druggist needs it. A little coöperation or else he can do it alone. The writer can go into further details with those who are interested. Eventually a good baby business means a good prescription business. A good prescription business is the foundation of a good living and professional attainment for the proprietor-pharmacist. It means a real service to his community. Let others cut prices and worry about sundries and consignments.

Become "a baby druggist." It pays.

CONSERVATION OF DRUG STORE ASSETS.*

One plan to render assistance to a merchant in conserving the capital in his business is to provide for his consideration the methods and practices utilized by successful merchants. Quite a different plan is to set forth the inefficient methods used by unsuccessful merchants. A knowledge of the wrong way to operate a business is perhaps just as important as knowing the right way. A few, of course, fail because of conditions over which they have no control. In general, however, it may be said that most business failures lack the necessary knowledge to make a success and when analyzed disclose the incompetent manner in which they functioned.

The experiences of a failed druggist can be turned to profit only when the causes thereof have been investigated, and the results applied. As soon as a merchant fails a new man with new capital seems always available to step in and try his fortune. In the past no lesson has been drawn from the accumulated experiences of the vast number of failures that have taken place, because in the majority of cases, the system of elimination has been such as to preclude outsiders from learning the causes of failure. In the report just released by the Bureau of Foreign and Domestic Commerce on "Causes of Failure among Drug Stores," one of the purposes has been to set forth the experiences of the druggists who failed. Prevention of failure to some extent, another objective of the study, can come through a system of general education through dissemination of the experiences of others in reports in the press and schools.

Another purpose of this record of business failures is to indicate the deadly effects of administering to a weak and poorly managed business an overdose of credit. Factual data in the report indicates that the liberality of some creditors was a primary cause of failure, for the majority of these druggists should never have been encouraged to enter business.

There are undoubtedly many individuals engaged in business to-day who are not fitted by training, experience or ability to manage a business successfully. Unfortunately, it is not generally recognized how difficult it is to make a success of a retail store to-day. Many a business venturer, it would seem, little realizes or appreciates the necessary requisites for success. With only an optimistic expectation of profits, many enter business through the assistance of credulous and liberal creditors. These venturers apparently have an utter disregard of the risk of failure, difficulties to be encountered, and the capital required. In other words, they lack

* An address by Victor Sadd, in Charge of Business Failures Studies, Department of Commerce, before The Drug Store Survey Conference, St. Louis, Missouri, April 26, 1932.

the necessary training, ability and experience. The experiences of retail druggists discussed in the report show the outcome of those who entered business under such handicaps that they were doomed to failure from the beginning. There are no restrictions governing the entrance of anyone into business who observes the law. Consequently, incompetence and lack of capital are generally given as causes of failure.

The studies made by the Department of Commerce go into the details of causes of failure more thoroughly than the usual analysis. In the survey on "Causes of Failure among Drug Stores," we took the names of all those who had operated drug stores and had failed for a period of five years and studied only those that could be interviewed. Out of 50 or 60 stores we were able to make complete studies of 30. One of the outstanding causes among the failed group was their overhead costs which were about 10 per cent greater than the same costs for a group of 40 active drug stores in the same city. Bad debt losses among the failed stores which were doing a credit business, expressed as percentage of total sales were twelve times larger than for drug stores reporting in the National Retail Credit Survey of 1927.

A cause of failure in some instances and of impending failure in others is often revealed in the location the store occupies. There are, of course, many factors to be considered in determining the appropriate location of a store, but in many cases of business failure, it is evident that the most fundamental and most important considerations are apparently overlooked or disregarded by both debtor and creditor. Through analysis of the locations of the stores studied, it was found that $^1/_3$ of them had chosen sites where drug stores had previously failed. On the basis of the data secured in this survey, it seems evident that several factors affecting store location were ignored. In no single instance did it appear that the number of potential customers to be served by the retail outlet had been determined. It had been estimated by some students of successful drug store operations, that a drug store of average size must serve, at least, 500 families, or 2500 persons, before a reasonable profit can be expected. The amount and stability of the customers' incomes should also be taken into consideration. Some commercial failures are due to the results of unusual fluctuations in customers' incomes.

