

# DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.\*

## WHAT WE WANT TO KNOW BEFORE WE BUY A PREPARATION.

A PROMINENT PROPRIETARY MANUFACTURER EXPLAINS HERE THE YARDSTICK HIS COMPANY APPLIES TO ANY PREPARATION THEY CONSIDER BUYING.

If I were asked to say in two words the most important thing that gives value to a proprietary product, my answer would be, *Established Demand*. This presupposes an item of good quality, neatly packaged and honestly promoted. I know of no better way to illustrate this than to quote an incident which occurred years ago when Dr. X..... was the head of this business.

Dr. X..... had written and collected thousands of prescriptions; in fact, his decision to enter the manufacturing business had been the result of the success he achieved with one of these prescriptions. These prescriptions he kept in an enormous file in his office.

Like all successful proprietary manufacturers, the Doctor was constantly besieged with offers of this and that formula, usually at prices which were extremely flattering to their owners. On this particular day, I happened to be sitting with Dr. X..... in his office when in walked a tall raw-boned chap, a Kentucky mountaineer. He had come to offer the Doctor exclusive ownership and rights to his marvelous penetrating liniment formula for only \$1000.

When the young man had finished his remarks Dr. X..... simply turned to his prescription file and said, "Young man, this file contains a copy of every prescription I have written in 30 years of medical practice. For 25 cents you can have your blind choice of any formula in that file, to do with as you please. That expresses about what a formula is worth until there is an established demand for it."

We know from costly experience how expensive it is to create demand for a proprietary preparation, and therefore the larger the sale it already has, the more valuable it is.

In this connection, let me say that it is just as expensive—yes, even more costly—to try to create demand for a poor product as it is for a good one, but the results are decidedly different. The good product gains the greater and the more permanent success. That is why we use every means at our command to make sure that a product for which we propose to create a demand is intrinsically worthy.

Next to and almost as important as quality is the type of product. Many classes of medicinal preparations, formerly large sellers, now are discredited not only by the medical profession, but by the laity. Among these are blood purifiers, kidney remedies, female tonics and, while these still sell, the market for these classes of products is, in our judgment, decreasing instead of increasing.

As against the above types, the market for dental preparations and toilet articles has increased tremendously, while the market for simple external and

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household remedies, such as liniments, antiseptics, cough syrups, etc., is about holding its own.

There is also a class of products known as "physicians' specialties" the sale of which depends almost entirely on the merit of the product and the efforts and intelligence with which they are promoted. Quite often "physicians' specialties" have a direct "over the counter sale to consumers." Every druggist knows of such.

Intrinsic worth is basic to the permanent success of any product, but, as I have said, intrinsic worth of itself is of little or no value until demand has been created.

The more widespread this demand is, the more valuable is the product. For instance, we would feel that a product which had \$1,000,000 sales in 30 states would be worth more (other things being equal) than a product which had \$1,000,000 sales in one state. It is easier and less expensive to build on a foundation already laid than it is to build a new foundation. We believe, moreover, that widespread demand is demonstrated evidence of the stability of this demand.

As additional evidence of the stability of demand, the age of a product is a favorable factor. We make one preparation for which not a line of advertising has appeared since 1902, yet year after year the sales hold about the same. That product was long established when we bought it.

In this connection, I might mention that two policies are possible with a product we buy. One is to get all the immediate profit we can from it. The other is to sacrifice present profits to the development of future business. Naturally, the product on which we can expect to earn a profit from the day we take it over is more valuable than one into which we must put additional capital and effort before it can be put permanently on a paying basis.

The selling methods which have been used have an effect upon the value we place upon a business. If the product has been sold exclusively through jobbers, retail dealers are not likely to be as heavily stocked as if the product had been sold by the manufacturer direct to retailers. Sales through jobbers tend to reflect normal demand, rather than the results of high pressure sales efforts of the manufacturer upon retail druggists.

I am often asked if the physical character of the product has any important bearing on its salability. This depends upon the type of remedy. Our experience indicates that the public does not take kindly to pills or tablets for blood or female preparations. Liquids seem to be preferred, even for laxatives, although many laxative pills and tablets are taken. Tablets, on the other hand, are preferred for dyspepsia, headaches, etc. Tablets, pills and powders are more easily handled and shipped than liquid preparations. Proper investigation will usually enable one to decide the form in which the preparation should be supplied.

In the preceding paragraphs I have tried to set down the principal factors which we take into account when we are asked to buy a preparation. When the time comes for an actual determination of the price to be paid we proceed about as follows:

First, we take the present value of the tangible assets of the business. To this we add a payment for patents, good will and other intangible assets. This payment may range from \$500 upward for each \$1000 of annual sales that the business has enjoyed. On this capitalization of tangible and intangible assets we should expect net earnings of at least 15 per cent a year. I do not believe a toilet

goods or proprietary medicine business can be safely conducted with a smaller return. The nature of the business makes it extremely hazardous. We have always found it wise to declare never more than half of our net earnings as dividends. The other half is reserved for contingencies. Thus anticipated earnings of 15 per cent means a dividend rate of only 7 or 8 per cent on the investment.

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#### SEASONABLE DISPLAYS FOR MARCH AND APRIL.

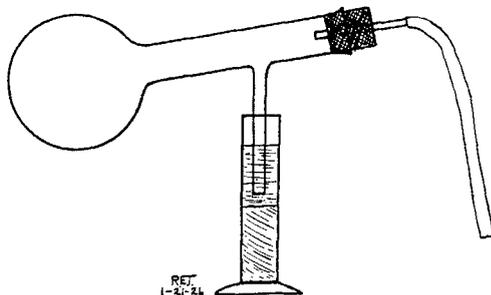
|                                       |                              |
|---------------------------------------|------------------------------|
| Face Creams and Lotions.              | Housecleaning Aids.          |
| Medicinal and Toilet Soaps.           | Insecticides and Germicides. |
| Brushes.                              | Veterinary Preparations.     |
| Perfumes, Toilet Waters, and Sachets. |                              |

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#### A SIMPLE METHOD FOR THE SEPARATION OF IMMISCIBLE LIQUIDS.

BY RALPH E. TERRY.

The separation of the top layer of an immiscible mixture results in contamination if performed with an ordinary separatory funnel, due to the adhering lower layer in the tube of the funnel. To prevent this during the course of an analysis performed a short time ago, the following method was employed. A 125-cc. distilling flask was fitted with a one-hole rubber stopper. A short piece of glass tubing was next fitted to the stopper and a two-foot length of soft rubber tubing slipped over the end. The accompanying sketch illustrates the actual manipulation.



There are a number of features of this method—some of which are:

1. There is little chance of getting a "mouthful" of the liquid as it runs down into the bulb of the flask.
2. By holding the entire apparatus at eye-level a careful watch may be kept of the operation.
3. The separation may be made rather sharply as the lower liquid may be drawn into the side tube of the flask, and then allowed to run back.
4. In case where the material is to be distilled, no transfer is necessary.

Doubtless there are other advantages which will present themselves from time to time.

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