DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

THE DRUGGIST AND HIS BANK.

BY O. W. OSTERLUND.

Mr. Osterlund is President of the Belmont Trust Company, Philadelphia. For 25 years before accepting his present position Mr. Osterlund was a successful retail pharmacist and to-day is a director of one of the largest wholesale drug houses in the United States. His success as a banker is attested by the fact that the deposits of the bank he heads have more than doubled in the past five years. Mr. Osterlund is thus preëminently qualified to discuss from personal experience the relationship that should exist between a druggist and his bank.

"Borrow money at the bank to discount your bills." That is advice that is heard frequently, yet it is not always good policy. On the face the idea looks fine. The druggist has $500 in unpaid invoices on which he can earn a cash discount of $10 if they are paid by the tenth of the month. The cost of borrowing $500 on a 30-day note at 6 per cent interest is only $2.50. The apparent profit of the transaction is obvious.

But what happens when the 30-day note is due? During the month he has probably accumulated $500 more of unpaid invoices on which he again sees the opportunity of saving $10 by discounting them. The druggist has two choices. One is to pay the $500 note and let the invoices run to maturity, thereby losing the $10 cash discount. The other is to try to renew the note for another 30 days and again earn a profit of $7.50 on the transaction. The process can be continued indefinitely, of course, if the bank is willing to have its money so tied up. What a bank really would be doing in this case is to supply working capital for the druggist and that is not a proper function of a bank. The druggist, himself, should control the capital that he keeps permanently invested in the business. It is easy to see from the above example the embarrassment and loss which would result if the bank were to withdraw the money it, in effect, has put into the business.

The business of the bank is to supply capital for *temporary* or *unusual* needs of its customers. These transactions should be self-liquidating. The following case illustrates what I mean:

A druggist in .... had been unusually successful in selling imported holiday novelties. In October 1925, he received the invoice for these goods and along with it a letter offering him an *extra* 5 per cent discount, in addition to the regular 2 per cent, if he would pay cash immediately. Ordinarily the invoice was not due until January 1. As the invoice totaled over $2000 the extra 5 per cent offered was a considerable saving. Five per cent plus two per cent equals $138. To pay over $2000 cash in October, however, would have seriously reduced his working capital. As a result he arranged at his bank a 90-day note, due January 15, for $2000. The interest at 6 per cent amounted to only $30, so that on the transaction he made an extra profit of about $108. Most important of all, however, is the fact that the transaction was self-liquidating. Past experience had told him that the holiday merchandise would be converted profitably into

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cash by early in January and that by the time the note was due he would have on hand this *extra* cash to meet it.

The other kind of credit which a bank can supply properly to a druggist is by loans on what are known as improvement mortgages. Suppose, for instance, a druggist believes that by spending $5000 on his property to modernize the building and equipment he can increase greatly the value of his property and the volume of his business.

If the proposition looks practical to the banker and the druggist has enough of a substantial equity in his property, the bank may advance him the money to make the improvements. In such cases the money is not handed to the borrower to be spent as he chooses. All contracts and awards are first approved by the bank. Then, as the work progresses, the bank advances the proportion of the total cost that it has agreed to loan. Suppose the total cost of the improvements to be made amounts to $6000 of which the bank has agreed to advance $4000. Then when $600 worth of work has been completed and approved by an officer of the bank, the bank advances $400 from the total credit allowed. The idea is, by not paying the contractor in full, his continued interest to the completion of the work is assured. As other work is completed, money is advanced by the bank in like proportion until the entire loan has been paid out. The balance of the cost of the improvements may be paid for by the druggist from his own money or he may arrange with the builder or contractor to carry the balance (secured by a note), as deferred payment for a period long enough to convert it into a regular investment mortgage or a building and loan mortgage.

Three things determine whether or not a druggist is entitled to loans from his bank, either for self-liquidating transactions or for improvement mortgage loans. These three things are: The character of the borrower, his business ability and his financial strength. I cannot emphasize too strongly, therefore, that as soon as he starts in business a druggist should establish and cultivate friendly relations with the officers of his bank. He should not hesitate to discuss his problems with them frankly and openly because many times the banker with his wide contacts is in a position to give him valuable advice. For the same reason, he should file with his bank, as soon as possible, a statement of his financial strength. Any bank can supply the proper form. He should do this regardless of whether or not he has any immediate need for a loan. The filing of the statement has two values—By submitting it beforehand the bank may be able to point out dangerous weaknesses and suggest practical ways to correct them. Second, demands for extra money sometimes come with surprising suddenness and if the bank already is acquainted with the applicant's financial strength it is in a position to act instantly.

Another thing that impresses a banker is the size of a depositor's balance. Many druggists think that by keeping their bank balance at a minimum they are saving money. That is not so. It is perfectly human for a banker to be more interested in the accounts which are profitable, just as a druggist is more interested in the customers who buy something more than postage stamps and cigarettes from him. Aside from this, an average bank balance of any size—say $500—immediately establishes (all other things considered) a credit for him at the bank of $2500, which the bank will loan him if it is to be employed for any practical business purpose.

A PROBLEM IN FINANCE.

THE FACTS AND FIGURES IN THE FOLLOWING ARTICLE ARE TRUE BUT, FOR OBVIOUS REASONS, CORRECT NAMES AND LOCATIONS CANNOT BE STATED.

Arthur Miller looked worried. He had every right to be. He was facing for the first time a situation that for years he had tried to avoid. Now we find him staring at column after column of penciled figures. Ten years in the retail drug business and this is where he stands.

MILLER'S OBLIGATIONS.

