Contributed and Selected

PRESCRIPTION PRICES IN NEED OF REFORM.*

HARRY B. MASON.

Prescription pricing is greatly in need of reform throughout the country. As a rule druggists charge considerably less than they should for their prescription work. They do not know what their costs and expenses are, and their selling prices are accordingly not based on real information. Often, indeed, they follow a flat system of pricing regardless of variations in cost, and utterly without any knowledge of the yield in profit—or lack of yield. Many of them, too, have failed to advance their figures in keeping with the rising scale of costs, and are selling prescriptions exactly as they were selling them twenty years ago. Between different druggists and different cities, moreover, there is the widest possible disparity, and so it is that the whole question of prescription pricing is in a state of utter chaos and confusion.

With this somewhat damning indictment to start with, let us consider for a few minutes a very interesting investigation reported upon at the last meeting of the American Pharmaceutical Association in San Francisco. F. W. Nitardy, of Denver, collected the facts about 10,000 prescriptions—1000 each, presumably, from ten men. Now passing over the ten separate tables of Mr. Nitardy, let us give the table of averages based upon the whole showing:

Estimate of hours required for compounding 1,000 prescriptions	215½
Cost of material	$183.07
Estimated cost of time	81.48
Cost of containers	26.75
Estimated overhead expense	75.54
Total cost	$366.84
Price received	504.60
Cost	366.84
Gross profit	137.76
Percentage of gross profit on selling price	27.3%

Now the actual facts in this table are most interesting, but Mr. Nitardy has handled them inaccurately. At the end of the table he arrives at a percentage of *gross profit* of 27.3. But this isn't a gross profit at all. Neither is it a net profit. It is not a gross profit because already the "cost of time" and what Mr. Nitardy calls "overhead expense" have been considered. And it is not a net profit because, while some of the expenses of the store have been deducted, all of them have not.

Mr. Nitardy's profit calculations, indeed, are very difficult to follow. He takes this 27.3 percent of apparent gross profit as a starting point, and then argues that you must deduct something like 25 percent from it to cover man-

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agerial and administration expense. Thus he assumes that a *net profit* is left on these prescriptions of only 2.3 percent.

Of course this is a startling condition of things if true, and it is no wonder that it had the A. Ph. A. by the ears out at San Francisco, and that the whole question of prescription pricing was discussed off and on during the entire week. Now prescription profits are low enough in all sincerity, but they aren't as low as this.

Let us take the real facts contained in Mr. Nitardy's table of averages, covering 1000 prescriptions, and let us work out a revised table leading up to accurate conclusions:

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Cost of material  .........................................$183.07
Cost of containers  ........................................  26.75
Cost of labor (215½ hours)  ...............................  81.48
Cost of general expense (outside of labor)................. 100.92
                                                           ─────────
                    ─────────                               $392.22

Price received  ...........................................$504.60
Total cost  ...............................................  392.22
Total profit  ............................................. 112.38
Percentage of net profit...................................  22%
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Thus we find that these prescriptions actually yielded a net profit of 22 percent instead of 2 or 3 percent.

It may be asked, though, how I have arrived at the "cost of general expense" in the foregoing table. Well, let me explain first that Mr. Nitardy has divided his expense into three classifications—(a) labor or time consumed in actual dispensing, (b) overhead expense, and (c) managerial and administration expense. This is a somewhat unnecessary division, and Mr. Nitardy's figures are furthermore too high.

Following a different and simpler method, I have handled the question of expense in two divisions only—labor on the one hand, and all other expense, of every sort and nature, on the other hand. Mr. Nitardy gives an estimate of cost of labor, and I have accepted his figures without change. It only remains therefore to ask how I have arrived at the remaining expense.

