A PANACEA FOR COMMERCIAL SUCCESS.*

BY HARRY B. MASON.

During the last few years the retailer's expenses have risen and costs have gone up. Profits have had a corresponding tendency to shrink. Merchants have been told in season and out of season that the remedy for this lay in turning over their stocks more frequently. By this procedure, it is argued, losses will be converted into profits.

There is some truth in this philosophy—of course there is. Every president of a large corporation who has a vast amount of money invested in his business knows that he should turn over his capital as frequently as possible and that quite often the rate of turnover determines the difference between moderate success and brilliant success.

The president of the Liggett Company has recently told the readers of *System* how he reduced his stock by one-half and thus doubled his turnover. We know that the large chain-store groups like the A. & P. grocery shops increase their turnover greatly by carrying only a comparatively limited number of fast-moving items. Any corporation which needs to watch closely the relation between investment on the one hand and earnings on the other is naturally desirous of reducing the investment as much as possible in order that the percentage of earnings may therefore be increased. It wants to make 15 or 20 per cent. on its capital instead of 8 or 10 per cent.

When we turn to the individual retailer, however, we face a somewhat different situation. Capital is not here the paramount consideration. Capital is of much less consequence, indeed, than the retailer's own labor, personality, and methods of doing business. Many a merchant, carrying too far the doctrine of rapid turnovers, increases, it is true, the percentage yield on his capital, but greatly decreases the total profit flowing from his business.

What I aim to do on this occasion is to emphasize two points. The first is that turnover to the average retailer, while always to be kept in mind, is not so important as amateur "experts" have made it appear. The second is that there are other factors of vastly more consequence in the conduct of a retail business.

Consider, for instance, the figures representing a drug store with sales of $20,000 a year. The cost of goods sold is about $13,000, the expense about $5600, and the net profit $1400 (besides a salary of $1500 or so in the expense account). The percentage of expense is 28 based on the selling volume. The percentage of gross profit is 35 and the percentage of net profit is therefore 7.

Now what reference has stock turnover to a business of this type?

We are often told that a druggist ought to realize at least three turnovers a year. Inasmuch as the cost of goods sold annually is $13,000, he would thus have to reduce his stock investment to a point around $4300. This is doubtless pretty small, but assuming that such a point can be reached we then find that a net profit of $1400 has been made on a stock investment of $4300.

Without discussing the investment in fixtures, and considering the stock alone, the druggist has therefore made his capital yield him $32^1/_2$ per cent. But if, now, he is able to turn over his stock only one and one-half times a year instead of three,

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his investment becomes $8600 instead of $4300, and he is then making $16^1/_4$ per cent. on his capital instead of $32^1/_2$.

This looks bad from the standpoint of return on one's investment, doesn't it? It seems to prove everything that the philosophers are claiming. In another type of business, where capital was more of a factor, the difference in yield would be startling. But let us look into the facts so far as the druggist is concerned.

What has this druggist done? He has tied up $8600 in stock instead of $4300. His investment is $4300 too much. What has he therefore suffered? Simply this: he has lost the interest return on the extra $4300—that's all. Estimated at 6 per cent., say, this is a matter of $258 a year.

For, if the druggist had kept his stock down to $4300, and had invested the remaining $4300 outside his store, as would otherwise have been the case, the money would have earned him 6 per cent.—provided he knew how to invest it wisely and safely. He might therefore have added something like $258 to his total net income for the year, but this isn't any such sum as we are often led to believe can be realized by turning over one's stock twice as rapidly. Not here, certainly, do we find a panacea for all the ills of store-keeping.

I repeat that capital to the average druggist is not the paramount consideration that it is, for instance, to a large manufacturing corporation. If a druggist has an investment of $8000 in his business, he is entitled to receive from it at the normal rate of return only $480. But this is nothing. He couldn't live on $480 a year. He couldn't live on the return from his capital of $8000. His capital therefore becomes a relatively small factor in the situation. His own time and his own brains are the predominating consideration with the average merchant owning one store. What can he earn as an individual—this is the point at issue. And it must be made clear that a merchant's use of his own time and his own personality is of vastly more consequence than any question as to how his relatively small capital is utilized.

I have shown that the average druggist, by turning over his stock twice as often annually, increases his income only to the extent of $258. I want to add now that the dealer who rides this turnover doctrine too hard loses a good deal more than $258 anyway. He saves at the bung and loses at the spigot.

Dealers are often told that they should keep their stocks down. They should cut out unnecessary duplications. They should buy in small quantities from hand to mouth and thus increase their rate of turnover. Many merchants, I dare say, are striving religiously to carry out this advice.

