

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.

WHY I AM NOT A CUT-RATE DRUGGIST—THE OPINION OF A SUCCESSFUL RETAIL PHARMACIST.

As I look at the crowds and crowds of prosperous patrons who push their way into the stores of my cut-rate competitors, I can't help but be a little envious of the tremendous volume of business which it is very evident that they are doing. But, then, when I look at the financial reports of some of these chains of aggressive price cutters, my ardor for their volume is somewhat cooled. With all their tremendous patronage and huge volume of business the profits are astonishingly small.

In my position I can't help but hear a good deal of gossip of the drug trade. Salesmen stop in and disgustedly show me statements with overdue balances running back six months or more which they are trying desperately hard to collect from the smaller chains of stores. I am something of a "father confessor" in the retail business and I suppose that is the reason these salesmen come to me with their troubles and complaints after these unsuccessful collection trips. When reports like this drift in week after week and month after month I can't help but get the impression that a goodly number of the smaller cutters aren't in the healthy, prosperous condition that their crowded aisles and blatant windows would indicate. No sane druggist is going to pass up a two per cent cash discount if he has the money in the bank with which to pay his bills. Especially is this true with a cut-rate druggist because he, of all people, operates on the narrowest of margins in many lines and the two per cent cash discount may mean the difference between profit and loss.

It would be merely hiding my head in the sand to say that in my store I don't feel the effects of these nearby and downtown cut-rate competitors. When a woman complains that I am asking 60 cents for an article which she can buy downtown for 39 cents it is no easy matter to explain to her that 39 cents is less than my cost for the article and that any store which sells this article for 39 cents must make up this loss by exorbitant profits on the sales of other merchandise. Such an explanation, to say the least, is not convincing to a woman unfamiliar

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

with business methods and selling costs and it smacks of knocking and petty jealousy on my part.

The facts of the matter are, it seems to me, that the cut-rate merchants are having no trouble selling a lot of their loss leaders at the prices for which they offer them, with resulting disorganizing influences upon retail druggists, like myself, who are trying to sell this merchandise at a price which yields a legitimate profit.

The real trouble of these cut-rate merchants to-day seems to be that they can't sell enough of their long-profit merchandise to make up for their lost profits on the popular merchandise which they sell at a loss.

There seem to be a number of reasons for this. The long-profit merchandise is, by its very nature, merchandise which is less desirable and usually a slower seller than the cut-price leaders. More than that, people are becoming more and more aware every day of the principle upon which these cut-price stores operate. They wisely buy their requirements of well known and standard goods at the stores which offer them at ridiculously low prices, but when they need a prescription filled or want to buy some article of non-standard price and quality they come to a store, such as mine, which has a long established reputation for fair and honorable dealing.

It is easy to see what happens to the cut-rate store when instances of this kind occur by the hundreds every day. They do a huge volume of business and get a tremendously rapid turnover but all that this huge volume and rapid turnover results in is a multiplication of losses. Naturally, the cutter tries to earn profits by pushing long-profit goods whenever possible; but the opportunities for such pushing become increasingly difficult as people become more and more familiar with values. What is more, the amount of sales effort required to sell unknown goods is tremendous. A piano store or a second-hand automobile emporium can afford to hire people capable of such salesmanship, but in a drug store, with individual sales averaging from 40 to 75 cents, such powerful and costly selling effort can't possibly be profitable—the individual sales possibilities are too small.

In my own business, I don't believe my volume is one-third that of a busy cut-rate store a block away. On the other hand, I have every reason to believe that my profits last year were no less than ten times as large as those of my hustling competitor. You may wonder how this is possible.

Everything in my store from biologicals to sodas is priced at a figure which I anticipate from past experience will yield a legitimate profit and no more. The result is that no matter what I sell—be it a prescription or a box of candy—I am assured of a profit, always a small profit, to be sure. If every individual article in the store is sold at a profit, it stands to reason that the whole store can't help but be profitable.

Contrast my situation with that of my aggressive price-cutting competitor. Some of his goods are sold at prices which obviously result in losses. On the other hand, a lot of other articles he handles are priced at figures which anyone can tell must yield enormous profits. Imagine, for instance, ordinary 3-ounce mixtures priced at \$1.25.

But even with his store packed full of hundreds of items which, if sold, yield

long profits, the proprietor of this cut-rate store never knows whether his year's operations will result in a profit or a loss. It always is a race to see if the cut-price loss leaders outsell the long-profit goods. If they do, the business operates at a loss. Only if the long-profit merchandise outsells the loss leaders can this store possibly earn a profit.