On an average the proprietors of the failed stores experienced difficulty in paying their bills for $14^1/_2$ months prior to failure. Some of these were never solvent, but experienced no difficulty in securing considerable credit. The history of store No. 18 is interesting. The druggist in this case had been a drug store clerk for approximately 30 years. Investigations of his business history revealed that he had practically three failures in all. At one time his equity in his first store amounted to over $10,000 but neglect of business caused his downfall and he was forced to liquidate his debts by selling the store. A second smaller store was opened in another location. High personal expenses which were not curbed and a small volume of sales, due to a poor location, soon caused his failure. In his third unsuccessful attempt he bought the stock and fixtures of a bankrupt business and endeavored to succeed at the same location where two others had failed previously. This particular individual is now a clerk in a chain drug store but stated he was going to purchase another drug store soon. One creditor gives the opinion that he is a good clerk but has no ability as a proprietor. Another mentioned "inadequate management." He apparently was continually in difficulties but able to get credit enough to start again whenever he so desired. The foregoing discloses the fact that the antecedent data of an applicant for credit should be scrutinized more carefully than they appear to have been. Here is another instance that brings out the importance of previous details in credit extension.

The druggist concerned in this case stated that he had owned five stores in less than ten years and that he had never been able to make a profit. He gave as the reasons for his last failure high rent and poor location. One creditor gave the reason that "potential customers disliked him personally." Another gave "indifferent management and poor stockkeeping" as the causes of failure. Another mentioned "inefficiency and lack of capital." At the present time he is manager of a chain drug store. He stated that he soon expected to make his seventh attempt to operate his own store.

In only 2 of the 30 concerns scrutinized was there an attempt made to keep adequate records. Here is a brief history of one of the failed druggists: This man graduated from a foreign university, came to this country several years ago, taught foreign language classes in various cities for four years, and then decided to go into the drug business. He completed two years in a college of pharmacy and with $1700 borrowed from friends and relatives, bought stock and fixtures of a bankrupt drug store. He operated for a year and decided his success was assured. No books were kept and the true condition of affairs was not known until failure. He bought two large apartment houses and an expensive automobile on credit. Starting in business with no funds of his own, he owed at date of failure, approximately $25,000 which accumulated in three years. Some of the principal creditors believed him not only dishonest but also lacking in business ability.

The results of this study indicate clearly that creditors should consider the absence of an adequate set of books on the part of the merchant a pronounced danger signal. Another illustration of the disastrous effects of not keeping books is the case of a middle-aged man, formerly a train dispatcher, who completed two years in a college of pharmacy, and became a registered pharmacist. With $600 of his own funds, plus $5000 provided by friends and relatives, he bought a going drug store, and started business, with no previous experience. The accounting system, consisting of a notebook ledger, did not reveal the true state of affairs at any time. An analysis of the conditions, at date of failure, revealed the fact that overhead expenses amounted to approximately 75 per cent of net sales. Store location was exceptionally poor, accordnig to opinions of both druggist and creditors. Principal creditors stated that this druggist had no business ability, and not sufficient working capital. At present he is a clerk in a small drug store.

The owner of store No. 16 stated that a wholesaler induced him to buy. He paid $325 down on the original purchase price of $2000. The store had originally been turned back to the wholesaler by a previous owner who failed. His contract called for monthly installments of $100 to the wholesaler on the balance of the original purchase price. The gross sales of the store never exceeded $600 per month. Approximately $400 was needed to meet overhead expenses and payments on the balance owed for the store. This would leave him only $200 a month to use for merchandise purchases. For this merchant to have remained in business he would have had to sell $200 worth of merchandise for $600. Such a mark-up was, of course, not possible and he failed in less than six months. The fact that the business lasted six months, under these circumstances, typifies the practice of numerous creditors extending credit to incapable persons without a thorough investigation.

