

# DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.\*

## CENSUS OF BUSINESS COSTS.<sup>1</sup>

The following table lists the typical operating expenses of drug stores in and around Philadelphia. These figures are not theory or guesswork; they are compiled from the actual facts generously supplied by our members and customers.<sup>1</sup>

More than 200 returns were received and of these 169 were in sufficient detail to be included in this summary. This response is far higher than any ever before made by druggists in any part of the country and represents a sufficiently large proportion of our members and customers to serve as a guide for you.<sup>1</sup>

The figures below represent the most typical or usual results obtained in and around Philadelphia. How do your results compare with these? (To make a comparison simply divide your figure for total annual sales *into* your year's figures for each of the expenses listed. The result is your per cent expenditure for that particular item.)

Sales.....	100.0
Cost of merchandise sold.....	64.0
Total operating expenses (divided as below).....	27.8
Salaries (including owner's salary).....	19.5
Owner's salary.....	9.5
Rent.....	4.0
Light.....	0.6
Heat.....	0.5
Insurance.....	0.2
Taxes.....	0.2
Interest on borrowed money.....	Negligible
Losses on bad debts.....	Negligible
Repairs.....	0.2
Depreciation.....	1.4
Delivery.....	0.1
Advertising.....	0.6
Miscellaneous.....	0.5
Profit.....	8.2
Turnover of merchandise stock.....	2.6 times a year

To determine your turnover, divide the average amount of merchandise you had on hand in 1925 (at cost price), into the *cost* of all the merchandise you sold in 1925. The resulting figure is your annual turnover.

Put your own percentage beside those printed here. If you did better on any of them, put that down as an advantage you have and try to keep it. If you are lower on any figures, remember these percentages are not some impossible ideal, but actual results obtained in 1925 in and around Philadelphia. Then ask yourself, if so many other druggists close to me can get these results, why can't I?

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<sup>1</sup> This article presents the first results of the Druco Census of Business Costs and is reprinted from *Druco News*, March 1926, published by the Philadelphia Wholesale Drug Company. This census is being made for the Philadelphia Wholesale Drug Company by Paul C. Olsen.

These figures are not the best results reported! Some stores reported a salary expense as low as 9 per cent of sales. Others *paid* rent as low as 1 per cent of sales. Turnovers as high as 8 per cent were shown. A further analysis is being made of the results reported by unusually successful stores to bring out just which expenses they have cut most.

Similarly, an analysis is being made of the stores which reported results not as good as the typical figures printed to bring out just which expenses were higher than usual in these stores. This will give you, on the basis of actual facts, an idea of what expenses must be watched most particularly to insure greatest success.

Another question to be answered by this census is: Do profits increase as sales increase? In other words, are large stores more profitable proportionately than small stores? The answer to this question is vital to the man who is working to try to increase the size of his business.

Other questions to be answered are as follows:

Are there any differences in the expenses of transient, neighborhood and suburban stores?

Do the larger stores get a faster turnover than the small stores?

Is there any variation in expenses between large and small stores?

How important is charge business?

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## GUIDE POSTS TO PROFIT AND PROGRESS.

### SOME FACTS AND FIGURES TO WATCH TO PROTECT PROFITS.

1. *Sales by Departments and Total Sales.*—Compare with previous corresponding periods.
2. *Charge Sales.*—Compare with money received on account during the same period. This is a measure of the rate at which charge accounts are being collected.
3. *Merchandise Purchases.*—Compare with previous corresponding periods and with sales. A marked increase in merchandise purchases for no apparent purpose may be an indication of an increasing inventory and consequent slowing down of the turnover. On the other hand, increasing purchases with no corresponding increase in sales may be the indication of goods sold at too low prices or waste or pilfering of stock. A marked decrease in merchandise purchases for no apparent purpose may be the indication of an unwarranted decrease in the stock on hand or an increasing accumulation of unpaid bills. Unusual fluctuations in merchandise purchases are a cause for immediate investigation.
4. *Expenses (Classified and Total).*—Compare with previous corresponding periods and with purchases and sales. The difference between sales and the sum of purchases and expenses is net operating profit.
5. *Cash on hand and in bank* is a measure of immediate purchasing power.
6. *Unpaid Bills.*—Compare the total amount with the figure for preceding dates.
7. *Merchandise Turnover.*—Turnover is computed by dividing the total cost of the goods bought during a period (usually a year) by the average amount (at cost price) of the goods on hand during that period. It is a measure of the rapidity

with which goods are sold and consequently of the rapidity with which profits are earned.

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COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

Readers are invited to submit comments, criticisms and suggestions regarding the material which appears in this department. The Editor will also undertake to answer questions regarding general problems of business management. Letters of general interest will be published, but the writer's name will not be revealed without his permission.