As I said before, the greater difficulty of selling unknown goods and the increasing wariness of people in buying non-standard goods in cut-price rate stores make it steadily more difficult for the cut-rate store to sell the quantities of long-profit merchandise, which it must do, if the whole store is to be profitable. As my suspicions along these lines are confirmed from time to time by trustworthy information I receive from confidential sources, I feel more and more assured that my plan of legitimate prices and a legitimate profit on each and every article in the store is the sanest and most sensible way to assure and protect profits in these days of strenuous competition.

COÖPERATING WITH COMPETITORS.

In days gone by, many and many a druggist felt that he would commit a serious social and business error if he were to so much as nod at his competitors. Competitors were arch-enemies whose every act was to be regarded with the utmost suspicion and distrust. The druggist regarded every nickel that went into a competing store as money which was just as good as stolen from his own cash drawer.

In those days there was no thought given to the idea that perhaps two drug stores and an increased number of other stores in a trading center would have the effect of increasing the drawing power of that center far beyond what it was before. That is the reason that in the largest cities department stores, specialty shops and other competing stores pack themselves into as small an area as they possibly can. Each benefits from the proximity of the other.

Aside from these considerations, however, competing drug stores which are near each other can benefit each other by many acts of courtesy and coöperation which will enable each to serve its trade better and in larger measure than if each were to pursue its course individually, absolutely ignoring the existence of the other.

The best managed store in the world occasionally will run out of a quick-selling item. The willingness of a competitor to help with the loan of a sufficient quantity of the wanted item to tide him over until a new supply can arrive assures this competitor that he can depend upon his fellow druggist for similar assistance when he needs it. If such requests are denied, the ungracious druggist may feel that patronage will come to him when his competitor doesn't have the article wanted. Some day, however, he will need something he doesn't have in stock and then his customer will have to go to the competitor to whom he refused to loan goods—so what is the gain? People as a result of such cut-throat tactics get a poor impression of drug-store service and tend to transfer their trade to other centers.

It is true that there are a few druggists who don't carry a sufficient prescription room stock. When a call comes for a rare article they send immediately to a convenient neighbor. Of course, this neighbor never can depend on such a drug-

gist for assistance in a similar need. Such coöperation is one-sided. The offending pharmacist can be penalized by charging him enough above cost to cover at least part of the expenses of carrying and handling unusual ingredients.

Competitors can coöperate successfully in many other ways. They can exchange credit information. They can warn each other of fraudulent schemes with which they may be approached. In some places agreements about opening and closing hours are in force.

Information about applicants for employment is a profitable way in which competitors can coöperate.

The point to be kept in mind is that competitors are possessed of many useful ideas and information, as well as needed merchandise, which they can exchange with each other to the benefit and profit of all.

SEASONABLE DISPLAYS FOR MARCH AND APRIL.

Face creams and lotions
Easter goods
Housecleaning aids
Sponges and chamois

Soaps and cleansers
Dyes
Insecticides and germicides
Veterinary preparations

FEDERAL COMMERCIAL EDUCATION SERVICE.

According to Earl W. Barnhardt the work of the Commercial Education Service of the Federal Board for Vocational Education includes four distinct kinds of activity:

1. Making studies, investigations and reports for use in aiding the States in giving instruction in commerce and commercial pursuits.

2. Assisting State Boards for vocational education in solving problems in administering and supervising commercial courses, and in the organization of courses of study preparing for commercial occupations.

3. Assisting national trade associations in developing educational programs for those engaged in the business represented by the associations.

4. Showing school administrators, teachers of commercial subjects and business men the need for a vocational type of commercial education.

The experience of the Federal Board has shown that an efficient vocational course, whether preparing for commercial or other vocations has the following characteristics:

"1. Be organized and conducted to develop the special knowledges, skills and attitudes needed for advantageous entrance into

that particular occupation or for promotion in that occupation;

"2. Be carried on under such conditions that specific training is secured through the use of suitable instructional material and equipment coupled with efficient methods of instruction;

"3. Be taught by a teacher who has successfully followed the occupation for which the course prepares, and who has been trained to teach the essentials of that occupation;

"4. Enroll only those pupils who have the aptitudes and interest necessary for success in the particular occupation for which the course prepares, or in which they are already employed;

"5. Be based upon coöperative training relations with employers so that pupils spend part time in practical work and part time in school, receiving instruction relating to their employment;

"6. Be checked continuously by a practical system of coördination and follow-up to the end that the nature and scope of the instruction can be adjusted to meet the needs of the workers in that occupation;

"7. Be organized to meet the particular needs of office and store workers in the community where it is given so that it prepares for the particular office and store occupations in which drop-outs or graduates from the school are known to be actually employed as beginners."