But underbuying is frequently worse than overbuying. A dealer who underbuys is very apt to be out of an article when it is needed. And when a dealer is out of an article he cannot very well sell it. He is therefore not turning over his capital and is in fact slowing up his turnover rather than increasing it.

On the other hand, if the dealer buys a decent quantity of a salable item, and then gets behind that item and pushes it, he speeds up his turnover very effectively. There are times when bold buying means bold selling. And the reverse is usually true—timid buying means timid selling.

Suppose a dealer is out of an article when it is called for—what happens? Either he loses the sale, and thus cuts down his volume of business, or else he goes to a lot of trouble to get the product and deliver it to his patron. In either event he loses more than he gains.

Let us assume that he has to send to the jobber or some other supplier for the item. He wastes five minutes calling up on the 'phone. The jobber furnishes a special messenger to hustle the article out to the dealer. The dealer supplies a special messenger to send it on to the customer. Or perhaps the dealer sends his own messenger first to the jobbing house and then to the customer. In any event a lot of time and money are wasted. The expense of selling this particular article is far greater than it would be if the article were kept in stock.

Not only that, but the customer is displeased. He doesn't get the stuff when he wants it and he develops a poor opinion of the dealer. The next time he goes to another store where he can find a better assortment and where he can get what he wants.

A wise merchant in Illinois prints on his letterhead the following statement: "I would rather lose a little occasionally on goods on hand than to lose profits by not having the goods, as by that method I lose both the profit on the sale and also lose a customer. The people are bound to go where they can get the goods."

Yes, my friends, you can easily carry this turnover gospel to a ridiculous point. It is far better to have a reasonable stock of goods on hand and then be able to supply the wants of your customers. Isn't it so?

Of course this statement must not be interpreted to mean that a druggist should load up on slow-moving items. For the most part he should do what the Liggett people have recently done, namely, cut out the stuff that doesn't sell. Dead stock not only means loss of interest on the investment, but it means merchandise which gradually becomes soiled in appearance and lessened in value.

No, I am not talking about slow-moving items. I am talking about live merchandise which can be sold if selling energy is used, and I am maintaining that it is usually better to buy such material in quantity, carry a reasonable stock, and then get behind it and sell it. The trouble with a too rigid adherence to the turnover idea is that merchants reduce their stocks to the vanishing point and then do not have what customers want.

I think the business doctrinaries often confuse increased turnovers with increased sales. If a merchant can turn over his capital more frequently by virtue of selling more goods, he is undeniably helping himself. There can be no gainsaying this point. But this is another matter entirely. Increased turnover is one thing, and increased business is quite another. Increased business, as a matter of fact, comes more frequently from a reasonably generous stock than it does from a niggardly stock.

Witness some of the fallacies that we hear on questions of this sort. The other day, for instance, the representative of a manufacturing house making bookkeeping equipment for merchants complained that many retailers assumed they couldn't afford to carry an article which paid them a gross profit of 10 per cent. on sales when their expense was 30 per cent. These retailers are right, he said, providing they only turn their stock of this item once a year. But if they turn it twelve times a year, and make 10 per cent. each time, they are getting 120 per cent. If they deduct from this 120 per cent. their 30 per cent. of expense they still have left a net profit of 90 per cent!

Can you possibly beat reasoning of this kind? And yet it is perpetrated by a man who is paid a large salary and who is the accredited representative of a leading manufacturer!

Whatever the dealer's expense is, whether it is 30 or 20 or 15 per cent. it must be applied to every sale. You can't get away from this inescapable fact. If it costs a merchant 30 per cent. of his sales to do business, and he only makes 10 per cent. on the sales price of an item, he is failing by 20 per cent. to pay his expenses, let alone the matter of securing any profit. The more he sells, and the greater his turnover, the worse he is off. No man with sense can possibly escape this conclusion. Of course it costs less to sell cigarettes, for instance, than it does to put up a prescription, but whatever the expense is it must be applied to every sale.

And then there was a writer not long ago who got off this brilliant piece of logic:

> The merchant who makes 10 per cent. net on his sales and turns his stock over five times a year makes 50 per cent. on his invested capital. The man who makes the same percentage on his sales, but who turns his stock only twice, makes only 20 per cent. Wouldn't you rather make $5000 per year than $2000?

I shall not stop to point out the confusion in this man's mind between profit on sales and profit on invested capital. A 50-per cent. return in one case and a 20-per cent. return in the other are obviously wide of the mark. Let me, however, puncture the fallacy involved in his statement that $5000 would be yielded on five turnovers while only $2000 would be yielded on two turnovers.

