DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

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 also will 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.

IS YOUR STORE OPERATING AT CAPACITY?

Fifteen miles from Trenton is a town of nearly eight hundred people, which is something of a trading center for the surrounding farming country. Up to a year ago, this town (which for purposes here let's call Largo) had no drug store and the nearest drug store was five miles away.

John Sparton (which of course is not his real name) conducted a drug store in another town near Trenton. He saw possibilities in the establishment of a second store in Largo, which then had no drug store.

When a new meeting hall for the Woodmen of the World was completed (with two well-designed stores on the ground floor) this appeared to Mr. Sparton to be the psychological moment to establish a drug business in one of these newly finished store rooms.

Accordingly, arrangements were made and the new store opened in November 1925. As was expected, the store from the start attracted a fairly substantial patronage. Sales from December 1, 1925, to November 30, 1926, totaled slightly more than $12,000, an average of about $1000 a month.

All the work in the store was done by a single registered pharmacist, who, however, was relieved all day Fridays and alternate Sundays by Mr. Sparton.

The following tabulation sets down the monthly operating expenses of the store:

Manager's salary	$190.00
Rent	60.00
Light (and power for electric refrigerator)	10.00
Heat (free)	.....
Other expenses	50.00
	$310.00

The cost of the merchandise sold averaged 65 per cent of its selling price. If a month's sales were $1000, therefore, the total cost of this merchandise was $650. Thus the owner's total monthly return for the services he rendered in relieving the manager and his profit for undertaking the risks and hazards of the business was only $40.

* Instructor of Merchandising, Wharton School of Finance and Commerce, University of Pennsylvania, Lecturer on Business Administration, Philadelphia College of Pharmacy and Science.

As a matter of fact, sales every month during the year were not $1000. In July they totaled nearly $1400 and in June and August they were well over $1200. (Largo attracted a number of summer visitors from Trenton.) December was a good month, too; sales were nearly $1300. On the other hand, April and October barely reached $900.

Notice the effect of these fluctuations in sales upon the profits of the business. First take July, the banner month.

Sales were nearly	$1400.00
Cost of these goods was about	910.00
Manager's salary	190.00
Rent	60.00
Light and power	10.00
Other expenses	50.00
The month's profit was about	180.00

In June and August the results of operations were approximately as follows:

Sales were over	$1200.00
Cost of these goods was about	780.00
Manager's salary	190.00
Rent	60.00
Light and power	10.00
Other expenses	50.00
The month's profit was about	110.00

In April and October a different story is told.

Sales in each of these months were barely	$900.00
This merchandise cost	585.00
Manager's salary	190.00
Rent	60.00
Light and power	10.00
Other expenses	50.00
Profit in each of these months	5.00

A few more months like July or even June and August and there would have been a different story to tell about the year's profits. On the other hand, John Sparton would not have been especially anxious to continue to operate his new store if every month in the year had brought him the meagre profits the business earned in April and October.

John Sparton's experience during the first year's operation of his new store is typical of a condition which is common in many drug stores, especially the small stores such as this one. Expenses are the same month after month but sales are not. In other words, John Sparton could have done a $1200 or even $1400 business in April or October at no more expense than the $900 business which he did do. This is perfectly apparent from the fact that in June, July and August he did do business to the total of $1200 and $1400 at no more expense than the $900 business in April and October.

Mr. Sparton's manager had to be on duty regardless of how much business was done in the store. Rent was constant and so was light and power and practically every other expense of this store.

Notice that in this store a monthly business of $1400 brings a profit of $180 while a monthly business of $900 brings a profit of only $5. A 56 per cent increase in sales brings a 4500 per cent increase in profits!

The problem is to develop a practical plan to increase sales in the dull months from $900 to $1200 or $1400. Basically, there are only two ways in which sales can be increased. One is by more sales to present customers and the other is by sales to new customers. Sales totaling $900 mean sales to at least 1800 customers during the month. If, instead of an average purchase of 50 cents, these customers bought an average of 75 cents' worth of merchandise, the month's sales automatically would be increased to $1350.

On the other hand, if 900 additional purchasers could be attracted to the store and each would spend an average of 50 cents, the month's sales also would show a total of $1350.

