

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.

THE SERIOUS ASPECTS OF DRUG STORE COMPETITION.

The distribution of drug products during the past few years has undergone many changes. We find now the usual lines of drug store merchandise being sold also in department stores, mail-order houses, variety stores, grocery stores, cigar stores and general stores. Of course, drug store products have been sold to some extent in some of these outlets for many years, but the past few years have brought such a growth in some of them, particularly department stores, variety stores and mail-order houses, that they are believed now to be handling an important share of the business in the usual drug store lines.

I have spoken so far only of the competition the individual druggist faces today from other types of retail outlets. He faces, in addition, the competition of other drug stores, both chain and individually owned. The serious aspects of an increasing number of outlets for drug store products without a corresponding increase in demand for these products on the part of consumers is what I want to emphasize in this article.

A simple example will make clear what I mean. The most usual drug store volume in the United States, in my judgment, is about \$20,000 a year. That is to say, it is my opinion that there are more drug stores with this volume of business than there are of any other amount.

In a store with a volume of \$20,000 a year the following tabulation shows the usual costs and profits in such a store.

Sales		\$20,000
Cost of goods sold	\$13,000	
Salaries, including the proprietor's	4,000	
Rent	720	
Other expenses	800	18,520
		<hr/>
Leaving a profit of		\$ 1,480

Now suppose, through the active competition of one or more of the influences listed, sales in this drug store fall from \$20,000 to \$18,000, a decrease of only 10 per cent. In this situation, if the proprietor is successful in controlling his purchases, the cost of the goods he sells during that year will drop from \$13,000 to \$11,700.

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

But what of his operating costs? The biggest item, salaries, includes usually \$50.00 a week to the proprietor himself for his services in managing the store, certainly little enough compensation for all the time, effort, skill and responsibility required of him in running successfully a store of his own.

The remaining \$1400 will pay, perhaps, for a qualified assistant or for a boy and a relief man once a week. If the proprietor is to have any rest and relaxation himself there is little opportunity for him to effect any saving here, whether the business done is \$20,000 or \$18,000 a year. And the proprietor's salary allowance certainly doesn't permit him more than a modest living.

The next largest item of operating costs is rent, and the terms of the lease ordinarily fix that at a definite amount, regardless of changes in the amount of business done.

The remaining operating costs are composed largely of items such as light, heat, taxes, insurance, repairs and depreciation, over the amount of which the proprietor has little or no control. That is to say, they do not bear a definite relationship to the amount of business done in the ordinary drug store.

To illustrate the effect of this decrease in volume of sales, I have tabulated below the situation when this druggist's business has dropped 10 per cent, from \$20,000 to \$18,000.

Sales are now		\$18,000
The cost of the goods sold is	\$11,700	
Salaries remain at	4,000	
The rent is still	720	
And the miscellaneous operating costs again total	800	17,220
		<hr/>
The profits, however, are now reduced to		\$ 780

This 10 per cent decrease in volume of business done thus has cut almost in half the net profits earned by the business.

This principle explains why even a small loss of business is so serious to the individual druggist who has to meet, to-day, so many new and aggressive types of competition.

The volume of business which is reputed to be done by the newer types of distributors—the mail-order houses, chain drug stores and the department stores—is not believed to be large compared to the amount of business done by the individual druggists of the country. However, if this business which they are obtaining in increasing amounts is diverted, even in small part, from individual druggists, it is apparent why this competition is so serious to these individual druggists.

A far more frequent cause of distressing decreases in net profits is as follows: A druggist establishes himself in a neighborhood or locality, and, by dint of hard work and careful application, is able to build a small but fairly profitable business. It is inevitable that other druggists will envy him his hard won prosperity.

One, more aggressive than the rest, will attempt to share it by locating across the street or around the corner from him. What happens? It is a practical impossibility for one druggist to monopolize the entire business of a locality if there are two or more druggists available. If the total amount of drug store business available in a locality is only enough to bring moderate prosperity to one druggist,

the effect of the establishment of one or more new stores is to divide this business, with the result that all now operate at practically no profit.

From the standpoint of the invader, it seems to me only common sense for him to consider the following facts. Even if he gets as much as half or three-quarters of the business his established competitor has, the new man still doesn't have enough volume to make his business produce worth-while profits. He not only ruins the first man's business, but has absolutely no chance for success himself. I am speaking, of course, of those communities and neighborhoods in which a sufficient number of drug stores already exist. Yet year after year we see new druggists establish themselves in these sections, not only destroying the profits of the stores already there, but foredooming themselves to a profitless existence.

At the same time, possibly in the very communities in which these new stores attempt to establish themselves, there usually are opportunities to buy established stores at far less than the cost of equipping and stocking a brand new store. Why these opportunities are so often overlooked by druggists going into business for themselves, I never have been able to understand.

In summary, therefore, the serious aspects of the increasing competition which drug stores are facing to-day result from an increased variety of competition, both within and without the drug trade, and some of this competition is particularly aggressive competition. Even if these newer forms of competition take only a small part of the business from the individual drug stores their effect can be very serious in the usual drug store, because practically all of its operating costs are fixed, regardless of the amount of business done. Even more serious, however, is the loss of business resulting from the establishment of additional stores in localities already well served with drug stores. These new stores do not obtain enough business to make them attractive profit earners, but they do take enough business away from the established stores to destroy all possibility of their earning satisfactory profits.

ABSTRACTS OF PAPERS PRESENTED AT THE RAPID CITY MEETING, A. PH. A.

"The Birth of the Scientific Journal," by F. B. Kilmer.

The paper "The Birth of the Scientific Journal" is based upon the first scientific journal, which was published in France in the 17th century under the title *Journal des Savans*. Dr. Kilmer hopes to present a bound volume of the issues of this Journal for the year 1678 to the ASSOCIATION.

"The Manufacture and Dispensing of U. S. P. Digitalis Preparations," by Robert P. Fischelis.

Recent experiments on the activity of Digitalis preparations, which have been kept for varying periods of time after manufacture, indicate that the Digitalis leaf, infusion of Digitalis and tincture of Digitalis, are the most satisfactory forms of administering this important drug. If this is the case, some attention should be paid to the methods of manufacture prescribed by the pharmacopœia

for the infusion and the tincture, particularly with reference to possible deterioration. Suggestions are offered in this paper based upon experience in manufacturing, which it is hoped may lead to improvement in supplying preparations of Digitalis.

"Why Not Establish a Regular Fee for the Pharmaceutical Profession?" by Edward Swallow.

The pharmacist should demand a professional fee for his services in the compounding and dispensing of prescriptions. The passing of time has brought the science and art of his profession into quite a different position among the recognized callings. It is submitted that the pharmacist is entitled to a professional fee when compounding and dispensing prescriptions and the point is made that experts in all walks of life demand a fee for their expert advice and services.