The average rent paid by the failed merchants was 10.6% of net sales; whereas 40 active drug stores in the same city were paying only 4.7% of net sales for rent. Major operating expenses running higher than the average expenses of profitable merchants should be regarded as indications of a probable failure. The amount of present or expected sales should be considered in relationship to the rent paid. The average profit of the successful drug stores, just referred to, was 3.8% of net sales. Thus, the average profit made by them was less than the difference between the rents paid by those who failed, and those who are still active, which amounts to 5.9% of net sales. High rental costs is one of the failure signals to be noted and heeded by both the merchant and his creditors. Salaries, another major expense item, must be proportionate to sales so as to insure profitable operation. Unreasonable withdrawal from the income of a business, in the form of salaries, is significant of imminent danger. All other overhead expenses, if not in proportion to the volume of business done, is also convincing evidence of inefficient management, and unprofitable operation. The merchant and his creditors will find it advantageous to determine the exact cost of doing business and, after a comparison, item by item, with the average costs in competitive and similar stores, can thereby determine the possibilities of success.

Sixteen creditors accused five different druggists of dishonesty. There were several unethical practices which were called to the attention of the examiner, but, apparently, no action was brought by their creditors. One form of dishonesty mentioned was the indorsing of notes to loan and finance companies by three of the failed group, who, in coöperation with each other, managed to secure large amounts of capital. One of them owed 7 different loan and finance companies, as well as 33 wholesalers and jobbers. Another owed 6 loan and finance companies and 44 wholesalers and jobbers. The third owed 4 different loan and finance companies and 66 wholesalers and jobbers. The creditors in all three cases claimed there was collusion among them.

There are numerous forms of dishonesty whereby unscrupulous merchants defraud their creditors. One case concerned a druggist who had signed a long lease, and later ascertaining that the business was being operated at a loss, sold it to an employee on time payments. The employee soon filed a petition in bankruptcy. Creditors claimed that merchandise disappeared in considerable quantities before the receiver was appointed. The bankrupt stated that he was looking for a new location. He also intimated that he had sufficient capital to start a new business.

In another case, one creditor stated the failed druggist "schemed to get the best of his creditors whenever possible; and was also untruthful and dishonest." A second creditor submitted an opinion on the same case as follows: "Mismanagement, careless investing of money in real estate." Creditors in general claim that this merchant indulged in certain unethical practices to secure real estate. A form of dishonesty disclosed by the investigator, and one that is no doubt prevalent in all lines of retail trade, is that of a salesman familiar with the trade handling, as a sideline, merchandise of a store just prior to failure and selling it to other retailers, thereby defrauding creditors.

The business experiences of most of the druggists studied provide examples of an unjustifiable entrance into business. One merchant who was considered an inefficient drug clerk started in the drug business with no capital of his own and over $6000 in debt, but was able to secure in one year an additional $4485 credit from wholesalers. His original capital was borrowed at such prohibitive rates of interest that profitable operation was impossible.

The owner of another failed drug store had been a mechanical engineer prior to his initial venture, with a partner, in business. During the first two years in business the store operated at a loss and the former mechanical engineer decided to buy out his partner's interest and in addition to giving him a note for $7000 (value placed by partner on his equity) assumed all outstanding liabilities, which amounted to approximately $5000. The business was not, according to creditors, even worth $3000. The store fixtures were old and stock run down. The store was unfavorably located at the end of a street blocked by car tracks and a high fence. Practically all automobile and pedestrian traffic was diverted to the next through street. For seven years this druggist went deeper and deeper in debt. He kept no records, and made poor guesses as to the value of his business and the direction it was tending. This individual was never able to discount a bill during the seven years he was in business and his debts instead of being reduced, increased year by year. He was, notwithstanding, able to secure sufficient credit to stay in business seven years. Had not one creditor been accidentally informed of the note given to his partner five years previously for $7000 this man would probably still be in business.