Well, the average percentage of expense in a drug store is something like 28: it is lower in a big store and higher in a small store. The average of clerk hire, on the other hand, is about 8 percent. Inasmuch as the clerk hire is separately itemized and taken care of under the classification of time or labor, we deduct 8 percent from 28 and we have 20 percent left. This 20 percent covers absolutely every bit of other expense connected with the store—proprietor's salary, depreciation, collection losses, rent, light, heat and everything else. Twenty percent of the total selling volume of $504.60 is $100.92, and the latter figure is therefore put down as the "cost of general expense" in the foregoing revised table.

Now there are some other interesting conclusions that may be drawn from the table. Here they are:

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Average sale price of the 1,000 prescriptions...................$0.50
Average cost of material and containers........................ .21
Average gross profit  ......................................... .29
Average expense, both special and general..................... .18
Average net profit  .......................................... .11
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Just how characteristic these facts are it is a little difficult to determine. I gather that Mr. Nitardy collected his statistics from ten druggists, and that each reported on 1000 continuous prescriptions. Apparently all ten men lived in Colorado, and apparently also they were fairly large and successful druggists or they wouldn't have had the facts ready for compilation. It would seem therefore that what we have found out are the prescription averages merely of ten selected druggists.

I am rather inclined to believe, although I have no figures just now to back up the assertion, that druggists as a whole fail to do even as well as these ten men have done. But the ten men themselves vary considerably in their profit showings. In the separate tables published by Mr. Nitardy, and not repeated in this paper, it may be observed that one of the ten men attained a profit of only about one-third the general average, whereas another secured only a little in excess of one-half. A third man, on the other hand, nearly doubled the general average. If we take the best profit-maker in the bunch, and give him a rating of 100 percent perfect, the others taper along down to 25, and here you see right away the vast disparity between druggists, and the degree to which many of them fail to make their prescription business yield the profit that it ought to yield.

On several occasions I have suggested that in pricing prescriptions a druggist ought to use some such rational system as that employed by George B. Evans in Philadelphia. Mr. Evans has five or six large establishments, does a business considerably in excess of a million dollars a year, has an enormous prescription patronage, and is one of the most brilliantly successful men in the drug business of the United States. What, briefly, is Mr. Evans' method? *He gets a profit approximating 100 percent on the cost of the bare material, and then charges a dollar an hour for actual time consumed in compounding.*

Where would we land if we applied the Evans method to this table of 1000 average prescriptions? Let us see:

100 per cent advance on material	$0.42
$1.00 an hour for labor (one-fifth hour)	.20
Selling price	.62
Cost	.21
Gross profit	.41
Expense	.18
Net profit	.23

By the use of the Evans method, therefore, we have an average net profit of 23 cents instead of 11 cents. This means that the net profit has been more than doubled—and it is the net profit that always tells the story. It is the net profit that you live on, that you educate your children with, and that you use in buying automobiles and theater tickets.

Please observe, too, that in order to double, and a little more than double, your actual profit yield it is only necessary to increase the selling price from 50 to 62 cents—an increase that doesn't seem on the face of it to be very great. You have likewise advanced your *percentage* of net profit, based on the selling price, from 22 to 37.

Now a net profit of 37 percent, based on the sales, is none too much when you consider the amount of space and capital involved in the prescription department, the slow turn-over, the relatively small yield, and the degree of

professional skill required for the work. For these reasons the prescription department should produce a far larger net profit than any other department in the store. It is the one place, indeed, where the drug merchant becomes a member of a skilled profession, and he ought to be paid for his professional services as other men are paid.

But the average man will always answer to this argument: "This is mighty fine reasoning. Your voice sounds melodious in my ears, but after all you are one of those accomplished theorists who can never understand practical conditions. Prescription prices are set by custom, and I can't change them. I am a creature of circumstances. I would like to help myself, but it is quite impossible."

The answer to this indictment is a very simple and convincing one. The large, successful druggists, the men who are supposed to be cut rate dealers doing business on a small net profit, are the very men who get satisfactory prices for their prescription work. The method I have advocated in this paper is the method used by one of the biggest retailers in the United States. He has found it practical and workable. Virtually the same method is used in the store in Chicago where more prescriptions are dispensed daily than in any other one establishment in the city.