The average druggist, perhaps, has a stock of about $6000 and turns it over twice annually—a total of $12,000. Suppose he turned his stock over five times annually. He would then have invested one-fifth of twelve thousand dollars. This is clear, isn't it? With the larger rate of turnover, therefore, his investment would be $2400 instead of $6000, and his capital would be reduced by $3600. Six per cent. on this $3600 would mean to him $216 a year. Turning the stock five times instead of two therefore means a difference of only $216. And yet we are told that in one case the dealer would make $2000 whereas in the other he would make $5000!

Here again, probably, the writer confused increased sales with increased turnovers. There isn't any escaping the fact that by doubling or trebling one's volume of business the profits can be greatly increased. But I repeat that stimulation and expansion of business is one thing, and that a mere increase in turnover is a vastly different thing. The two are as far apart as the poles.

My object is to point out a common fallacy. It is to emphasize the plain truth that so far as the average druggist is concerned there is no panacea for business success in the doctrine of increased stock turnovers. One should turn the stock over as frequently as is consistent with wise merchandising. He should avoid having dead stock accumulate on his hands. He should watch out that his money is not tied up too long in unsalable merchandise which deteriorates with age.

On the other hand, however, one cannot escape the conviction that buying from hand to mouth is very frequently a vicious practice. It means in the case of salable merchandise that the merchant pays more for his goods. It means that he is frequently out of things which his customers need. It means a limited assortment which drives patrons to other establishments. It means increased expense for freight and express.

Truth has a way of going around in a circle. Perhaps the best way to increase one's turnover is to be somewhat less particular about it. I mean by this that the merchant who buys reasonable stocks of things which he knows he can sell, and

then gets behind them and pushes them energetically, is the man who is really going to increase his turnover by increasing his sales. This is the only way, indeed, that the trick can be turned wisely. To attempt increasing one's rate of turnover by decreasing the stock, as merchants are so frequently advised to do, is often fatal to development.

ABSTRACT OF DISCUSSION.

The paper by Mr. Mason was discussed by Messrs. Mortenson, Mann, Smith, Culley, Bradley, Philip, Webster and others.

Charles F. Mann brought out the point that up to a few years ago a 33 1/3% profit was considered sufficient for the retail pharmacist but under the present conditions it was hardly possible to get along with a gross profit of less than 40%. While it is necessary to sell articles for less than that profit, the difference must be made up in the selling of other articles.

Henry B. Smith referred to the analysis of a public accountant of the business of fifteen stores in which the average profit was 27%. Sixty per cent. of the volume of the business included "patent medicines" in these stores. In other words the 40% had to make up for the deficiency of profit of the 60% value of the business.

Theodore J. Bradley was pleased with the logical and convincing presentation by Mr. Mason but called attention to the permanent investment in store fixtures and furniture which must be considered in determining profit.

W. Bruce Philip stressed the importance of a careful analysis of the business so that due consideration can be given to the profit that is necessary in order to make a living out of it.

John H. Webster referred to the sale of fast-selling stock, the sales of which were quickly made but the profit on these articles was probably less than half of the general profit that should obtain.

Mr. Mann pointed out that if Mr. Webster sold only articles of the kind on which the profit was below the average and less than the overhead percentage, he would certainly not be making money.

Mr. Mason supported Mr. Mann's thought and pointed out that on articles like those referred to by Mr. Webster the direct overhead expense was very much smaller than that of the prescription department, for example. The time factor entered into sales of goods from the sales of which a larger profit may be derived must make up the average.

COMPILATION OF STATE AND NATIONAL PURE DRUG LAWS.

The task of revising the publication entitled "Compilation of State and National Pure Drug Laws" which for some years has been prepared jointly by the Proprietary Association and The National Wholesale Druggists' Association is now well under way. In view of the increased size of the volume, the great expense of compiling, printing and distributing, it has been decided by the governing bodies of each association involved to turn the publishing work over to Standard Remedies Publishing Company.

The Compilation of State and National Pure Drug Laws will embrace two parts—

Part I. Text or summaries of all State laws affecting the sale of drugs and medicines, arranged by States alphabetically. These will include liberal extracts from the State pharmacy, poison, narcotic, prohibition, labeling, advertising, adulteration and other statutes which affect drugs and medicines for their marketing.

Part II. Will contain the text of the following National laws and the regulations for their enforcement:

1. Pure Food and Drugs Act of 1906.
2. Harrison Narcotic Law, and amendments.
3. Insecticide Act of 1910.
4. National Prohibition Act and amendments.

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