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.

WHAT IS REALLY AT THE BOTTOM OF ALL THIS TALK ABOUT PRICE MAINTENANCE?

From Washington come year after year the reports of anxious independent merchants and their lobbyists desperately trying to persuade busy Congressmen to consider their plight. Huge department stores, chain stores and mail order houses are underselling the independent merchants, they say, and soon the individual merchant will be as much off the commercial map as tandem bicycles and paper collars. The only hope, they say, is for an all-wise Congress to pass a law which prohibits the huge chain and department stores from selling standard merchandise at ruinously low prices.

To the independent merchant, the price-cutting tactics of these large distributors are exactly analagous to the ruinous rate wars of railroads and steamship companies which were so common in the 80's and 90's. An Interstate Commerce Commission, created by an act of the same all-wise Congress now being appealed to, as well as numerous local regulatory bodies, have long since banned rate wars between transportation companies as something economically and socially unsound.

Isn't it only fair and just then, says the independent merchant, that he should be freed by law in the same way from these seemingly predatory practices of his rich and sometimes unconscionable competitors? With such a law, competition between merchants, he says, would be reduced to the same harmonious and tranquil basis that exists to-day between established transportation companies. That's a brief outline in the abstract of the independent merchant's desire to be protected from the price-cutting tactics of his strongly intrenched and enormously large and wealthy competitors.

To put the idea specifically, let's turn a minute to the situation as it is faced by one Mr. John Jones, able and aggressive neighborhood druggist in Seattle.

John Jones, because of superior ability and able management, runs his drug store at less expense than his competitor two blocks away. He proposes to capitalize this superior ability and able management by passing on to his customers in the form of lower prices these savings he makes in operating expenses.

John Jones objects, most strenuously, to any attempts to control the prices at which he sells his merchandise.

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He says, in effect, if my competitors by their continued use of out-of-date and inefficient methods are compelled to charge high prices in order to make a profit, why should my customers and I be penalized or restricted because I am more progressive and up-to-date?

However, the differences in the operating expenses of the most efficient and the least efficient merchants are not very much. Even if the highly efficient merchants passed on to their customers every cent of their savings, in only a few instances would the reduction amount to as much as 10 per cent. Any merchant knows that a 10 per cent reduction is not a potent drawing card, nor is it a disorganizing competitive influence. On the other hand, any merchant knows that a 10 per cent reduction in operating expenses easily may double net profits. Hence he is interested in operating efficiency almost entirely because of its profit possibilities rather than as a weapon in a competitive price war.

John Jones does not view the problems of price-cutting so complacently when another druggist opens a store a block away. Among other things, this new competitor features a well-known face cream at the astonishingly low price of 29 cents.

"How can that be?" Jones asks excitedly, "That is less than the wholesale price. And I know that the makers of that face cream are not the kind of a firm to give secret discounts."

Jones sends a shopper to visit the new store. Yes, the face cream is being sold freely at the 29-cent price.

"Here is something else I bought," says the shopper. "A package of bath salts."

"How much was that—twenty cents?"

"No, one dollar."

"One dollar—why, we sell that very same thing for fifty cents and have sold it for years for fifty cents. They only cost thirty cents."

No merchant can sell merchandise at or below cost and continue long in business. If his income is not quite sufficient to cover the cost of the merchandise he sells, he has, naturally, no money with which to pay his operating expenses, and of course, no profit. The only way that a merchant who sells merchandise at or below cost can obtain the money with which to continue in business is from the extra margins and profits of other merchandise which he sells at a price sufficient to repay him his losses on the merchandise sold at or below cost.

In the case just cited, the extra high margin on bath salts (as well as on many other items) helps to repay the losses from the sale below cost of the well-known face cream.

Why should a merchant resort to these complicated manœuvers in order to earn the profits which are necessary for his continuance in business? Anyone familiar with merchandising knows that most people judge value by price. When an article usually sold for fifty cents is suddenly offered for twenty-nine cents the impression of a bargain is instantaneous, because, through long familiarity, fifty cents is the value people place upon this article. For many thousands of articles, however, there are no customary or usual prices and, therefore, no standards of value in people's minds.