Does it work? Of course it works!

When I was a youth in the drug business it was almost the universal custom to charge a flat-price for prescriptions—25 cents for a two-ounce mixture, 30 cents for a three-ounce mixture, and 40 cents for a four-ounce mixture. To a very large extent this practice still prevails, although the average prices have perhaps gone to 30, 40 and 50 cents respectively. In some cities 60 cents is gotten instead of 50 for a four-ounce mixture.

But this flat-price system is fundamentally wrong. To charge 50 cents uniformly for four ounces of medicine, regardless of greatly varying costs, is little less than ridiculous. The wall-paper dealer might as well sell all his stock uniformly at 20 cents a roll whether it costs him 4 cents or 40. The tailor might as well make every suit of clothes for $40.00, instead of charging $30.00 for one and $75.00 for another.

Absurd, isn't it, when you come to think about it seriously?

More than that, other errors equally grave are committed by druggists in the pricing of prescriptions. You will often find a man who bases his price on the size of the dose. For a given mixture he will get a dollar if teaspoonful doses are ordered, and 50 or 75 cents if dessert or tablespoonful doses are indicated! Could anything be more irrational?

Many druggists are practically charging the same prices for prescriptions that they asked fifteen or twenty years ago. In the meantime several factors have contributed greatly to increase costs all along the line. In the first place, the old days when galenicals comprised almost the entire materia medica have largely passed into history. The foreign synthetic chemical, and the domestic pharmaceutical specialty, both of which are considerably more expensive in the very nature of things, have radically changed the situation. Costs of doing business, too, have greatly risen during the last decade, and we have here a subject that has enlisted the keenest study of

economic experts in all the large mercantile establishments throughout the country. And now nearly the entire world has plunged into a great war resulting incidentally in a marked advance in the price of a thousand and one supplies. Nevertheless, despite all these things, we find many a druggist dispensing prescriptions at pretty nearly the same old figures.

The whole question sums itself up in one conclusion from which there is no logical escape. It is this: There is only one sensible method of pricing prescriptions or anything else. *The price should be based absolutely on the cost, plus expenses, plus a reasonable net profit.* Any other method is artificial. Any other method is absurd and ridiculous. This is the simple rule followed by every capable merchant and manufacturer, in every line of trade, and with every class of goods. There is no reason on earth why prescriptions should be any exception.

The great trouble is, in conclusion, that many druggists do not know their prescription costs. They haven't taken the trouble to figure them out. But, after all, it ought to be relatively easy for any man to adopt some such principle as the Evans method. Get 100 percent advance on the cost of material and container, and charge a dollar an hour for labor.

PRESCRIPTION PRICES IN DETROIT.*

WALTER M. CHASE:

During the past month more than a score of Detroit druggists have been called upon with the object of ascertaining what prices are charged for prescriptions, and also to find out how these prices are arrived at. While, from the data obtained, it would seem that the pharmacists of Detroit tend to secure fair prices, they are not, however, in all instances getting quite adequate returns for the material and workmanship involved. Particularly is this so when the increasing costs of merchandise and labor are considered.

The stores visited were not chosen at random, but were so selected that at least one out of every type of prescription department in the city might be investigated. They included down-town establishments, neighborhood stores, and places on the outskirts of the city. Managers of the prescription departments of chain stores, basement pharmacies, pharmacies in apartment houses, so-called "cut rate" stores, department stores, and stores located in exclusive sections and in sections populated by foreigners, were all asked to give their methods.

Perhaps the most striking feature brought out by the investigation was the number of different systems in vogue for arriving at selling prices. Some druggists use the N. A. R. D. schedule or modifications of it; some follow the Evans rule of doubling the cost of materials used and adding one dollar an hour for time consumed in compounding; some have a flat price based on the size of the prescription. Others make a special price on each pre-

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