Section on Commercial Interests

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THE COST OF DOING BUSINESS.

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It will probably not be out of place in such a symposium as has here been planned to again bring forward the all important question of cost or expense of doing business.

While there is an increasing recognition by druggists of the necessity for knowing absolute cost, that a profit-making selling price may be determined, yet there is room for renewed emphasis and more discussion under such conditions as these. The golden key which unlocks with certainty the storehouse of profit in modern business is intelligent and scientific management.

Much has been written and preached about advertising, including store arrangement and window displays; many new plans for buying goods have been offered and put into successful operations, and these are of great importance, but they are only part of a manager's problem. Before him stands the whole ultimate question of profit and, to conduct the business so that all divergent forces are harmonized and this result accomplished, must be his constant endeavor.

The right proportion of first cost, expense per cent., and profit per cent., in the fixing of the selling price, scientifically applied, assures this result, and is the real question for adjustment.

FIRST COST.—No attempt will be made here to discuss the buying of goods however important that may be as a factor in profits. Needless to say the cheaper the price for which goods can be bought by the dealer, quality being equal, the more likelihood there is of a profit-making and sale-inviting price at retail.

Cash Discounts.—In this connection cash discounts may not be overlooked. A few years ago they were ignored by the druggists generally, but the testimony of many today, who are successfully solving the bigger problem of profits, has proved beyond doubt its advantages. It means best buying prices, good service, independence, profits and, most important, freedom from the harassing worry attending unpaid bills and accumulating debt.

EXPENSES.—Expenses, big and little, should be under absolute control. They should be systematized, classified and, so far as possible, anticipated. At the beginning of the year, when percentages are being figured for the fixing of a profit-producing selling price, all expenses not fixed, should be estimated from previous experience, appropriations made and accounts opened, care being taken to see that the appropriation is not exceeded if the expected profit is to result.

FIXED EXPENSES.—There are certain fixed expenses in all businesses. These should be carefully determined. The following are the more important:

Rent.—This must be charged if the property is owned by the store proprietor, as conscientiously as if paid to a landlord. A rental equal to that obtainable in the neighborhood for similar property will be a satisfactory guide to the amount to charge.

Clerk Hire.—This important item requires constant attention; certain stimulating expedients often make it possible to reduce this expense through the securing of better service from a less number of assistants. This involves the much talked of science of efficiency.

Insurance.—Few business men can afford to ignore insurance. It is a necessary and legitimate expense and should at least include fire and indemnity insurance, the latter being exceedingly valuable since it affords protection in cases of error, or a claim of error, with attempted blackmail.

Taxes and Licenses.—These must be included with other expenses.

Telephone.—An expense of every modern business.

The preceding are the more common fixed expenses, but there are others not always recognized, as:

Proprietor's Salary.—A stated amount should be charged regularly as salary for the proprietor if he is giving his time to the business. If he is not devoting his energies to the work of the store he is certainly paying someone else to do so and it is but fair that he who does assume the responsibility, work, worry and risk of loss, should be the best paid man connected with the business. He should not wait for expected profits to give him living expenses.

Interest on Investment.—This is another item of expense which is often ignored, giving false ideas of profit. Of course if the store is being conducted with borrowed capital the interest is charged to expenses, but it is equally legitimate and necessary to charge interest for investment when the capital is supplied by the proprietor.

FLUCTUATING EXPENSES.—Besides these fixed charges there are many others that arise from time to time, some seemingly trivial, but all worthy of careful accounting and watching. In fact where business is planned on a low percentage of profit these incidental expenses may unwittingly increase until they have entirely swept away gain which might have been expected. It is recommended, as has already been suggested, that appropriations be made at the beginning of the year for such expenses, and that these expenses then be regulated so that the year's close will not find the appropriation exceeded.

There will be many leaks stopped if all know that a strict accounting is being kept of every cent expended. Items belonging to this class are light, heat, stationery, labels, stamps, delivery, freight, drayage, advertising, donations, shortage, breakage, failure to charge, bad accounts, etc. The last four, shortage, breakage, failure to charge and bad accounts, are difficult to estimate, but cannot be ignored; careful management, however, will reduce them to a minimum.

The importance of guarding against unnecessary expense is emphasized by a moment's study of profit. Suppose the sale of $100 worth of goods figures out about as follows (and this would be considered an unusually good average for the retail business): First cost, 70 per cent.; expense of selling, 20 per cent.; net profit, 10 per cent. It can readily be seen that $5 saved in expenses is equivalent to the profit on $50 worth of goods sold over the counter and, if the profit per cent. is only 5 per cent., the saving of $5 is equal to the profit on $100 worth of goods.

Such a viewpoint puts a new light on expenses and every clerk should be made to see expenses in this light.

DEPRECIATION.—Depreciation is another item which must be counted in the year's expense. Usually 5 per cent. is counted off the value of fixtures and about 10 per cent. from the soda water apparatus, while it is often necessary to allow for depreciation in sundries. This is based upon the likelihood of entire replacement of fixtures within twenty years and the buying of a new soda fountain within ten years. It is practically creating a sinking fund; a sound business principal.

PROFIT.—Knowing the first cost of goods sold throughout the year and the expense incurred from all sources to place such goods in the customer's hands, it is not difficult to determine the percentage ratio between cost and expense. Unless there has been added to the first cost at least a percentage equal to the percentage of expense, in fixing the selling price, there has been a positive loss for each sale. But a business man at the end of the year cannot be satisfied with only covering expenses, he must have made a profit. He must add to his first cost the percentage of estimated expense and then the percentage of profit he desires, and this will give a properly determined selling price and insure a legitimate profit. I say a legitimate profit, and a man in business is justified in expecting a fair profit, for it is but a sinking fund upon his own life which will probably become incapacitated, on the average, in from twenty to thirty years.

A profit is really figuring depreciation on life, making it possible to retire with some accumulated reserve, after a reasonable number of years of activity.

INVENTORY.—This, however laborious it may seem, is necessary for a right adjustment of the various interests of a business. The drug business has been slow to recognize this, but right business methods are being introduced in many stores and its worth is acknowledged. Not only does it insure a correct statement of the condition, but it keeps the stock from stagnating, helping to prevent accumulations which are often deceptively figured among the assets.

FIGURING PROFIT.—The important factors for determining profit are the inventory at the close of the preceding year, the current inventory, the first cost of goods bought during the year and the total expenses of conducting business during the same period. With these factors determined the following simple rule will show gross profit or net profit:

Rule.—First deduct from the year's purchases any increase found in the stock, or add to the year's purchases any decrease noted by comparing the inventories, thus determining the cost of goods actually sold. Then,

The gross profit is obtained by subtracting the cost from the year's sales.

The net profit is obtained by subtracting the expenses of the year from the gross profit. It may be graphically shown as follows:

Let S=Sales of year; C=Cost of goods sold; E=Expense to do business.
Then S—C=Gross profits, and S—(C+E)=Net profits.