

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.

FIVE WAYS TO GET BETTER PROFITS ON THE MERCHANDISE YOU BUY.

The first lesson in drug store management is that the income must be greater than the outgo if the store is to be profitable.

The items comprising the outgo are in about the following proportions in the usual drug store.

Cost of merchandise sold	64 per cent of sales
Operating costs	28 per cent of sales

The largest of the items of outgo and the one which, in my observation, is subject to the greatest variation, is the cost of the merchandise sold. A knowledge of the causes which control merchandise costs is bound, therefore, to decrease the outgo, and thus to increase the net profits of a retail drug business.

At first glance it might seem as if the only possible way to reduce merchandise costs would be to buy at lower prices.

As a matter of fact, this is only one of five possible ways to reduce merchandise costs and one of the least important. In fact, buying at lower prices may result, eventually, in high merchandise costs, as I will show presently.

The first of the five ways to reduce merchandise costs is to take advantage of cash and other discounts which are offered for the prompt payment of merchandise invoices. These savings run from 1 to 5 per cent of the cost of a particular bill of merchandise.

More important than this immediate and easily measured gain is a psychological advantage. Let me explain. Post-dating of invoices, quantity discounts, free goods and similar offers make it very easy to buy huge quantities of goods. The man who discounts his bills thinks not only of these advantages, but also of the day soon to come when the cash must be forthcoming to pay the bill.

Will enough of the merchandise be sold to produce the cash to discount the bill? The man who discounts his bills thinks not alone in terms of buying but also in terms of selling. By looking at both sides of the picture he saves himself many an unwise purchase. The biggest accumulations of dead stock are found in the stores which are the slowest to pay their bills. Important as are the evident

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cash savings from discounting merchandise invoices, of even greater importance and amount are the savings which result from the careful buying, which a man must do who is to be always ready to discount his bills.

The second of the five ways to reduce merchandise costs is to keep at a minimum the waste and loss of stock purchased. I had lunch this noon at a busy soda fountain in a neighborhood drug store. In preparation for a later rush the man at the fountain had sliced two loaves of sandwich bread. While I was eating, the proprietor came back of the fountain and started to prepare his own lunch. He made his sandwiches from a fresh loaf of bread. Evidently, neither the regular service nor the materials used at this fountain were good enough for him, although, in his judgment, perfectly satisfactory for his customers. Aside from the influence of such tactics upon the customers who see them, isn't it apparent that they encourage waste and carelessness in handling materials and supplies by all the employees of the store? Even with the best management, some shrinkage and waste is bound to occur at the fountain. Why encourage more?

Waste occurs frequently, as every druggist knows, in the handling of bulk merchandise. The waste can't be avoided; but the cost of it can be, by making allowances for it in the retail selling prices.

Waste occurs when stock is so carelessly stored that it spoils or becomes shopworn. The ideal drug store, anyway, is a store without a cellar or other storage space, but if such space is used care should be taken to keep the stored merchandise in salable condition. Dampness and strong sunlight are special foes of unsuccessful storage.

Closely allied with waste is actual loss of purchased stock. It may be stolen or just misplaced. Imagine the surprise of a friend of mine, who, when taking inventory, discovered in a dark corner of his cellar nine gross of tooth brushes which, the marks on the box showed, had been bought in 1907.

Merchandise may be wasted, misplaced or stolen, but the invoices representing it are not. The manufacturers and jobbers see to that and see to it that the invoices, eventually, are paid. Paying for merchandise which is wasted, misplaced or stolen is just like paying for merchandise which has never been received. Unfortunately, it doesn't show up this way on the books. The only thing the proprietor knows is that his net profits aren't what he expected they would be, and a further examination shows high merchandise costs.

The arithmetic of that situation is as follows: In a month he buys merchandise which costs him \$1000. He expects to sell this merchandise for \$1500. Through carelessness, however, \$50.00 of the \$1000 worth of merchandise is wasted, lost or stolen. He thus sells \$950.00 worth of merchandise and receives for it \$1425. However, he has to pay the entire bill, of \$1000.00 for the merchandise. His merchandise costs, instead of being $66\frac{2}{3}$ per cent, as he thought they would be, are 70 per cent of sales. If he makes 7 per cent net on sales where merchandise costs are $66\frac{2}{3}$ per cent of sales, it is plain that he will make about $3\frac{1}{2}$ per cent net when they are 70 per cent. This waste of \$50.00 worth of stock on a \$1000.00 purchase has cut in half his net profits from its sale.

The third of the five ways to reduce merchandise costs is to avoid the purchase of items which, later, prove unsalable. This unsalability may result from changes in demand, or actual deterioration of the merchandise itself; exactly

the same effect upon merchandise costs results as if the merchandise were lost, misplaced or stolen. Even if merchandise can't be sold, it must be paid for.