The merchant who wants to create the impression then that his prices are phenomenally low has merely to choose well-known articles with fixed or customary prices and offer these at slashing reductions. Many of his customers falsely assume that all the articles in this store are being sold at similarly reduced prices, although, as a matter of fact, these articles really have to be sold at unconscionably high prices in order to repay the merchant his losses from the sale of the well-known articles at or below cost.

The intelligent storekeeper has no legitimate quarrel with the merchant who through skill and ability is able to conduct his business at a low expense and passes part or all of this saving to his customers in the form of reduced prices. However, the intelligent merchant does feel that he has a just complaint against the merchant who uses greatly reduced prices on well-known articles to create the false impression that all through his store similar bargains exist. Why should the purchaser of the bath salts, for instance, pay the selling costs and profit incident to the sale below cost of a well-known face cream?

The retailer performs a necessary and useful service in placing this well-known face cream within easy access of his customers. This retail service is a service for which the purchaser of face cream expects to pay and should pay.

Is it honest and fair, says the merchant, to take advantage of the ignorance and lack of information of the purchaser of bath salts and compel him to pay the costs of selling and the profits normally incident to the sale of face cream in addition to the selling costs and profits which should accrue from the sale of the bath salts?

Such practices seem reminiscent of the days of haggling and barter in retailing. Then a retailer made his price what he thought his customers could or would pay. Many times, one customer, because of superior bargaining ability, paid $15.00 for an overcoat which was an exact duplicate of the one for which his neighbor paid $30.00.

The man who paid $30.00 paid the selling costs and profits incident to the sale of both coats. Such practices fortunately have been practically ostracized from trade. But fifty or more years ago, when John Wanamaker announced a one-price policy in his retail business, he was regarded as a heretic and a fool, although to-day the one-price policy is well-nigh universal in the United States and many other countries.

Certainly it should be no more difficult to make a person recognize the unfairness and downright misrepresentation of a policy which requires the purchase of goods of unknown value to pay the losses resulting from the sale of known value at or below cost.

The wise manufacturer should be just as much interested in an honest-profit policy as the harrassed retailer menaced by cutthroat competitors. When a product is used as a football in a cut-price war, the retailer who sells it at or below cost has no more interest in that merchandise than a fisherman has in the bait he uses. When this merchandise ceases to attract customers, out it goes, with no more ceremony than an empty carton. On the other hand, the retailer who tries to pursue an honest profit policy in the face of this competition is compelled to concentrate his efforts on merchandise which is not sold by his cut-price competitors at or below cost. Consequently the sales of the cut-rate merchandise sooner or later must suffer from both of these causes.

Furthermore, anyone familiar with retailing knows the tremendous influence that window display, store display and retail salesmanship have upon the sales of a particular article. No intelligent retailer will try to increase the sale of an article at a price which compares unfavorably with the price at which the same article is offered in other stores. Nor will he try to increase the sales of an article which must be sold at or below cost.

So you see the independent merchant who complains so loudly of the cut-throat tactics of some of his large-size competitors has no little public interest on his side not to mention the very obvious economic interests of the manufacturers and wholesalers who supply the independent merchants with the goods they sell.

LEGAL REMEDIES AREN'T MEANT TO CURE ECONOMIC CONDITIONS.

Every once in a while merchants faced with new or unexpected competition are apt to look for and even demand legal protection from such encroachments upon what they regard as a field belonging exclusively to them. A very few years ago merchants in various cities were very much up in arms at the inroads house-to house-hosiery salesmen were making upon their sales in these lines. Straightaway the merchants decried these vendors, calling attention to the fact that these new competitors had no expensive buildings to maintain, paid no local taxes and offered no service or credit. It is unfair, the merchants claimed, to let these outsiders come in, therefore, and take away business from long-established local houses. Several cities passed ordinances which were aimed to tax these house-to-house canvassers out of existence. Fortunately for the economic peace of the country, however, many such ordinances have been held unconstitutional by the highest courts.