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SEASONABLE DISPLAYS FOR MAY AND JUNE.

House cleaning aids	Clothes bags
Sponges and chamois	Cameras and photographic supplies
Insecticides and germicides	Stationery
Moth balls, camphor, cedar flakes	Pens and pencils
Perfumes and toilet waters	

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THE KANSAS UNIT PLAN.\*

BY J. S. CHISM.

In May 1921, in the city of Winfield, Kansas, there originated the Kansas Unit Plan. The writer contributed thereto, as one of five members of the committee which formulated what is known as the Kansas Unit Plan. It is possible that a great many of the readers have some idea of this wonderful plan.

It seemed at the time the only solution for the Kansas Pharmaceutical Association, and required much thought on the part of the committee to decide what was the best plan to inject some enthusiasm into the Association. After hours of discussion and deep thought the committee decided on a solution which was as follows:

The members of the committee pledged themselves to the support of five units, of \$20.00 each. This matter was taken before the assembly and approved; at the afternoon meeting of the second day there were pledged, by the members of the convention, about two hundred units of \$20.00 each, many taking five units.—*This formed the nucleus.*

The new President, at that time, decided on the following plan: He, with the Executive Committee, composed of five members, including the President, Past-(immediate) President, First Vice-President, Treasurer, Chairman of the Legislative Committee and Secretary of the Board of Pharmacy, composed the Executive Committee. The state was divided according to congressional districts—by grouping the counties accordingly. These elected a Chairman and Secretary, and by the untiring efforts of the President and the paid Secretary-Manager they were enabled to organize county organizations and sell the unit plan to each drug-store proprietor. Article four, on membership, and section three, for unit members, reads as follows: "Annual dues for all owners and managers of stores of this State is to be based on the unit plan. The annual dues are to be \$20.00 per unit. The number of units

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\* Section on Historical Pharmacy, A. PH. A., Des Moines meeting, 1925.

that may be subscribed by any one member is not limited. The payment of dues exempts members from other dues." The annual income from dues is estimated to be about \$15,000. This plan has been in existence for four years; 1925 to 1926 will be the fifth year. At this time there are about 500 or 600 paying members, some of whom are in arrears on account of business conditions. The organization charged the President and the paid Secretary-Managers with the duty to organize and make the plan effective in every county of the State.

We believe this plan is a very good one, and one that should be adopted by other States. It is our intention during the coming year to re-sign our units, for we believe that all unit holders are willing and ready to give this plan their support. Our last meeting, in Wichita, was one of the best attended and successful meetings, both from point of papers and entertainments.

The formulation and working of the Kansas plan has not been pursued without discord, for any plan involving radical changes in expenses for conducting Association affairs will have its opponents. Our dues formerly were \$2.00 a year; the same applies to non-unit members now—a pharmacist, not proprietor or owner of a drug store, pays \$2.00 per annum as a member of the Association. During the first year of our unit plan the Secretary-Manager was called upon to furnish information in detail relative to the Kansas Unit plan to neighboring State associations; a number of States at that time contemplating a similar organization.

A purpose of this plan is to create a reserve fund to be used for legislative purposes. Our plan was to introduce a drug bill which would protect the retail druggists in the sale of poisons, price-cutting and against all the evils of the five- and ten-cent stores. The object also was to assist manufacturers who coöperated with retail druggists, and with the Kansas Pharmaceutical Association. For example, in order to afford a living profit items retailing at 25c, 50c and \$1.00 should not cost to exceed \$2.00, \$4.00 and \$8.00 at wholesale. We found the manufacturers willing to work with us.

The coming year will conclude our five-year contract. The contract is practically a promissory note and is binding and collectable. The writer has had a conference with the new President and he is to sell the plan for the coming five years to every drug store in the State. There has been some talk of reducing the cost of units to fifteen or possibly ten dollars; this, in the writer's opinion, would be unwise as it would not provide the Treasury with a sufficient reserve, and without capital we cannot succeed. There is not a store in the State of Kansas that cannot afford to buy one unit in support of the principle. It is difficult at times to sell the unit plan to the prospect who cannot see where he will have a return of \$100 for one dollar invested—he fails to understand the importance of coöperation and the value of assistance rendered by the plan.

It is to be hoped that the new President, with his Secretary-Manager, will meet with the degree of success and coöperation of the past four years. It requires a great deal of tact, ability and a lot of pep to organize a plan like this one. There are a great many druggists who cannot see beyond the horizon of their stores; they do not look forward to the good that is attained for the coming generation. There are others who give their time and money for the advancement of their profession and they have the satisfaction of knowing that they are giving their best for the profession.