In the discussion of the effect of cash discounts upon merchandise costs I mentioned that probably their most important effect was to make a druggist buy only what he can sell and sell within a reasonable period. Of course this reasoning applies to all stores, but it seems to be most frequently disregarded in those stores which are slow to pay their bills. In fact, one reason why such stores are slow pay is that their shelves are loaded with merchandise which is unsalable or at least difficult to sell.

The fourth of the five ways to reduce merchandise costs is to keep a close watch of cash receipts. If only 95 cents of every dollar taken in from the sale of merchandise is credited to sales it is evident that merchandise costs will be high. The amount charged in the invoice for the merchandise is definite; the percentage on 95 cents is greater than it is on a dollar.

Drug store proprietors have had thousands of dollars stolen from them by dishonest employees. This, however, is not the only cause of cash leaks; carelessness in handling cash often represents a loss. A druggist who kept an accurate set of books found a difference of \$1000 at the end of the year between the profits his business earned and the cash he actually had at the end of the year. While his books told him this sad story, they did not bring his money back for him. The next year he carefully balanced his cash every day with the result that the actual discrepancy at the end of that year was less than \$5.

A druggist has refused for years to buy an extra register for his fountain; the cigar register was less than 6 feet away, he said. Busy soda fountain people made change from a cigar box behind the fountain rather than take this walk after every sale. Yet this druggist is always wondering why his fountain is not more productive of profit.

Another frequent cash leak, which results in the appearance of high merchandise costs, is the habit of taking cash from the till for the proprietor's personal use or for legitimate business expenses which are not recorded.

The effect of cash leaks is to make merchandise costs appear higher than they actually are. Therefore, when merchandise costs do appear high, this is one of the possible causes to be carefully investigated.

The fifth of the five ways to reduce merchandise costs is the most obvious and that is why it is given last. It is to sell merchandise at prices sufficiently above its cost to bring a profit. Druggists sometimes overlook the fact that the gross and net profits per item are not the only determinants of the total net profits earned in a business. The volume of business and the turnover are also vitally important to total net profits. A thousand sales with a net profit of 1 cent each are far better than one sale with a net profit of 50 cents. Usually the merchandise which sells in largest volume is also the merchandise which has the most rapid turnover, thus reducing the investment and risk. Turnover and volume are of no advantage, of course, if merchandise is not sold at a price sufficiently above the cost of the merchandise to permit at least a small profit. Given this small profit per unit, however, large volume and rapid turnover can overcome much higher unit margins on merchandise which does not sell in volume and which does not have rapid turnover.

Therefore, don't judge net profits on an item merely by the gross and net profits per unit. The old story of the high merchandise costs of the woman who bought apples for 5 cents each, and sold them at 6 for a quarter on account of her large volume of sales and rapid turnover is still true, of course. But remember that a hundred sales with 10 cents net profit on each one represents a better proposition than the same time and money spent on one sale with a dollar net profit. Volume and turnover make this possible.

RÉSUMÉ OF THE GOLDEN JUBILEE MEETING OF THE MISSOURI PHARMACEUTICAL ASSOCIATION.*

BY AMBROSE MUELLER.

The fiftieth annual convention of the Missouri Pharmaceutical Association was held June 19 to 22, 1928, at Sedalia, Mo., a beautiful, centrally located inland city situated on the M. K. & T. R. R. Sedalia is nearly the geographical center of Missouri, and every summer, during August, the State Fair holds its annual exhibits of farm products, horses, cattle and sheep, and in fact everything of interest to the farmer and the general public.

Sedalia was also the birthplace of our ASSOCIATION; it was here that the first meeting was held in 1879.

The original call was sent out on a post card and read as follows:

"Druggist's Convention.—At a meeting of some of the druggists of Boone and adjoining counties held at Columbia, Mo., September 10, 1879, it was resolved: That with a view of elevating the standard of the retail drug business and for the purpose of effecting an organization or association of the members of the profession, by which a united effort can be brought to bear on the state legislature, such as will procure the enactment of such laws as will secure and protect us in our rights, and such other matters as may benefit the profession generally; that a convention of the retail druggists be called to meet at Sedalia, Mo., October 29, 1879. All druggists in the state are invited to attend, signed F. R. Dimmitt, Secretary; P. S. Hocker, Chairman."

This proves beyond a doubt that the Missouri druggists were among the first to recognize that much might be accomplished by an organization of this kind for professional and commercial benefits, but looking mainly for the safeguarding of the public against unscrupulous and unethical men in the drug business.

Sixty-two members were enrolled and fourteen more added to the list of charter members before the first meeting adjourned. Among them we find the names of two old-time friends known to all of us—J. M. Good and W. H. Alexander, both of St. Louis, and graduates of the Philadelphia College of Pharmacy. That their interests were not exclusively confined to Missouri is evidenced by the fact that a resolution was passed to send a copy of the proceedings to the AMERICAN PHARMACEUTICAL ASSOCIATION and to appoint delegates to attend the convention at Saratoga, N. Y.

* Section on Historical Pharmacy, A. Ph. A., Portland meeting, 1928.