Some years have passed since house-to-house selling first became an important factor in retail trade. In this time house-to-house selling has probably maintained and perhaps increased its volume. Yet these past few years have been among the most profitable ever enjoyed by retail stores. The dire predictions about the inroads which canvassers would make upon retail stores seem to have been without warrant. What is the explanation?

Shrewd merchants, when their hosiery departments, for instance, began to lose business to the canvasser, instead of looking for legal relief, looked to their own hosiery departments. Why should people buy from canvassers instead of the local merchant, they said. In finding the answer to this question they discovered a number of weaknesses in their selling organization which, when corrected, now made their hosiery departments even more attractive than the canvasser method of buying.

In other words, the merchants discovered that the reason for the success of the canvasser was that he, in his line, was proving a better merchant than they were in these lines. By improving their own methods to or above those of the canvasser they had no difficulty in competing with him.

What has been done with hosiery has been done with brushes and a dozen other lines of merchandise. It requires no particular imagination to see that in the future still other lines of merchandise will be sold by canvassers and even by other selling methods as yet undeveloped. Perhaps some of these sales will be of merchandise now sold most commonly in drug stores.

The druggist who would succeed in the face of this competition yet to come has merely to analyze his position with respect to it, building up the places at which he is weak and making even stronger the natural advantages he possesses.

In saying that merchants should not seek legal relief for economic ills I do not mean to imply, of course, that there are not times, especially in connection with pharmacy, when legal restrictions and control are absolutely necessary. No one denies, for instance, the desirability of restricting to drug stores the sale of poisons. Whenever the public welfare is jeopardized legal means are the most desirable way to assure relief and protection. Legal means should not be used, however, to attempt to control ordinary economic conditions.

SEASONABLE DISPLAYS FOR JUNE AND JULY.

Graduation and wedding gifts	Bath requisites
Perfumes and toilet articles	Bathing caps and supplies
Stationery	Vacation needs
Fountain pens and pencils	First aid kits
Cameras and photographic supplies	Sunburn, ivy and insect poison lotions
Film developing, printing and enlarging	Soda fountain
Nursery supplies	Ice cream and bottled soft drinks

THE SUPPLY OF MEDICINAL PLANTS IN CENTRAL EUROPE.

In spite of the immense development of the medicochemical industry, a large number of plants is still used in pharmacology. The demand for these plants has, in fact, increased in recent years because manufacturers find it easier to derive certain active substances from plants than to produce them synthetically. To mention only a few—digitalis, opium, the mallow and aloes, are used preferably in natura. As a result, in large sections of Central Europe, and also in France, Italy and Russia, the planting of medicinal herbs has been greatly increased. Through the attention given to the subject by the various governments and by pharmacologic interests, the "Mitteleuropäische Tagung für Arzneimittelversorgung" was recently organized in Vienna, and, during the two-day session, the various problems pertaining to the collection and the marketing of medicinal herbs were thoroughly gone over. It was decided to make the work international in scope, and a central bureau will be established in Vienna, which will collect and furnish information in regard to all European stocks of medicaments of both vegetable and nonvegetable origin. The organization will inure to the benefit of both producers and dealers. In experiment stations to be erected, the best methods of growing the several varieties of medicinal plants will be carefully studied. The cultivation of medicinal plants (and also of tobacco) permits the profitable use of soil that is not suitable for grain and cattle raising. The Institute for Pharmacognosy of the University of Vienna has assumed the task of organizing the international committee; it will also work out plans for government support.—From U. S. Consular Report.

LIMITATION OF PHARMACISTS IN TURKEY.

The proposed pharmacy law of Turkey will necessitate the closing of about three hundred businesses and is seriously disturbing the pharmacists of that country; most of them are opposing the provision which limits the number of stores.

LIBRARY AND MUSEUM ITEMS.

Mr. Hays of the motion picture industry has outlined a plan for keeping originals of historical films. He asserts that science has made it possible to preserve such negatives indefinitely if properly stored. Starting with the second inauguration of President McKinley about 1000 reels of films of great historic value are now available.