Money owed on overdue invoices	$ 3876.43	
Borrowed from his bank	3500.00	
Borrowed from friends and relatives	4800.00	
Mortgage on store	5000.00	
Mortgage on home	2500.00	
		$19,676.43

As security for these obligations he has:

Cash in the bank	$ 78.14	
Cash in the store	25.00	
Accounts receivable	None	
Merchandise in the store (cost price)	5225.31	
Store fixtures (depreciated value)	1893.40	
Store property	15000.00	
Home	5000.00	
		$27,221.85

With nearly $4000 owing on overdue invoices, the postman delivered to Mr. Miller a continuous barrage of collection letters, along with notices and threats from attorneys. All this did not add to his peace of mind.

His creditors have every right to be anxious. His position is indeed precarious. Although his assets exceed his liabilities by nearly 40 per cent, his liabilities are in cash and his assets are in a form which cannot be converted readily or quickly into cash, except at a severe loss.

Many people will wonder how a man intelligent enough to run a drug store for 10 years would allow himself to get into such a position. The causes are simple enough in this case.

Mr. Miller banked his money only once a week and between times he always carried his receipts in a thick roll in his pocket. With $200 or $300 in pocket most of the week, anyone knows how easy it is to regard that money as profits and spend it accordingly. That was the case with Mr. Miller.

At first when bills came due it was easy to borrow at the bank (because he had an excellent reputation both personally and as a druggist). When the bank would lend no more money, trusting relatives were called upon. When this source dried up, it was a simple matter to put a mortgage, first, upon the store, and then upon his home.

Mr. Miller's second fatal weakness was that he kept no books. Accurate, well-kept records would have told him the truth about his business long before 10 years had elapsed, in fact the very day it began to happen. Now, however, Mr. Miller is not interested to know what he should have done 10 years ago.

What he wants to know is how to save his home and his business from bankruptcy. He has $78.14 in the bank and creditors clamoring for $3876.43 that he owes them. What shall he do?

Fortunately his business is inherently sound. Located as he is in a country town he obtains full prices for his merchandise. Almost the only records Mr. Miller has are a tabulation of his sales and the stubs in his check book. A study of these shows about the following average relationship between income and expenses.

Sales average $50.00 daily of	$1500 a month	100%
Cost of this merchandise averages	930	62
Fair rental value of the store	100	7
Mr. Miller's salary	217	14
Boy's salary	17	1
Other expenses	100	7
Profit	136	9

Of the store income of $1500, it will be noted that Mr. Miller receives the following:

Allowance for rent	$100 a month	
Salary	217	
Profit	136	$453

This he applies as follows:

Household expenses	$130 a month	
Personal expenses	87	
Interest on mortgage and loans	79	$296
Balance applicable to payment of old bills		$157

To pay the old bills at the rate of $157 a month thus will require over 2 years. Another course is to place a $4000 installment (or building and loan) mortgage on his store building. This would be paid off in 6 to 7 years at the rate of $65 to $75 a month. The remainder of his surplus could be applied to reducing his bank loans and consequent interest charges.

Mr. Miller is aggressive, however, and believes, in addition, that the $50 daily sales he averages are by no means the upper limit. But to increase sales he must have peace of mind. The funding of his overdue obligations will bring him that. An accurate, easily understood set of books will insure him future freedom from financial worry.

If, as a result of his efforts, he is able to increase his sales only 10 per cent, the following are the results he can expect:

Monthly sales (average)	$1650	100%
Cost of this merchandise	1023	62
Rental value of the store	100	6
Mr. Miller's salary	217	13
Boy's salary	17	1
Other expenses	110	7
Profit	183	11

Thus a 10 per cent increase in sales produces almost a 35 per cent increase in profit and also gives him a balance available for paying old obligations of $204 instead of $157.

SEASONABLE DISPLAYS FOR APRIL AND MAY.

Perfumes	Face powders	Housecleaning aids
Perfume atomizers	Compacts	Camphor, moth balls, cedar flakes
Toilet waters	Sachets	Clothing bags
	Insecticides and germicides	

MANUFACTURING PHARMACY IN THE RETAIL STORE OR WHAT SHOULD THE PHARMACIST MANUFACTURE?*

BY W. W. McNEARY.

From the remotest ages the Apothecary, more recently styled the Pharmacist, has been pictured among his bottles, stills, kettles, mortars and pestles, preparing and compounding his medicaments for the alleviation or cure of the ills of his fellow-man and, until comparatively recent years, the Apothecary, or Pharmacist as we will hereinafter designate him, prepared almost everything that he sold in the way of medicines.

In the last half-century however, due to the advancement of the sciences, the spread of education and the introduction of machinery, came the tendency to do things in a big way and pharmacy yielded to the inevitable.

During the past fifty years large manufacturing concerns have sprung up, which distribute their products for retail through the agent who once upon a time prepared these same products himself, although in a much smaller way. Later, and perhaps on account of this, came a tendency to supplement the coffers of the "Pharmaceutical Household" by the introduction of what we now call side-lines, until at the present time it would seem that these have almost completely crowded out the more professional activities of pharmacy.

However, other causes are partly responsible for this seeming metamorphosis; we might cite the increased values of corner properties, the higher cost of that which we now term overhead, and the larger number of pharmacies which have greatly multiplied in the last generation.

The many varieties of small stores, such as cigar stores, restaurants, toy shops, notion and jewelry stores, with the development of the chain and department stores, have well-nigh been eliminated, especially in suburban districts, and have contributed toward making the corner drug store the logical distribution point for many articles not obtainable in the department store, but of usefulness in a community, the sales of which would not be sufficient to support individual stores of the type I have just mentioned. These items represent profitable lines for the pharmacist who must of necessity be conveniently located for distributing medicines to the sick.

However, it is not to be supposed that the practice of pharmacy, or the manufacturing, compounding and distribution of drugs, has become less on this account alone, for such is not the case by any means. It may be interesting information

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