently, that on account of this condition the individual druggist should throw out his side-lines and concentrate upon prescriptions and sick-room supplies. That, however, is not practical for most druggists. I doubt if 100 of the 1600 drug stores in Philadelphia could continue to exist if they had to depend for their income upon prescriptions alone. As a result of this condition, some people may conclude that there are about 1500 too many drug stores in Philadelphia and a related overabundance all over the country.

Prescription service is generally an emergency service. When it is wanted, it is wanted quickly. Lives may be saved and suffering alleviated promptly accordingly as the drug store of the country can serve quickly and efficiently.

The effect of the numerous side-lines now carried in drug stores is to make available for public service in emergencies just that many more druggists who could not be there to serve in these emergencies, if they did not have other lines of merchandise to sell during the times when there are no calls for their professional services. That is to say, the people of this country would not have one-tenth or one-twentieth of the protection that pharmacy to-day affords them if the druggists of this country had not had the vision and initiative to organize their establishments as they are now commonly conducted with numerous side-lines.

Therefore, the great number of the druggists of this country have to sell side-lines in order that they may be equipped and ready to meet the demands for their professional services. As I said before, it is in these side-lines that the individually owned drug stores have the greatest difficulty in meeting successfully the competition of chain stores and other large retail organizations which sell these same lines of merchandise.

Most of the lines which are sold in a retail drug store are lines which people ordinarily won't go far out of their way to buy. After all, why should a prospective tooth paste purchaser go blocks out of his way to patronize a friend when right around the corner he can obtain the identical merchandise? This means, of course, that the territory from which an individual drug store can draw its business is necessarily and very definitely limited. I dare say that the usual sales volume of the typical drug store is around \$20,000 a year. Out of this the proprietor draws for himself a salary for managing his enterprise of perhaps \$50 a week. In addition, his net trading profit probably averages 7 or 8 cents on every dollar he sells, or a total profit on a volume of \$20,000 of \$1400 to \$1600. Thus his total return from the business is \$4000 or a little more a year.

His turnover of his merchandise stock should average about three times a year and this stock probably costs him about 65 per cent of the price for which he sells it. Sixty-five per cent of \$20,000 is \$13,000. One-third of \$13,000 or \$4333 is, therefore, the average investment that he constantly has tied up on merchandise. Add to this a fixture valuation of perhaps \$3000 or \$3500, although many times it is less than this.

Thus the typical druggist's total investment in his store runs between \$7500 and \$8000. On this investment, as I said before, he probably has earned an annual profit of \$1400 to \$1600, in addition to wages of management which are about equal to what he would receive for doing similar work for someone else.

It is apparent at once that on his investment his return is pretty close to 20 per cent. The fly in the ointment is that while the rate of return is high the total return is small, because the total business is small. And, as I just explained, the nature of the retail drug business is such that the volume of business it is possible for an individual drug store to do is necessarily limited to a rather small total.

This is a condition which I suspect has attracted the attention of capitalists who are ever searching for profitable ways in which to invest their funds. If one small drug store returns a profit of 20 per cent on the investment, a dozen or a hundred or a thousand such stores in suitable locations thus can produce similar returns in amounts multiplied by the number of stores which are established. There of course is the genesis of the chain-store idea.

A banker or an investor customarily thinks in terms of a return of 6 per cent or even less. If the ordinary retail drug store customarily earns 20 per cent on the actual investment, is it not reasonable to expect that the chain-store investor would countenance and even encourage price cutting, because a return of 10 or even 8 per cent on his investment would be entirely satisfactory, as judged by the returns which his investments bring him?

I am perfectly well aware, of course, of certain inherent limitations in the operation of a chain of retail drug stores. I am also aware of certain advantages which are characteristic of chain-store operation. For instance, in my calculations turnover of merchandise stock has been figured at the rate of three times a year, which is about what the average individually owned retailing drug store obtains. To be sure, some individually owned stores have turnovers higher than this but there are many which don't turn their stocks even three times a year.

On the other hand, I understand that the most ably managed chains of drug stores regularly obtain 10 to 12 turnovers of their merchandise stock every year. Consider how this affects their rate of return on their merchandise investment. If instead of making 7 or 8 cents on every dollar of sales they make only 1 or 2 cents, that still is a return of 10 to 24 per cent on their merchandise investment and certainly a return of 6 to 16 per cent, counting fixtures, equipment and everything else they use in the conduct of their businesses.

Add to this the fact that the very size of many drug chains enables them to force price concessions even from some of the largest and most powerful manufacturers. It is easy to figure why it is possible for chain drug stores to undersell the individually owned drug store and still make a profit which is entirely satisfactory to the owners.

Has the day of the large scale operations in retail drug-store operations dawned just as it has in the past in so many lines of activity?