One way to accomplish either of these desirable ends would be to add new lines of merchandise. This is a problem with which the most skilful merchandisers in the world—the chain stores and the department stores—constantly are experimenting. There is no patent on their methods; any storekeeper can use them if he is willing to take the time and make the effort to do so.

When these stores consider adding a new line of merchandise they don't rush pell mell into it with huge quantity purchases and extensive floor space. Rather, they test the selling power of the merchandise in a small way with limited quantities of goods. If the merchandise does not sell, the loss is small; if it does sell, additional quantities can be bought from time to time as they are needed to replace the merchandise sold. The department stores and the chain stores realize, as every merchant should realize, that the big problem is not to buy the goods but to sell them at a profit.

That is one plan John Sparton might try to increase his sales during the dull months. Here is another. If Mr. Sparton's drug store in Largo is anything like thousands of other drug stores in the United States, he is not selling his present customers or possible new customers all the merchandise from his present stock that they might profitably use. For instance, how many people buy a new tooth brush every month? How many people even own a hand brush? Who is there who conscientiously uses an antiseptic mouth wash every day? How many people think of the drug store when they want the best in flavoring extracts and spices? Any druggist with imagination can call to mind a hundred or a thousand other examples which prove that many, many hundreds of items in his stock are not being sold to their fullest potentialities. The problem is to get people acquainted with these products which are new to them and with the new uses for old products.

In a drug store the usual expenditure for advertising is 1 to 2 per cent of sales. In the case of John Sparton's store this would be $9 to $28 a month. As was mentioned, however, monthly sales of $900 mean a monthly profit of $5, while monthly sales of $1400 mean a monthly profit of $180. Instead of making the customary advertising expenditure of $9 to $28 a month, John Sparton could well afford to spend $70 or even $80 a month for advertising to increase the business of his store during the months when profits now fall almost to the vanishing point. Even with an added advertising expenditure of $80 his profits for the month would be $100 if his sales increased to $1400. If his sales increased only to $1200 his profits still would be $30, six times the usual return in dull months. Add to this the accumulative effect of the advertising upon the business of other months.

The reason that this added expenditure for advertising can be so effective in increasing profits is that a business of $1200 or $1400 a month can be done in John Sparton's store (as I mentioned before) at no more expense than the $900 business which is done now in the dull months. There are many drug stores which face a condition similar to this store, and to which, accordingly, the same remedial measures could profitably be applied.

ACCURATE RECORDS PROTECT YOUR PROFITS.

January is an appropriate time for a druggist to answer to his own satisfaction the question of whether or not he is keeping complete enough records for his own protection and profit. In these days of keen competition the margin between profitable selling and disastrous losses is so small that even a slight misstep will turn what should be a profitable business into one which is headed straight for the sheriff.

The usual profit on a dollar's worth of sales in a drug store to-day is about eight cents, after the expenses of conducting the business have been paid. Therefore a decrease in sales, an increase in expenses, or overbuying quickly will wipe out the profit which these days is so small and so hard to earn.

For this reason, the wise druggist who would protect his hard-earned profits must keep careful account of his sales, his purchases and his expenses, so that instantly he will see when sales, purchases and expenses go to unprofitable levels. It is not sufficient to know next January that expenses went way up last August. The time to know that was the very day last August that expenses started to rise so that the proprietor can take steps instantly to find out the cause for the increase and remedy it.

An accumulative columnar record is best for this purpose because, with books of this kind, a druggist can see instantly any significant changes in sales, purchases and expenses. Then he has an intelligent base from which to take steps to correct the weaknesses which his records have made apparent to him.

Many druggists spend hundreds and thousands of dollars for cash registers to keep a check upon the money they take in. As I said before, 92 cents out of every dollar a druggist takes in he has to pay out again for the merchandise he sells and the expenses of conducting his business. Isn't it logical and sensible that a druggist should keep just as careful a check upon the money that he pays out as he does upon the money he takes in?

To anyone who is interested I should be glad to make suggestions upon methods of keeping the records which are most useful and practical in a retail drug store

Seasonable Displays for January and February.

Prescription Department.

Lung protectors	Hospital and sick room supplies
Clinical thermometers	Face creams, lotions and powders
Syringes and atomizers	Medicated soaps
Hot water bottles	Telephone and mail orders