Insufficient capital is frequently given as a cause of failure. When analyzed it is often found that the merchant had more capital in his business, put in by incurious creditors, than the prospects of the business justified, and more than the owner had ability to administer.

While inadequate capital in some cases may have been a contributing or primary cause, nevertheless a more important cause in most cases was financing under adverse conditions. Although sufficient capital was readily obtainable from various sources, yet it was only at such high rates as to render profitable operation impossible. When capital is obtained at rates of interest that are greater than the average profits in that particular line of trade, the result is unprofitable operation and probable failure. The significance of this statement is emphasized in the case of one merchant who paid 36% interest on the $7250 he borrowed to start in business.

Statements of creditors to the effect that their debtors failed because of insufficient capital, incompetence or lack of business integrity are frank admissions of errors in judgment and mistakes made in credit extension. Proper investigations of the debtors prior to the granting of credit would have revealed at least some of the defects evidenced after failure.

The majority of creditors reporting on the causes of failure of store No. 26 stated that chain store competition forced the owner into bankruptcy. None of the creditors reporting accused the owner of incompetency but stated that he was unable to meet the competition of a very modern, well-equipped chain drug store, selling at lower prices. The new chain store was located directly across the street and on a more desirable corner. The debtor stated that he lacked the necessary knowledge of merchandising and business principles to effectively meet chain store competition, but as a consequence of his failure in the drug business he realized the value of an understanding and application of business fundamentals which he studied. This former druggist is now in a different line of business as a half owner of a small but successful chain store organization and by continuous study is acquiring a knowledge of profitable business methods which are being applied effectively. This is an illustration of a man who profited from his failure.

Authorities agree that it is not so much our credit system that is at fault, as the uses to which it is applied at times. When properly utilized, the advantages of credit are indispensable to our present system of business, but when abused, it not only injures the grantor, but also the debtor and consumer.

As business emerges from the trough of the present depression, experience will remain not only as a net gain, but also as one of the most valuable assets. Those in the drug business and those who contemplate entering the retail drug business, can profit by the mistakes of others if full utilization is made of the knowledge ascertained from these failures. This can be achieved by preventing the unfitted from entering business, and assisting the efficiency of those in business, in such a way as to fortify against future failures and effectively conserve the capital invested in the drug store business.

THE PHARMACIST IN THE FEDERAL CIVIL SERVICE.*

BY PAUL J. THOMAS.[1]

From the time of the ancient apothecary with his mysterious concoctions to the present-day pharmacist, with his scientific training and effective drugs, the medicine man has been highly regarded by his fellows.

Pharmacy is a profession (1) because of the special college training that is required, which is now three years in length and which will be four years after 1932; (2) because of the license that is required in all states before one can practice pharmacy, and which is difficult to obtain as shown by the failure of two-thirds of the applicants in the recent state examinations in Ohio and Wisconsin; (3) because the practice of pharmacy is fully regulated by state law; (4) because the manufacture and dispensing of medicines is a responsible work, for there are many poisons used, and the quality of the drugs must be tested and assured; and (5) because there is a national organization, the AMERICAN PHARMACEUTICAL ASSOCIATION, with state and county branches, which is working all the time to advance the usefulness of pharmacy to the public.

The pharmacist in a hospital or dispensary has the duty of ordering all the drugs and manufacturing all the medicinal preparations used and of dispensing them on the doctors' prescriptions. This includes the handling of liquors and narcotics. In addition he orders and distributes the many so-called drug sundries, such as rubber goods. He must not only give his expert advice to the doctors in regard to the ordering and use of medicines, but must also check the accuracy of the prescriptions that he fills, so as to prevent any mistake and the harming of a patient.

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* Section on Education and Legislation, A. PH. A., Miami meeting, 1932.

[1] National Home Hospital, Annex, Dayton, Ohio.